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A MICRO LOAN PROGRAM: IMPLICATIONS FOR MANAGEMENT ASSISTANCE

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ABSTRACT

Historically, minority and women owned businesses and businesses in economically distressed areas have faced barriers to capital. The Financial Services Corporation of New York City has proposed establishing a Micro Loan Program that will make loans between \$5,000 and \$50,000 that will target minority and women owned businesses and businesses in economically distressed areas. A major component of this Program provides for management assistance primarily through Small Business Development Centers in the application preparation stage and through a Mentorship program in the post disbursement stage. This paper discusses the background, components, and management assistance implications of the Program. The opportunity for Small Business Institutes to participate is also addressed.

INTRODUCTION

A major challenge to most small business owners is obtaining adequate financing. One particular difficulty is the size of the loan. Many financial institutions have established official or unofficial minimums as to what they will loan - \$75,000 or \$100,000 or \$250,000. After all they argue, "the paperwork involved for a \$50,000 loan is the same as a \$400,000 loan, but the return is not as great." Often, the amount of loan needed by a small business is less than the minimum established. Another problem is that frequently the small business owner is a minority or located in economically distressed areas. In an effort to address these circumstances, the Financial Services Corporation of New York City (FSC) has proposed setting up a Micro Loan Program that will make loans between \$5,000 and \$50,000 that will target minority and women owned businesses and businesses located in economically distressed areas. A major component of this Micro Loan Program is provision for management assistance both in preparing for the loan and in follow up once the loan is made.

Background (1)

Historically, both minority and women business owners have faced barriers to capital. For example, recent research has indicated that the typical Black owned business raises \$0.55 in debt financing for every dollar of equity; the typical White owned business raises \$1.58 for every dollar of equity. Similarly, women business owners were found to be able to leverage lower levels of debt for a given amount of equity when compared to typical male business owners.

Interestingly, minority and women owned businesses are heavily represented in smaller retail and service establishments. A study by Arthur Young finds that Black owned businesses are overwhelmingly service and retail: out of a sample of 288 Black owned businesses in New York City, 211 or 75% , were service or retail. Women owned firms are also concentrated in service and retail. The fact that there is such a concentration of minority and women businesses in service and retail is partly a reflection of barriers to capital, as these businesses tend to require fewer resources.

The reason behind targeting businesses in distressed neighborhoods, is to promote economic activity and employment in areas in need of both. Studies have indicated that banks have increasingly scaled back their activities in distressed neighborhoods, revealing a view that banks see these neighborhoods as unprofitable areas in which to do business. This may also be seen as a reflection of views on business viability generally in such locations.

The FSC proposal examined several existing government run micro loan funds. All were found to serve businesses owned primarily by minorities in economically distressed areas. Three out of seven lend to start-ups and all types of businesses were eligible including service and retail. The loan-loss ratios were approximately 10% on average. Collateral requirements were flexible to a degree, usually premised on using all available collateral. All programs required participation in various types of technical assistance programs, and most monitored their loans extensively. The administrators of these loan funds unanimously agreed that the technical assistance was extremely important in getting the lenders prepared to take on debt. Technical services include financial control and management, inventory control, receivable collection, payables, cash flow management, marketing, tax information and general administrative problem solving.

Consequently, the essence of the FSC proposal can best be summarized by New York City Deputy Mayor for Economic Development Sally Hernandez-Pinero when she stated: "the common threads running through various parts of the [Mayor's] program are a shared focus on retail and service companies in economically hard-hit neighborhoods, with particular concern for women and minority owned businesses". (2) However, while FSC has had a history as a lender it had not worked with retail and personal service businesses in the past. Therefore in structuring the program, provision was made for technical assistance to be provided by established and recognized sources.

PROGRAM COMPONENTS

Given the foregoing background, the FSC proposal was designed to encompass the best features of existing micro loan programs and improve upon them. Recognizing the special needs of the targeted market and the fact that many of the applicants will be approaching lenders for the first time, a major element of the proposal was the provision for providing considerable technical assistance. The Micro Loan Program was therefore structured to make use of several existing providers of technical assistance to assist potential borrowers in the application process and to offer business counseling to borrowers who did receive financing.

Technical Assistance - Preparing the Application

The consensus among micro loan practitioners is that successful micro lending needs to be combined with technical assistance in various areas such as marketing, financial management, personnel management and inventory control. Because of their expertise in working with the target population, Small Business Development Centers in New York City (SBDC's) were designated as the providers of technical assistance to assist applicants in completing the required documentation for their application to the Micro Loan Program. The application requirements include a completed application, as well as the following materials:

-Tax returns for the last three years -Financial statements for the last three years -Business plan and projections - Personal financial statement which will include documentation of existing loans -Personal guarantee -Lease or deed for the current business site

The SBDCs will ensure that application requirements are met, assisting applicants in completing their business plan, developing projections and completing their personal financial statement (similar to the form used by the U.S. Small Business Administration). The SBDCs will also develop financial statements from the three years of tax returns.

Applicants approaching SBDCs will have already been screened and referred by FSC. The prescreening process by FSC will have determined if the applicant meets the three year business requirement and has the appropriate tax returns. Before an applicant comes to the SBDC, they will have been briefed on application requirements and given an outline for completing an initial draft of their business plan. Besides assisting in preparing the application for the Micro Loan Program, the SBDCs will be available for the wide range of management assistance services they routinely provide, such as assistance with marketing, advertising, or business training.

To clarify the responsibilities of both the FSC and the SBDC a "Letter of Understanding" (3) between the two organizations was drafted. Workable time frames were established for all participants to comply with. Provision was made for appropriate notifications to each organization as to status of cases. Also, time requirements were imposed upon applicants to comply with requests for information. Failure to do so would result in the application being considered inactive. The total time involved in processing a loan once eligibility was determined should take less than 90 days as long as applicant is forthcoming with necessary information.

Technical Assistance - Post Disbursement Services

The core of the post disbursement business counseling and technical assistance services will be the New York City Office of Economic and Financial Opportunity's Mentorship Program. The Mentorship Program will match each borrower with an experienced business owner acting as a volunteer mentor. The Mentorship Program's Director will meet with each borrower and match him or her with a mentor most likely to offer valuable assistance and advice. Borrowers will be required to use the Mentorship Program as a condition to obtaining financing under the Micro Loan Program, unless FSC staff determines that such assistance will not benefit the borrower.

Other Program Components

Application Review: Once an application is complete, having all the required documentation, it will be forwarded to FSC by the applicant. FSC, will carry out the credit review, all checks (credit checks, Department of Investigation, suits and judgment/ lien searches, certificates of incorporation/ certificate of good standing) and submit the loan for approval to the FSC Loan Review Committee.

Disbursements: Funds will be disbursed directly to the borrower or to the vendor if the loan is for machinery, equipment or fixtures. The borrower will not be required to make a payment for the purchased goods prior to receiving the loan.

General Administration: Loan billing and monitoring will be performed by FSC. FSC personnel will visit each client upon completion of a project to ensure that goods were purchased or work completed as per the approved loan application. Repayments will be administered by the FSC comptroller and borrowers will be contacted if payments are not made in time. Late payments will have a 14 day grace period, after which they will incur a 2% late payment fee. If repayments are still not forthcoming, FSC will conduct a work-out procedure to assist the business in making the repayment.

DISCUSSION

The proposed Micro Loan Program has a number of very positive features in its favor. First, the objective of the Program is very timely and indeed needed. Minority and women owned businesses as well as businesses in economically distressed areas do not have access to capital as readily as other businesses. Second, focusing on loans of \$5,000 to \$50,000, a demand that is not adequately filled by the private sector is being addressed. Third, the Program is structured so that it facilitates assistance to potential borrowers rather than establishing excessive paperwork hurdles. By combining the talents of two experienced organizations, the FSC with its lending and administrative expertise along with SBDCs recognized provision of technical assistance, the focus will always be on the applicant.

While there are many benefits to the proposed Micro Loan Program, there also exist some concerns. For example, as the size of anticipated loans are envisioned to be smaller, will the requirements for a detailed business plan or for the amount of collateral be rigid? It is anticipated that such requirements will be flexible. With regard to a business plan, the essential elements will be included but the degree of support necessary will be less than usually submitted. Concerning collateral, personal guarantees will be required in all cases but due to the nature of the businesses (retail or services) involved a less rigid standard will have to be developed. However, the Program is not intended to be a give away of funds and that is why a major emphasis is placed on providing technical assistance. Another concern involves the FSC Loan Review Committee. As this committee meets once a month, timing becomes critical. Consideration is being given to a special Micro Loan Review Committee which could be a subcommittee of the full committee and possibly meet more frequently to expedite the review process.

In providing technical assistance a number of concerns also exist. In discussions and in the Letter of Understanding, the SBDCs' position is that assistance provided is for the client and any communication to FSC regarding an individual business venture/loan application should be through the client (who can call upon SBDC staff to assist with a response when necessary). At the same time, the SBDC is not obligated to render or share an opinion on the feasibility of a venture or a client's ability to repay any loans proposed. Additionally, the SBDC does not "audit" previously devised financial documents and tax returns that may become part of any loan applications. A final concern regarding the providing of technical assistance by SBDC is the possibility that the potential number of referrals could be overwhelming. As this is a new program, the-number of applicants is undetermined. The Letter of Understanding allows for notification if sufficient staff time is not available for properly servicing Micro Loan Program referrals.

S.B.I. Opportunity

As the Micro Loan Program is heavily dependent on technical assistance, an opportunity exists for Small Business Institutes (SBI) to be involved. While in many cases, due to time constraints, it may be difficult for student teams to assist in the preparation of the application, there might be instances where this service could be provided either independently or in conjunction with another service provider, such as the SBDC. However, the SBI could definitely be of service in providing post disbursement technical assistance. Again, this could be done either independently or in conjunction with another service provider. Working with a minority small business owner, who has just received a loan, with regard to a management problem could prove to be a very mutually rewarding experience for the client, the students, and the funding agency.

CONCLUSION

The Micro Loan Program as proposed by the Financial Services Corporation of New York City targeting minority and women owned businesses is indeed an idea whose time has come. With its emphasis on providing technical assistance to applicants both in preparing the application and in post disbursement, a higher degree of success can be expected. The implications for management assistance are positive but concerns do exist with regard to technicalities such as client perspective, rendering of opinions, and client overload. However, these are more procedural than substantive items. The joint collaboration of the FSC and the SBDC in this instance increase the likelihood of a successful resolution. As similar programs develop, an opportunity exists for SBI involvement.

NOTES

(1) "Micro Loan - Draft Proposal", Financial Services Corporation of New York City, July 25, 1990.

(2) "Dinkins Plans Justice Loans", Newsday, August 8, 1990.

(3) "Letter of Understanding" (Revised Draft) , Financial Services Corporation of New York City and the New York State Small Business Development Centers, September, 1990.

DO BANKERS ALWAYS KNOW BEST?: A COMPARISON OF BUSINESS FINANCE STRATEGIES OF SMALL BUSINESS OPERATORS AND BANK LOAN OFFICERS

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ABSTRACT

In spite of the fact that small businesses produce more than \$1.5 trillion in sales each year and have created most of the 34 million new jobs in the United States since 1970, indications are that they are receiving less than their share of attention and less than good advice from their bankers. A 1989 survey by the Small Business Development Center at Northeast Louisiana University provides evidence that both small business owners and bankers are deficient in their knowledge of basic business finance strategies, particularly during the start-up stage of business. On some questions in the survey the bankers scored lower than the small business people, making their advice as finance professionals somewhat suspect.

As a result of the study, the following recommendations are made: (1) banks should establish a working relationship between bank officers and small business owner/managers, (2) large banks should establish a small business department, (3) both bankers and small business owners should become aware of university resources to assist small business, and (4) bankers should familiarize themselves with small business problems.

INTRODUCTION

In spite of the fact that small businesses produce more than \$1.5 trillion in sales each year and have created most of the 34 million new jobs in the United States since 1970 [4], indications are that they are receiving less than their share of attention and less than good advice from their bankers. Fabian Linden, executive director of research at the Conference Board in New York says, "What you are discovering is that banks, like any other business, treat big customers better than they treat small customers. If you're a big, brand-name company, the banks roll out the red carpet, but small businessmen likely receive less cordial treatment" [11].

A 1989 poll by American Banker indicated that larger businesses are more likely to be contacted regularly by their banker--two-thirds of midsize companies were contacted regularly whereas only half the small companies were contacted. Moreover, the midsize companies were contacted more frequently [9]. Other than phone calls, the favorite method of communication with small businesses was review of their financial statements. Only one of the 292 small companies surveyed had received personal visits from its banker [3].

Worse than the lack of communication is the lack of understanding of small business problems. In the American Banker poll 80 percent of the small businesses surveyed ranked knowledge of their business as important or extremely important. However, in their eyes most banks ranked only average in their knowledge of their business. Seven percent said their banker's knowledge was below average and 9 percent said it was poor [7]. Joel Newman, co-owner of Micro Metrics Inc., a Paterson, New Jersey, electronics subassembler comments on a related small business concern:

I'm particularly annoyed with the quality of employee that banks have now. What banks have now is a collection of yuppies who aren't interested in the long term. They know they'll be promoted or go to another industry. They view us old customers as prospective problems the other guy left behind [11, p.14].

Commercial banks are the primary providers of financial services for small businesses; they are used about three times as frequently as the second-ranked providers which are finance companies. Commercial banks tend to maintain their dominance in the small business area by virtue of the fact that companies prefer a local bank and they tend to stay with a bank relationship for a long period of time. In spite of this dominance, John Forde believes banks do not do enough for their small business customers, particularly in the area of financial guidance [3, pp.6-7]. Some bankers feel it is not their place to help companies prepare financial statements or business plans. One northeastern banker says, "You can give enough help to let them get a loan, but if you give too much, you may be managing the business and become legally liable" [3, p.7].

John Galles, executive vice president of National Small Business United, comments, "In the small business community, owners do not identify bankers as a primary source of assistance when they need it. They are now turning to their accountant or attorney, or trade organization. It's unfortunate" [7, p.21].

THE SURVEY

It appears that there is a significant misunderstanding by bankers of small business needs in spite of the fact that the banker may be the only financial professional with whom the entrepreneur has contact. Poor advice from this professional may contribute to business failures, particularly when businesses are at the vulnerable start-up stage. A 1989 study by the Small Business Development Center at Northeast Louisiana University was designed to determine the level of financial management expertise by people operating small businesses and the corresponding level of expertise by their bankers.

In order to accomplish the survey a sequential probability sample was drawn from a Dun and Bradstreet list of small businesses. Dun and Bradstreet personnel were instructed to draw the sample from firms with less than 500 employees at the primary place of business of single and multiple location businesses. Professionals were specifically excluded. Thus, the sample included only retail, service, wholesale, and manufacturing enterprises. A total of 4,000 companies were provided by the initial list. A sequential probability sample of 200 was selected from this list of 4,000. A bank in the same city as the business was then chosen.

A questionnaire consisting of a series of positive and negative assertions about financing actions was mailed to the sample of small businesses and banks. The instructions on the bank questionnaires requested that a small business loan officer complete and return the questionnaire. Completed questionnaires were returned from 46 business and 59 bank loan officers. No follow up was attempted.

SURVEY FINDINGS

Cash Management Planning During Start-Up. The results of the survey are presented in the appendix. The first group of assertions was designed to determine the views of small business owners/managers and bankers about cash management planning during the start-up phase of the business. Cash budgeting should begin before a new business opens its doors. Adequate cash reserves are a critical survival factor during the start-up phase of a small business. Businesses can survive for a long time with no profit, but such firms die the first time there is no cash to meet current obligations. Large start-up outflows will quickly absorb all cash provided by initial equity if realistic cash flow forecasts have not been prepared and steps taken to identify the timing and amounts of debt financing that will be needed [14]. There is usually no question of whether or not debt financing will be necessary. The only questions to be answered are "when" and "how much."

Statement A said, "In start-up situations, using owner's money for purchasing buildings and land would be better than using the money for working capital." The "correct" response to this statement would be to disagree. Alternative sources of financing to meet working capital needs are more limited than those for needs such as fixed asset financing. Buildings and land can provide collateral for real estate loans which would generally have a lower interest rate than an unsecured loan [5]. Furthermore, leasing of buildings and land may be possible which requires no commitment of long term funds [6].

Approximately two-thirds of the small business people and 73 percent of the bankers gave the correct "disagree" response.

However, it must be noted that 12 percent of the bankers gave an incorrect response, and 15 percent had no opinion. The 12 percent with the "agree" response would be giving inappropriate advice to their small business clients. The other 15 percent could be giving unwise advice or perhaps no advice at all.

Statement B said, "During start-up, owner's money should be reserved as much as possible to cover operating needs to cash flow break even." The "correct" response to Statement B is to agree. There will be a delay in cash inflows due to the fact that products must be produced (in a manufacturing business), then sold, then cash collected. In the meantime, cash outflows occur immediately except for those covered by trade credit and short-term borrowing. The owner must be sure that enough cash is available to survive until the cash inflows are realized. As discussed under Statement A, it is more feasible to use the owner's funds for this purpose than to borrow to for working capital needs.

The small business person should turn a deaf ear to the banker's advice on this question. The small business group had a 91 percent correct response while the bankers had only a 78 percent correct response. Nineteen percent of the bankers had an incorrect response while 3 percent had no opinion. Bankers improved their response rate from 73 percent on the first statement. However, they were behind the small business owner/managers.

Statement C said, "Normally, it is better to cash certificates of deposit for use in the business rather than use them as collateral for loans." The "correct" response was to disagree. Like Statement A, this is a specific capital conservation decision. Cashing certificates of deposit provides immediate cash but destroys an asset in the process. If the certificates are used as loan collateral, the business retains the asset and still acquires the needed financing.

This statement seemed to elicit more uncertainty than previous statements in spite of the fact that the general cash conservation principle is the same. Twenty-four percent of the small business people and 25 percent of the bankers had no opinion. Only 41 percent of the bankers and 37 percent of the small business owners/managers gave the "correct" response. A third of the bankers would have presumably given inappropriate advice. In this case it appears that the knowledge of the bankers is only minimally above that of the small business people.

Statement D said, "Survival cash (cash to cover operating needs to cash flow break even) should be arranged for when negotiating start-up financing." The "correct" response would be to agree. The Van Auken and Carter study identified financial projections as the most common requirement for initial debt acquisitions among their survey firms [12]. An entrepreneur has a much better probability of being able to borrow survival cash if the request is part of a forecast and management plan presented before start-up rather than a desperation decision to borrow when there is not enough cash on hand to pay the bills.

The respondents in both groups did much better on this statement. Approximately 96 percent of the small business group and 88 percent of the bankers correctly agreed with the statement. However, it must be noted that the small business people again outscored the bankers, and 12 percent of the bankers would have given bad advice or no advice. It seems an anomaly that 8 percent of the bankers would not like to know in advance of their clients' needs.

Errors in Estimating Start-Up Needs. New entrepreneurs tend to be overly optimistic in their assessment of the prospects for their venture. Three statements in the survey were designed to reveal the extent of the awareness of the entrepreneurs and their bankers of this tendency.

Statement E said, "Small business borrowers applying for start-up loans tend to underestimate costs and expenses and overestimate sales." The "correct" response is to agree. Overestimating sales and underestimating expenses is a very common problem among most small business organizers. Expenses tend to be understated because of omissions of several categories which may not be significant individually but which are quite large when viewed as a whole. Inaccurate sales estimates result from failure to correctly understand the demand for products. Approximately 50 percent of businesses fail for lack of sales, according to Dun & Bradstreet. A new business selling a product or service must compete with established businesses already selling the product or service as well as those offering close substitutes.

To their credit, 100 percent of the bankers correctly agreed with Statement E. One can speculate that their experience has shown that overoptimism by beginners in small business is typical. The small business owners also recognized the tendency for the most part, with 93 percent of them agreeing with the statement.

Statement F said, "Small business owners typically underestimate their new firm's cash requirements." The "correct" response was to agree with Statement F. A new firm will show accounting profits before its cash breakeven point is reached. Revenues from sales are recorded when sales occur, but cash from the transactions may not be received for two or three months. In the meantime, cash outflows are necessary to produce or purchase inventory and to meet operating expenses. Once the cycle is stabilized, cash inflows from sales in previous periods are used to meet cash outflow needs in the current period. However, the start-up phase is a dangerous period when cash outflows must be financed from sources other than operations. Although new business operators perceive a need for buying inventories and fixed assets, they typically underestimate the lag between the initial cash outflow and the resulting cash inflows from sales.

Again 100 percent of the bankers recognized Statement F to be true, probably from experience. Of the small business respondents, 86 percent of them also recognized the statement to be true. Although small business respondents scored

well, they failed to do as well as the 94 percent that correctly responded to Statement E, indicating that there is more awareness of underestimating operating expenses and overestimating sales than underestimating cash requirements.

Statement H said, "Small business owners, estimates of working capital needs in startup situations are usually too low." The "correct" response is to agree. The period of time required to convert the initial investment in inventory back to cash is called the cash conversion cycle [1]. This cycle consists of the number of days from the time inventory is initially purchased until it is sold and converted back to cash. This period includes the time when sold inventory is in the form of accounts receivable. Total cash investment in working capital is equal to the combined asset items of inventories and accounts receivable less the combined financing provided by short-term payables and accruals reflected on the liability side of the balance sheet. However, an increase in payables providing working capital financing also creates a need for larger cash balances to pay the larger bills when they are due. Even entrepreneurs who have been farsighted enough to plan for the cash investment in inventory often fail to plan for the investment in receivables and additional cash balances to cover increases in payables.

Again, bankers as a group were well aware of the problem posed in Statement H with 100 percent of them correctly agreeing with the statement. Business owners' responses were the same as to the previous statement, with 87 percent agreeing.

Both bankers and small business owners did better on statements indicating an awareness of errors in estimation than they did on statements concerning cash needs to start a business. The tendency towards overoptimism is apparently a well-known phenomenon even among the owners themselves.

Identifying Permanent vs. Temporary Needs. Two statements were used to determine if managers and bankers were aware of the need for different types of financing for permanent working capital needs compared to the types suitable for financing of temporary working capital. Inventory was used as the representative working capital asset item in the statements since it is usually easier to segment into the two categories requiring different financing.

Statement I said, "In start-up situations, basic inventory investment should be financed using long term sources of funds." The "correct" response was to agree. The rule of thumb on all assets is to finance permanent needs with long term debt or equity and to resort to less reliable, high risk, short-term debt to finance only temporary needs [15].

Nearly all of the initial investment in inventory represents a permanent financing requirement. Even though inventory will be sold, cash received must be "plowed back" to purchase replacement inventory. The cash will not be available for other purposes except for the profit produced due to selling prices exceeding operating costs and costs of goods sold.

Small business managers exhibited a great deal of uncertainty about basic inventory investment with responses about evenly divided among strongly agree or agree, strongly disagree or disagree, and no opinion. Bankers were somewhat more positive, but positively wrong--56 percent incorrectly disagreed while only 36 percent agreed.

Statement J said, "Seasonal inventory for peak periods should be financed using trade credit or other short term source of funds. The "correct" response to Statement J was to agree. Financing seasonal working capital needs with short term funds is an acceptable and common practice. These needs are temporary, and the liquidation of the seasonal portion of inventories provides the cash flow to repay the debt obligation.

Bankers apparently understand the short term side of inventory financing better than the long term side. More than 98 percent correctly agreed with Statement J. Small business owners were not as certain as the bankers with only 80 percent correctly agreeing with the statement that seasonal inventory needs should be financed with short term credit. However, the small business group scored much better on Statement J than they did on the long term side of the equation in Statement I.

Again, as in the statements concerning initial cash management in the first section, there seemed to be some confusion among both groups about sources of financing for long and short term assets.

SUMMARY AND RECOMMENDATIONS

In the initial group of four statements concerning cash management during the startup phase of the business, neither bankers nor small business people did particularly well. However, it must be noted that the small business people outscored the bankers on two of the questions. A 1989 survey by American Banker indicated that 40 percent of companies want advice from their banker about loan structures during the first two years of business operation [10]. The findings of the Northeast Louisiana University (NLU) study indicate that the responses that they get may be less than helpful.

The bright spot in the NLU study is that both bankers and small business recognize that estimates of sales and expenses as well as cash and working capital needs may be overoptimistic. Bankers scored an "A+" on this group of questions when 100 percent gave the correct response to all three. However, the small business group also recognized the tendency and scored very well themselves.

The last two questions dealt with use of long and short term funds to finance permanent and temporary needs. Bankers scored well on the short term question, but the majority were incorrect on the long term question. The small business group did fairly well on the short term question and did better than the bankers on the long term question.

In spite of the fact that "inquiring [small business] minds want to know," it appears that bankers fail to provide knowledgeable financial expertise to their small business clients in many cases. The indication from this survey is that bankers themselves need to familiarize themselves with strategies that are useful for small business, particularly those in the start-up stage. Four recommendations seem appropriate:

(1) Banks should establish a working relationship between bank officers and small business owner/managers. Small business thrives on the personal touch, and bankers benefit from a more intimate knowledge of their problems. Most small companies bank with a local branch [9, p. 37]. Three-fourths of small businesses have a bank officer assigned to their account [9, p. 37]. However, contacts may be minimal and may be confined largely to examination of monthly or quarterly financial statements. Phone calls and especially visits to the business provide information that financial statements cannot capture. Besides having contact with the primary loan officer, small business people need to know other officers of the bank. If the loan officer leaves the bank, the manager does not need to start from scratch with a new person [13].

(2) Large banks should establish a small business department. The American Banker poll found that 58 percent of the businesses that reported above average or excellent service said their bank had a small business department. However, only 55 percent of the respondents reported that their bank had a small business department. Their use appeared to be most prominent in the West and least prominent in the South [2]. Establishment of a small business department allows even large banks to give their small business clients the service they need and to be familiar with their problems.

Equibank in Pittsburgh goes a step further with its Business Alliance service which offers seminars on small business topics: free consultation with accountants, employee benefit advisers, and other experts; and inexpensive group health insurance [8]. San Francisco's BankAmerica Corporation sponsors a Small Business Alliance which gives its small business customers special discounts on its products and services, a quarterly digest of business information, seminars, and a special telephone hotline [2, p.7].

(3) Both bankers and small business owners should become aware of university resources to assist small business. Small Business Development Centers around the country provide a vast array of services for small businesses, including one-on-one counseling, continuing education seminars, and use of the Centers' information system and network. Services are for no charge or for a nominal fee. In addition, the Small Business Institute can provide student teams under the supervision of a faculty adviser to tackle a variety of problems. In cases in which a banker does not have time, inclination or expertise to help a small business owner, the logical place to turn is the local university.

(4) Bankers should familiarize themselves with small business problems. The NLU survey provides ample evidence that bankers are unfamiliar with financial strategies that are appropriate for small business, particularly in the start-up phase. The typical business school education of a banker does not prepare him or her to deal with small business. Accounting, finance, marketing and management courses are usually geared to large companies. Little time is spent on strategies for small or young business. Bankers need to put forth an effort to learn about small business through continuing education courses, seminars, and personal reading. Beyond that, they can learn from entrepreneurs by listening to their concerns and visiting their businesses.

Small businesses which survive eventually grow into medium and large size businesses. Bankers need to realize that by helping small businesses they are helping themselves. Entrepreneurs who receive good advice and who are pleased with their relationship with their banker will continue to be good customers for years to come, benefiting both the entrepreneur and the bank.

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SURVEY RESULTS

Statement A: IN START-UP SITUATIONS, USING OWNER'S MONEY FOR PURCHASING BUILDINGS AND LAND WOULD BE BETTER THAN USING THE MONEY FOR WORKING CAPITAL

Loan Officer _____ Response Small Bank Business Person

Strongly Agree 6.5 5.1 Agree 15.2 6.8 Disagree 34.8 39.0 Strongly Disagree 32.6 33.9 No opinion 10.9 15.3 Total
Percent 100.0 100.0 Total Respondents 46 59

Statement B: DURING START-UP, OWNER'S MONEY SHOULD BE RESERVED AS MUCH AS POSSIBLE TO
COVER OPERATING NEEDS TO CASH FLOW BREAK EVEN.

Person Loan Officer Response Small Bank Business

Strongly Agree 43.5 18.6 Agree 47.8 59.3 Disagree 8.7 15.3 Strongly Disagree - 3.4 No opinion - 3.4 Total Percent
100.0 100.0 Total Respondents 46 59

Statement C: NORMALLY, IT IS BETTER TO CASH CERTIFICATES OF DEPOSIT FOR USE IN THE
BUSINESS RATHER THAN USE THEM AS COLLATERAL FOR LOANS

Person Loan Officer Response Small Bank Business

Strongly Agree 13.0 6.8 Agree 26.1 27.1 Disagree 23.9 33.9 Strongly Disagree 13.0 6.8 No opinion 23.9 25.4 Total
Percent 100.0 100.0 Total Respondents 46 59

Statement D: SURVIVAL CASH (CASH TO COVER OPERATING NEEDS TO CASH FLOW BREAK EVEN)
SHOULD BE ARRANGED FOR WHEN NEGOTIATING START-UP FINANCING

Person Loan Officer Response Small Bank Business

Strongly Agree 41.3 27.1 Agree 54.3 61.0 Disagree - 8.5 Strongly Disagree - - No opinion 4.3 3.4 Total Percent 99.9
100.0 Total Respondents 46 59

Statement E: SMALL BUSINESS BORROWERS APPLYING FOR START-UP LOANS TEND TO
UNDERESTIMATE COSTS AND EXPENSES AND OVERESTIMATE SALES

Officer Response Small Bank Business Person Loan

Strongly Agree 41.3 59.3 Agree 52.2 40.7 Disagree 2.2 - Strongly Disagree - - No opinion 4.4 - Total Percent 100.1
100.0 Total Respondents 46 59

Statement F: SMALL BUSINESS OWNERS TYPICALLY UNDERESTIMATE THEIR NEW FIRM'S CASH
REQUIREMENTS

Business Person Loan Officer Response Small Bank

Strongly Agree 45.7 50.8 Agree 41.3 49.2 Disagree 6.5 - Strongly Disagree - - No opinion 6.5 - Total Percent 100.0
100.0 Total Respondents 46 59

Statement H: SMALL BUSINESS OWNERS' ESTIMATES OF WORKING CAPITAL NEEDS IN START-UP
SITUATIONS ARE USUALLY TOO LOW

Loan Officer Response Small Bank Business Person

Strongly Agree 45.7 37.3 Agree 41.3 61.0 Disagree 6.5 - Strongly Disagree - - No opinion 6.5 - Total Percent 100.0
100.0 Total Respondents 46 59

Statement I: IN START-UP SITUATIONS, BASIC INVENTORY INVESTMENT SHOULD) BE FINANCED
USING LONG TERM SOURCES OF FUNDS

Response Small Bank Business

Person Loan Officer

Strongly Agree 4.3 1.7 Agree 29.3 33.9 Disagree 28.3 39.0 Strongly Disagree 4.3 16.9 No opinion 34.8 8.5 Total
Percent 100.0 100.0 Total Respondents 46 59

Statement J: SEASONAL INVENTORY FOR PEAK PERIODS SHOULD BE FINANCED USING TRADE CREDIT
OR OTHER SHORT TERM SOURCE OF FUNDS

Response Small Bank Business Person
Loan Officer

Strongly Agree 15.2 28.8 Agree 65.2 69.5 Disagree 10.9 - Strongly Disagree - - No opinion 8.7 1.7 Total Percent 100.0
100.0 Total Respondents 46 59

INTERNAL CONTROLS FOR THE SMALL OWNER-OPERATED BUSINESS

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ABSTRACT

Concentration of operational control and limited segregation of duties (due to few employees) are two characteristics that create a different environment for internal controls for a small owner operated business and the controls in other businesses. Incorporating the attitude of the owner in the control structure can make a difference since controls in a small owner operated business can generally be overridden by the owner. Entrepreneurial controls are unique to the small business and are dependent on specific actions by the owner and the overall business knowledge of the owner.

INTRODUCTION

It is commonly believed that the need for an internal control system develops as the organization grows. As a small entity characterized by the direct involvement of the owner on a daily basis grows into an organization with specialized and/or departmental operations, the need for internal controls does increase.[1, p. 200] In general this idea is based on an accepted group of controls that are useful in allowing management to evaluate financial and operational efficiency from reports. Subordinates, therefore, must transfer information throughout the hierarchy of the business. Management depends on internal controls to provide some assurance that the reports generated are accurate and their directives have been carried out by the responsible subordinates. These internal controls increase the confidence that the owners or managers have in the business. Even though the need for internal controls does increase in direct proportion to size of the business, that does not mean controls are not necessary for the small business. This paper examines the controls needed in a small business that is owner operated. The controls mentioned will include some that are found in most businesses whether owner-operated or not. However, the focus is on the unique situation created when the small business owner manages operations on a daily basis and the effect on the control structure.

After a definition including the characteristics a small business incorporates, controls will be examined using the elements (control environment, accounting system, and control procedures) set forth in SAS 55, Consideration of the Internal Control Structure in a Financial Statement Audit, which became effective January 1, 1990.

Definition of Small Business

Although small businesses are frequently defined using dollar value criteria, this paper will use characteristics, typically found by an auditor, which are not usually present in other businesses. The use of these particular characteristics does not incorporate a ceiling on dollar volume of sales or on any other value or a ceiling on the number of employees found. The characteristics that distinguish a small business are:

- * The ownership and/or operational control is concentrated in one or a few individuals. The talents of these individuals are likely to be in some area other than accounting and/or finance - possibly marketing, manufacturing, or research. The owner/owners tend to dominate the affairs of the business.
- * There will be limited segregation of duties and functions within the accounting system.

These two characteristics lead to several secondary characteristics. A business with one or few owners tends to be relatively uncomplicated. The changes from year to year are identifiable. Understanding and defining these changes, can usually be done with policies and procedures that change very little from year to year. Concentration of ownership also creates greater potential for management override of the internal accounting controls.

In a small business operated by the owner, the board of directors or other policy making body is likely to be inactive or ineffective. [5, p. 53] Therefore, the board exerts little or no control over the activities engaged in by the owner.

The owner in the small business either doesn't or is not able to hire employees with either accounting experience or formal accounting training. The simplicity and lack of expertise in the small business does mean that the record-

keeping systems may be informal and documentation of transactions may not be adequate. [3, p. 32] One other characteristic that may be found is that the clerical and administrative personnel have easy access to assets creating a serious control breach.

In summary, a small business might be categorized as one with fewer management members than duties and functions to be performed. An advantage of this form of business is that the owner/manager is usually involved in daily operations and is in a position to personally safeguard assets. On the other hand, due to the small number of employees, duties are not separated allowing the owner/manager the opportunity to alter or omit certain information without detection by the employees. It also creates an environment that makes errors and fraud perpetuated by either employees or owners difficult to detect.

INTERNAL CONTROL STRUCTURE

Previously, the internal control structure contained only one element, control procedures. All controls were included under this category. SAS 55 increased to three the elements included in the internal control structure: the control environment, the accounting system, and control procedures.

Control Environment

Encompassed in this element is the organization's awareness of and commitment to the importance of effective controls throughout the organization. [4, p.41] The ideas, actions, and attitudes of management are the focus of this element as is indicated by the following factors.

- * Management's philosophy and operating style.
- * The organizational structure of the business.
- * The existence and responsibilities of the board of directors.
- * The methods used in assigning authority and responsibility.
- * The control methods used by management.
- * The specific personnel policies and practices followed.

Management's Philosophy and Operating Style

The philosophy and operating style of management in a small business is typically reflective of the owner's attitudes. Controls to detect problems relating to the owner's attitude cannot be incorporated into the system. The most important measure that could be taken would be to retain an accountant or financial consultant to carefully assess any problems that might occur as a result of the following:

(1) An unreasonable attitude toward business risks.

(2) A liberal attitude toward accounting matters. Conservatism is one of the basic accounting principles and the tendency away from it can lead a business into bankruptcy. Numbers one and two could be controlled by the owner's using an accountant as a regular consultant or including one on an active board of directors.

(3) An emphasis on minimizing income taxes. This policy would likely cause a misstatement on the financial statements. One of the most important reasons for internal controls is to monitor assets and inventory is likely to be misstated by an owner with this attitude. Both the income statement and balance sheet would be affected.

(4) An owner who mixes personal expenses with business expenses. The income statement of the business will understate income since expenses will include more than just those of the business. The effect on the business's income statement would be similar under this condition as under number three.

Both three and four concern, to one degree or another, the ethics of the owner/manager. Since the owner is involved in most facets of the day to day activities including the accounting, a control to prevent either of these is unrealistic.

Organizational Structure

Organizational structure generally refers to segregation of duties. As previously stated, the segregation of duties in a small business is minimal. However, with an involved owner and two other individuals, limited segregation of sales and cash collections can be achieved. For example, the owner can be responsible for transaction authorization (e.g.

credit approval, accounts receivable write-offs, and sales returns and allowances); an employee (accounting) can post journals and ledgers; and a second employee (receptionist) can open mail and prepare the daily deposit. This would separate authorization of transactions, recording of transactions, and custody of assets.[4, p. 43] This process might be enhanced by the owner's involvement in opening the mail in order to prevent the receptionist from neglecting to report cash collections. Although some segregation can be achieved, control is limited. The owner might hire part-time employees to perform some functions to separate duties even more.

Board of Directors

Included in this factor is the existence of a board as well as its actual duties and responsibilities. Many small businesses have family members or friends listed on the board without any responsibilities to the business at all. There is no management, financial, or accounting expertise for the owner to rely on for day to day operation of the business.

Methods of Assigning Authority and Responsibility

Job descriptions, organizational charts, computer procedures, detailed documentation, etc. are included in this factor. Small businesses may not need to be as detailed in their documentation of all policies and procedures. The one area that is contained within this factor that does need attention is that adequate documentation exists for computer procedures. Specifically, there should be procedures for authorizing transactions as well as approving any changes in the system.[4]

Management's Control

The methods include such things as budgetary control, analysis of operations, cost control, and inventory control. [6.p.16] A sound system of budgetary control can provide the foundation for sound business management. A lack of understanding or knowledge is frequently the reason given for not utilizing this important control. Operational analysis provides the owner with a clear

idea of the firm's position both as a stand alone entity as well as a part of its industry. Profitable spending for desired results is the primary objective of cost control. [6] Many uninformed owners simply attempt to reduce expenses. Using control for inventory will result in minimizing investment in inventory while satisfying customer requests which will make purchasing more effective.

Personnel Policies and Practices

The experience, background, and education of the personnel hired, the turnover rate, the policies regarding bonding of employees, employee vacations, and rotation of duties are considered important considerations for control. Competent, honest employees that remain with the firm relate directly to improved control. Employees handling cash or other securities should be bonded. All employees as well as the owner should be required to take vacations. Rotation of duties will help prevent theft unless there is collusion.

Because the factors involved are directly related to the methods used by the owner to communicate authority and responsibility as well as those methods used in supervising the control system,[5, p. 53] the control environment is almost totally dependent on the owner in a small business. Controls can generally be overridden easily. If the owner is not familiar with business practices, including managerial and accounting skills, then expert help should be utilized. A strong ethical background would cover some of these factors and help maintain control.

Accounting System

Included in this element are manuals, a chart of accounts, a double-entry system of bookkeeping, and accounting controls. One of the factors in this element that is of paramount importance is creating an audit trail. Written manuals with detailed procedures, and policies, and instructions are a recommended control. However, due to lack of funds, the small number of employees, and the day to day involvement of the owner, these manuals can be done on a more general basis. All accounting systems should carefully prepare a chart of accounts that is the skeleton for the accounting system. The use of control accounts (with subsidiary ledgers) where necessary will also aid in control. The double-entry system should produce a balanced set of records and statements so that any irregularity, whether error or fraud, requires omission from accounts on both sides of the transactions. An audit trail exists if any financial total in the

general ledger can be supported by evidence from the various transactions involved. In other words, all amounts need to be traceable both to the source and to the financial statements.

Control Procedures

Control procedures are directly interwoven into the control environment and the accounting system. Specific controls necessary for the small business are things such as periodic bank reconciliations, checking the totals in the control accounts against the subsidiary ledgers, physically counting the inventory on a periodic basis, and comparing budgeted and actual results. Prenumbered documents make physical control over documents simpler. Investigating missing documents also provides a control over recording of transactions.

The control procedures that apply to small businesses can be grouped into four categories - keeping records, duties of employees, securing assets, and responsibility of employees. [7.pp. 49-55] Control procedures are found in both the previously discussed elements of the internal control structure. However, for the small business, the procedures related to employee actions and their effect in safeguarding assets take on more importance since the owner is almost totally responsible for the environment and to some degree the accounting system.

Controls for keeping records provide checks on the handling of transactions and assets by employees. If possible, the use of different employees for record keeping and custody of the respective assets is beneficial.

When assigning duties in a small business, the owner should attempt to provide checks by delegating duties to one employee that will check the activities of another. Utilizing the owner to authorize special transactions as well as any checks from an external source, such as giving customers sales receipts so they can check the salesperson's actions will increase control.

Using security devices is one way to secure assets. Locating some assets off premises (marketable securities in a lockbox) provides some protection. Depositing all receipts directly in the bank and using checks to pay bills instead of cash makes it more difficult for an employee to misappropriate funds.

When it is necessary for employees to have custody of assets, one control is to give responsibility for an asset to a single employee. Problems can then be easily traced to the source.

The owner's personal involvement in all facets of the business on a daily basis lead to the necessity for what might be called entrepreneurial controls. These relate directly to the owner's knowledge and participation in the business.

ENTREPRENEURIAL CONTROLS

The entrepreneurial controls that are most likely to be valuable are:

- * Using the accounting information effectively in both budgeting and day-to-day managing of the business.
- * Explaining any discrepancies in accounting information and expectations based on knowledge of the business.
- * Relying on exception reports (unusual items).
- * Using part-time employees if necessary to help when segregation of duties is important
- * Personally approving certain transactions before or when payment is made.[2, P. 65]

An owner who lacks the skills to be involved in such a manner may hire an expert to help out, place such an individual on the board of directors, ask an independent auditor to review, analyze, and interpret reported results, or expand his skills in these areas with continuing education courses. Personal observation can make the owner aware of cash flows, sales and receipt of goods, production, employee activities, etc. The use of personal observation can effectively increase the owner's internal control in the business.

SUMMARY

Developing a system of internal control in a small business will be met with severe limitations. The key to the first element of the internal control structure, control environment, is the owner's personal involvement and capability as a business person. The second and third elements, accounting systems and control procedures include some specific controls and procedures that deal more with separating duties of a few employees so that record keeping and custody of

related assets are handled by separate individuals.

The lack of financial resources or, if resources exist, the desire on the part of the owner to spend the money elsewhere (e. g., to increase sales, expand manufacturing, etc.) creates another limitation. Even if the owner is willing to develop a perfect system, it will probably not be cost beneficial. Entrepreneurial controls and the use of control procedures throughout the organization will increase the internal control structure.

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PAYROLL TAX WITHHOLDINGS: A POTENTIAL CASH FLOW PITFALL

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ABSTRACT

The small business owner/manager must be alert to the potential hazard of failing to pay federal employee withholding taxes. As if the pressures of handling cash flow, creditors, customers, employees, suppliers, were not enough, there is the 100 percent penalty for failure to pay taxes. Diverting cash from employee withholding taxes to pay suppliers, creditors, etc. may appear to be "top priority", but the IRS will not take a back seat. Should the company fail to remit the withheld taxes, the IRS will go directly to the responsible party for payment.

Small business owner/managers must incorporate into their thinking three points regarding federal income tax withheld from employees:

1. A 100 percent penalty may be imposed if the funds are not paid to the IRS.

Any person will be liable if:

2. The failure to collect funds or the diverting of funds was willful, and 3. The individual was a responsible party during the reporting period. The individual owner-manager or others may be held personally liable for the penalty.

INTRODUCTION

Kenneth Eversole was the sole owner of Health Resources Development Corporation, which owned 75 percent of the outstanding shares of Health Resources, a corporation which managed nursing homes. Eversole was Chairman of the Board of Health Resources. After filing a Chapter 11 bankruptcy, the Internal Revenue Service notified him that he was personally liable for the payment of withheld payroll taxes that Health Resources failed to pay. Eversole argued that he was merely chairman of the board and not involved in the daily activities of the firm. He also contended that he was not aware that the withheld taxes were delinquent, nor was he responsible for collecting and paying the taxes. The IRS countered that Eversole was informed of the corporation's financial condition, and that his contention that he had no knowledge of the tax delinquency was unsupported by the evidence (6). This case crystalizes the issue of the potential personal liability that may be transferred from the firm to the individual for withheld employee taxes by the IRS.

For small businesses, it may be easy to fall into the trap of diverting money (withheld from employee's paychecks) destined for the Internal Revenue Service (IRS) to the payment of seemingly more pressing liability claims. In businesses where the number of employees is small, remission of income tax withholdings to the IRS is generally required only monthly or quarterly. Obviously, the actual payment of funds withheld can occur weeks after the employee was paid wages. Over the four or thirteen week period, cash not paid the employee (but withheld) can be utilized for other liability payments. But beware, this "diversion" of withheld funds can leave the small business with inadequate funds to pay the IRS on the remission date.

CASH MANAGEMENT

The owner or manager of a small business is responsible for managing and monitoring all aspects of the business' performance. Challenges and problems continuously press from many directions. Cash is a four letter word that often becomes a curse for small businesses. Lack of cash has driven many small businesses into bankruptcy and no doubt many more will fall prey to neglecting cash management. Thus, businesses must be concerned with (1) the generation of timely, accurate cash flow information, and (2) the proper management of cash flow. The cash flow challenges are likely more severe for smaller businesses due to larger businesses' greater accessibility to more diverse sources of cash.

In attempting to meet the business's needs, owners and managers must be alert to a cash-flow-related pitfall of potentially devastating consequences. While effectively managing cash flow is only one of the many challenges facing small businesses, this potential pitfall is one which may easily escape even careful attention. This pitfall, while not

new, concerns federal employer withholding taxes. Generating funds to pay over past-due amounts to the IRS may be only half the problem. The person responsible for paying out these withheld funds to the IRS may be subject to a 100% penalty.

100 PERCENT PENALTY

Internal Revenue Code Section 6672 states:

Any person required to collect, truthfully account for, and pay over any tax imposed by this title who willfully fails to collect such tax, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties provided by law, be liable for a penalty equal to the total amount of the tax evaded, or not collected, or not accounted for and paid over.

The purpose of Code Section 6672 is to encourage the prompt payment of withheld, and other collected taxes, and to insure ultimate collection of such taxes from a secondary source in any event. The statute does not apply to direct taxes such as the employer's portion of FICA or FUTA taxes.

The penalty is imposed if the willfulness of a responsible party can be determined. If a business has willfully failed to pay collected excise taxes, the 100% penalty may be asserted against responsible officers and employees of the company. This includes volunteer members of boards of trustees of organizations whenever such taxes cannot be immediately collected from the company itself. When the person responsible for withholding, collecting and paying taxes cannot otherwise be determined, the service has viewed the president, secretary, and the treasurer of the corporation as responsible officers.

WILLFULNESS

An important question in determining whether the 100 percent penalty is imposed is willfulness. Code Section 6672 requires that the failure to collect, account for, and pay the taxes must be "willful." The standard of willfulness applied by the courts does not embrace any bad motive or evil intent on the part of the responsible party. Rather, all that must be shown is that the act was voluntary, conscious, and intentional. All that is necessary is that the responsible party was aware of the outstanding taxes and knowingly and intentionally used them to pay operating expenses or other debts of the business. Liability may be shared with others. Most courts reject the contention that reasonable cause or justifiable excuse plays a part in determining whether the responsible party's actions are willful.

In *Malone vs. U.S.* (9), a chairman's failure to turn the withheld taxes over to the IRS was found to be willful. Malone presented insufficient evidence to demonstrate that he possessed neither the power to control decision making nor the ultimate authority within the corporation. After he was notified of the corporation's withholding tax delinquency, Malone, the chairman of the corporation, continued to write checks to other creditors and suppliers.

Additionally, a person who, because of his position in the business, could know and should know of the failure to remit the withheld taxes, is not relieved of the responsibility to know. Lack of knowledge, by intent or by neglect, is not an excuse. A failure to inquire about nonpayment constitutes a reckless disregard of the significance of known facts sufficient to satisfy what is known as the "state of mind" requirement.

RESPONSIBLE PARTY

Another important aspect of Code Section 6672 is that the penalty will be assessed against the person responsible for paying over the withheld taxes. Recently the Sixth Circuit court has suggested that: the specific factual inquiry in such cases is directed towards determining (1) the duties of the officer as outlined by the corporate by-laws, (2) the ability of the person charged to sign checks on the corporation, (3) the identity of the officers, directors and shareholders of the corporation, (4) the identity of the person who hired and fired employees and (5) the identity of the individuals who were in control of the financial affairs of the corporation. However, such a checklist analysis is not determinative.

The Court goes on to point out:

More than one person can be a responsible officer of a corporation. Essentially, liability is predicated upon the

existence of significant, as opposed to absolute, control of the corporation's finances ... It is basically a factual inquiry. Generally, such a person is one "with ultimate authority over expenditure of funds since such a person can fairly be said to be responsible for the corporation's failure to pay over its taxes, " or more explicitly, one who has "Authority to direct payment of creditors."

Responsibility for purposes of section 6672 is a matter of status, duty, and authority.... It is not necessary that an individual have the final word as to which creditors should be paid in order to be subject to liability under this section. Rather, it is sufficient that the person have significant control over the disbursement of funds.

For example, E.A. Cella (3), the treasurer of a bankrupt corporation, was personally liable to the government for withheld taxes that were diverted to pay other creditors. The treasurer breached his duty to hold such collected taxes in trust until they were paid to the government. Although the treasurer could not sign checks in excess of \$1,000 without the signature of another officer, such a limitation on his authority did not protect him from liability as the person responsible for payment of taxes.

In another case (1), the taxpayer was not a responsible person during the entire quarter in which the corporation failed to pay withheld taxes, but he had become a responsible person by the end of the quarter and, therefore, where he preferred creditors (willfulness) over the government when the corporation had sufficient funds at the end of the quarter to pay the taxes, he was liable for the unpaid taxes for the entire quarter.

It is also possible to be considered as a responsible person for the trust fund debt of a purchased corporation as seen in a current case. In *McCorvey vs. United States* (8), Brian McCorvey acquired the assets of Atlanta Tape & Video, Inc. , in October 1984. As president, he had signature authority on corporate accounts and was in charge of day-to-day operations. He signed most of the corporation's checks and was responsible for collecting, accounting for, and paying over withholding taxes. Prior to McCorvey's assumption of control, the company accrued

\$7,552 in unpaid withholding liabilities. During McCorvey's tenure, Atlanta Tape incurred \$14,310 in withholding tax liability and paid more than \$14,310 to the government. However, McCorvey did not designate how to apply the payments, so the IRS first applied the payments to the previous unpaid liability. The IRS assessed responsible person penalties against McCorvey. He filed for bankruptcy and sued for a determination of his tax liability.

Bankruptcy Judge Cotton held McCorvey liable for the penalties. Although the court did not list any factors which showed willfulness, it dismissed as "without merit" McCorvey's argument that because Atlanta Tape paid all the withholding liabilities that accrued during McCorvey's tenure that his failure to pay could not be characterized as willful.

UNRELATED PARTY PENALTY

Furthermore, the 100% penalty may be asserted against an unrelated party, such as a bank, surety, or other third party who has assumed control over the taxpayer's business and financial affairs.

In *Clouse vs. U. S.* (2), a stockholder and principal creditor of a corporation who was fully involved in the operations of the corporation and who had knowledge of its precarious financial condition was found to be a responsible person and thus, was held personally liable for unpaid withholding taxes. Clouse was one of the three original corporation's directors, officers and shareholders of Oetra Inc. (5). During the period involved, Clouse was authorized to sign checks on behalf of Oetra, Inc. and in fact exercised that authority. He also had the authority to hire and fire employees.

Clouse was also involved in the determination of which creditors should be paid. He prepared creditor's lists and took part in determining priorities of payment. Based on these facts the court held that Clouse was a person responsible for collecting, accounting for truthfully or paying over to the United States the withheld income and social security taxes for Oetra, Inc.

Clouse was willful throughout the period involved because he was aware that the payroll taxes were unpaid and he preferred other creditors over the United States. He signed checks made payable to other creditors to keep Oetra operating and even preferred himself by taking rent, salary, and loan repayments rather than paying the United States. Thus, Clouse was held liable for the 100 percent penalty for the failure to pay some \$27,000 in withholding taxes for the first and second quarters of 1980.

BANKRUPTCY

Even when a corporation or company goes into bankruptcy, a tax assessment against a responsible person is not discharged under Section 17 of the Bankruptcy Act. In *Osborn vs. U.S.* (7),

A sole shareholder and managing officer of a corporation willfully failed to pay over withholding taxes, and his debt was not dischargeable in bankruptcy. However, his wife was not shown to have acted willfully, and her indebtedness was dischargeable.

Also in *Cergua vs. U.S.* (11) the taxpayer failed to prove that he was not, as a corporate officer, guilty of willfully failing to pay the taxes that were withheld from the corporation's employees. As this indebtedness is not dischargeable in bankruptcy, the taxpayer was liable for the unpaid taxes.

The liability imposed on the responsible person for the collection and payment of withholding taxes is in the nature of transferee liability and it is not a penalty despite the use of that word in Code Section 6672. Thus, a bankrupt individual may not receive a discharge in bankruptcy under 523 of the new bankruptcy act (4).

An adjudication of bankruptcy did not discharge the debtor's liability to pay taxes withheld from employees of his corporation and he remained liable for his failure to do so. Congress's specific intent in this situation overrides the overall policy of the Bankruptcy Act of giving a debtor a fresh start. Nor does it matter that the tax law denominates such liability a "penalty" -- the funds were "taxes" at the time they were collected or withheld from others and this is the time period to which the Bankruptcy Act pertains (10).

CONCLUSION

The small business owner/manager must be alert to the potential hazard of failing to pay federal employee withholding taxes. As if the pressures of handling cash flow, creditors, customers, employees, suppliers, were not enough, there is the 100 percent penalty for failure to pay taxes. Diverting cash from employee withholding taxes to pay suppliers, creditors, etc., may appear to be "top priority", but the IRS will not take a back seat. Should the company fail to remit the withheld taxes, the IRS will go directly to the responsible party for payment.

Small business owner/managers must incorporate into their thinking three points regarding federal income tax withheld from employees:

1. A 100 percent penalty may be imposed if the funds are not paid to the IRS.

Any person will be liable if:

2. The failure to collect funds or the diverting of funds was willful, and
3. The individual was a responsible party during the reporting period. The individual owner-manager or others may be held personally liable for the penalty.

The key is the willfulness of a responsible party. If cash-flow problems tempt the responsible party to refuse to pay taxes while the choice is made to pay other creditors, then that person may find such decisions costly in the future.

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(5) In 1975 he sold all of his stock to another original incorporator. In 1978, Clouse sold the assets of a business he owned entirely to Octra. In exchange he received \$100,000 in cash and \$360,000 in notes payable. To protect his investment, Clouse purchased 8,000 shares of stock in Octra and became an officer and director.

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AN MIS MODEL FOR PREPARATION OF AN OPERATING BUDGET FOR SMALL BUSINESS

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ABSTRACT

The environment of small business has changed dramatically over the last decade. Stronger competition, higher levels of business failure, greater government regulation, etc., have all added to the difficulty of survival. A major component of survival and success is a good operating budget. This paper builds a basic model for the preparation of an operating budget for small business using the concept of MIS. The resources for this information revolve around possible computer power on hand or available. The model incorporates procedures which provide tools and encourage the small business owner/operator to make hard intelligent decisions. The ultimate goal is ensuring their survival and prosperity.

INTRODUCTION

How has the decision-making environment for small business owners and managers changed over the past decade? Among a host of other considerations -- greater competition, higher levels of business failure, greater government regulation, etc.--perhaps the change with the greatest impact has been the environment for decision making.

The environment for decision making has come to include in the past decade resources such as the microcomputer and all the power it gives to the decision maker. Because of the continuing decline in the cost of hardware and software, even the smallest business now has, or soon will have, access to the power the small computer can provide. This means that information for decision making, for so long difficult and expensive (if not impossible) to obtain for the small business owner/manager, can be available to those who wish to use it.

Through the power of microcomputer-oriented management information system software, alternative scenarios can easily be defined and alternative potential outcomes evaluated. Furthermore, with the microcomputer as a component of an ongoing management information system for the small business, it is possible to take operating data which already exists in the organization's database and convert it easily into useful information for decision making in, for example, budget preparation.

One of the most critical and poorly managed activities in small business continues to be preparation and administration of the operating budget. No single tool could be more helpful in making tough decisions concerning resource allocation than the operating budget, provided it is prepared in a systematic and rational manner. The purpose of this paper is to build a basic model for

the preparation of an operating budget for small business using the information resources and computer power available. Incorporated in this model are tools and procedures which encourage owner/operators to make the hard and intelligent decisions needed to ensure the survival of their businesses.

The primary goal of the model is to use the management information available to small business owner/managers in a systematic manner to keep them informed about the current status of the organization, to make appropriate operating and strategic decisions, and to understand the implications of these decisions. It incorporates information from the operating and transaction levels of the small business into the budget-making process and makes that information the basis for the strategic budget planning that must occur. In one sense, this might be considered to be a bottom-up budgeting process; in reality, it also involves input from managers throughout the organization as well as the owner/operator.

The model employs several of the techniques used in a zero-based budgeting approach. A.E. Buck stated in the early 1930's that a good budget process is one which goes through formulation, determination, and execution.[2] This concept is still true today, whether we call the process incremental budgeting, planning programming and budgeting, or zero-base budgeting. A properly designed budget becomes a component of the company's management information system since it serves not only as a resource allocation tool but also as a tool for making informed decisions.

The model presented here fulfills the goals of such a system. It also incorporates the lower-level management and staff of the company into the budget making process and requires participation and input on all levels so that budgeting decisions for the organization take into consideration the activities the organization judges critical for its success.

THE BASIC MODEL

Most small business owner/operators have organized their businesses in a fairly traditional way. The organization typically includes the owner and/or president at the top of the company chart with the subordinate areas of the company being divided by function, process, or activity. The depth or breadth of the organization depends on the size of the company and the philosophy of top management. Since few businesses will be structured exactly alike, the model is designed with flexibility so it can be adapted to almost any organizational structure. The basic model for the development of an MIS-oriented operating budget is presented in Figure 1.

Step One

The first step in the process is to determine the functional areas of the small business. Some examples of possible functional areas include marketing, production, administration, and finance. This functional breakdown should probably follow the organizational structure or the formal lines of communication in the firm.

This step seems at first to be a simple one; in reality, it could be the most difficult. If the organization chart is outdated or otherwise incorrect, the managers and budget preparers will need to spend time in introspection and evaluation to determine the various functions and how they are related. Furthermore, many small businesses don't have well-defined hierarchies; at the least, the reporting relationships may not be documented.

Figure 1

MODEL FOR PREPARATION OF a ZERO-BASE BUDGET

1. Determine functional areas in the organization 2. Set up activities within each functional area and evaluate the alternatives 3. Design and prepare alternative decision packages 4. Submit decision packages up through the management hierarchy 5. Rank all requested expenditures 6. Prepare from ranked priorities the "FINAL BUDGET DOCUMENT"

In this case, a well-defined management information system can help the managers define the de facto organizational structure, since it is likely that the MIS is organized in such a way as to represent the structure of the organization as it actually exists.

Step Two

Once the functional areas are determined, the next step is to divide each area into cost categories. For example the functional area of production could be divided into the categories of materials cost, labor cost, fixed overhead cost, and variable overhead cost. Once again, a well-designed MIS will provide the budgeter with appropriate categories as well as the requisite data to develop the budget since the MIS should have been designed to provide feedback about the critical categories within each functional area. In some situations it may be necessary to further subdivide each category into sub-groups; labor costs might be broken into activities such as machine operators, maintenance personnel, and management, for instance.

Alternatively, the company could also be divided into departments or product lines and then be subdivided into activities within each department or product line. If the MIS has been designed to include the standards for a cost accounting system, this task should be fairly simple; once again, the segregation of activities--as well as historical data about their respective costs--will have been designed into the MIS.

The defined activities within each identified functional area or department should be fairly uniform across the functional areas or departments. The need to be able to compare and rank activities dictates this need for uniformity. The managers of all functional areas should use the same criteria, where possible, for measures of cost and performance so that, when step three is begun, comparable activity packages can be developed. Total uniformity is not a complete

necessity but comparability whenever possible is a requirement of the model.

Following the identification of the activity areas the managers are then ready to perform step three.

Step Three

Each activity should have a decision package designed and prepared for it. This package should define the activity in question, list the functions and goals of the activity, and list cost components for funding. Where possible, it should also list the benefits to be derived, show criteria for measuring performance, and list alternative courses of action.

The need for the decision package to be concise and at the same time to contain extensive amounts of data will cause problems in design. The packages should also have some degree of uniformity throughout the entire organization, and this will further complicate its design. A great deal of time and input from all levels within the company will be required to determine what type of instrument will best suit each individual company. Sample decision packages may be found from several sources, some of which are listed at the close of this paper.

Each activity should have a minimum of three decision packages prepared for it. One should be at a significantly reduced level of spending, one near the current level, and one at an optimum or desired level. Each package should discuss the implications of adopting that particular proposal. Quantitative and subjective methods should be used to show ramifications of increases or decreases in the current budgeted amounts. Once again, the MIS can be a big help since decision support models, particularly those developed with spreadsheet software will enable managers to use "what if" analysis to evaluate the implications of funding decisions.

The key to the success of the model is that all expenditures must be justified in each decision package. These packages should be prepared by the department head or supervisor of the activity and forwarded to the next higher administrator with one of the three packages selected as the recommended level of operation. For example the maintenance department head will forward his packages to the next higher administrator who might be the production supervisor.

Step Four

The second level managers will then combine all activities under their jurisdiction and prepare a list of these packages along with their recommendations for approval and disapproval. Continuing the previous example, the production supervisor will discuss his decisions with his subordinate department heads and ask for their input and recommendations for ranking the packages of that function or activity. He then will prepare a master list and forward his recommended decision packages, along with those not recommended, to the next higher level in the company. In the typical small business, this process may be repeated only twice, since the organization chart is likely to be shallow.

However, this process should continue through each layer of management until the top level is reached. The same process of consulting and preparing a recommended list for approval is used. The final lists are then forwarded to a company-wide ranking committee for their consideration. Whatever the company size, the iterations are repeated until the process reaches the ranking committee.

Step Five

The ranking process is very important since funds are always limited and capital must be rationed. Each project or decision package will have supporters and staff members who consider it to be of primary importance. The committee of top level administrators will discuss the strategic priorities of the

company and then determine which requested activities should have the funding priority. In the typical small business, this committee may consist of only the owner/manager and one or two principal subordinates. The ranked list of budget items should then be funded until available funds are depleted. Having the packages developed in a spreadsheet will make this process easier, since the major task is to combine and reorder the input from the approved packages. By using a rational ranking process, the administration is encouraged to make difficult but necessary decisions that support the goals that have been defined for the organization. Each decision is made with the overall company operation and strategic plan in mind and with full information of alternative and competing budget requests. Once again, the MIS can play a helpful role in allowing the decision makers to relate the goals and strategic plans of the organization to the

supporting activities. If the process is performed rationally, the result will be that all activities critical to the success of the organization will be funded.

Step Six

The last step in the budget process is to prepare the final budget document. Using the previously completed ranked list, the budget preparers can fairly quickly develop the final budget in a spreadsheet. If the MIS of the company is complete enough to provide output required in previous steps of the model, the data has already been made available. Simply reorganizing this already-available information is all that is required.

If the ranked list completed in step five includes all the activities deemed critical to the mission of the firm, the budgeting process is complete.

ROLE OF MIS SOFTWARE IN DEVELOPING THE MODEL

In developing an operating budget using this model, various components of an operations and decision-support-oriented management information system are used. The following paragraphs summarize these contributions.

In Step One, identifying the functional areas of the small business, a well-designed computerized operations information system (transactions processing system) can provide insight into the primary organizational structure of the firm, even if the structure is not formalized. In fact, since the structure of the OIS must almost by necessity mimic the true organizational design of the firm, it may be the most logical place to look.

In Step Two, functionalizing by cost category, the well-designed OIS can once again provide needed insight into the process of defining activities as well as supporting the model with the necessary historical data from the firm. The addition of a spreadsheet application such as Lotus 1-2-3 or Quattro can then help to organize the data for later analysis.

In Step Three, the spreadsheet developed in step two can be used to design the activity package. With an integrated MIS which includes word processing software, the design of the "standard" decision package can be made easy. Also, it is possible to provide a model of the designed package to all the users of the budgeting model in order to have uniformity. The packages developed by the individuals responsible for functions or activities can then be integrated into one document as later steps are performed.

In Step Four, once again appropriate modeling software, such as forecasting, decision trees and simulation as well as inexpensive statistical package, such as PCStatistics can be used to quantitatively evaluate scenarios and to determine potential outcomes given one or another funding level. In addition, depending on the software packages available, it may also be possible to evaluate potential risk to the firm when reduced levels of spending are recommended.

In Step Five of the model, the analysis of the different funding scenarios created in steps three and four will help determine the assigned ranks. The evaluations that have been made by the decision support models will assist the ranking committee to evaluate impact of different funding levels and activities on the firm.

Finally, the budget document can be prepared using both the spreadsheet analyses described above and word processing software and model used for the activity package.

The process of developing an operating budget can, thus, be made much simpler through the use of data, software, and models that the small business already has available.

SUMMARY

The process presented here will require a good deal of additional effort, training and possible retooling, during the first year of implementation. However, the increased information generated, the participation and input from all levels of the company, and the systematic evaluation of alternatives should make the process worth that effort. In subsequent years of application, the process should be more easily applied and could be further refined to meet the unique needs of a particular firm.

In particular, the implementation of such a plan in conjunction with a functional management information system will, in the long run, permit the owner/managers of small businesses to make informed and well-supported budgeting decisions which will be in the best interest of the company. If such a management information system includes a direct link with the organization's transaction processing system, historical data can easily be available for decision support activities such as budget preparation and used in conjunction with forecasting and planning models to develop the activity packages required for this process.

From the model presented here, an interested administrator should be able to prototype a system relevant to his particular situation. If the recommended process is not fully adopted, perhaps the model will at least bring to light the glaring need for a cohesive and integrated effort in allocating the scarce resources of an organization in the decade of the 90's.

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HOW BENEFICIAL IS THE SBA LOAN PROGRAM? A SURVEY OF BORROWERS

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ABSTRACT

The Small Business Administration has been the subject of considerable controversy during the 1980s. Supporters believe this federal agency is important to the survival and growth of the entrepreneurial spirit. Critics argue that the SBA is overly costly, bureaucratic, and ultimately provides little benefit to the American economy. The focus of this study was to examine the growth trends in firms with SBA guaranteed loans and owner perceptions of the value of those loans to their firms' survival and prosperity. Findings show that these firms significantly grew in terms of sales, profits, taxes paid, and numbers of full and part-time employees. Furthermore, borrowers thought their loans were important to their success, and were very satisfied with the lending process and loan administration.

INTRODUCTION

The Small Business Administration (SBA) was established in 1953 to aid, counsel, assist, and protect the interests of small-business concerns in order to preserve free competitive enterprise.(1) Over the years, this federal agency has been quite active in areas of guaranteeing loans to small and minority businesses, assisting firms in obtaining government contracts, and providing technical management assistance. For example, in 1988, the SBA guaranteed loans worth approximately \$2.8 billion, generated procurement contracts in excess of \$358 million for smaller firms, distributed or sold more than three million publications, and provided management training/counseling to over 500,000 individuals. (2)

Over the years, too, the SBA has had its share of supporters and critics. Proponents believe the agency has facilitated the growth and survival of small business the cornerstone of the American "free enterprise" system. From its inception, it was argued that the creation and support of the SBA would help small business compete with big business.(3)

Critics cite costs of administration, small business failure rates, and excessive bureaucracy as evidence that the SBA does not serve a useful purpose.(4) During the 1980s it was widely reported that the Reagan Administration strongly considered eliminating the SBA as a federal agency.

A number of articles have been written about the SBA and its programs. Focusing on its lending program, some tended to be

descriptive in nature, while others analyzed repayment issues.(5,6) Many articles also have examined SBA management counseling programs. (7)

While some studies have identified deficiencies in portions of the SBA's programs, the general consensus has been that the agency provides a useful service. Unfortunately, a central issue raised by critics of the SBA has not been adequately addressed: Do firms that are recipients of SBA services contribute economically to the public good in terms of sales, profits, taxes paid, and employment?

A preliminary study of recipients of SBA-guaranteed loans completed by the researchers focused on, among other issues, this central question. Findings from that unpublished report received considerable attention from sources such as The Wall Street Journal, Forbes, and local newspapers.(8) However, that data was limited by the fact that survey participants came from only one lender source. How representative those findings were to SBA borrowers nationwide could not be determined.

The purposes of the study reported here were to assess, on a national basis, two broad issues. The first was borrower growth rates in sales, profits, taxes paid, and employment. From this, some evaluation could be made of the contributions of loan recipients to society. A major focus was directed toward appraising quantitatively the economic benefits derived from the SBA guaranteed loans with respect to such factors as revenue generation, wages paid, taxes

paid, and numbers of people employed.

The second issue was borrower perceptions of the importance of SBA loans to their firms' success, satisfaction with their lenders and the loan process, and the value of SBA counseling services. Factors of concern here were how important the SBA loan was to the firm's survival and success, whether the SBA helps borrowers who would otherwise be ignored, and whether it provides useful support services to businesses. Cause-effect relationships between lending and firm growth were impossible to determine due to the many extraneous variables that could impact success. Accordingly, perceptions were considered a useful surrogate measure.

Additionally, comparisons between the growth statistics of this population and national averages for all businesses were made. Within the scope of this study, direct comparisons to a control" group of nonborrowers that precisely matched the characteristics of the borrower group was not possible. However, comparisons to the national averages provided some insights into overall performance measures.

METHODOLOGY

The population for the study was defined to be recipients of SBA guaranteed loans from members of the National Association of Government Guaranteed Lenders. These financing institutions had outstanding loans to a total of 1,071 firms, distributed

throughout the United States. Because of the importance of the study, it was decided to include all of these borrowers in the survey. The preliminary survey of one lender's borrowers contained 843 firms.

Because loan recipients were geographically dispersed, and due to the length of the questionnaire, a mail survey was considered the most appropriate method for data collection. The questionnaire for this survey was the same as that used in the preliminary study. Two forms were developed to accommodate firms that had more recent and more long-standing loans. Firms that had SBA guaranteed loans prior to 1986 loan survey group was asked to provide selected financial information over a two year span, while those that had post-1986 loans were asked to provide financial information for a one year span. Both forms of the questionnaire were alike in all other respects.

Respondents were asked questions pertaining to the characteristics of their businesses, including type of business (e.g. retail, service), form of ownership (e.g. sole proprietorship, partnership), length of time in business, and whether it was woman and/or minority owned. They also were asked questions about their SBA guaranteed loans: the primary purpose of the loan (e.g. business start-up, growth/expansion), the amount, when it had been approved, satisfaction with the loan application process and its administration, and the use of SBA support programs (e.g. SCORE counseling).

To assess the economic impact of the SBA program, questions were included pertaining to dollar sales, expenses, profits, taxes, and the number of full and part-time employees for different time periods to evaluate the growth in those variables. Finally, there were questions regarding borrower perception of the importance of the SBA loan program in generating sales, profitability, and overall success of the business.

RESULTS

From a mailing to 1,071 borrowers, a total of 350 usable questionnaires were returned, providing a response rate of 32.7%. Chi-square and difference of means tests were then conducted to see if the respondents and responses to this survey were different from those of the preliminary study. Since no differences were found, and the questionnaires were exactly the same, the responses from the two studies were merged. This provided a total of 605 responses.

Respondent Characteristics

As shown in Table 1, the single largest group of responding firms were retail businesses (34.0%). Professional services and general services comprised 27.1% and 16.9% of the sample respectively. The single most common form of ownership was corporate (46.8%), with sole proprietorships being the second largest 30.5%. About 71% of the responding firms had been in business for five or more years. Business ownership was nearly

equally divided between males (50.6%) and females (49.4%), and 21.0% of the responding firms were at least partly

minority owned.

Loan Characteristics

As shown in Table 2, 70.0% of the respondents had prior experience seeking loans of various types. With respect to their SBA loans, the single largest group (30.1%) had them for five or more years, and 52.7% had loans for at least four years.

The main purposes of the loans were for real estate purchases (35.4%) and business start-up (23.7%). The amounts of the loans ranged from under \$50,000 to over \$450,000, with the largest group (37.1%) being loans from \$100,000 to \$250,000. For the majority of respondents (50.2%), the SBA loan accounted for 75% or more of their total debt, and only 14.4% indicated that their loans accounted for less than 25% of their total debt.

Economic Performance Indicators

Growths in sales, profit, labor expenses, taxes paid, and number of employees are shown in Table 3. Average annual growth rates for pre- and post-1986 loan recipients were computed for each economic category.

As is evident, all of these economic variables showed positive growth rates. While sales rose 14.9%, profits grew at a much more rapid pace (28.2%). Federal taxes paid also increase faster than sales, although state taxes paid rose more slowly.

With respect to employment, the number of full-time employees grew at an annual rate of 16.8%. The very large increase in part-time employment was due to a few firms that increased their employment radically during the time period studied. Even when these were eliminated, growth in part-time personnel was approximately 18.0% per year.

Borrower Perceptions Of The Importance Of Their SBA Loans

Respondent perceptions of the extent to which their SBA loans helped them generate sales and profits and contributed to their overall success are shown in Table 4. The majority (59.4%) felt that their loans were either somewhat or very important to their firms' abilities to generate sales. Only 16.0% felt it was of no importance. Similarly, 61.4% felt the loan helped generate profit, while 13.1% thought it was of no importance.

As an overall measure, 61.2% of the respondents indicated that their loans were somewhat to very important to their success. Only 11.6% stated that the loan was not at all important. The value of this is supported by the fact that nearly 30% of the respondents felt that they would not have been able to go into business if it had not been for the SBA loan guarantee program.

Satisfaction With SBA Programs

Respondent likes and dislikes concerning the SBA's loan and

counseling programs are presented in Tables 5 and 6 respectively. What borrowers liked most about the loan program were the availability of funds (29.4%) and the helpful and professional manner in which they were treated (18.9% and 17.5% respectively). What they disliked most were the interest rate structure (21.3%), paperwork (18.0%), and the loan requirements (16.3%).

Despite some dislikes, 80.2% indicated that they were somewhat to very satisfied with the loan application process, and 81.9% were satisfied with the manner in which their loans were being administered. Only 10.4% were somewhat to very dissatisfied with the application process, and 9.3% were dissatisfied with the loan administration. Reflecting their overall satisfaction, 85.0% indicated that they would choose the SBA loan program again if the need arose.

Just under 14.0% of the respondents indicated that they have utilized support SBA programs (see Table 6). Most of those were counseling by the Service Corp Of Retired Executives (SCORE), Small Business Development Centers (SBDC), Small Business Institute Counseling (SBI), and/or pre-business workshops. Of those who utilized support programs, 64.8% were either somewhat or very satisfied. The majority of those who were either somewhat or very

dissatisfied were users of the SCORE program.

Finally, comparisons were made of the growth statistics with national averages. National average data was obtained from Current Business Reports published by the U.S. Department of Commerce. The comparative data is shown in Table 7. As is evident, when divisions are made between types of business activity, these survey firms exhibited considerably higher growth rates. It is important to recognize, however, that some of that difference would be due to the smaller base of the borrower firms. However, the differences were still considerable.

CONCLUSIONS

It appears that recipients of SBA guaranteed loans have experienced significant growth in terms of sales, profits, taxes paid, and employment. This growth, in turn, resulted in significant increases in taxes paid and employment of full- and part-time employees. Accordingly, these firms are making substantial economic contributions in return for the government-supplied resources they are using. While businesses such as these do not individually make much of an impact on overall GNP output, they provide a significant contribution when considered collectively.

While it cannot be stated with certainty that the SBA lending program was the primary cause of their economic performance, the great majority of respondents felt that the loans they received were important to their firms' growths in sales and profits. They also believed that their loans were important to the overall success their firms have had.

With respect to criticisms concerning the administration of SBA programs, the vast majority of respondents were at least somewhat satisfied with the manner in which their loans were processed and administered. While the support programs were not used to the extent that they could be, respondents who did so were quite satisfied with them.

Overall, from this study of recipients of guaranteed loans, there appeared to be ample evidence that SBA programs make genuine contributions to the economy and society. Its programs were well received and appeared to be managed in a satisfactory manner. No support was found for the criticisms that have been made of the SBA.

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TABLE 1 RESPONDENT CHARACTERISTICS

Business Classification	Retail	34.0%	Professional Services	27.1%	General Services	16.9%	Manufacturing	13.2%
	Wholesale	4.4%	Construction	4.4%				

Form Of Ownership Sole Proprietorship 30.5% General Partner 5.4% Limited Partner 2.4% Corporation 46.8% Subchapter S 14.9%

Years In Business Less Than One 1.2% One To Four 28.1% Five To Ten 31.1% Over Ten 39.7%

TABLE 2 LOAN CHARACTERISTICS Years Had SBA Loan One 6.6% Two 20.9% Three 19.7% Four 22.6% Five or More 30.1%

Primary Purpose Of SBA Loan Real Estate 35.4% Business Start-Up 23.7% Equipment/Facility Acquisition 14.5% Growth/Expansion 11.7% Working Capital 6.9% Refinance Debt 5.7% Other 2.1%

Amount Of Original Loan Under \$50,000 5.5% \$50,000 To \$100,000 22.7% \$100,001 To \$250,000 37.1% \$250,001 To \$450,000 21.6% Over \$450,000 13.1%

SBA Loan As Percent Of Total Debt Under 25% 14.4% 25% To 49% 17.3% 50% To 74% 18.1% 75% Or More 50.2%

TABLE 3 BORROWER ECONOMIC PERFORMANCE INDICATORS

Average Annual Growth Rates Sales 14.9% Profit Before Taxes 28.2% Labor Expense 12.5% Federal Taxes Paid 24.3% State Taxes Paid 8.3% Number Of Full Time Employees 16.8% Number Of Part Time Employees 160.8%

TABLE 4 IMPORTANCE OF SBA LOAN TO ECONOMIC PERFORMANCE

Importance Of SBA Loan To Sales Growth Very Important 43.7% Somewhat Important 15.7% Neutral 17.9% Not Very Important 6.7% Not At All Important 16.0%

Importance Of SBA Loan To Profit Growth Very Important 41.1% Somewhat Important 20.3% Neutral 20.0% Not Very Important 5.5% Not At All Important 13.1%

Importance Of SBA Loan To Business Success Very Important 48.3% Somewhat Important 21.9% Neutral 12.6% Not Very Important 5.6% Not At All Important 11.6%

TABLE 5 SATISFACTION WITH LENDING PROGRAM

What Like Most About The Program Source Of Funds 29.4% Helpful Personnel 18.9% Professional Manner/Handling 17.5% Ease Of Borrowing 11.0% Low/Reasonable Payments 10.1% Speed Of Loan Process 5.3% Length Of Loan 2.8% Amount Of Money Lent 0.9% Other 4.1%

What Dislike Most About The Loan Program Interest Rate Structure 21.3% Paperwork 18.0% Loan Requirements 16.3% Handling Of Loan Process 10.4% Collateral Requirements 10.1% Length Of Process 7.6% Impersonal Administration 6.5% Payment Structure 3.7% Loan Limits 2.8% Miscellaneous 3.4%

Satisfaction With Loan Application Process Very Satisfied 61.5% Somewhat Satisfied 18.7% Neutral 9.3% Somewhat Dissatisfied 6.8% Very Dissatisfied 3.6%

Satisfaction With Loan Administration Very Satisfied 60.9% Somewhat Satisfied 21.0% Neutral 8.8% Somewhat Dissatisfied 6.6% Very Dissatisfied 2.7%

TABLE 6 USE OF AND SATISFACTION WITH SUPPORT PROGRAMS

Use Of SBA Support Programs SBDC/SBI Counseling 28.6% SCORE Counseling 40.5% ACE Counseling 13.1% Pre-Business Workshop 9.5% Other 8.3%

Satisfaction With Support Programs Very Satisfied 40.9% Somewhat Satisfied 23.9% Neutral 15.9% Somewhat Dissatisfied 5.7% Very Dissatisfied 13.6%

TABLE 7 COMPARATIVE PERCENTAGE INCREASES

1985-1987 1986-1987 Survey National Survey National

Retail Sales 22.43% 5.11% 5.84% 5.09% Net Profit Before Taxes 11.81% 6.13% 24.02% 9.96% Number Of
 Employees 9.45% 2.20% 23.50% 2.73% Labor Expenses 5.66% 7.71% 10.67% 7.72% Federal Taxes Paid 4.03%
 14.43% 51.51% 29.81% State Taxes Paid 17.35% 17.52% 18.88% 22.91%

Wholesale Sales 6.13% 5.14% 21.77% 9.23% Net Profit Before Taxes n.a. 6.13% 45.80% 9.96% Number Of
 Employees 5.80% 3.43% 9.15% 4.55% Labor Expenses 7.76% n.a. 21.12% n.a. Federal Taxes Paid 1.65% 14.43%
 80.16% 29.81% State Taxes Paid 3.42% 17.52% 79.37% 22.91%

Manufacturing Sales 4.55% 3.98% 13.68% 6.59% Net Profit Before Taxes 66.46% 11.95% 89.39% 35.93% Number
 Of Employees 5.98% 0.00% 15.07% -0.48% Labor Expenses 17.77% n.a. 10.45% n.a. Federal Taxes Paid 18.56%
 14.43% 38.57% 29.81% State Taxes Paid 20.31% 17.52% 27.67% 22.91%

Services Sales 19.19% 9.02% 38.09% 8.86% Net Profit Before Taxes 12.68% 4.74% 34.58% 0.68% Number Of
 Employees 13.64% 3.54% 9.88% 4.08% Labor Expenses 16.63% 10.87% 10.70% 11.63% Federal Taxes Paid 10.52%
 14.43% 66.35% 29.81% State Taxes Paid 19.31% 17.52% 44.88% 22.91%

Construction Sales 2.88% 5.90% 48.05% 3.32% Net Profit Before Taxes 19.40% 17.73% -25.30% 12.86% Number Of
 Employees 26.09% 3.51% 33.06% 2.74% Labor Expenses 17.75% 5.85% 66.14% 5.58% Federal Taxes Paid 84.54%
 14.43% n.a. 29.81% State Taxes Paid 115.21% 17.52% -0.07% 22.91%

APPLYING COMPUTER TECHNOLOGY FOR THE 1990S AND BEYOND

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ABSTRACT

The competitive environment that will face small businesses in the 90's will be an increasingly global market with fierce foreign competition and a high failure rate for those businesses that fail to take note of those factors critical to business survival. The paper outlines the major problems small businesses will face and includes ten strategies to stay competitive in the 1990's and beyond.

THE COMPETITIVE BUSINESS ENVIRONMENT OF THE 1990's

The competitive environment that will face small businesses in the 90's will be an increasingly global market with fierce foreign competition and a high failure rate for those small businesses that fail to take note of those factors critical to business survival. With the possible exception of the service market, most U.S. small businesses will face a myriad of new problems and associated opportunities. Among the most pressing of these problems are:

- * Increased global competition at all business levels.

As the international community is moving to a single global market, the need for small businesses to integrate themselves within that market is critical to their long term survivability. Nineteen hundred and ninety two marks the establishment of a single European "common market" which significantly moves the world towards this single market goal.

- * Lower foreign employee wages.

As more and more countries enter the global market, small businesses will increasingly be forced to market their products and services against competitors who have access to a much cheaper labor force. In order to remain competitive, small businesses will be forced to hold down labor costs and pay increases.

- * A decreasing trained labor pool and the need to provide more employee training.

Small firms say the availability of a qualified labor force will be their top problem in the coming decade (6, p. B- 1). At the same time, much of the new labor force is less educationally qualified, and will have to be trained before they will be effective in competing in the global markets.

- * Increased competition for capital.

The increased number of competitors, the continual growth of international businesses, changes in SBA rules, and the overall limit of capital, will result in increased competition for venture capital. Small businesses will increasingly find themselves competing directly with large firms and/or international companies for these sources of business funding.

- * Increased consumer demand for quality in all products and services.

The overall consumer demand for quality products will require small businesses to focus much of their attention on doing a few things well rather than trying to provide too wide of a variety of products and services. Finding the right product/service "niche" and then being flexible enough to change niches" quickly when business demands change, will be one of the key elements in business survival in the 90's.

- * Increased SBA monitoring and competition for SBA services.

The increasing limits on SBA resources and the growing number of small businesses desiring help from the SBA has resulted in the SBA increasing its monitoring of businesses requesting and using its services (Q, P. B-2). Additional

monitoring will include verification of "minority-owner" abuses, defense contract corruption, etc.

- * Increases in partnerships between large/intermediate and small businesses.

The business environment of the 90's will increasingly see business partnerships between large/intermediate and small businesses to enhance/complement their product/service line and improve their flexibility and responsiveness of U.S. to market changes. While a common practice for years in Japan and other foreign business centers, it has only become evident in recent years to some American businessmen. This type of cooperation and interdependence may well be the key to survival in the highly specialized and integrated business market of the 90's.

- * Rapidly changing market environment.

In the turbulent changing market environment of the 90's, all businesses, large and small, must be flexible and responsive. Establishing a single market niche" may still be available to some firms, but the dynamics of the markets of the 90's will require many firms to be flexible enough to change rapidly or go under. Markets, products, services, financial resource availability, etc. will all be extremely dynamic, and the firms best able to handle and stay on top of this change will be the firms most likely to survive (5, P. 115).

- * Growing need for immediate access to current business information from a variety of sources.

The recognition by many businesses of their need to access and use a wide variety of business information (financial, market analysis, regulatory, etc.) has resulted in significant growth in the business infrastructure necessary to provide this type of information to a wide variety of U.S. businesses (2, p. B- 2). This has been partially fueled by the rapidity of change in the business environment and the overall recognition that accessing and managing information will be a key ingredient in remaining competitive in the 90's.

- * Greater need to track legislation affecting small businesses.

Jeanne Saddler reports that many small businesses feel they have their backs against the wall over a bill Senate passes last fall. The bill requires all business owners, large and small, to make considerable changes to permit people with physical or mental handicaps to become their employees and customers. Small firms fear the bill will force them to change how they operate (9, p. B-2). This is but a small example of why there is a mandatory need for small business to track legislation.

- * Growing need to stay flexible.

Flexibility is one of the main requirements for all businesses to stay competitive in the marketplace. Simply because of their size and lack of cumbersome infrastructure, many small businesses have been able to take advantage of their flexibility to successfully compete. In the 90's it will be increasingly important for all businesses to be able to readily adapt themselves to the growing needs of their customers. Computer technology offers the small firm the support and information they need to be able to customize their services to meet these changing needs.

- * Growing need for small businesses to act more like large businesses. Increased labor demands for pay and fringe benefits.

The major changes in the work force and their unwillingness to continue to accept the lower pay and benefits offered by many small businesses will require many businesses to begin to provide functions and benefits similar to those provided by large firms. These functions will include improved employee selection programs, additional employee training, health benefits, workmen compensation benefits, parental leave programs, etc. (6, p. B- 1). The ability of small businesses to provide these benefits while containing their costs will be a key to their survival in the 90's.

- * Tightened SBA rules encouraging small businesses to detach themselves from the "government nest."

The small business administration has recently modified many of its rules to encourage small businesses to become less dependent upon the government and the small business program for their business. Recent ruling changes now require small businesses to show that at least 25% of their business comes from non- program sources (9, p. B-2). The

tightening of these SBA rules will force many small businesses to enter the fiercely competitive and less-comfortable national and international business environment.

- * Large businesses are beginning to target typical small business area products and services.

In recent years, many larger businesses have begun to target product and service markets which traditionally have been the sole domain of small businesses. While the increasingly commonality of business partnerships between large and small businesses is at least partially responsible for this trend, in some cases, large businesses are simply entering these markets on their own. The market "turf-lines" between large and small businesses in the 70's and 80's are becoming less and less distinct as businesses of all sizes attempt to reduce their risk through diversification of product and service lines they can provide. Simultaneously, however, they are having to watch that they do not weaken their competitive position by trying to be "all things to all customers."

In summary, these major business trends in the 1990's will require small businesses to 1) expand their markets into the international community; 2) compete directly against both large businesses (foreign and domestic) and international competitors for markets and business capital; 3) act more like big businesses without the benefit of their capital or manpower, 4) control their employee demands for additional pay and benefits such as health, workmen's comp and parental leave; 5) increase their business flexibility in all areas - products, capital, markets and work environment, 6) compete for a smaller less trained work force; 7) deal with the SBA's tightening rules; 8) significantly improve the quality of their products and services; 9) reduce and/or control their costs through the timely investment in and application of new technology, and 10) reduce their dependence on government contracts and SBA program sources.

Any small business that is unwilling or unable to address these major issues will ultimately find themselves in an increasingly unfavorable competitive position.

COMPUTER TECHNOLOGY STRATEGIES/OPTIONS FOR SMALL BUSINESSES TO STAY COMPETITIVE IN THE 1990's

Based on the need to stay competitive in the 1990's, small business owners must take advantage of significant changes in computer technology that have been previously restricted to large companies. Among the recent trends that can impact the ability of small businesses to survive are:

- * Decreased costs and availability of computer hardware and software.

Significant reductions in computer hardware and software costs have resulted in making very powerful automation equipment and software available to nearly all segments of the small business community. Very powerful cost-effective computer systems are now available which provide the small business owner with processing power equivalent to large business mainframe computers. The result has been a "leveling-out" of the competitive advantage traditionally held by larger firms.

- * Improved hardware /software and application system integration and networking capabilities.

Recent improvements in the integration of vendor hardware/software and corresponding improvements in the networking of computer terminals, PC's, and mainframes has resulted in significant improvements in the management and operation of both small and large businesses. Small businesses have often found that their small scale and more focused application system needs have facilitated their ability to take advantage of these new technologies.

- * The proliferation of FAX capabilities.

Over the past 5 years there has been a 22-fold increase in the number of FAX machines in the hands of U.S. businesses (3 , p. 15 1). This powerful technology is reliable and simple to use and has become a powerful sales tool. Companies are finding it increasingly possible to do away with messengers, overnight express mail, and they also have been able to use the FAX equipment to double as inexpensive copiers. "If you are a small business today and you don't have a FAX, you are nothing" (3, P. 15 1).

By the mid- 1990's FAX machines will transfer pages at the rate of one per five seconds versus the current 10 to 40

seconds. While FAX transmissions netted phone companies \$2.3 billion in 1989, the increased sales to small businesses and access to wider markets has netted corresponding profits to small businesses who have taken advantage of this very cost-effective technology (3 , p. 153).

- * Increased availability of application software packages (ie: word processors, spreadsheets, CAD/CAM, accounts payable, business management, etc.).

The increased availability and reduced costs of very powerful common application software packages and the corresponding reduction in the hardware costs for PC's, laser printers and desk top publishing equipment has resulted in very powerful computerized capabilities becoming available to most of the small business market. The availability of this very powerful hardware/software has allowed small firms to enter markets traditionally handled solely by large firms. It has also reduced many of the old product "quality differences" that use to exist between larger and small firms.

- * Increased availability of expert and decision support systems for small business owners.

Throughout much of the 80's, the availability of powerful artificial intelligence, expert, and decision support systems has been limited to larger firms. This resulted from the overall cost of these types of systems and that they simply did not exist in great numbers for small businesses. With the reduced costs of the hardware/software necessary to run these types of systems and the increased number that have been developed explicitly for small businesses, smaller firms are now able to use these powerful tools to enhance their competitive positions. Many smaller firms have been able to actually use decision support and expert systems in place of hiring additional staff.

The ability of small businesses to avail themselves to these sophisticated computerized management tools will significantly enhance their ability to compete "head-to-head" with larger businesses in the 90's.

- * Increased availability of specialized data service functions (i.e. demographic data, market analysis data, etc.).

The computer has revolutionized many small firms in providing specialized data service functions. For example, Lotus Marketplace has digitized demographic data used for marketing and sales strategies. Small businesses are now able to purchase databases with names, addresses, and marketing information on 7.5 million businesses and 80 million households (I , p. 17). These types of services allow the small business owner to zero in on their target markets, helping to reduce sales and marketing costs.

- * Telecommuting work options and the increased acceptability of job sharing.

Many small businesses are discovering the advantages of job sharing and work stations in the home. They get a better quality and more productive work hour from employee's who select this option, as many are single parents. In several instances, this option eliminates the need for day care nurseries and allows the small firm to provide a more flexible work environment. Small firms compete on a more equal footing for a higher quality work force.

- * Increased use of computers for routine competitive functions (ie. phone answering, electronic mail, online ordering, electronic banking, access to regulatory agency databases and bulletins).

Computers are becoming good listeners. They are in fact becoming such good listeners, they are taking on more of the work of telephone operators. Large telecommunication companies are giving telephone network computers the ability to hear. These computers are able to ask questions of callers, listen to responses and route the calls to the proper destinations. Voice recognition allows telephone companies to reduce staff and use remaining operators more efficiently (4 .p. B-2). These new capabilities will also give small firms a real boost in their productivity and simultaneously will aid in their struggle to keep operating costs to a minimum.

In addition to their "listening skills," computers facilitate sales ordering, and the financial functions of small businesses. They have allowed the smaller firms to reduce the overhead and number of staff. The result has been a significant savings in employee costs and a corresponding improvement in the competitive position of those small firms who have taken advantage of this cost- effective technology.

- * Improved computer literacy among the work force.

The business environment of the 90's will require a work force with high computer literacy. Increasingly both businesses and employees are learning common application software packages. The improved computer literacy of the work force will benefit the small firm by helping to keep soaring training costs to a minimum.

* The managing of information as a corporate resource.

Small businesses realizing the value of information and the need to manage it as a corporate resource. The competitive advantage that timely access to financial, sales, and market information can give small businesses has become evident. They have begun to draw more heavily upon information already available to them from their existing information systems (management information, financial, etc.).

As information has become more of a strategic weapon for large business, the proper management of small business data will also become critical for their long term competitive position.

CONCLUSION

The increasingly difficult business environment that will face small businesses in the 90's is both worrisome and exciting in the problems and opportunities that will be presented to small businesses. Major problems, as summarized, are: (Increased global competition at all business levels, A decreasing trained labor pool and the need to provide more employee training, Increased SBA monitoring and competition for SBA services, Increases in partnerships between large/intermediate and small businesses, A rapidly changing market environment, A need to stay flexible, Growing need for immediate access to current business information from a variety of sources, The proliferation of FAX capabilities, Telecommuting work options and the increased acceptability of job sharing, Increased availability of specialized data service functions, Decreased costs and availability of computer hardware and software application packages, and The managing of information as a corporate resource.). Minor problems include: (Increased computer literacy among the work force, Increased availability of expert and decision support systems for small business owners, Large businesses beginning to target typical small business area products and services, and A greater need to track legislation affecting small businesses.). The key to economic survival will rest on each business' ability to take advantage of computer technology to enhance its competitive position.

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ETHICS AND INFORMATION SECURITY IN THE SMALL FIRM

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ABSTRACT

Information is an organizational asset which must be distributed to support ongoing decision making. The objective of attempts to secure the information system of a small business is to see to it that unauthorized use is not possible, that destructive viruses are not introduced, and that unauthorized study and alteration of records and files does not occur during the distribution of data and information throughout the organization. Are these strictly technical problems, or is it possible and appropriate to broaden the scope to include the ethical issues that are raised as the security system is developed and installed? The argument in this paper is that it is both appropriate and necessary to consider the broader issues.

INTRODUCTION

Information is the lifeblood of an organization and over the years it has become recognized as an asset. This asset should be protected like any other. One of the dominant characteristics facing any firm attempting to become and to stay competitive is the dependence on information processing that relies on computers and computer software. In this paper we attempt to address many of the ethical issues facing managers in small businesses as they attempt to cope with the complexity and cost of acquiring, integrating and securing information systems in the workplace. In large organizations, this task is assigned to an Information Resource Manager who is responsible for all aspects of information processing from data entry to the Executive Information System.[1] He plays an important role in the security of the organization's information assets. It is critical that Information Resource Managers convey the importance of resource security to senior management of the organization.

In the small business, this communication may be trivial since the task becomes one of the myriad performed by a 'multi-purpose' manager. This makes the awareness no less important.

In the process of performing this task, the manager must balance two competing objectives. The first is that of meeting the requisite variety of decision makers within a system.[2] The second is that of maintaining security, confidentiality and privacy of organizational information assets.

All too frequently, this process is viewed as a technical problem rather than the more complex socio-technical problem which should address some of the following issues:

* Whose rights are to be considered? * To what extent are these rights in conflict? * What are the responsibilities of the information specialists? * How honest and trusting are the members of the user community? In what sense do they represent a 'community'? What are the implications, if any, of their holding certain interests in common? * How trusting ought they to be? What is implied in the use of the term ought? Of the term trust?

These socio-technical problems are fundamental ethical issues. These issues may or may not be legal issues. The manager should be aware that legal does not always equal either ethical or right.[3]

QUESTIONS OF PURPOSE AND VALUE

Since there is a documented body of law which governs portions of our behavior and a cult of technology which asserts that it can make our electronic information systems invulnerable to external penetration, we tend to rely upon it. To complete the protection of our information assets, we must develop an awareness of value systems.

George Smiley: "You've made technique a way of life. Like a whore, technique replacing love."[4]

In a technological environment, it is easy to focus on the techniques designed to accomplish goals and on the technology used to assist in the accomplishment of those goals. At times the tendency is to allow the focus on technique to overshadow the purposes or ends. For example, a common observation of the modern 'rat race' (a revealing metaphor) is that participants spend so much time and energy pursuing the good life that little remains for

living. As this result suggests, it is easy to become obsessed with the tools and in the process to forget the purpose of the tools.

What is the role played by the values that members of a community hold which inform the choices made and the ends toward which those choices are directed? Stated another way, what is the significance of the way a member of the information systems community views the world and his or her relation to that immediate world and to other members of the community? These values and perceptions underlie the choices that individuals make, the goals that are pursued, and the priorities that are established. They affect both the means that are selected and the ends toward which efforts are directed.

ETHICAL SYSTEMS

What are the purposes of computer information systems? Information systems are organizational mechanisms which collect data and distribute information. Frequently these systems rely on electronic devices such as computers; however, the 'office boy' carrying a scrap of paper to the file drawer also meets this definition.

Some systems relate to governmental objectives (e.g., national defense, collection of revenue, monitoring of international trade), some to business purposes and needs (e.g., efficiency and competitiveness), but all must relate at some level to social needs and values. For example, one might argue that a fundamental value is respect for the rights of others. Another might be that the overall objective is a better quality of life for all members of the community.

There are several ways of identifying and deciding ethical issues. One of the most common ways of categorizing these approaches is the rules vs. consequences criteria. The first argues that our actions should be guided by general rules or principles: do not harm; tell the truth; do not steal; have respect for persons as ends in themselves.' The second argues that we should assess the rightness of an action or decision by the consequences that will likely result. Most commonly the second approach identifies some value or values, and measures an action by the extent to which these values are or are not enhanced, or whether progress is made toward certain goals, such as a better life for all. From a practical standpoint it may be recognized that, for most people, over a span of time and in different situations, both approaches will be used. That is, in general some ethical rule may seem appropriate but under extreme circumstances exceptions to the rule or principle will appear ethically acceptable because of the likely consequences.

ETHICS AND INFORMATION SYSTEMS

For an information system to function effectively and efficiently, there must be a free flow of data and information among the participants. In the ideal situation, there would be no barriers to this flow; this would improve the probability that 'perfect information' is in the hands of the decision makers. Of course, for this to occur, there would have to be perfect confidence and trust within the organization.

Confidence and Trust

Information - adequate, relevant, timely, understandable - is a precondition of an efficient and free society. Yet it is a means to power ... Therefore, the rights to create property in information, to withhold, to disclose, to determine when and how disseminated are critical.[5]

In this section we are interested in the ethical issues involving the creation, control, use, abuse, dissemination, protection, manipulation or alteration, examination and destruction of information in computer systems. This is no less true within the small business environment than it is large organizations. In order for the above information activities to take place efficiently and legitimately, there must be some minimal level of trust and confidence in the systems which handle the information. Is it also necessary for there to be some minimal level of trust among and between the various users of the system?

Assuming that such a level is necessary, what are the preconditions in order for this confidence and trust to exist? It appears clear that first there must be a proven and recognized history of dependability, both within the firm and with similar systems. By raising these issues in the context of the firm's culture or atmosphere, one ethical principle is implied: that there must be respect for persons and certain property rights. This falls within the first approach identified above, which argues for the assessment of choices in light of certain ethical principles or rules. Actions which result in intrusion, examination, alteration or destruction of information belonging to others might be judged as morally wrong

because they violate the principle of respect for persons. The second approach, that of looking at the consequences of an action, might suggest that in order for a community to meet the needs of its members, individuals within the community must be able to have some confidence in systems of communication. According to this view, it could be argued that actions that unduly interfere with the smooth operation of information and communication systems, or that diminish the confidence and trust in these systems, should be judged as unethical.

Definitions

As a starting point for determining ways of evaluating actions, it is appropriate to construct several definitions. The term legitimate is fundamental to the notion of balancing rights and responsibilities. For the purposes of this paper, it is argued that for an action or behavior affecting an information system to be legitimate, it must aid in the achievement of one or more objectives of the system without unduly interfering with progress toward other accepted objectives. The definition can be applied to the ethical management of information. One objective of the system is to provide information that is without deception and is understandable, timely, relevant, complete and appropriate to the user. Upon examination, it can be seen that this definition suggests both the practical and ethical elements of managing computer information systems.

SPECIFIC CONCERNS RELATING TO THE DESIGN OF SECURE SYSTEMS

Those involved in the design of an information security system must be aware of the conflicting rights, responsibilities and needs of system users and professionals, and of the implications of some of these conflicts. Some paradoxical assertions may serve to illustrate:

- * For people to have trust in a information system, the manager must trust no one.
- * Systems which are truly trustworthy must use control processes that inhibit use.

Another way of putting the problem, as Clifford Stoll suggests in his book, *The Cuckoo's Egg*, [6] is that as administrative controls are added to ensure trustworthiness, the system becomes more difficult to use. This means that the people for whom the system is designed end up finding some other, less trustworthy but more easily accessible system to use. The term administrative controls refers to those policies and procedures imposed by a manager that are designed to regulate the individuals and activities covered by the policies and procedures.

Administrative controls are designed and implemented to make sure that people act in the way that managers desire. Generally this means, in ways that advance organizational objectives. This may be something as simple as standardizing the ways employees claim reimbursements for job-related expenses. It may mean something as broad as the budget process, which attempts to regulate the activities of and to set standards for the entire firm. Frequently, however, it also refers to the need to regulate behavior when it is perceived that

a) there is motivation to engage in activities for personal, as opposed to organizational, reasons; and b) those activities are potentially harmful to the organization, to organizational values or to other organizational members. [7]

If the interests of individuals always coincided with those of the organizations with which he or she lives and works, there would be very little need for administrative controls. It is at the point where these interests diverge that the need for controls arises. Further, some conflicts arise because of simple misunderstandings, some arise because of differences in perceptions, some are due to different priorities, world views or values, and some come about because of individual malevolent intent.

Finally, there are those instances where it is in an individual's self-interest for everyone else to exercise a degree of moral restraint while he or she exercises none. This can be seen as the free-rider problem or, to use Garrett Hardin's metaphor, it is the "tragedy of the commons". [8] In this environmental fable, the members of the community maintain their livestock on the commonly held grazing grounds. Animals can safely be added until the carrying capacity of the grounds are reached. However, it is to the benefit of any individual community member to add animals to his herd on the commons. The overall costs of degradation are borne by the community but the benefits accrue to the individual community member. The tragedy is that individuals can safely benefit in the short run while the long-term costs are dispersed. Greed is rewarded. One lesson for members of the community is that, unless they are willing to eliminate all cooperative efforts, the exercise of some moral restraint by each individual is necessary.

EXAMPLES OF ETHICAL ISSUES CONFRONTED IN SMALL FIRMS

The ethical issues confronted in small firms are not significantly different from those in larger organizations. However, the percentage of corporate effort in the small firms may be larger and therefore more significant. As long as the information system consists of 'office boys' carrying paper from place to place, the problems are less complex. If he takes something home - he has stolen - he is wrong. However, as soon as the organization begins to rely on electronic means, this issue becomes more clouded. The same individual can take or send electronic images of the same information without overtly changing it.[9] The following are examples of some problems which are uniquely electronic.

Pirated Software

Perhaps the most obvious and most prevalent problem deals with the use of pirated software. The temptations are obvious and the risk of disclosure is slight. Why then the concern? There are several ethical issues here, but perhaps the overriding one is that of intellectual property.

As with many ethical concerns, one can arrange many positions along a continuum. In this instance, one can take an extreme individualist or ethical egoist position, and argue that pirating another's software is not a big issue, and is useful for financially strapped small businesses. Further, one can argue that it is the responsibility of the developer to take measures to limit the ease of pirating. In any case, is it stealing if the property isn't gone?

At the other end is the argument that a) there are rights that are being violated while copying; b) that no community can exist that refuses to acknowledge and protect the rights of its members; and c) that progress will be limited unless there is some incentive for individuals to develop tools that will prove useful in solving the problems of the community.

The small business manager then must address the issue of whether to allow - profit from - the pirating of another's intellectual creation, or, if the policy is to ensure that this does not occur within the business, what policies will be required to ensure that it does not occur.

Gaming

Another issue of interest with perhaps less clear cut ethical stands is the use of company facilities for office games, such as 'rotisserie baseball' and 'fantasy hockey'. Employees face an ethical choice over the extent to which such 'enlivening' activities can legitimately be carried on during company time. Managers face the need to balance productivity interests with maintaining a livable working environment that is not so rigid and controlling that the quality of work life drives off good employees.

Criminal Entry

This situation is analogous to the problem of the 'office boy'. If someone breaks your physical lock, or physically enters your premises, there is little question about "right".

However, the problem of unwarranted entry into proprietary electronic information systems with criminal intent is more complex. Using technological means, each firm will obviously wish to ensure that its own system win not be so penetrated. What of information gained either inadvertently or through the wizardry of an employee who also happens to enjoy the challenge of breaking into another institution's information systems? Since any technological means of protection may be compromised by 'wizardry' it is important that one engender an atmosphere of 'correctness' within the organization.

Computer Surveillance And Employee Records

In a 1931 speech, George Bernard Shaw observed "An American has no sense of privacy. He does not know what it means. There is no such thing in the country." At the time he may have been correct; however, the American society has matured during the last sixty years. Even though Supreme Court candidates have been unable to define the absolute nature of the rights of privacy on a constitutional basis, most Americans believe that they have a vested right of privacy.

Computerization of information systems has made the communication and dissemination of information about companies and individuals an accepted procedure. The issue of computer surveillance and employee records involves questions about the uses of databases that may involve invasion of privacy, either the customer's or employee's, and employee monitoring in the workplace. This latter involves the inclusion of a piece of software in the information system which monitors and times or otherwise measures the activities of operators. Is this a legitimate managerial exercise of administrative control, or is it an unwarranted intrusion into the employee's privacy? Put another way, should the firm legitimately be concerned only with the quantity and quality of the employee's activities, or may it also surreptitiously monitor the employee on a minute by minute basis? Questions of the impact on morale aside, how far may the manager extend his or her control over the activities of the employee? The sensitivity of this issue becomes more acute when the ability to control is magnified or enhanced by the computer's capacities. One other issue in this category involves the cross-reading or matching across information systems of employee or customer records. Again, the issue involves the right to privacy of employees and customers. Formerly, this may have been an ethical concern only in firm's large enough to have extensive databases. Today, even small firms may have the computer capacity, or have access to databases that give the firm the capacity, to intrude into the privacy of employees and customers.

The owner/manager of a small firm, then, is faced with many of the same ethical dilemmas that managers in large firms face. Dealing with the issues may be more difficult in that the small firms manager must be all things to all people, with little time for contemplating the complexities of the ethics of the computer age.

SOURCES OF GUIDELINES AND CODES OF ETHICS

There are a number of organizations that have chosen to address directly the ethical issues posed by the rapid expansion of information technology. Computer Professionals for Social Responsibility is one such. Another is the Data Processing Management Association (DPMA) that has developed a code of ethics and a separate 'Standards of Conduct.' [10]

Standards of Conduct

These standards are derived from the code of ethics and are specific statements of behavior that no true professional will violate. Excerpts are provided below, as examples of ethical guidelines that are being developed by industry professionals:

In recognition of my obligation to management I shall: * Not misuse the authority entrusted to me. * Not misrepresent or withhold information concerning the capabilities of equipment, software or systems. In recognition of my obligation to my fellow members and the profession I shall: * Be honest in all my professional relationships. * Not use or take credit for the work of others without specific acknowledgement and authorization.

In recognition of my obligation to society I shall: * Protect the privacy and confidentiality of all information entrusted to me. * To the best of my ability, insure that the products of my work are used in a socially responsible way. * Never misrepresent or withhold information that is germane to a problem or situation of public concern nor will I allow any such known information to remain unchallenged. * Not use knowledge of a confidential or personal nature in any unauthorized manner or to achieve personal gain. In recognition of my obligation to my employer I shall: * Avoid conflict of interest and insure that my employer is aware of any potential conflict. * Protect the privacy and confidentiality of all information entrusted to me. * Not exploit the weakness of an information system for personal gain or personal satisfaction.

SUMMARY

It is of benefit to each user if everyone exercises discretion, judgment and professional respect for other's rights in the use of a computer information system. Each knows then that the system can be 'trusted.' It means that the system manager will be less concerned with intrusions or violations of rights and professional courtesies, respect and so on. But it also means that if an individual does desire to gain access to another user's files, to change data, steal information, study someone else's personnel file, install a Trojan horse or release a virus, it is much easier to do so. The implicit trust in the system makes it easy for an individual user to violate that trust. Self-restraint thus can be seen as a prerequisite for any activity requiring trust.

The violation of the trust, if discovered, necessitates a higher level of administrative control, new restrictions placed on

access, and that additional procedural processes be installed. The violations have caused a reduction in the efficiency and effectiveness of the system. A fundamental consideration for the small business owner or manager, then, is to assess the role of trust, the desirable and achievable level of trust to be sought, and the implications of these choices for the firm and individuals affected.

This dilemma serves to highlight the ethical considerations facing the small business owner/manager. For the small firm, it is further complicated by resource limitations, both financial and human. What balance between absolute confidence in the security of the system and completely free access for users is desirable? What are the tradeoffs between rights and responsibilities, costs and benefits implied by the security or control provisions that are contemplated? What values lie behind the choices made? As the level of security increases, and with it the consequent increase in the level of confidence or trust in the system, what other legitimate values are diminished or threatened? In general, this is the age-old question of the balance between individual and community interests. In specific terms, it is the question of how to optimize the legitimate and responsible use of computer information systems while eliminating unauthorized use and protecting the rights of users and other affected parties.

To generalize the problem: * if people will not exercise moral restraint, systems will develop controls for protection; * the controls for protection will prove burdensome and inefficient; * they will still be necessary as the threat comes, not from responsible users but from 'mavericks' with what is arguably an essentially anti-community ethic.

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COMPUTER SECURITY: A STRATEGIC CONCERN OF SMALL BUSINESSES

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ABSTRACT

One hundred businesses were surveyed to determine the extent to which computer security plans and procedures existed. Analysis of the results indicated that security precautions, especially when microcomputers form the base of the computing system, were inadequate. A strategic approach to computer security for small businesses is presented and explained. The role which small business owners must take to alleviate this problem is elucidated.

THE PROBLEM OF SECURITY

Businesses, small and large, are demanding more information for strategic planning and decision making. These demands are mandating greater automation. The unprecedented growth in the area of computer usage and related services in the small business arena especially, has caused firms to review their plans for recovery from disaster or theft losses. Computer-based information systems produce benefits that include cost efficiencies, data accuracy, and convenient access to information. However, along with the benefits come certain disadvantages such as the need for tougher computer security and recovery planning. The industry is rife with horror stories of companies losing not only hardware but diskettes containing irreplaceable company records and data. Perhaps, one of the more famous cases is the group of youngsters who broke into the offices of an Atlanta firm after hours and walked away with equipment and diskettes which they planned to recycle or use for games (20). In another incident, a small business was forced into bankruptcy when an employee chose to steal from the company by changing a computer program (19). There is also the case of a company which failed to update its disaster recovery plan despite a near loss of its facilities to a tornado. This firm was subsequently devastated by fire and incurred further costs in trying to recapture lost information about production and clients (18). The list is endless and growing daily to new dimensions. Now management must concern itself not only with potential employee fraud, but with the more insidious "viruses" which are propagating and spreading. Using the excuse of frustrating software pirates, these virus inventors have wreaked havoc in systems spreading from that of a young hacker to multimillion dollar industries (5; 21; 13; 14).

Much has been written in the past few years about the concern for computer security (i.e., 3; 23; 25; 26; 10; 8; 12; 7; 5; 13; 11; 14). This apprehension is well placed, because computer sabotage and spying has become a major electronic age problem. Large

corporations tend to be more concerned with electronic security. In such firms physical asset preservation issues have been a concern for many years and are therefore well planned. However, since small businesses have limited experience with computer equipment, there is some doubt as to whether the same level of planning exists.

With an increasing number of small businesses purchasing microcomputers to maintain company records, the need for security becomes an issue of paramount importance to the owner/managers of these firms. In small firms, desktop computers tend to be easily accessible to all employees. Furthermore, many popular software packages have no password capabilities. Small firms frequently have no separation of employee duties or built-in controls. Due to the lack of extra requirements for installation and maintenance of microcomputers, plans for disaster and recovery may not be considered. These concerns are the underlying motivators for the empirical investigation and security paradigm described in this paper.

CURRENT LITERATURE

There are two aspects to computer security: physical and electronic. Physical or disaster security is not often mentioned in the literature, perhaps because it is less glamorous. Electronic security is the more visible and attracts the most attention because it involves protecting a firm from crimes such as illegal data manipulation, information theft and data sabotage. On the other hand, disaster security is concerned with protection from physical mishaps such as fire, explosion, or water damage. While electronic crime can be expensive, physical accidents can be operationally destructive in a most plenary fashion. An electronic thief may access the system, steal desired information, and quietly

slip away. Information is stolen, but the hardware and data remain intact. However, if a fire occurs, hardware is destroyed and data is lost as well. This results in a significant problem for the company without an adequate disaster plan.

State of the art security has evolved in the last 10 years. Experience prior to that time is not applicable according to Johnston (17). Until the proliferation of mini and micro computers, there was a paucity of written information about security or disaster planning as an issue. Large businesses with enormous responsibilities and mainframe computer support had long been ensuring against computer crime as best they could. Such firms also instituted contingency plans for recovery in the event of a natural catastrophe. Although, small business managers have been cognizant of computing resources as justifiable on a cost/benefit basis, all too often they have failed to concern themselves with events they considered remote and improbable. However, the recent influx of articles detailing damage done by criminal intruders and disgruntled employees has fostered an awareness of the need for security precautions (6; 4; 24; 9; 20; 14).

Increasing awareness of the vulnerability of computer systems spawned a series of films, including the popular 'War Games', but also triggered the legislative process. Popular outcries caused the legal system to begin its slow, grinding process to contrive laws which can deal with computer crime. All inclusive laws which can pertain to the theft of hardware or software or information vital to the survival of a company are being addressed (15). However, the passage of legislation is at best a slow process. Indeed, even the passage of the Computer Security Act of 1987 has yet to be effective. The National Bureau of Standards was charged with the task of setting guidelines for security standards and yet, budget cuts have hindered its implementation. Meanwhile, security measures required to protect small businesses from such losses have become more complex due to technological advances such as databases and networking capabilities.

Security of microcomputers has been alluded to in articles aimed at discussing controls necessary for auditing microcomputer systems (i.e., 1; 22; 10; 5; 16). Stair (27) has been one of the few to directly address computer security in small firms. Stair conceived a five point plan for implementing disaster and recovery plans. The approach entailed: 1) a statement of the objectives for the plan; 2) an analysis of the potential disasters; 3) a formulation of a disaster plan; 4) the documentation of the disaster plan; 5) implementation of that plan; and, 6) testing and maintenance of that plan.

METHODOLOGY

A questionnaire was developed to ascertain whether owners/managers in small businesses in the Southeastern U.S. had reflected on security needs in their organizations and whether they deemed such precautions to be necessary. Inquiries were also made as to who was responsible for the implementation of security and disaster plans if indeed they existed and what those plans were.

The instrument consisted of a questionnaire which raised issues about the computer system presently being employed and microcomputer facilities which might be in use. Further, respondents were asked whether there was a disaster plan or data security plan in effect. If such plans existed,, an explanation was sought as to what their contents were and who within the organization was responsible for their implementation. Finally, the involvement of the owner/manager in computer security was explored.

One hundred firms were surveyed by telephone. All were independently owned and operated. The firms were selected from advertisers in telephone books published in the Southeastern U.S. Sixteen of the firms did not presently have computer equipment, although plans for microcomputer purchases were in progress. Eighteen other firms failed to cooperate fully with the investigator. Therefore, sixty-six usable responses were employed in the empirical examination. Table 1 outlines the distribution of

types of firms and number of employees within the sample and displays the number of years responding firms have been using computers and the number of data processing specialists employed in the firm.

Thirty-seven of the participating firms had larger computer systems consisting of minicomputers or, in some cases,, mainframe computers. Twenty-nine firms relied solely on microcomputers for their data processing needs.

Table 1 Demographic Characteristics of Respondents

Type of Firm Employees Retail/Wholesale 16 25 or Less 15 Manufacturing 28 25-50 16 Professional 13 50-100 22
Construction 4 100-250 13 Other 5 Total 66 Total 66

Time Automated DP Employees 1-2 Years 25 None 6 3-5 Years 24 1-2 30 6-10 Years 7 3-10 19 11-15 Years 8 10-25
11 16-20 Years 2 Total 66 Total 66

FINDINGS

As displayed in Table 2, almost half of the respondents indicated that computer security was a management responsibility as opposed to a responsibility of data processing or clerical personnel. A disturbing finding was that 18% of respondents indicated that no one within the organization had been charged with the responsibility for computer security.

Table 2 Responsibility for Computer Security

Data Processing Personnel:1929% Management Personnel:3248% Clerical Personnel:35% Assigned to No One:1218%
Total66100%

Twenty-six firms indicated that top management was involved in computer security. However, when asked to what extent top management was involved, the response in every case was that the

management supported the concept. In no case was there evidence of management involvement beyond an expression of support.

Only 15 companies in the sample had a written disaster recovery plan. Fortunately, only three had actually had occasion to use such a plan. Six firms indicated that they made periodic reviews of their plans to maintain currency. Most of the respondents not only did not have written plans, they had no informal plans. A frequent response was that the firm had not really thought about the need for a disaster plan.

The same 15 respondents who had written plans, indicated that there were physical security restrictions for their computers. Frequently, security consisted of a locked door. Only two firms had restricted access to both hardware and software.

Almost all of the surveyed firms did keep back-up copies of programs and data, but only seven firms had arranged to keep back-up copies both inside and outside the office. Furthermore, only half of the firms prepared data back-ups on a daily basis. Table 3 displays the frequency of back-up preparation.

Table 3 Frequency of Back Ups

Back Up Data Daily:3350% Back Up Data Weekly:1117% Back Up Data Biweekly:46% Back Up Data Monthly:69%
Back Up Data Semimonthly:23% Back Up Data on Demand:815% Do Not Prepare Back Ups: 2 3% Total 66 100%

Since only 15 firms actually had a written disaster plan, a correlation analysis was performed between the existence of a plan and the stated involvement of management in computer security issues. The correlation was moderate ($r=.423$), indicating that the involvement of management did not explain the majority of variance in the existence of written plans.

The real factor in the existence of plans, security precautions, and back-up frequency was the type of computing environment. Those firms who planned, backed up most frequently, etc. were included in the group of 37 firms who had mini or main frame computer systems.

IMPLICATIONS OF THE FINDINGS

Although the sample was purposive in nature, the results spur important questions in small business computerization. Data and information are often a company's greatest asset. The loss of these assets when backup copies are not readily

available can place

a company in dire financial straits. Only those organizations in this study having larger computer configurations had adequate disaster plans and back-up procedures. Those companies exclusively using microcomputers were a different story. Such firms had typically never considered computer security as other than a natural precaution taken for regular office equipment. They were aware of back-up procedures and the necessity for them but were not concerned about access to hardware or software or data. Ninety percent of the companies surveyed claimed that accounting functions such as accounts receivable and payroll were handled by the computer system. However, only 23% had established any degree of access restriction to the computer, the programs or the data.

The conclusions reached in this study are disconcerting. Owner/ managers of small businesses have realized the need for a management tool which can provide vital strategic information at one's fingertips. However, the tool does not appear to be treated with the proper respect. A comparable analogy could be individuals who put their fortunes under the mattress instead of in the bank. Many small businesses are putting their resources in a computer and simply locking the door to the office.

An editorial in Infoworld claimed that businesses were becoming too security conscious. The publication advocated that the computer should be available to any employee because it is a tool and should be used as such (2). The author was referring to the existence of microcomputers in a mainframe computer environment.

He compared an employee taking home a diskette of data to transporting a file folder. In reality, a diskette of data is closer to an entire filing cabinet of records. When microcomputers are the sole means of automation in a business, the firm must necessarily be security conscious. Computer security can mean the survival of the company.

Another issue of great concern was the absence of vital, active managerial involvement in computer security plans. Only 39% of the respondents indicated that management was involved in planning for computer security. In every case management was seen to support the plans developed by other personnel. It would seem that the owner/managers should be more involved with security measures which could affect the life of the company. Token support is better than a lack of interest but has far reaching implications for the company. DeLone (1988) in his study of the determinants of Success for Computer Usage in Small Business found, as well, that the chief executive was the key to the realization of the potential impact of success on computerized operations. Experts in the field are convinced that computer security is a management problem, not a technological problem (14).

IDENTIFYING AND CORRECTING SECURITY PROBLEMS

The relatively low level of security imposed over most computer-based systems can be attributed to a number of factors. First, and most significantly, there is the lack of management understanding concerning the sensitivity and criticality of their computer and information related resources. There is a distinct misperception as to the vulnerability of such systems. Secondly, there is the failure of many hardware vendors to develop system architectures that foster computer security, reliability, and control or to train clients in their usage. A third factor is the absence of a rigorous method for evaluating the effectiveness of an existing security program.

No single group should bear complete responsibility for protecting the computer system. The need for controls should be inculcated throughout the entire organization. The genesis of security measures rests with the management hierarchy and must pervade the firm.

It is most important that management be aware of the nature and implications of the risks associated with their computer-based systems. This awareness, and its currency is of particular importance in view of the growing level of computer literacy. The expansion of personal computer users in the ranks of the general public has greatly increased the number of potential abusers. The simultaneous growth of on-line and networked systems has increased the points of entry into a computer system. Such trends increase the risk dramatically. Primary points of vulnerability in an organization must be monitored constantly in order to prevent or at least detect computer abuse on a timely basis.

Management assessment should include an identification of the major areas of risk and some estimate of potential impact. The assessment should include an evaluation of control over: 1) computer files; 2) control over computer operations; and, 3) control over system software. The evaluation of risk and vulnerabilities should coincide with the establishment of a computer security program. Clearly stated objectives should be proposed by a manager assigned

responsibility for computer security and should be authorized by management. Formal objectives will signal that conventional managerial techniques and accounting function controls apply to computer security issues. Since these controls cut across many functional areas, top management authorization is particularly important. The objectives will establish a charter for developing programs and for setting priorities. Any viable, comprehensive program should: 1) establish a company policy; 2) assign responsibility; and, 3) establish a data processing contingency plan.

An essential first step in security planning is the formalization of a broad policy statement that articulates the organization's commitment to protecting its information assets. Corresponding

with the corporate policy is the need to affix responsibility for each of the activities highlighted by the policy. This is most challenging in large organizations, where responsibilities often cross functional, geographic, and entity boundaries. On the other hand, small companies are quickly perplexed by the lack of independence in available personnel. Even the best made plans are subject to failure. A contingency plan is necessary to develop a state of preparedness and the capability to respond to emergencies in an effective and controlled manner.

The effectiveness of any security program is ultimately dependent upon the significance attached to it by top management. It is also dependent upon its compatibility with the organizational units of the company that have responsibility for implementation of the plan. Most important is the recognition by end users of the significance of computer security to the overall well-being of the organization. Heightened by the current rage of user-friendly systems and personal computing, users will be increasingly responsible for security.

As the program is developed, a mechanism for evaluating its effectiveness and continued operation becomes imperative. The use of internal and external auditors, quality assurance teams, and computer security personnel can be valuable in providing the necessary feedback to top management. Reporting the results to management closes the information loop and contributes to the maintenance of a security program that is responsive to the needs of the organization. For top management, computer security should be considered integral to operating the business. Understanding the role that data processing plays in supporting daily operations is critical. In addition, the attendant risks associated with maintaining information on computer-based systems are necessary lesson plans that must be investigated by management. Continuous operations and inviolate systems will not evolve without the commitment of the owner/manager, careful planning and extensive follow-up. The benefits gained by effective management of the computer security function are tremendous. Resources will be deployed strategically and efficiently with no surprises. Planning is perhaps the greatest determinant of success in the business environment and the technology of today places this concept literally in the hands of management. If a top manager uses this tool effectively and makes strategic decisions based on knowledge, intuition, and available information, that person will be performing a great service to the organization and indeed the world.

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HIGH TECH OFF MAIN STREET: SOME PRELIMINARY FINDINGS

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ABSTRACT

While much has been written about high technology organizations in major centers such as Silicon Valley or Boston's Route 128, we know very little about the experience of high tech organizations located in less heralded settings. What are the relative advantages and disadvantages experienced by high tech firms which are not located in these centers? This paper presents some preliminary findings relative to this topic, based on interviews with executives from a number of Utah based high technology companies.

INTRODUCTION

In recent years, "high tech" has attracted a great deal of attention in both the popular and academic press. As the U.S. industrial base continues to decline in the wake of increased foreign competition, high tech sectors of the economy are expanding (1). State and local economic development agencies, hoping to bolster sagging economies, are clamoring to attract high tech organizations to their locales.

Much has been written about regional technology centers such as Silicon Valley in California, or Boston's Route 128. Often touted is the unique infrastructure which has developed in these centers, fostering rapid entrepreneurial development. Ready pools of venture financing, skilled technical personnel and management expertise are portrayed as readily available. Illustrative of the Silicon Valley infrastructure is the following story as told by Delbecq and Weiss (2):

When the senior author first arrived in Silicon Valley to accept the position of dean of the School of Business at Santa Clara, within two weeks a young man arrived in his office carrying a business plan. The would-be entrepreneur was twenty-one years old and had not yet graduated with his baccalaureate engineering degree, but he intended to start an electronics business. He asked, "Would you help me meet the appropriate individuals so that I can raise half a million dollars to begin my company?" In truth, in light of my midwestern ethics the request seemed bizarre. However, being new to the region, I took the business plan to a member of the business school's advisory board who had spent the last decade in Silicon Valley, and asked for his advice. He read the business plan quickly but thoughtfully, and suggested that he set up a luncheon with a venture capitalist, a real estate developer, a senior entrepreneur who had set up a similar company six years before, and a representative from a local accounting firm. The result of the luncheon meeting was that the young engineer was subsequently partially funded through a venture

capitalist, partially funded through a bank loan, guided through the rental of appropriate industrial property by the local developer, and provided counsel by two outside board members (one of whom was present at the first luncheon). This past year the business initiated at the luncheon was sold for \$15 million. (p. 124)

Certainly not every would-be entrepreneur in Silicon Valley has been welcomed with such open arms. Nevertheless, the story illustrates the importance of infrastructure in facilitating entrepreneurial development. All of the pieces necessary for forming the new venture seemed to be right at the young entrepreneur's finger tips.

While much has been written about high technology in Silicon Valley and Route 128, very little has been written about the contextual experience of high technology firms in less heralded settings. The purpose of this paper is to present some preliminary findings of a study of Utah-based high technology ventures. Essentially two questions are addressed: (1) Why did company founders choose to found their businesses in Utah?, and (2) What relative advantages and disadvantages do they experience as a result of their "off-main street" location? Findings are based on case histories and interviews conducted with executives of a number of established and emerging ventures. While this study centers specifically on Utah-based firms, it is believed the findings have implications for new venture managers on other locales "off main street."

WHY UTAH?

According to those interviewed, two major factors were most commonly mentioned as influential in the Utah location

decision. First, this was where the founders wanted to live. In the case of two of the larger firms, the founders came to Utah (leaving more populated areas) for the express purpose of starting up their businesses. Second, is the presence of three research universities in the state, the University of Utah, Utah State University, and Brigham Young University. Crispin-Little and Brereton (3) looked at ten emerging Utah-based ventures and found that over half had (and several founders continued to maintain) university connections.

ADVANTAGES AND DISADVANTAGES

Establishment of high technology ventures away from traditional high tech centers such as Silicon Valley or Boston's Route 128 presents some unique challenges and opportunities for new venture managers. Areas of strategic import include (1) access to venture funding, (2) recruitment of technical and managerial talent, (3) market access, and (4) public visibility. The relative advantages and disadvantages experienced by Utah-based ventures in each of these areas are discussed below.

Access to Venture Funding

All of the firms interviewed identified access to venture funding as a major disadvantage associated with their Utah location. Most of those who received venture financing, had gone out of state to obtain it, generally to the east or west coast. In regard to working with local banking institutions, many expressed feelings similar to the Treasurer of one firm, who said:

... we found that some of the local banks were very restrictive, not aggressive, not attempting to serve the high technology marketplace We found that there were banks outside of this area that were much more organized to deal with high tech companies; they understood the needs better. They were large enough that they had groups within their business whose specialty was high tech.

While funding was seldom easy to obtain, Most executives felt that with persistence, good ideas are generally able to attract sufficient funding from some source.

Recruitment

Recruitment of technical and managerial talent is an ongoing challenge for "off-main street" firms. In some cases, local universities can supply a firm's needs during early stages of development; but as the firm grows, its demand for labor exceeds the local supply and additional employees must be recruited from out of state. In general recruits tend to be cautious about leaving "main street" east and west coast locations to come to Utah. The major competitive advantage in terms of recruitment are "quality of life" kinds of issues. Companies have good success attracting and retaining people who enjoy an outdoor life style (skiing, hiking, fishing etc.) or have religious or family ties to the region.

Other advantages, relative to major high tech centers include lower housing costs, less traffic and congestion, and a more relaxed pace of life.

While recruiting costs are perceived as higher than main street competitors, the interviewed executives generally felt their overall labor costs were less due to lower wages (reflective of the lower cost of living) and employee turnover.

Market Access

Since most firms served highly specialized, global markets, the executives generally perceived no specific disadvantage in terms of location. However, an isolated location may be a disadvantage for

component-type manufacturers (whose customers are located in the major high tech centers) or firms seeking joint venture opportunities.

Public Visibility

Off-main-street firms generally have less public visibility than their main street counterparts. This low profile presents both advantages and disadvantages. For start-up firms, a low profile can shelter the firm from strong competitor

response until the firm has begun to establish itself in the marketplace. However, if the firm wishes to go public, this absence of visibility can have a negative impact on the price of the stock offering. For established firms, isolation from direct competitors may lead to complacency, and a loss of competitive vitality.

Summary and Conclusions

In summary, there are several strategic issues which must be assessed by high tech entrepreneurs who are considering an "off main street" location. Some represent major obstacles for successful operation, others provide opportunities for competitive advantage. Strategic disadvantages include (1) recruitment challenges, and (2) the lack of close access to key resources such as venture funding, management expertise and other infrastructure requirements. Potential strategic advantages include (1) lower labor and property costs, and (2) quality of life issues, such as reduced congestion and close access to outdoor recreation opportunities.

In all, the executives interviewed were pleased with their Utah location, feeling that the relative advantages and disadvantages tended to balance out, allowing them to maintain a competitive position in the marketplace.

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SMALL BUSINESS COMPUTER SECURITY

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ABSTRACT

This article discusses the current growth in computer usage and the resulting growth in computer crime. It encourages small businesses to become more concerned about computer security. It discusses computer security risks and how small businesses should deal with those risks.

INTRODUCTION

The growth in the number of small businesses and the growth in computer usage have increasingly lead to small business losses because of theft, sabotage, hackers and accidents. Nationwide, all forms of computer theft and related losses totalled \$46 billion in 1986.(10) The average loss reported in a survey of 785 large corporations was \$118,932. (5) Most losses that are a fraction of this amount would cripple or bankrupt a small business.

This article addresses three separate questions: (1) Why do small businesses need to develop computer security methods? (2) What computer losses threaten small businesses? and (3) What security methods are most appropriate for small businesses? (4)

Why small businesses should be concerned about computer security?

There are four reasons that substantiate the need for small businesses to become concerned about computer security. These are: A. the increase in small business usage of computers, B. the increase in the number of employees dealing with information, C. the general increase in computer crime, and D. the advancements in computer security.

With a decrease in computer prices, particularly microcomputers, has come an increase in small business computer usage. Many small businesses started with word processing or document editing and then began automating their inventory, billing, scheduling, customer records, and accounting systems.(6) A few high technology small businesses moved into new uses such as: telecomputing, graphics presentations, and remote order placement.

This explosion of information availability has lead to a substantial increase in the number of employees creating, editing, transmitting, and disseminating information. Naisbett estimated that the percentage of workers in the information industry increased from 7.5 million workers in 1960 to 16.4 million in 1981.

This was an increase from 11 percent to 17 percent of the work force.(8) Kupsh estimated that 90 percent of the future work force will be in an automated office environment: with 80 percent using a terminal one or more times a day.(7)

Technology's two edged sword becomes apparent when computer crime advances with technological advancements. New technological advances in telecomputing, phone line data transmission, and remote order placement created new vulnerabilities to inside and outside hackers. Computer access theft alone totaled \$20 billion in 1986.(10)

With the advancements in technology, availability, and small business usage have come advancements in computer security technology. Although many small businesses are now more vulnerable to computer losses, more security techniques are available at affordable prices. Small businesses from the occasional user to the high technology small business cannot afford to ignore their exposures or excuse their inaction by citing security costs.

What types of computer losses threaten small businesses?

Several types of computer related losses threaten small businesses. These include: loss of system or data files, unauthorized access, unauthorized use, misuse, sabotage, theft, computer fraud, interruption of service, and viruses.

A very common occurrence is loss of system or data files and is usually the result of employee negligence or carelessness.(5) Every small business computer user either will, or already has, accidentally lost, erased, or formatted

their files or experienced a disk failure. The probability of a loss increases with both the individual's or small business's computer use. The loss to the small business is the cost of the software or the employee's time to duplicate the lost material.

Technological computer advancements have also created more ways for insiders or hackers to misuse, steal, or sabotage hardware or software. Consequently, unauthorized access, unauthorized use, and misuse have cost business and government millions of dollars.(10) Once an insider or outsider has gained access, they can use the small business's computers for personal gain by selling, compromising, or altering the small business's data. The losses from this risk will increase as more small businesses automate their customer, supplier, or contact lists into convenient data bases. The actual losses can range from minimal, but possibly embarrassing, to substantial.

Employee access increases the potential for employee sabotage from disgruntled, displaced, or terminated employees. As more employees obtain unrestricted or unsupervised access, more potential losses face the small business.

A danger for many small businesses is the possibility of an insider

or hacker disabling their computer or computer-phone links. Service organizations that use computer links to provide a service such as small financial institutions, small franchises, or small business tied to a national computer network are particularly vulnerable. Disabled computers temporarily force many highly automated small businesses to cease operations because they cannot ring up a sale, check inventories, access a customer data base, or access a national computer network.

A recently growing danger is "viruses" that are computer codes that replicate themselves from user to user.(2) Some viruses flash innocent messages, others disrupt or destroy system or data files. A new, stronger strain of viruses, can replicate themselves after "normal" erasing procedures. Shared diskettes or networks transmit these viruses throughout the computer world. A recent report concludes that the danger is at "epidemic" levels with the losses mounting.(11)

What security methods are most appropriate for small business?

The most appropriate security methods for most small businesses include developing a safety conscious environment, recovery plans, trained employees, physical security, access security, an established company policy, and secured communication links.

Safety conscious environments

A first priority is to establish a company policy on security and to establish a safety conscious environment. This can be accomplished by training employees about each specific potential security risk and by training them on the following security methods. Without employee compliance and commitment, all the following measures are either minimally effective or totally ineffective. In addition the small business owner not only has to establish a company policy but strictly enforce and follow it in order to create the motivation for a safety conscious environment.

Recovery and back ups

Recovery plans and back up copies of key data and system files stored in separate locations are the first line of defense. Small businesses need to learn from their bigger counterparts and establish disaster recovery plans.(9) A plan including separately stored copies of key data and system files would reduce or prevent losses. This is particularly true for computer dependent small businesses who cannot complete a transaction without a working computer such as a computerized cash register.

Employees need to develop similar habits, make frequent copies, back up their individual work, and secure key files and equipment. There are software packages that allow users to set times at which the software package automatically saves the user's work.(12)

Utility Packages

Each small business computer operator should know how to use utility packages. Some programs allow users to create,

eliminate, rename, send, and move files allowing good file management (an example is QDOS). Others allow users to condense badly fragmented disks. This occurs with frequent erasures and saves on the same hard drive or diskette. Condensing the storage area reduces the probability that a diskette or hard drive's file allocation table will lose its electronic mind (and map) of where files are stored. Some packages can recover accidentally erased files and even accidental reformat of a hard drive (examples are Norton Utilities and MACE). But, the user in the latter case must prepare for this loss by previously running Mace, which establishes a copy of the hard drive file's allocation table into a special file. After an accidental reformat, the user can use the program to replace the file allocation table and recover most of the files.

Physical Security

Physical security of critical hardware and software can be provided several ways. First, smaller machines such as PC's can be secured to heavy objects with cables and bolts. For the few small businesses using mid range or microcomputers, the equipment can be kept in secured, locked rooms. Copies of key data and systems files can be stored in a safe. Frequent back ups of data should be stored separately and securely in a safe. Backups and separate copies enable the small business to replace lost files and more quickly resume operations. In addition, these procedures allow the small business to erase virus contaminated or altered data and system files. These procedures will some losses and limit opportunistic thieves but not the determined ones.

Access Security

Small businesses can provide access security by limiting machine use to those employees who have a need to use them. In addition, they should use every security technique provided by the software program. For example, most advanced word processing systems allow users to password protect user created data files.(12) The problem with such software protection is that they will foil the opportunistic insider or outsider but not a knowledgeable one. An experienced hacker can find the password with a utility package and disable it.

Some new products are available that provide both physical and access security. An example is a security system by Interlock with software on an additional internal board that recognizes physical keys, user identification numbers, and user passwords. Previously authorized employees with the proper key, identification number, and password can access the computer. The software also logs the users' identification number, length of use, and the programs or files accessed by the user. A security administrator authorizes employee keys, passwords, identification number, and access to

certain specified programs or files. Another product by Micronyx uses a "security kernel," that is stored on an additional board and restricts access, use, input, output, and labels user files.(3) To be effective, such kernels should be transparent to the users, control the disk operating system, and be invisible to hacker's armed with utility packages.(4)

Data and Communication Security

Some small businesses are using high technology to provide a "niche" for themselves with computer communication links. This includes small franchises connected to their national office, local credit bureaus, small independent financial institutions, and small businesses with remote sites. While these communication links allow them to provide unique, fast services, it exposes them to unique computer losses. First remote sites generally have less experienced operators, less security, and are more exposed than the central processing unit.(9) Communication links expose the small business to someone illegally obtaining access and disrupting services, destroying data, or diverting financial transactions for personal gain. The best protections are physical and access security besides data encryption. Physical and access security limit users to authorized employees who have a legitimate need to access the system. Data encryption prevents the hacker from interpreting the communicated transactions and altering, destroying, or diverting them for personal gain. IBM and the National Security Agency developed an algorithm for data encryption standard (DES) devices.(1) This security measure requires hardware and software installed at both ends of the communication link that electronically scramble (encrypt) the data and de-encrypt it at the receiving end. Costs range from inexpensive sets (\$600 for two) to very expensive, over \$10,000.(1)

A problem with encryption is the need to transmit the mathematical algorithm either physically or electronically to both ends of the communication link. This allows encryption and de-encryption with the same algorithm. Obviously, this transmission must be made safely without compromising the algorithm or the whole process is negated.

Local Area Networks

Some small businesses have installed Local Area Networks (LANS) to tie together separate hardware. LANS enable users to share information, data, and programs in a multi-office small business. Examples of LAN users are small medical offices, real estate offices, credit bureaus, small banks, or other small professional offices. While LANS allow mutual sharing and eliminate the need for multiple copies, they expose these files and programs to unauthorized access. Required security measures include: file passwords, DOS file restrictions (such as read only), user designated storage areas, user passwords, user identification numbers, and logs of use.

Methods Beyond the Scope and Budgets of Most Small Businesses

Some methods are beyond the needs and budgets of most small businesses at the present. Such methods utilized by large organizations and government security organizations include verifying: fingerprints, signatures, palm prints, hand geometry, eye blood vessels, voice prints, and coded user cards.

Risk Analysis

The purpose of a risk audit is to determine which of the above risks and security measures apply to the individual small business. The audit should examine the small business's potential exposures, types of hardware, software, employee use, outsider access, sensitivity of the data, cost to replicate data, physical access of hardware, access to software, and computer communication links.

Appendix A contains an audit check list for small businesses. This check list directs the small business owner to specific areas that warrant attention. Any answers that are no's need to be examined and corrected.

After the audit is completed the small business needs to make an honest appraisal of the probability and effect of a loss occurring for each type of risk. Most large organizations calculate the annual expected loss from each risk. Annual expected losses per risk equal the probability of a loss times the dollar cost of the loss. Large organizations with large numbers of equipment and employees can calculate probabilities and average losses. Most small businesses do not have enough losses per category to calculate meaningful loss and probability data. Sometimes the probability of a particular loss may be very low but any occurrence would entail severe losses. An example is a small word processing service maintaining all their customer files on a hard drive. While the probability of a hard drive failure during any particular day is low, eventually every mechanical device will fail. Consequently, the small business needs to determine what risks would cripple, disrupt their service, lose a client, or endanger their survival despite the low probability of an occurrence.

Developing the Appropriate Security

At the conclusion of the risk audit, the small business owner has a better assessment of their security risks. The next step is to develop security measures appropriate for that small business and its particular situation. For example, small businesses with a few stand alone pc's that are secured in a safe environment and how have few users and limited applications should utilize the top four security precautions in Table 1. If the equipment is in open areas with unsupervised access all Table 1 precautions should be implemented. Open access increases the risk of unauthorized misuse or sabotage.

As the business's use of computers increases, more employees have access, and more functions are automated, the small business's exposures increase. Consequently, all the precautions in Table 2 should be used. The systems that protect the machine, limit use, limit use to specific functions, and log users are particularly effective.

Many small business now tie together several machines into LANS. While LANS allow users to share software and data files, unauthorized access, sabotage, and the potential for misuse increase. A developed and enforced company policy will discourage some misuse. Limited access, software restrictions, user passwords, and logs of user identification numbers are required.

If the business includes dial up access to any national organization or from remote sites to its equipment, then the business needs security devices that verify users, check phone numbers, and call back only pre-approved phone

numbers. If sensitive or financial data is transmitted, then it should be encrypted.

Developing Security Environments

Wood et al.(13) and Perry(9) believe that all organizations need to develop an organization wide environment that makes every employee conscious of security, involved in security, and willing to implement the necessary security steps. Because employee enthusiasm for any program dissolves over time, the small business owner continually needs to train and remind employees. While large businesses can afford separate security departments, the owner-operator must assume the responsibility of being the chief security officer. Delegation to a subordinate is possible but creates an additional risk if the subordinate is untrustworthy.

Insurance and Legal Coverage

Insurance will cover most types of hardware and software losses caused by traditional losses such as fire, theft, and water, but not losses from employee accidents or negligence.

Several federal and state laws provide legal coverage. These types of laws provide for prosecution of unauthorized access, unauthorized use, misuse, theft, disruption of business services, fraud, and obtaining money under false pretenses.(13) Small business owners should check to see which laws, if any, are operable in their states. In addition, owners should prosecute computer crimes with the vigor they prosecute shoplifting crimes.

TABLE ONE

If the Small Business has the following:

POTENTIAL SECURITY HARDWARE SOFTWARE EXPOSURES PRECAUTIONS -Stand alone -Word proc.- - Negligence, -Company Policy PCs dual essing carelessness on Security and floppy and a developed hard drive -Some safety Accounting conscious environment -Few employ- -Some Cus- ees tomer -Back up files, Records -Accidental backup copies erasure of and utility needed files packages to reformat hard drive

-Back up copies stored in safe place -Hard drive or diskette failure or -Restricted format and access sabotage - Supervision -Unauthorized access -DOS and software protection

-Cable with locks, Motion detectors, Keys to power switch -Theft of PC -Check for viruses before use

-Public domain software

LEVEL TWO If the Small Business has this Hardware and Software POTENTIAL SECURITY HARDWARE SOFTWARE EXPOSURES PRECAUTIONS

-Several PC's -Word Proc- -All in Table 1 -All in Table 1 essing plus: plus: -Many employees -Accounting -Sensitive - Original and Data files and frequent financial data backups stored -Financial in separate Data safe loca- -Customer tion records -Higher risk of -Regular employee training, accident or orientation, sabotage Highly developed security conscious atmosphere TABLE THREE

HARDWARE/ SECURITY SOFTWARE SOFTWARE PRECAUTIONS

-Many PC's -Multiple uses -All in Tables 1 and 2

-Company policy -Mini on LAN security computers -Software -Dial up access protections -Terminals tied to a LAN - User passwords POTENTIAL EXPOSURES -Restricted -Network dial up access hookups -All in levels 1 and 2 -Front end security -Data and files defense that on a LAN verify ID, password and -Outside call back the Hackers user

-Financial data -Data that can be encryption diverted

LEVEL FOUR

HARDWARE SOFTWARE EXPOSURES SECURITY PRECAUTIONS Mini-computer Above All above or midrange. Dial-in-access Outside Password policy (Hackers) Regular password changes of employees who leave or are fired.

Software packages that restrict access by user or by function

Dial-back software security (expensive)

Administration for passwords, authorized phone numbers

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IMPACT OF FOREIGN INVESTMENT IN U.S. LAND ON SMALL FARMERS

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ABSTRACT

This paper presents the reasons for increasing foreign investment in U. S. farmland, the direction of these investments and potential impact on small farmers and the farm economy. Relatively lower prices of U. S. farmland, highly productive land, and safe investment opportunities in land have induced foreign investment. Foreign investment trends indicate a continuing upward direction at slightly higher than the current level of 12 million acres of land. The potential negative impact of foreign investment on small farmers and the farm economy appears to outweigh the positive effects of this foreign invasion into U. S. farmland. The considerations on price, interest rates, and global trade are key factors in our analysis. The federal government should continue to monitor and regulate foreign investment in U. S. farmland, because of its direct effect on the farm economy as well as national security, especially in time of food shortages and war.

INTRODUCTION

Since the end of World War II, American businesses have been the major investors in foreign countries. American businessmen have exported their knowledge and technology, and gained economic benefits as well as helping foreign nations. However, over the past twenty years, that trend has been steadily reversing. The 1973 oil crisis, as a turning point in time, was a major contributing factor for this change. The oil crisis of 1973 had a significant impact on U.S. industrial power and the farm sector. At the same time, Japanese and Europeans were steadily reorganizing their industries and becoming more competitive in global markets [8]. As a result, foreign investors became more active in the world economy with increased focus on investment in U.S. industries and farmland. While this investment has indeed enhanced the American economy and created new employment, a growing concern has been expressed over increased foreign investment in U.S. agricultural land.

Throughout time, land ownership has been a basis of wealth and stability for a nation. Small farmers were considered the bulwark of democracy and political stability in this country. The land is almost synonymous with the nation itself. These premises are still true today. Especially in an age of continuous technological changes,, land use and production of goods have taken on a new value and meaning to small farmers. No doubt, fertile U.S. land has induced foreign interest as a means to enhance and stabilize their own agricultural economy. This has sparked a growing concern as to the direction foreign investment is making toward U.S. farmland and the potential impact on our farm economy, especially on small farmers. Conditions of the world economy, coupled with land restrictions in their own countries, have provided strong incentives for foreigners to invest in American farmland, some of the richest and most fertile farmland in the world.

The focus of this paper is to provide the reasons for foreign investment in U.S. agricultural land, the direction of foreign investment, and an analysis of the impact this investment may have on small farmers.

REASONS FOR INVESTMENT

In recent years, foreign investment in U.S. farmland has steadily risen. It is of importance to know the reasons foreign investment has taken place so that policy makers in Washington, DC will generate appropriate economic and legislative decisions.

First, many foreign countries are geographically smaller in land mass in comparison to the United States. As a result, their population per acre is greater, forcing them to seek land elsewhere to accommodate economic objectives [4].

Second, the price of land in these countries is naturally very high compared to American agricultural land. The relatively lower price of U.S. farmland is a great inducement to many of these countries.

Foreign countries undoubtedly have placed more of a premium on land acquired outside their saturated country as a means of stabilizing their economy and agricultural production.

Third, foreign investors are aware that U.S. land values have steadily increased over the past three decades, making land a sound investment venture in a safe environment. Foreign investment in U.S. land can be considered as a hedge against worldwide inflation, and as insurance against political and economic uncertainties at home [4].

Fourth, foreign investors are also attracted to the U.S. as an investment opportunity because of its stable political and social condition.

DIRECTION OF FOREIGN INVESTMENT

In the early 1970's, the exact amount of acreage owned by foreigners was not readily available due to a lack of reporting laws at the federal governmental level. However, in the late 1970's, public concern grew at an alarming rate upon the discovery and publicity surrounding some major foreign purchases of U.S. farmland.

One of the outstanding cases involved the selling of the 5,200 acre Zukerman farm located in the rich San Joaquin River Delta of California for 5.8 million dollars to foreign investors from Italy. In response to the public outcry, President Jimmy Carter signed the Agricultural Foreign Investment Disclosure Act of 1978 (AFIDA). This law required foreign investors to report their current landholdings, future purchases, leases, and sales to the U.S. Department of Agriculture. While the law has improved the tracking of foreign investment in U.S. farmland, it has not discouraged foreign investment.

It was reported that approximately 2 billion dollars of farmland sales, estimated as 21 percent of all U.S. farm sales in 1977, involved foreign purchases. By the end of 1979, the first year after AFIDA was enforced, it was reported that foreigners bought 5.2 million acres of U.S. farmland.

At the beginning of the 1980's, foreign purchase of U.S. farmland increased rapidly. In 1983, 14 million acres of farmland was owned by foreign investors, an all time record for a single year. This represented 1 percent of the total amount of farmland in the United States. Figure 1 shows foreign investment trends in U.S. land for the period 1974 through 1988. After reaching the peak of a single year in 1983, foreign investment declined slightly and has leveled. The reasons for this leveling since 1985, can be explained by the facts that many states restricted foreign purchase of land and a global economy weakened during this period.

----- Figure 1. Foreign Investment in U.S. Farmland 1974-88
(Millions of Acres)

1974 - 5 million acres 1978 - 5.5 million acres 1982 - 14 million acres 1985 - 12 million acres 1987 - 12.25 million acres 1988 - 12.5 million acres

Source: Debraal, P. J. Foreign Ownership of U. S. Agricultural Land Through December 31, 1988. U. S. Department of Agriculture. Washington, D. C., April, 1989. -----

In the latter part of the 1980's, foreign investment increased slightly from the 1985 level. Foreign individuals and entities owned 12.5 million acres of U.S. farmland in 1988 [2]. This figure represents 99,,100 acres more than was reported in 1987. The trend seems to indicate continuous influx of foreign investment in U.S. farmland at the present level , for the foreseeable future.

CONCENTRATION OF FOREIGN OWNED LAND

In 1980, almost half of all states had some form of legislation restricting foreign ownership of U. S. farmland. In 1978, Missouri passed one of the most restrictive laws, stating that a nonresident alien could not acquire more than 5 acres of land for the purpose of farming. However, many states still have very little regulation against foreign ownership of

farmland.

In 1988, foreign investors owned farm acreage in 49 states, Puerto Rico, and Quam. The only state with no reported foreign ownership of land was Rhode Island. Significant concentrations of foreign owned land are reported in the South and West, which constitute 36 and 35 percent of all reported foreign holdings of U.S. farmland, respectively [2]. Surprisingly, the largest amount of foreign owned U.S. farmland is in Maine, representing 10 percent of the state farmland and 14 percent of all foreign owned farmland in the United States. The attraction in Maine for foreign investors is the rich timberland of that state. Foreign interests currently control almost 1.8 million acres of this state.

Foreign countries with the largest ownership of total U.S. acres are Canada and Mexico. These two countries have a substantial interest in U.S. investment ventures with 13.2 percent of the total acres owned. Other countries such as West Germany and the Netherlands show a strong European interest in U.S. farmland.

While Japan ranks 9th overall with 146,604 acres owned, in 1988, Japan's interest in purchasing U. S. farmland is increasing. Japan has special interests in American beef and ranch properties. In October 1988, a Japanese company bought an 80,000 acre ranch in Montana for 13 million dollars for the purpose of producing beef for consumption in Japan. In January 1989, a Japanese firm named Mt. Shasta Beef, purchased a 6,000 acre ranch in Northern California for 2.2 million dollars. This investment was after Japan abolished their trade restrictions against importing U.S. beef [3]. In March 1989, filet mignon was priced at \$43 per pound in Tokyo [5]. Increased Japanese investment should make beef prices in Japan more affordable to consumers.

Agricultural landholdings, by type of foreign owners, indicate that foreign individuals were the largest number of investors in U.S. farmland. This seems to conform to the premise that foreign individuals seek both the political and economic security of the United States in this time of global uncertainties. The next highest number of landholders were foreign corporations, followed by partnerships. However, foreign corporations owned the largest acreage; 9,976,640 acres compared to 936,053 acres owned by foreign individuals. Obviously, corporations and partnerships have stronger financial resources. A sizable part of the land held (34.7 percent) represents a pure European interest, which includes a number of joint ventures. It appears that foreign interests feel more secure in entering ventures in conjunction with U.S. corporations when they purchased farmland. Public opinion is less likely to feel threatened in this way and foreign ownership is tolerated. Table 1 summarizes U.S. landholdings by type of foreign owners in 1988.

----- Table 1. U.S. Landholdings by Type of Foreign Owners

1988

Owner	Number	Parcels	Acres	Type (000)	Individual	3,342	4,369	936	Corporation	3,035	6,501	9,977	Partnership	1,126
	1,984	1,369	Estate	12	15	3	Trust	252	307	181	Institution	3	3	1
			Association	1	2	6	Other	19	34	12	Total	7,790	13,215	12,485

Source: Debraal, P.J. Foreign Ownership of U.S. Agricultural Land Through December 31, 1988. U.S. Department of Agriculture. Washington, D.C., April 1989. -----

IMPACT ON SMALL FARMERS

The impact of continued foreign investment in U.S. farmland will be significant on the farm sector, as well as the American economy as a whole. It may have both positive and negative influence.

First, foreign purchases of U.S. farmland make small farmers and other citizens uneasy. They feel a sense of economic invasion by foreign nationals. This is a psychological and sociological impact.

Second, small farmers may receive benefits with increases in farm employment, and improved technological operations infused into the farm sector by foreign investors. Japanese investment should also be a boost for farmers who sell supplies and expertise to the new beef producers [5].

Third, future world food requirements may have a significant effect on the U.S. farm economy. Forecasts of global food requirements indicate that there may be food shortages. Food requirements for human consumption will grow rapidly,, as populations increase, primarily in developing countries, and because of changes in diets where more animal

proteins are consumed. As food-import countries increase their needs, they may turn to American farmland as an opportunity to decrease their debt. If so, this may become an increasing threat to the American farm economy, and become a national security issue as well [1].

Fourth, interest and exchange rates will have a significant impact in shaping the conditions of the American farm economy. Any directions of foreign investment that either increase or decrease interest rates will significantly affect small farmers and their ability to produce and compete in the marketplace. Farm expenses are directly related to interest levels. If interest rates are high, small farmers will have difficulty in making the appropriate loan for production and marketing. If foreign investment increases to a significant level, this may negatively effect the farm sector.

Prices will also be a key factor in the overall economic future of the farm economy and agro-business. If price supports continue, there is likelihood that surplus will continue to appear. This will distort an optimum resource allocation. If prices are allowed to seek their own level in the free market, then resource allocation in the farm sector will achieve a reasonable balance, especially in the long run [6].

Farm prices play a pivotal role in influencing foreign investment. If prices force a farmer to sell his property to pursue other means of making a living, foreign speculation is more likely to step in and capitalize on the farmers' loss.

Lastly, the Federal government must modify and regulate U.S. farm policies, based on future trends which dictate foreign investment in U.S. farmland. American agriculture, especially small farmers, has been buffeted by instability from macroeconomic, global trade, and farm policies [7]. It is the responsibility of the federal government to ensure a high degree of stability, and monitor the economic posture of the farm sector. The steady pace of future foreign investment ventures may have serious consequence on the farm economy in price, interest rate, production, marketing, and trade.

SUMMARY

In this paper, we discussed the reasons for foreign investment ventures in this country, the direction of foreign investment, and provided an analysis of the potential impact this may have on the farm economy and small farmers. It is important for the federal government to continue to monitor foreign investment in U.S. agricultural land through the AFIDA to determine future trends and potential legislative requirements.

Major reasons for foreign investment in U.S. farmland include (1) larger land mass in the United States, (2) relatively lower price of U.S. farmland per acre, compared to the price in foreign countries, (3) steady price increase of U.S. farmland over the past three decades, making a safe and sound investment venture, and (4) political and social stability in the United States, making attractive investment opportunities during a time of global unrest.

The direction of foreign investments indicate that 1983 was a recordbreaking year when foreign investors owned one percent of the total U.S. farmland in a single year. After reaching the peak in 1983, foreign investment declined slightly and has leveled. This leveling since 1985, is primarily because that many states restricted foreign purchase of land and the uncertainty of global economic conditions.

The potential impact of foreign investment on small farmers and the farm sector includes (1) a negative psychological and sociological impact, (2) some positive benefits to small farmers in the form of farm employment and technological and managerial skills resulting from foreign investment, (3) potential negative effect on the U.S. farm economy and national security in a time of worldwide food shortages and war, (4) potential negative influence on interest rates and farm prices and its consequence on small farmers, and (5) potential pressure on the federal government to monitor and regulate foreign investment so that stability of the farm economy may be achieved.

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COST CONSIDERATIONS IN SELECTING AN EXPORT DISTRIBUTION CHANNEL

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ABSTRACT

Europe 1992 presents numerous opportunities for small businesses. Many of these small businesses are not in a position to make entries into the international market in the form of joint ventures or mergers and acquisitions. They must rely on existing distribution channels. This paper considers costs and revenues associated with various choices of export distribution channels.

COST CONSIDERATIONS IN SELECTING AN EXPORT DISTRIBUTION CHANNEL

Europe 1992 presents unprecedented opportunities and challenges for the small business. The most obvious opportunity is the potential access to a unified market of over 320 million individuals. In addition, the European Community (EC) is proposing standardization of custom laws and regulations, as well as product standards and exchange rates. Such standardization can only result in the removal of many of the current barriers to trading in the international markets. There is also increased support available to small businesses contemplating an overseas market. The Small Business Administration offers both financing and counseling. The Export-Import Bank of the United States offers a wide variety of business loans and loan guaranties. Export credit insurance may be obtained through agencies such as the Foreign Credit Insurance Association and the Overseas Private Investment Corporation. This increased support surely underlines the potential opportunities available to small businesses.

In contrast to the aforementioned opportunities, small businesses could face formidable challenges to entering the European market. The first of these relates to the reason why members of the European Community first decided to unite. Their purpose is to compete with the United States and Japan on a worldwide basis and that purpose may very well lead to a protectionist policy which excludes many who might otherwise profitably export to the EC. It is quite possible that the EC will impose tariffs and quotas--particularly on those products which are in direct competition with products of their members. It is also possible that local content laws may become even more restrictive, necessitating increasing concern regarding the "economic nationality" of a product. These fears have led to an increasing number of joint ventures and mergers and acquisitions between Europeans and U.S.-owned companies in efforts to position themselves should these fears be wellfounded. In addition, some larger firms have opened their own plants within the EC, thus not only establishing a physical presence, but dealing effectively with the national origin problem as well.

But for many small businesses, joint ventures and/or mergers and acquisitions may be neither economically feasible nor desirable. Initial investments and ongoing costs of operations may be prohibitive to small businesses attempting to establish a presence in the European market. In fact, rather than attempting to establish an actual physical presence in international markets, smaller businesses, for the most part, deal with foreign distributors. In a recent survey of 65 firms exporting electrical products, machine tool builders, food equipment, and fluid power industry tools, it was determined that the most commonly used channels of distribution were sales representatives and export distributors located on foreign soil (7).

A business normally should seek to maximize its contribution margin and to increase its market share. To do this effectively in the international market involves a thorough investigation of potential export distribution channels and careful consideration of the possible costs, revenues and risks associated with each. Bowersox (3) suggested that there were three broad functions that may be performed by "channel members: the exchange function of buying and selling; the physical distribution function of transportation and storage; and the facilitating functions of standardization, marketing financing, risk bearing, and market information and research. Depending upon the distribution channel selected, some or all of these functions may be assumed by the channel member. Any function assumed by the channel member reduces the cost of that function for the originating company.

As small and midsized businesses position themselves for entry into the international market, their first step should be to carefully examine their reasons for entering this market. Does the company want the EC as the main market for its goods? Does it intend to sell only excess goods? Sell seconds or goods of poorer quality? Is the EC to be looked upon as a supplementary market rather than the main market? Answers to these questions regarding the firm's marketing

goals is the first step to determining a cohesive marketing strategy when considering exporting goods. Once the firm has established its intentions in entering the international market, it should identify a target market for its product or products. Following this essential process, the small business is ready to examine potential channel members. There are a number of options when considering an export distribution channel. The firm must first determine whether an indirect distribution channel or a direct distribution channel is more suited to its particular needs. An indirect distribution channel is domestic-based, with firms actually located on U.S. soil, while a direct distribution channel is foreign-based. Although an initial reaction might be that it would be more effective to select a direct distribution channel since it implies direct customer contact and knowledge of the area by the distributor, research has shown that direct exporting is preferable only if the customers are geographically homogeneous, have similar buying habits, and are limited in number. Indirect exporting appears to be preferable when customers and buying habits are heterogeneous and a number of different methods of exporting are necessary (6). Therefore, the choice of a direct vs. indirect distribution channel would seem to be dependent upon the target market(s) identified and the intended export product.

If a firm decides that indirect distribution is most compatible with its marketing strategy, it has a choice between dealing with agents (those firms which do not take title to the goods), or with merchant middlemen (those firms which actually take title). Agents include export management companies, manufacturer's export agents, Webb-Pomerene Association members, foreign freight forwarders, commission agents, country controlled buying offices, and selling groups. These agents perform different functions. An export management company (EMC) is a U.S. firm which handles all aspects of export operations under a contractual agreement. A manufacturer's export agents essentially the same as an EMC except that it covers limited markets and is under contract for a short time only (a few months to a year). Members of the Webb-Pomerene Association represent a group of manufacturers who are exempt from antitrust laws as a result of the Webb-Pomerene Act of 1918. Foreign freight forwarders specialize in handling overseas shipping arrangements, while commission agents represent foreign clients interested in buying U.S. goods. Country controlled buying offices act as official buyers for foreign governments, and selling groups are U.S. firms who sell excess capacity overseas. Merchant middlemen relieve the company of a great deal of risk in taking title to the goods, frequently resulting in significant cost savings. Within an indirect distribution channel, a small business may choose among export merchants, who buy directly from the manufacturers according to their specifications, cooperative exporters, who distribute other manufacturer's goods along with their own on a contractual basis, or export vendors who specialize in buying poor quality or overproduced goods.

Direct distribution channels also include agents and middlemen merchants. A firm may deal with export brokers, purchasing agents, sales representatives, factors, or managing agents, if it wishes to retain title to the goods. Export brokers bring foreign buyers and U.S. sellers together. A purchase agent operates in the U.S. searching for products of interest to foreign buyers. Sales representatives, armed with literature and samples from the exporting company, travels abroad developing interest in the company's products. Factors perform normal brokerage functions, but also finance sales transactions. Managing agents have exclusive contractual arrangements with a parent company, while working within a foreign country.

If the firm wishes to relinquish title (and accompanying risk), it may choose among export distributors, retailers, export jobbers, or trading companies. Export distributors purchase goods from U.S. companies at the greatest possible discount and then resell them at a profit. Using a retailer involves dealing directly with a foreign retailer who then sells the goods through its own outlets. Export jobbers fill specific foreign customer needs by purchasing from U.S. companies. Trading companies are usually country-specific import-export agencies who handle export activities and are frequently responsible for an exclusive product specialty.

With this multitude of choices, how does a small business determine which distribution channel will be most effective for its particular objectives? It seems obvious that the firm's intention in marketing internationally will have a significant bearing on which distribution channels may be available. Certain types of channel members handle only certain types of transactions. Initially, there will be a sort of "natural selection" which will result in consideration of only those types of channel members who specialize in the sorts of transaction a firm desires (e.g., marketing of excess goods, poorer quality goods, etc.). Within this group, however, there may be a number of potential agencies who could perform the functions desired by the firm, and the small business must decide which of these would be the most effective.

Such a decision necessitates a careful consideration of projected revenues and costs associated with each potential channel member. Once the field has been narrowed down to the above, a firm should list all potential channel members, regardless of type, as long as these channel members have been identified as being capable of accomplishing the task.

At this point, these channel members should be screened by the firm's management on the basis of compatibility, availability and individual organizational characteristics (9). Compatibility serves as the initial screen. This should be evaluated in terms of the channel member's market coverage, its functional capabilities, its service capacity, overall image, and any other qualities deemed important to the exporting company. Such criteria will be of special importance if the exporting firm has decided on a direct distribution channel, since the reputation of a foreign-based company would be vital to projected sales of any product. Availability relates to whether or not the considered channel member is willing to become a part of the exporter's channel structure. Organizational characteristics of the potential channel member involve considerable judgment on the part of the exporting firm pertaining to the probable performance of the channel member, its growth potential and its financial stability.

Once this screening has taken place to limit potential channel members, the firm is in a position to project revenues and costs for each considered member. Projected revenue is the starting point for any effective cost analysis. This will involve variable price setting and serious consideration of expected sales by each potential channel member. Pricing structure for a particular product may differ depending on whether a channel is direct or indirect. More costs and more risks are associated with direct channels than with indirect.

Within each of these areas, price differentials may exist with respect to whether the potential channel member is an agent or a merchant middleman. Since merchant middlemen take title to the goods, many of the costs associated with marketing overseas are held by the middlemen, and not by the originating company. Prices to merchant middlemen would therefore be lower than prices through agents. Beyond this level, prices may change based upon the type of agent or middleman. For example, since export management companies are compensated in the form of commissions or from discounts on goods purchased for export, selling prices to these groups may be lower than selling prices to other indirect agents. Although such variable pricing analysis is time-consuming, careful analysis of potential revenues is an essential step in the analysis of distribution channels.

Once revenues have been projected for each channel member under consideration, costs associated with that channel member must also be estimated. These costs should be separated into one-time non-recurring costs and on-going expenses, as well as fixed and variable components. It should be noted that fixed costs per channel member may vary depending upon the functions undertaken by that channel member and/or the marketing support necessary. One-time start-up costs should be estimated for each channel member and costs and availability of capital must be analyzed. The small business must evaluate its capital requirements, and its capability to acquire and repay any financing it might need.

Variable production cost for a particular product should be the same for all potential channel members, so the total variable production cost for each channel member would be based on expected sales volume. Commissions or fees to the distributor must be considered in most of the agent situations, regardless of whether the channel is direct or indirect. Since commissions are normally a percentage of sales, the wisdom of projecting a relevant sales figure becomes readily apparent. Certain agents, however, do not require a commission from the exporter. These include foreign freight forwarders who receive a discount or fee from the shipping company, and commission and purchasing agents, who are paid by their foreign clients. In addition, country controlled buying offices are usually paid by the foreign government for whom they work, and managing agents operate under an exclusive contractual arrangement with the parent company on a cost-plus basis.

Distribution costs must be included in all cases, although once again, these will vary with the particular distribution channel contemplated. Distribution costs cover a wide variety of functional areas, including transportation costs, inventory holding costs, warehousing, tariffs and duties, and insurance. Transportation costs will differ subject to distance, method of transportation selected, time constraints and shipping terms. Shipping to indirect channels in the United States will normally be less expensive than shipping the product overseas to direct channel members, depending upon the shipping terms. Considering only indirect channels, dealing through agents, rather than merchant middlemen, would be more expensive since middlemen would take title to the goods and assume the overseas shipping costs. Shipping products internationally will obviously result in higher costs than shipping domestically, regardless of whether the shipping is to an agent or a middleman. Choices are to ship to the final buyer via an agent, or to a middleman merchant. Once middlemen merchants take title to the goods, further shipping costs are their responsibility.

Methods of shipping and time constraints are directly related. In considering how to ship, the exporter must recognize that all methods of shipping are not available in all locations. He must investigate and price the various shipping modes for each channel member. In addition, he must weigh the trade-off between slower (cheaper) shipping modes against

possible time constraints and customer satisfaction. Shipping terms, particularly in the area of international marketing, should be carefully analyzed with respect to who pays which costs. It should be noted that if the seller pays all shipping costs, the price of the product should be correspondingly higher than if the buyer assumes part or all of the cost.

Inventory holding costs increase the longer the exporter holds his inventory. Consequently, one way, of reducing such costs is to turn the inventory as rapidly as possible. Merchant middlemen, who take title to the goods, also take on the costs of holding the inventory. Agents, on the other hand, do not incur inventory holding costs--either the exporter does, waiting for the agent to generate orders, or the buyer does, having ordered specific goods in the hope of selling these overseas.

Cost of warehousing a product can vary dramatically. In theory, products should be centrally located to the selected distributor in order to decrease transportation costs. In actuality, the cost of warehousing such products domestically and internationally needs to be weighed against probable demand and the possibility of import quotas. Warehousing may be neither desirable nor necessary. It may be preferable to simply ship directly from the originating company in the case of small businesses. Costs of warehousing at various locations should be closely investigated.

Tariffs and duties normally will be incurred by the owner of the merchandise at the time an international border is crossed. In most cases, that is the seller. This implies that if an exporter uses indirect distribution, only sales to merchant middlemen will allow him to escape the tariff and duty costs. This is not necessarily the case. Certain domestic agents, e.g., commission agents and country-controlled buying offices, buy on behalf of foreign clients. Since the goods are purchased in the United States, the buyers assume responsibility for tariffs and duties. The same situation does not hold when considering direct distribution. In situations where the agent is acting on behalf of a foreign principal, the buyer generally pays tariffs and duties. On the other hand, use of merchant middlemen for direct distribution does not necessarily relieve the original seller of tariff and duty costs. Since the buyer (merchant middleman) is located overseas, the seller (the exporter) is normally liable for tariff and duty.

Insurance costs of marketing internationally must also be analyzed. Exporters are susceptible to risks of war, expropriation, and currency inconvertibility, in addition to the usual commercial losses resulting from insolvency or default. Much of the risk (and cost) may be averted through the use of domestic merchant middlemen. The risk is increased when the small business attempts direct distribution. At that point, the small business should consult with the Foreign Credit Insurance Association (FCIA) and Overseas Private Investment Corporation Insurance (OPIC Insurance). FCIA offers umbrella policies to companies who are either new to exporting or who have limited export experience. OPIC Insurance insures primarily against political risks. Unlike the FCIA, OPIC Insurance does not insure against commercial risk.

In analyzing costs associated with prospective channel members, the firm should not neglect the concept of marketing support costs. Advertising, customer discounts, promotional materials, in addition to frequent visits from the exporter, may be necessary to generate demand for the product. Any marketing support costs should be estimated for each potential channel member.

Once all of these costs have been estimated, the small business is in a position to evaluate the potential channel members. Projected revenues less estimated costs should give the firm a better picture of estimated income by channel member. Viewing the estimated income figure, the firm should also take into consideration the expected growth potential of the channel members being analyzed. Lower earnings in earlier years may be countered by higher earnings in later years.

Although no one knows for certain what will happen in 1992, there is general agreement that a united European Community presents numerous opportunities for U.S. businesses. Small businesses are already a part of the international market. For those businesses who are unable or unwilling to enter that market through joint ventures or mergers and acquisitions, selection of the proper export distribution channel is of paramount importance. Careful consideration of the costs and revenues associated with the, potential channel members is a crucial part of the selection process.

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"PASSIVE" VS "ACTIVE" EXPORTING: FACTORS AFFECTING ENTRY INTO INTERNATIONAL MARKETS BY AMERICAN SMALL BUSINESSES

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ABSTRACT

In order to determine variables that affect whether a small business would engage in active exporting, a questionnaire was used to identify differences in "active" and "passive" exporters. A second telephone survey was conducted of exporters and non-exporters to examine differences between the two groups. A profile of active exporters was then developed involving factors of size, annual sales, product differentiation, exporting experience, management, location of firm, and perception of risk to assist both current exporters and non-exporters in becoming "active" or high-volume exporters.

INTRODUCTION

The national trade deficit in the United States has been a matter of real concern since the early 1970's and has led to numerous articles and studies regarding exporting of goods. Although a number of programs have been proposed and some even implemented in order to lessen imports, it is now obvious that a greater need lies in increasing exports. A number of federal and local organizations had been established to look at this need and to assist firms in adopting an export strategy. As about 98 percent of the nation's businesses have fewer than 100 employees (Trewatha, 1988), one important strategy would be to assist small businesses in becoming exporters. The purpose of this paper then is twofold: to examine small firms that are currently engaged in exporting in order to determine differences between "passive" or low-volume exporters and "active" or high-volume exporters and second to examine exporters and non-exporters to determine variables which affect whether or not the firms engage in active exporting. Once identified, the non-exporters that fit the profile for potential high-volume exporting can then be targeted for financial and other support to enable them to become "active" exporters.

Previous Research

A number of studies in the past decade have examined various aspects of the exporting question. Many of these have concentrated on analyzing current exporters in order to determine which variables affected their decision to export. Bilkey (1982) studied 168 Wisconsin manufacturing firms to examine variables associated with profitability of exporting. Other studies (Czinkota & Johnston, 1983; Bilkey, 1978; Wiedersheim-Paul, et al, 1978) looked at management attitudes, characteristics, and perceptions about exporting as a key factor in a firm's export decision.

Perceptions of risk and "peer pressure" from competitors are also viewed as factors (Root, 1987; Bilkey, 1978). In addition, other studies have distinguished firms that actively export from those which engage in "sporadic" exporting. Sporadic exporters would fill unsolicited orders but do not aggressively pursue exporting. Bilkey (1978) states that many firms enter exporting in this way. However, Czinkota & Johnston (1983) state that higher-volume exporters usually actively solicit their first export order.

Other research has concentrated on determining differences between firms that export and those which choose not to export. Location within large population areas (Wiedersheim-Paul et al, 1978) and product uniqueness (Root, 1987; Bilkey, 1978) were often cited as factors leading to the exporting decision. Size is considered to be a critical factor in the decision to export (Jatusripitak, 1984; Reid, 1985; Bilkey, 1978). Czinkota & Johnston (1983) concentrated on size of the exporting firm in relationship to problems inherent in exporting. Smaller firms are said to be less likely to export. In one article, several sources were quoted saying that "small business manufacturers . . . lack the resources and time to explore overseas trade opportunities," and that smaller firms were "less aware of the potential of exporting and less confident about their ability to do it" and thus needed more help than larger firms in beginning to export (Czinkota & Johnston, 1985: 158). However, according to Wiedersheim-Paul, Olson & Welch (1978) most firms are small when they first start exporting. In addition, as noted in a study by the U.S. Department of Commerce, small-to-medium sized

firms could potentially sell 51 percent of U.S. exports, although currently they only account for 16 percent (Edmunds & Khoury, 1986).

As stated by Reid (1985) there has been "no conclusive evidence as to the relevance of firm size to exporting." According to Reid, one major reason for this is lack of interest on the part of researchers. However, as the trend toward small businesses increases into the year 2000, this represents an important area of research into the "how's" and "why's" of exporting behavior.

Methodology

Iowa was chosen for the study as it is an "above average" state for exporting, ranking 17th nationally in total value of exports (IA Dept. of Economic Development, 1988). An estimated 22 percent of all Iowa manufacturers export to foreign markets. However, none export more than 20 percent of their total sales, and only a few export more than 10 percent. This clear orientation toward domestic markets indicates that there is definitely room to expand foreign sales.

Two surveys were conducted in order to examine variables that affect whether or not an organization would engage in active exporting. The first study used a questionnaire that was mailed to the CEO's or plant managers of all Iowa manufacturers who had

exported products in the past year. Information on exporting activity was gained from the Iowa Manufacturers Directory. A total of 544 exporters were identified and 198 usable questionnaires were returned, a response rate of 36.4 percent. Questions regarding the percentage of total sales that resulted from exporting, number of years firms have been engaged in exporting and the countries exporting to, along with percentage of sales from each country were asked. Also, information was collected on export methods, future exporting investment and expectations, and export terms. In addition, information about the firms was obtained, including number of employees, annual sales, and type of products exported.

After analyzing the data from the questionnaires, the second survey was then conducted by telephone. Two groups were developed using the Iowa Manufacturers Directory. One group represented firms that did export and the other was composed of firms that did not engage in exporting. A total of 58 firms were randomly chosen to be contacted by telephone. Of these, 32 were exporters, of which 27 resulted in usable information (a response rate of 84%). Twenty-six non-exporters were originally chosen, with 19 completed calls obtained (a response rate of 73%). In order to be considered usable information, the CEO or plant manager had to be contacted and complete answers given to a set of questions previously chosen. The questionnaire had been pretested for clarity and face validity with calls made to two exporters and two non-exporters. Calls were made during normal business hours.

The first three questions in the telephone survey dealt with a general attitude toward exporting. These statements were taken from a study done in Illinois on export attitudes, and had been tested for validity (Jatusripitak, 1984). These questions were modified slightly to allow for ease in completing the questionnaire during the telephone interview. In addition, questions on geographic market, product differentiation, export payback, and after-sales support were used that had been previously developed by a Bradley University research team to quiz potential exporters (Cavusgil and Monahan, 1987). These questions were also modified for ease of questionnaire completion. Also, additional questions were asked as to the respondent's foreign living experience and language ability. The exporters were asked five additional questions aimed at their experiences with exporting. As many of the questions involved nominal data, the Chi-square test was chosen to test for significance in the data.

Results of mailed survey of exporters

A survey of 198 exporters was used in order to examine the relationship between the volume of exporting and the size of a firm, years of exporting experience, number of countries to which products are exported, and the location of the firm. Volume of exporting was determined in terms of the percent of sales exported by a firm. A "passive" exporter was defined as one exporting less than five percent of annual sales while an "active" exporter would be those firms exporting five percent or more of sales.

Obviously, the terms "passive" and "active" will only be relative here; however, as many profit margins in small business are fairly small (5-10%), exporting may become a significant concern for management as success or failure in exporting can greatly affect the firm's profitability.

An examination of the passive and active exporters was made as to the number of employees and total annual sales. Of particular interest was the exporting behavior of small firms. Firms with a greater number of employees were more likely to show a higher volume of exporting. Of passive exporters, almost three-fourths had 100 or fewer employees compared to 64 percent of the active exporters with 100 or fewer employees. However, this was not a statistically significant difference ($p < .20$). Looking at the size of the firms by annual sales, again there was no significant difference between those firms with a higher volume of exporting and those with a lower volume ($p < .20$). The majority of the exporters had annual sales of \$10 million or less. Thus, there was no significant statistical difference between active and passive exporters and size (as measured by either number of employees or annual sales).

The firms were also examined to determine years of experience in exporting, measured in terms of both "sustained" and "sporadic" exporting. Sporadic exporting meant that the firm did not actively seek out exporting but would respond to unsolicited orders. Eight percent of the exporters engaged in only "sporadic" exporting. Almost all of these (22 of the 24 firms) were low-volume or "passive" exporters. Of those firms which indicated that they engaged in "sustained" exporting, almost half had exported for 10 years or more. Thus, if a firm reported sustained exporting, they were much more likely to export at a higher volume ($p < .001$).

An examination was made of the number of countries to which the firms exported with the assumption that as firms export to more countries they are more likely to fall into the "active" category. Over 80 percent of the firms exported to more than one country. About half exported to two to five countries. Active exporters were in fact more likely to export to more countries than passive firms ($p < .001$).

Methods of payment and marketing strategies were examined next. A number of choices were given as terms offered to overseas buyers. The majority of exporters indicated that "cash in advance" was the preferred payment plan. The next frequent choice was "open account," which means that the exporter expects payment when the buyer receives the shipment of goods. There were no significant differences between active and passive exporters as to preferred payment terms. Marketing strategies were also analyzed. This was aimed at determining whether the exporter had a separate export unit to solicit export business, or used a separate company such as an Export Management Company (EMC), or handled exporting out of their domestic marketing department. Almost two-thirds of the exporters used their own domestic marketing department. However,

active exporters were much less likely to use their own domestic marketing department than passive exporters. In fact, active exporters (23% compared to 8% of the passive exporters) were statistically more likely to have a separate export unit to actively pursue export sales ($p < .05$). In addition, the research showed that these exporters were more likely to handle the exports themselves rather than using intermediaries such as EMC'S.

The exporters were then asked how they anticipated exporting would change for their firm over the next three years. The majority of the respondents indicated they believed that exports would increase by 10 percent or more. Active exporters were more likely to believe that this increase would take place than passive exporters (70% compared to 55%), although this was not statistically significant. About a third stated that exporting volume would remain stable and only a very small percentage of the exporters (7%) thought that exports would decrease or be discontinued over the next three years.

Finally, location of each exporter was checked to determine if the firm was located in a Standard Metropolitan Statistical Area (SMSA). It was believed that perhaps location might affect volume of exporting. However, only about one-third of the exporters were located in SMSA's and there was very little difference between the active and passive exporters (34% compared to 31%). Thus location of the firm within an SMSA was not related to export volume.

Results of Telephone Survey

After careful examination of the data collected on existing exporters, a second study was made of both exporters and non-exporters by telephone to ascertain differences between the two groups. Information on number of employees and the amount of annual sales was gathered first in order to determine if the size of the firm would be positively related to a decision to export. The exporting firms were fairly evenly spread out among the employee size categories. However, 75 percent of the non-exporting firms were in the "1 to 10" employee category. By using a cut-off of 10 or less employees and over ten employees, a significant Chi-square of 14.09 was obtained ($p < .001$). A look at annual sales shows that 89 percent of non-exporters had annual sales of less than \$3 million compared to 41 percent of exporters with annual sales of less than \$3 million. A third of the exporters had sales of \$10 million or more. Using \$3 million as

the cut-off, a significant Chi-square of 10.86 was obtained ($p < .001$). Thus, there is a significant difference between exporters and non-exporters as to size of the firm as measured by number of employees and total annual sales.

Another question asked both exporters and non-exporters had to do with their perceptions as to the need for post-sales support. However, the overwhelming majority of both groups did not believe that considerable post-sales support was necessary. Thus, the idea that postsales support requirements would be negatively related to

the decision to export was not supported by the survey data. This potential cost of overseas customers is apparently not seen as a barrier to exporting.

Product differentiation or uniqueness of a product in the world market was thought to be an incentive to export. However, the exporters and non-exporters were fairly evenly split on this question. Forty-eight percent of the exporters and 42 percent of the non-exporters stated that their product was unique or significantly different from others in the market. Thus, there was no significant difference between the two groups in regard to product differentiation.

An additional area examined was the domestic market area of the two groups. The U.S. geographic market was delineated into four categories: (1) Iowa only, (2) Midwest only, (3) Midwest plus other regions of the country, and (4) Nationwide. It was thought that the size of the U.S. domestic market would be positively related to the decision to export. In fact, two-thirds of the exporters did have nationwide product distribution and none indicated that they limited themselves to Iowa or the Midwest only. By contrast, two-thirds of the non-exporters were at the Iowa or Midwest only level. This proved to be a statistically significant difference between exporters and non-exporters and their domestic product market ($p < .001$).

Business owners' preference for short versus long-term investments was investigated with the thought that foreign markets could take some time to cultivate. The question asked was whether the firm would "accept a payback of three years or more" if considering investing in a new project. More of the exporters (18 out of 27 or 67%) would accept a longer payback period as compared to the non-exporters (11 out of 19 or 58%) although this was not a statistically different percentage. Thus, the idea that acceptance of a project payback period of three years or more would be positively related to the decision to export was not supported by the data.

A possible barrier to exporting often cited in the literature is the perception of risk. When the two groups were asked about this perceived risk, two-thirds of the exporters stated that they believed exporting was not risky. This contrasts with the non-exporters who were fairly split on this question although 21 percent stated that they really did not know how much risk was involved. Thus, although the perception that business owners would decide not to export because of a high risk involved in exporting was not supported by the survey, more of the non-exporters were ill-informed about the possible risks in exporting.

Next, a general management attitude toward exporting and international trade was examined to look at differences between the two groups. However, both exporters and non-exporters tended to agree with the statement, "Selling in export markets is likely to increase a firm's overall profit." In addition, essentially the

same proportion of the two groups agreed with the statements, "Increasing international competition increases the need for American businesses to export" and "Export trade is beneficial to all nations involved." Interesting enough, although these questions were taken from another survey (Jatusripitak, 1984), the results in this study differ somewhat. Thus, the idea that business owners' general favorable attitude toward exporting is positively related to the decision to export is not supported by this data.

Another area of interest had to do with business owners' experience with both living overseas and foreign language ability. These two attributes were viewed as greatly influencing whether they decided to export. However, only three exporters and two non-exporters in the study had lived in another country (not including Canada). In addition, only one exporter and two non-exporters had proficiency in a foreign language. Clearly then, these are not requirements to the export decision.

A last question concerned the location of the firm. Previous research (Wiedersheim-Paul, et al, 1978) indicated that plant location was related to likelihood to export both because of "peer pressure" from other exporters and because of the availability of exporter services such as export management companies. As defined by the U.S. Census Bureau, there are 11 "metropolitan" counties located in eight different Standard Metropolitan Statistical Areas (SMSA's) out of

the 99 counties in Iowa. Most of the sample respondents (38 out of 46) were not located in metropolitan counties. Interestingly, all but one of those firms in metropolitan counties did not export, a result just the opposite of that expected. Apparently, location of the firm within an SMSA does not affect the decision to export.

Conclusions

The first part of this study indicates that there are differences between "passive" and "active" exporters and that a profile for active exporters can be developed. Volume of exporting, as indicated by percentage of sales, appears to be important when it reaches the five percent level. Therefore, for exporting to make any difference to a small business the amount of exporting should be at least 5%. This is important for persons working with small firms to know as well as for the small business owners themselves. It presents a goal that should be targeted in order for a small business to be successful in exporting.

Size of firm for active vs. passive exporters appears to make little, if any, difference. The trend in the data, however, supported the idea that the greater the number of employees, the more likely the firm is to be an active exporter. This is not surprising in light of the fact that if a company is going to make greater efforts, it probably takes more people to accomplish this. Years of experience in exporting was a factor with the active exporters. This appears to be a critical variable. Firms have to commit to exporting in order to have it make a difference. It

cannot be just something that a firm dabbles with if positive returns are expected.

Another important difference between the passive and active exporters is the number of countries to which the firms export. Small businesses cannot limit themselves to only one country. Several countries, between two and five, should be developed as markets. Diversification is important for active exporters. In addition, one of the more interesting differences between passive and active exporters was in the area of company location. According to this study, location in a Standard Metropolitan Statistical Area (SMSA) makes no difference. This is exciting in that small firms do not have to be bound by geographic location in their decision to export. Small firms can do high-volume exporting from wherever they happen to be located.

A final important finding involved the use of a domestic marketing department to handle exporting. The active exporters used their own domestic marketing departments or developed their own export unit within that department rather than use an outside source. This is important in light of the trend in the data that the companies with more employees tend to be active exporters. Again, it appears that the company which is committed to exporting hires and uses employees in order to become an active exporter. To summarize the first study, the profile of active exporters then is the following:

**** 5% or more in percent of exports to domestic sales ** Size of firm tends to be toward firms with more rather than less employees but annual sales makes no difference ** Several years of exporting experience ** Export to several countries (2 to 5) ** Location in a SMSA not relevant ** Use their own domestic marketing department to handle exporting**

The second half of the study which examined factors affecting whether or not firms engage in exporting also presented some interesting findings. Size was not a factor when looking at passive vs. active exporters, but when exporters were compared to non-exporters size did become a factor. This was particularly evident in terms of number of employees. Companies with ten or more employees are more likely to export. Fewer than ten employees seems to indicate that there is just not enough people power to handle this aspect of business. This agrees with results found in previous studies (Jatusripitak, 1984; Reid, 1985; Bilkey 1978). This may be literal in that no one has the time, or it could be that the expertise simply is not there in a very small firm. Annual sales also is a significant variable between exporters and non-exporters. It appears that \$3 million in sales is the critical factor. If sales volume is below this amount, then the firm is much less likely to support exporting activities.

The potential cost of overseas customers and product differentiation are not seen as barriers by either the exporters or the non-exporters. Management attitudes toward exporting itself did not seem to be a critical factor; however, this becomes interesting when size of U.S. market is compared for exporters vs non-exporters. The exporters engaged in national markets rather than limiting themselves to either a regional or state geographic market. It could be that while management buys the idea of exporting, when it comes to the pragmatic application of moving the company into a larger market, those firms already exporting have a better appreciation and the practical knowledge to position

themselves in the international market. This is further supported by the results indicating that the exporters did not see exporting as a risky business. The non-exporters were split on this question and seemed to be ill-informed about the potential risks involved.

What Does This Mean for Small Business Owners?

As stated earlier, the great majority of firms will be small businesses in the future. Based on the data in this study, small firms which export tend to be more successful than those which do not export. While this may be due to factors other than exporting, small business owners as well as people who consult with small business owners such as SBDC'S, SBI's and financial institutions need to be aware of the great potential that exists in this area. It is not enough, however, to simply be aware of the potential for exporting. Small businesses that are considering exporting or are currently engaged in exporting need to be aware of the profile that exists for active exporting. This profile presents minimal factors indicative of successful small business exporters. Thus, it is important that small businesses that meet the high-volume profile be encouraged to export and that firm that are exporting but do not match this profile be encouraged to move toward this target profile in order to be successful exporters. Both internal (management attitude and perceptions) and external (information and help from local and federal government, export management companies) change-agents can be useful in facilitating this process. This evolution from domestic to multinational firms appears to be inevitable in today's society.

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SBI/SBDC: AROUND THE WORLD IN A SEMESTER

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ABSTRACT

Operating in Illinois, Northern Illinois University's Small Business Institute and Small Business Development program have incorporated an international focus into their joint program efforts. The combined SBI/SBDC exchange, the primary objective of which is to foster small business development and student exposure to these intricacies, was launched into the international arena in the United Kingdom in 1990. On the heels of this prototypical effort, the Soviet Union agreed to apply the program to peres- troika. The following highlights Northern's expanded SBI/SBDC program, as well as the respective local accomplishments of each.

WORLD-CLASS ARTISANSHIP

Championing change, the Small Business Institute (SBI) and Small Business Development Center (SBDC) programs at Northern Illinois University (NIU) in DeKalb, Illinois work in tandem to resolve international economic issues as well as Chicago-area business concerns. SBI Director Dan Lemanski and SBDC Director Larry Rouse form a cohesive unit by combining the objectives of the two programs. In a collaborative fashion, they augment the traditional program focus to include, in an ever-smaller world, tailored results aimed at a world-class level and arrived at through innovation, creativity, and foresight.

Lemanski and Rouse have successfully conducted their joint program efforts for the purpose of extending the benefits of Small Business Administration (SBA) and Illinois Department of Commerce and Community Affairs (IDCCA) assistance into world affairs. Their distinctive approach simultaneously guides the student teams and delivers timely, uniquely crafted business expertise to local area businesses, as well as to international enterprises eager to shine on the emerging global stage.

SBI/SBDC Plays Center Court

Nene College, Northampton hosted SBI/SBDC's inauguration into the European Community in the spring of 1990. The British business community, impressed early on with the international lean of the program and the students' work, provided them with a resource base with which to address distribution issues posed to manufacturers by the global marketplace. This initial international effort, the prototypical attempt conducted under the auspices of the SBA and IDCCA, afforded the student team a unique hands-on experience in overseas customs and business. They acclimated themselves quickly to the culture of the European Community and produced real-time

solutions which the enterprise adopted to help it penetrate the world market.

Fueled by the progressive philosophy of the program directors and the knowledge, dedication, and creativity of the country's future business leaders, interest in Northern's SBI/SBDC student exchange program continues unabated in the United Kingdom. The manufacturer, with whom the students worked, has requested a follow-up student team for an upcoming semester and has offered to finance the travel considerations.

East Meets West

The premise of the program's international vision and the notable success met early in the pilot United Kingdom effort also captured the attention of the East. Following a stay in Washington, a delegation of ranking Soviet economic and political officials traveled to Northern, their sole academic visit. The seven- delegation included four who hold cabinet-level positions on the Council of Ministers and whose responsibilities include drafting Soviet economic legislation. The purpose of their travel to DeKalb: to determine the program's application to perestroika.

The delegates met with SBA, Regional Director Edward Murnane, NIU's SBI and SBDC director, and participating students in February 1990 as a direct result of the Malta Summit, which promises technical support and economic

assistance to the Soviet Union and emerging governments in Eastern Europe. Valentin Mikhailovich Vologzhin, Chair of the Committee on Economic Reform of the Supreme Soviet (the equivalent to the chair of a key U.S. Senate committee) and Nikolai Akimovich Medvedev, Deputy Minister of the forestry industry and a specialist on economic issues, were among the key Soviet officials studying the program.

Perestroika Says 'Da!'

In June 1990, after attending the 52nd Annual World Trade Conference, and Deputy Minister Medvedev, one of the top 10 political leaders in the Soviet system, developed a formal letter of agreement in which the program's application within the Soviet union was defined. This agreement is aligned with the Malta Summit document which calls for adapting and conducting an expanded program of academic exchanges of undergraduate students between the two countries during the years 1991 and 1996. Specific goals of the Soviet exchange, as suggested by the Deputy Summit and agreed upon by Deputy Minister Medvedev and NIU, include:

Educational Development

- ù Student exposure to differing economic systems and cultures

- ù Soviet student introduction to the microeconomics of small business in the United States

- ù American student exposure to the problems of introducing private small business into an economy with a strong central planning tradition

- ù Student exposure to the techniques and problems of multinational business ventures Enterprise Development

- ù identification of investment opportunities, markets, and new products in the Soviet Union for American companies

- ù identification of small business sources for technology transfer, investment, and marketing outlets in the United States for Soviet small business

- . creation of a support system for small business within the Soviet university system

The Americans Are Coming

Two graduate students and one upper-level undergraduate student from Northern Illinois University arrived in Moscow on September 15, 1990. Under the direction of Deputy Minister Medvedev and his associates, the students are currently continuing their fall 1990 studies at the Moscow Technological Institute of Timber Industries at which Deputy Minister Medvedev is a faculty. At the Institute, located 30 minutes outside of Moscow in the city of Mytishchi, the students work directly with the Ministry of Timber Industries and with their Soviet counterparts to help foster the establishment and growth of small businesses within the Soviet Union's emerging free market. Specifically, their efforts have been concentrated on one of the enterprises within the Ministry, a furniture factory currently employing 1,100 people and located on the outskirts of Moscow. Their task: to reorganize the entity into a number of freestanding, market-oriented enterprises.

The exchange program, driven by a traditional focus which incorporates the strengths of the practitioner with the strengths produced by academia, has proven to be a resource of considerable value to those Soviet officials charged with furthering economic progress. A firmly held belief of the Soviet officials, as noted by the delegates last February, is that perestroika will be facilitated through the education of the country's youth. Building on that belief, the Moscow Technological Institute of Timber Industries has turned to the student team in the classroom where they have guest lectured in business classes. Most notably, Deputy Minister Medvedev has honored both the program and the students by requesting their assistance with replicating the SBI/SBDC program structure and objectives within the Institute. During their planned travels to the Soviet Union this December, Lemanski and Rouse will join Deputy Minister Medvedev and his colleagues in evaluating the results of the students' work. More importantly with regard to future exchanges, the program directors will have

the opportunity to assist Deputy Minister Medvedev, his associates, and the students with the program replication.

Perhaps now more than ever, during a time when President Gorbachev is pressed to hasten the process of economic reform, the students' work will help provide much-needed stability to an economic structure committed to championing change...a change resolved to lay the foundation on which the Soviet Union's free market economy will be built.

The Russians Are Coming

Honoring the second half of the exchange, NIU will receive at least Soviet students in January 1991. They will participate in the joint SBI/SBDC program and enroll in the related coursework offered by NIU's College of Business. The nature of their project work, performed under the direction of Lemanski and Rouse, may include: formulating exporting and marketing strategies; critiquing management techniques; upgrading management techniques; upgrading management systems, or; developing product designs. As testament to the Soviet's commitment to fostering small business development and to the exchange program, Deputy Minister Medvedev has charged the Soviet students with the additional task of obtaining a thorough understanding of NIU's SBI/SBDC program so that, upon their return, they will be in a position to further the replication of the program at the Institute. Such a replication would facilitate future exchanges in that both countries would be operating on the basis of a program with a unified structure and objectives. Perhaps more critical to the success of perestroika, the establishment of a program within the Soviet Union promises to expand upon the students' current efforts by providing the Institute with the resources to address small business development.

Home is Where the Heart Is

While the current efforts of NIU's SBI and SBDC programs have reached across the world, perhaps their most notable successes have been felt in the Midwest.

Since 1983, the SBI program has assisted over 143 Chicago-area firms, primarily manufacturers with an employee base of 10 to 200 people. The technologies employed by these established enterprises range from basic metal casting and finishing to programmable logic controllers. To date, SBI case work in the Midwest has resulted in the introduction of at least two new products: one, in the electronics industry; the other, in engineer-related industries.

Since reorganizing in the third quarter of 1989, the SBDC's counseling hours to Northern Illinois small businesses have increased by 1,639%, jobs created/retained have increased by over 1,500%, and 57 various types of loan packages have been produced with a total requested loan value of \$9,428,300. Working in conjunction with the SBI to provide an extraordinary range of quality services, the SBDC has provided over 6,400 hours of

counseling and consulting during the first nine months of 1990. Over 98% of those hours have been devoted to established and growing firms.

An Eye to the Future

Northern's SBI and SBDC programs are at the forefront of the administration's overall initiative to provide technical support and economic assistance in the international arena. Coupled with broadening their horizons to include the world market, the programs continue their dedication to fostering economic growth in America. Together, the SBI and SBDC continue to champion change ... change that spurs job creation and retention in this country, helping the United States regain its economic leadership in the emerging global market...change that offers this country's future business leaders, the students, a glimpse at and, perhaps, a deeper understanding of, the groundwork of the world market and its ensuing implications for this country.

ABSTRACT

Many smaller businesses recognize that the opportunities offered by global markets will be increasingly important to the health of their operations. Often, however, small firms avoid global expansion due to uncertainty, or enter foreign markets with insufficient knowledge and understanding of economic and political considerations. They recognize that countries differ in economic, social, and political characteristics, but rarely try to measure these in any systematic way. Informed choice could enhance both the incidence of entry and the success of smaller businesses in international markets.

This paper presents a model intended for use as a baseline for assessing the attractiveness of a country or region for foreign ventures. The model incorporates both economic and political dimensions of foreign operation, and uses the World Bank (21) classifications to group countries by level of economic development. Building on the work of William Stoeber (18), the model suggests that the benefits which a host country expects to receive from foreign business increase concurrently with the host country's level of development. The intention of the model is to provide a baseline for further indepth analysis of the appropriateness of a specific country or region for entry by a business firm. In avoiding the scattershot approach, advantages from using this baseline model could enhance both the incidence of entry and the success of smaller businesses in international markets.

INTRODUCTION

No longer is foreign investment the province of large multinational firms. Many smaller firms recognize that the opportunities offered by global markets will be increasingly important to the health of their operations. Foreign markets constitute a significant percentage of total sales for many large companies and offer rich opportunities for smaller operations, as well. Secretary of Commerce Mosbacher stated in an interview, "You would be amazed how many small and mid-sized companies are now moving to the point where a big part of their business is export" (2). However, many smaller businesses are uncomfortable about engaging in commercial relationships with other countries. They may produce a good or service that could be competitive in international markets, but are uncertain about the appropriate target or the strategy for entry. This can result in failing to follow up on global opportunities, or in entering foreign markets with insufficient knowledge of economic and political considerations.

Varying degrees of venture activity --- joint, wholly-owned, and contractual --- are being implemented throughout the world. Companies are doing business in environments that vary economically and politically. Firms of all sizes need to weigh the advantages and disadvantages of any given geographic region from both an economic and political point of view. Informed choice is especially critical to smaller operations because they often lack resources to cushion risk. This paper discusses some of the issues of foreign investment by small business, and presents a model that can be useful in making choices about the appropriateness of inter- national activities.

ALTERNATIVES IN WORLD MARKETS

Both the World Bank and the United Nations have classification systems for categorizing countries and geographic regions of the world in terms of economic development and market philosophy. The country groupings used by the World Bank in their analyses of economic indicators will be discussed in detail later in the paper.

The World Economic Survey (1) cautions that the period ahead is likely to be greatly influenced by several recent developments. One of those cited was the reduction of international tensions, with the expectation of accompanying cuts in defense spending. However, this annual report was published before the eruption of the situation in the Middle East. Any savings resulting from improved relations with the Soviet Union can be expected to be consumed by the Arab conflict.

Another significant development is the changes that are occurring in the European Community and in the Eastern bloc countries. It is probably too early to speculate on the outcome of the political overhaul of Eastern Europe, although the new independence of these nonmarket economies has created a great deal of expectation for economic expansion. The economies of the industrialized European countries have been stimulated by the opportunity for ties with the countries

and republics that are struggling to convert to a market economy. There is opportunity here, and it is compounded by expectations for the European Economic Community.

The 1992 implementation of the EEC draws close and, if successful, will result in a \$4 trillion free-market zone that will be "a triumph of the economics of Adam Smith" (20). The EEC will create an economic integration of 12 countries; Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. It has been designed as a true common market, with people, products, and capital moving freely among the member countries. The EEC is moving steadily toward implementation, but there are still issues to be worked out. There are differences of opinion as to how much uniformity is required for a common market (13), and arguments that 1992 is doomed to failure because of inadequacies in its organization (6). Although a high level of cooperation among members is required for a successful EEC, member nations vary in matters such

as regulatory philosophy, political considerations, and the like. There is some feeling that a multinational firm which targets the European Community as a region may find that this strategy suffers from major differences among EC member countries.

It is not the purpose of this paper to discuss strategies for entry into international markets. However, a word about entry strategy is useful to a discussion of economic and political considerations. It is usually large firms that establish plant assets in foreign countries or become partners in joint ventures that require investment in fixed assets. A more attractive strategy for smaller businesses is to implement international activities without risking a high level of resources. The most promising way of doing this is through international contracting. Dudley (3) discusses four basic options of foreign investment with respect to manufactured or processed products, each calling for higher levels of production commitment and investment; contract packaging, contract manufacture or assembly, joint ventures, and subsidiary production facilities. Similarly, international contracting lends itself well to providing competitive advantages such as skills and technology through licensing agreements with foreign enterprises or governments. The advantage of this alternative over direct investment is clear. Fixed assets can be vulnerable to the economic and political pressures of a foreign government. At regulation and intervention can be inhibiting. In more extreme cases, foreign assets have been summarily nationalized by the host government (14;4).

ECONOMIC AND POLITICAL CONSIDERATIONS

Many writings on the internationalization of business have given more attention to the cultural aspects of operating in a foreign country rather than to the economic and political considerations. Smaller firms usually recognize that there are economic and political risks in foreign operation, but rarely try to measure them in any systematic way. Failure to do this can be costly. On one hand, uncertainty about where and how to internationalize may cause a firm to avoid the opportunities of expanding into foreign markets. On the other hand, a choice of locale that is inappropriate from an economic or political perspective can result in serious consequences for the firm. Success is never a given, but its chances are enhanced by a positive cost-benefit relationship between the guest and the host country.

Economic Considerations

The economic attractiveness of a host country is a composite of a number of factors; level of development, availability of resources, potential markets, labor force, infrastructure, demographic characteristics, and the like. The state of a country's economy is a major determinant in any decision about international activities. A healthy economy provides a cushion for the initial uncertainty of business operation, whereas a depressed economy is unforgiving of

missteps. For small firms, the state of a foreign economy as it pertains to their product is critical in the decision to enter a country.

For a useful perspective, we can go back to the work of an economic historian, W.W. Rostow (15;16;17). Rostow proposed the notion that societies can be divided into five stages based on their economics of production. In Rostow's model, these stages range from the very primitive to what he termed the "age of mass consumption. Three decades later, building on the work of Rostow, William Stoeber developed a model of economic development that incorporated the international dimension. The model looks at the stages of economic growth of a developing country, and proposes that these be used as criteria for evaluating the desirability of investment in that country (18). The model presented in this paper is indebted to Stoeber's work for its approach to judging the attractiveness of a foreign country or region for commercial investment.

The Role of Politics

Much of the writing on the role of politics in multinational activity focuses on political risk, with risk defined as the loss of ownership or benefits due to the actions of the host country's government (7). A number of attempts have been made to assess uncertainty as it applies to political risk (8;10;11). In a review of the literature on political risk, Fitzpatrick (5) defines three categories of political risk in terms of unwanted consequences of host government interference with foreign operations; events that affect all foreign firms operating in the country, events that are industry or firm-specific, and events that can be viewed in an ongoing environmental context. He concludes from the literature that political risk as a concept should include all risks that are contained in a host country's political environment, and should be viewed as a continuous process rather than discrete events.

Among the policy instruments that can be used by a host government to encourage foreign activity are various subsidies and guarantees to support the operations of the foreign firm. These incentives are granted in expectation that the foreign operation will provide the technology, capital, and productive capacity needed for the country's development. Other important considerations are the host government's receptivity to foreign investment, its market philosophy, the amount of bureaucratic red tape, degree of corruption, and predictability of the regulatory environment (18;12). Strategies are needed to insure that the partnership will work to the benefit of both host and foreign firm. If the balance is uneven, the host country may escalate its constraints in the form of regulations and requirements to force desired behavior on the recalcitrant guest. In extreme cases, foreign firms have been summarily nationalized by the host government (14;4).

A MODEL FOR ASSESSING ATTRACTIVENESS

The model shown in Figure 1 builds on the Stoever model and adapts it for use with current economic, social, and political indicators.

FIGURE 1

The horizontal axis classifies countries in terms of average gross national income per capita, which is the base criterion used by the World Bank. Although the GNP of a country does not directly measure its development, this indicator does give an idea of natural resource use in measuring the total domestic and foreign value added per capita of residents (21,p.245). Discussed later will be additional economic and social indicators that should be carefully examined in a company's evaluation of a foreign venture.

The model departs from Stoever's work in that instead of using five "stages" of development, it uses the World Bank's classifications of countries and examines these groups in terms of attractiveness for foreign investment. This lends currency to the Stoever model, and moves it closer to a framework able to be tested empirically for its ability to provide guidance in judging a country's appropriateness for international commerce.

The model's vertical axis represents the benefits country. These benefits include technology transfer, industrial diversification, increase in local productive capacity, increase in employment, in government revenues, and other similar elements that enhance development. Stoever's belief is that the host country's expectations tend to increase as a country's stage of development (and attractiveness) increases. There is a caveat here, however, about assuming that an individual country's level of development and its attractiveness for foreign investment are necessarily correlated, since there are situational characteristics that could make even the most highly-developed country unattractive to a foreign investor. This is examined as we look at the adaptation of Stoever's stages to the World Bank's classifications of countries.

Low Income Economies

With a per capita income of less than \$545, these countries may be too undeveloped or too undesirable in other ways to be attractive to foreign investment. Stoever points out, however, that the pendulum may swing in favor of attractiveness if the host government has the resources to offer generous incentives to the potential suitor. The low income grouping includes China and India, as well as many of the African countries.

Lower-Middle-Income Economies

Countries with a GNP per capita income of between \$545 and \$1400

include some of the countries in South and Central America, the Philippines, and the more developed countries of Africa, such as Egypt, the Congo, and Morocco. Most of these countries are in the initial stage of foreign investment, usually in consumer goods. Many of these countries are anxious to court foreign companies even though the partnership may produce no immediate benefit for the host country. Because of a weak infrastructure, the products probably will not initially be competitive in the world market and the investor will need subsidies and market protection. For the host, these costs are an investment in future growth. The expectation is that the foreign firm will upgrade production and human capital, and will also attract other investors.

Middle-Income Economies

Included here are Mexico, several South and Central American countries, Syria and Lebanon in the Middle East, and one European country, Poland. The per capita income of from \$1400 to \$2000 gives these countries respectable domestic markets and an infrastructure that supports some industrialized activity. Many are rich in natural resources, although substantial natural resources are not necessary for economic success, as evidenced by the track records of a number of Asian countries. Currently, the countries in this category, with the exception of Mexico and perhaps one or two South American countries, suffer from economic and political circumstances that make them unattractive to foreign investment.

Upper-Middle Income Economies

With a per capita income of \$2000 to \$6000 these countries are quite attractive to foreign investment, and are labor intensive and looking for cheaper production. Countries whose labor force has the potential to provide desired skills and is willing to work for lower wages can be attractive to foreign industries. Uruguay, Venezuela, and Argentina are included here, as well as Hungary and Yugoslavia, Korea, Portugal, and Greece.

Developing High-Income Economies

These countries are identified as a special group by the World Bank. Their GNP per capita income is between \$6,000 and \$9,000, which puts them near the top globally. There are only six countries in this category; Saudi Arabia, Israel, Singapore, Hong Kong, Kuwait, and the United Arab Emirates. To say that many of these countries raise some serious questions with respect to current attractiveness for foreign activity is certainly an understatement. However, they have some positive characteristics that could be extremely attractive to foreign ventures were it not for circumstances of political instability, restrictive regulatory policies, and other dysfunctions.

High-Income Economies

All of these countries have a high GNP per capita, ranging from Spain's \$7,740 to Switzerland's \$27,500. This group includes the industrialized countries of the world who are selective in the kind of foreign investment they will allow. In many of these countries, the host government's policy is to channel investments into selected industries or geographic areas to selectively develop the economy and glean a greater ratio of benefits to costs. In its extreme form, this strategy can include untimely takeover.

The economy of these countries is often strong enough to be globally competitive. Multinationals are attracted to the productive capabilities of these countries, and there is less need for incentives to attract investment.

The role of foreign business has changed from stimulating the basic economy to upgrading it by providing more sophisticated technologies and skills. Stoeber describes this as operating more at the margin of the host economy, although there are a number of exceptions to this. For the foreign business, conditions in these countries may be better in some ways than those at home; less restrictive, more stable, and with a greater availability of resources.

UTILITY OF THE MODEL

The model presented in this paper represents a baseline approach to analyzing the attractiveness of a country for foreign investment. The intention of the model is to provide a foundation for further in-depth analysis of the appropriateness of

a specific country or region for entry by a business firm. Its utility to a smaller operation would depend upon the quality of a company's environmental scanning activities as they targeted a potential candidate for foreign activity.

In addition to the basic indicator of a country's GNP per capita, there are a number of other economic data that should be analyzed. Among these are gross domestic product (GDP), structure of production and consumption, demographics, availability of commercial energy, transportation, communication, interest rates, central government revenues and expenditures. As an example of data that is readily available, Figure 2 presents average Gross Domestic Product (GDP) dollars for the six country classifications, and Figure 3 shows the average GDP growth rate for the country groups. Gross Domestic Product measures the total output of goods and services for final use produced by residents and nonresidents of a country, regardless of whether the operations are domestic or foreign-owned (21).

FIGURE 2

In order to be useful to a business, the aggregate GDP of a country

would need to be examined for its distribution among agriculture, industry, manufacturing, and service activities and, further, for micro and macro aspects of the relevant industry and market. In the same way, all other measurable indicators of economic, social, and political dimensions should be carefully examined for elements that could help or hinder the success of a foreign venture. Indicators must be examined in the aggregate as they pertain to the industry in question in order to provide useful signals.

FIGURE 3

Political considerations also require careful examination by a company. The model suggests that members of the country groupings seek similar benefits from the presence of the foreign guest. However, the individual countries may well differ in the political instruments they use to insure these benefits. Incentives and subsidies may be attractive to firms in a given industry, whereas tariff protections or other guarantees may be important to another. On the darker side, all foreign investors should examine a potential host's restrictive laws and regulations, financial limits, discriminatory licensing policies, and the like. A clear understanding of both the expectations and the political instruments of the host is a critical foundation to the process of analysis, strategy, negotiation, and ultimate commitment if a mutual-benefit balance is reached.

SUMMARY AND CONCLUSIONS

Building on the Stoeber approach, this model offers a framework for use in evaluating the attractiveness of countries and regions for financial investment. By substituting the World Bank classifications of countries for Stoeber's "stages" of evolution brings the model a step closer to empirical examination; groups of countries which share certain economic and social characteristics would constitute subjects for the investigation. A relationship between the level of a country's development and its expectations of the benefits to be received from a guest's commercial presence would be a finding particularly useful to smaller operations. First, it would provide a useful scheme for an initial analysis of the attractiveness of country groupings for international activity. Further, by classifying groups of countries by similar social, economic, and political characteristics, it offers an alternative to the scattershot approach to foreign ventures. A baseline is provided for further in-depth analysis of the appropriateness of a specific country or region for entry by the firm. These advantages could enhance both the incidence of entry and the success of smaller business in international markets.

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ABSTRACT

This paper discusses the preliminary experiences of a joint consulting effort between the U.S. Small Business Administration(SBA), the Small Business Institute (SBI) and the North Dakota On-The-Road-Enterprise-Center (OTREC). The pilot project was conducted during the Fall Semester, 1990 and was in progress at the time of this writing. The most unique element in this team effort is OTREC. OTREC was established as part of the SEA's rural outreach initiative. The OTREC is a trailer set up as a "rolling counseling center" and totally equipped with computers, telephones, and both a copying and fax machine.

Rural business owners and/or aspiring entrepreneurs often do not have convenient access to SBA services. The concept of OTREC is to take services directly to the potential client and provide service on a broad range of consulting topics from accounting and finance to marketing. OTREC itself is an excellent example of leveraging federal, regional and local assets in that the SBA, the State Board for Education, and a number of other public and private organizations are assisting in the support for the program.

INTRODUCTION

At the present time there are well over estimated eighteen million businesses in the United States. Many of these are part-time operations. Additionally much of the job creation in the economy has been a result of small business growth, expansion and activity. Most of this has been in organizations with fewer than twenty employees. For example, the growth of 10.5 million new jobs between 1980-86, almost sixty five percent was attributable to businesses with fewer than 500 employees. The remaining forty (minus) percent was attributable to organizations with fewer than 20 employees.[1]

Many of these organizations are located in non-urban areas. Yet smaller, rural communities typically face tremendous challenges as they try to attract new business, expand existing businesses and/or initiate business startups. Many approaches have been utilized, Bradley for example proposes an industrial target marketing modeling to aid rural communities in attracting small businesses for industrial growth.[2] Along these same lines Karimi suggests a strategic planning framework adapted for small businesses as follows:

1. Assess and evaluate the current organizational objectives and strategies.
2. Evaluate the current state of information technology.
3. Forecast the organization's strategic position.
4. Determine the required state of information technology needed to support the strategic position.[3]

Most modern day managers or planners would agree in principle with the emphasis on planning and focus on adaptability to change. The reality however, is that most small business organizations or potential entrepreneurs do not have the time, inclination or access to resources to initiate many of the agreed upon planning concept.

To assist in this area most states have developed a number of different programs to service small business clients. Much of the activity stems from the original mission of the Small Business Administration. This theme has carried down to a regional and state emphasis. The North Dakota Business Resource Directory for example, lists over 35 agencies, organizations and programs which can assist small business clients.[4] Despite this fairly large number of program options however, the geographic distances in a rural state often hamper program activities.

PROGRAM CONCEPT

The U.S. Small Business Administration selected North Dakota as test site for a pilot project to provide transportable

assistance to businesses in rural ties. This project was initiated in the Spring of 1990. The project entitled of officially as "The On-The-Road-Enterprise Center," or OTREC is basically an office on wheels. A modified trailer equipped with computers, telephones, copying machines and a fax machine is pulled behind a pickup truck to selected sites throughout the state.

The primary reason for the development of the program is that North Dakota has many communities which are "more rural than others." Business owners or potential entrepreneurs who may have a good idea or concept of ten are geographically distant from SBA offices and services. If the rural client already has an existing business and wants to test new ideas or products, they often cannot leave the existing business to travel due to time constraints. The primary purpose of the OTREC is to provide assistance, training, education and counseling directly to the small business client.

The program is an outstanding example of the opportunities for cooperative effort between federal, state and local agencies. Funding for OTREC was provided by the State Board for Education, public and private groups and of course the Small Business Administration. The SBA serves as the prime sponsor and provides personnel and administrative support for the program. The intent is that approximately twenty communities would be regularly served

through OTREC on a "circuit rider" format. The communities were selected from over seventy potential communities. All of the potential communities were visited during the spring of 1990 and then the actual OTREC site cities were selected. Most of the communities selected had populations of less than 2,500. The original grant money came from two different federal programs. The SBA will run the pilot program for one year and then evaluate the impact to ascertain whether or not the program should be continued.

The OTREC concept is a creative concept stemming from the emphasis on rural development initiatives, which are a high priority in the SBA. This priority stems from the strong support for President Bush's rural development initiatives. The SBA is in a solid position to assist in rural development and revitalization. This position comes from the "partnership network" of Small Business Development Centers, Service Corps of Retired Executives (SCORE), Small Business Institutes (SBI), lenders, Certified Development Companies and Small Business Investment Corporations. (51 In Fiscal Year 1989 for example, the Small Business Administration provided training and counseling for well over 200,000 business owners and distributed training materials to almost three-fourths of a million rural residents.

Additionally the SBA publishes and distributes, A Guide to Federal and State Resources for Rural Economic Development. This guide is a listing of Federal, state and local organizations that provide training, technical and financial assistance for rural revitalization.[6] OTREC as part of this larger rural development initiative, appears to be an excellent concept with outstanding potential.

PROGRAM POLICY

The overall objective of the OTREC program is to provide small town economies with emphasis on small business development through education. The program will operate a full twelve months of each year and serve approximately twenty ties on a rotating basis. Each community would be served for two days. During a year each community would be served four times, four circuits would be run with live ties in each circuit. Circuits were to be fully operational by October, 1990. The circuit concept was initiated based on existing availability of resources and to serve "geographical gaps" in the service delivery area. The intent of the program was to have an effective yet flexible program to insure the best use of resources and with an emphasis on responsiveness to community needs.[7]

The overall objective was to be accomplished by:

- o Providing high tech, state-of-the art, equipment and information to rural communities to enhance business management skills.
- o Linkage of local community with outside resources.
- o Increase awareness of opportunities in business to youth.
- o Increase participation by veterans in business.

o Increase participation by minority (especially native americans on reservations) in business.[8]

Each of the OTREC objectives was further clarified as follows:

Skill Development

The emphasis in this area is for both present and future business owners. The skills were to be enhanced utilizing a combination of classroom instruction, computer assisted training, one-on-one instruction and self paced video programs. A core curriculum emphasizing three areas of marketing, finance, and use of computers in a small business environment was to be launched. These areas resulted from a statewide survey conducted by personnel at Valley City State University. This thrust was further supported by Vision 2000 (a statewide economic development planning effort).

Community Linkage

The involvement of community activities with state and national resources was to be a primary consideration. Both classroom activities in the OTREC center or in local facilities and media contacts were planned. Community residents were to be helped with the identification of available resources and with a personal review of resources needed. Linkages would be maintained via SCORE, SBI, SBDC, colleges and universities and other organizations to insure a foremost leveraging of resources available.

Opportunities for Youth

Opportunities in the small business area would be shared with high school seniors through a combination of classroom visits and discussions and hands-on participation programs. The intent is that through an exposure to opportunity, area youth would be more likely to stay in their respective communities and help in the development of an economic base.

Special Assistance

A special emphasis of OTREC was to assist veterans and Native Americans. The thrust was to insure understanding of the variety of programs available and to enhance the access to both SBA services and other programs. Due to the special more personalized effort of OTREC in the individual community, it was anticipated that both veterans and minorities would be able to better participate in the opportunities provided by small business ownership.

PERSONNEL

The OTREC staff was to consist of one full time professional to man the center. The District SBA Office in Fargo, North Dakota was tasked with the responsibility to provide management and control support. This was to be accomplished with existing staff and the help of a student intern from a local university. Additional assistance was to be provided to the OTREC center by SCORE volunteers, SBDC personnel and other resources who could provide personalized assistance for limited time periods.

Table 1 shows a sample schedule utilized by the OTREC during the summer of 1990. The circuits identify the groupings of ties served. The state of North Dakota has a relatively large geographic area with a small population (est. 650,000 minus). The map shown as Exhibit 1 indicates the rotation of the OTREC circuits and helps one conceptualize both the counseling activity and the geographic distances involved.

SBI OPPORTUNITY

The University of North Dakota has a long history of assistance to small business owners through the SBI program. ND currently provides over one-half of the SBI counseling effort in North Dakota. Based on this background, during the summer of 1990 a special request was made of the SBA Regional Office in Denver, Colorado to fund an additional ten SBI cases to be utilized in conjunction with the OTREC program. The SBI program at UND has been offered traditionally through an undergraduate class Marketing 430 - Small Business Projects. Selected MBA students have taken the course as an elective, however, enrollment by masters students has been limited. This limitation results from a heavy emphasis on evening courses for MBA'S. The fall 1990 Marketing Administration Marketing 510 was a course

offered solely for masters level students. The primary emphasis was on the development of a marketing plan. This thrust fit rather very well with the OTREC initiative on marketing.

The proposal by the District Office in Fargo, North Dakota was approved by Regional SBA officials in Denver, Colorado. Starting in early September teams of two MBA students have been working with selected clients in the OTREC circuit areas. See Graph 1 for the locations of the clients. Client needs range from a marketing plan for an entire community to the development of a tilipia fish farm, co-sponsored by a power cooperative and a small community. Preliminary client, student, and SBA feedback from this cooperative effort has been quite positive.

CONCLUSION

This paper provided an overview of the joint efforts between SBA, OTREC and SBI during the preliminary stages of the venture. Although initial feedback was quite positive, a formal review of the effort will take place at the end of the project in late

December, 1990. It is hoped that based on acceptance of this paper, final comments and recommendations for application in other states can be made at the National SBIDA conference.

TABLE 1

ON-THE-ROAD ENTERPRISE CENTER SCHEDULE OF COMMUNITY VISITS

Week of Week of Week of Week of June 25th July 9th July 16th July 23rd

CIRCUIT 1 CIRCUIT 2 CIRCUIT 3 CIRCUIT 4

Cooperstown Steele Lamourne Washburn Larimore Napoleon Oakes Berthold Park River Linton
Lidgerwood/Hankinson Stanley/New Town Cavalier Ashley Lisbon/Tioga Langdon Ellendale Enderlin Crosby

Week of Week of Week of Week of July 30th August 6th August 13th August 20th

CIRCUIT 5 CIRCUIT 2 GRAND FORKS "SOUTHWESTERN RUN New Rockford Steele AFB Demonstra- "Blitz
Run" Cando Napoleanton Days Rolla Linton Belcourt Ashley Rugby Ellendale

Week of August 27th

CIRCUIT 1 Cooperstown Larimore Park River Cavalier Langdon

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AN EXPLORATORY ANALYSIS OF SUCCESS FACTORS IN EXPORTING SME'S

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ABSTRACT

The fundamental purpose of this research project is to profile exporting firms and the strategies utilized by small businesses exporting from the Pacific Northwest to the countries of the Pacific Rim and Eastern Europe. The profiles of these small exporters are developed using data collected from a survey sent to 1,150 small exporting businesses. Specific research objectives include the following:

1. To identify common critical factors in effective multinational strategies that allow small or medium sized enterprises (SME's) to trade with Pacific Rim and Eastern European markets,
2. To isolate factors necessary to be successful and effective in developing and maintaining a profitable export market, and
3. To determine if exporting SME's differentiate between international and domestic markets in strategy and structure.

Only one method of measurement is being used since the study is exploratory in nature, and because the researchers wanted to provide an open format for receiving additional information. A pretested mail questionnaire was sent to 1,150 SME's in the Pacific Northwest. The returns suggest differences between international and domestic customers; differences in marketing strategies based on product line and mix and country being targeted; and differences based on a SME's overall mix of primary international trading activities.

PROJECT NEED

Current developments in U.S. export markets in the orient and in Eastern Europe, both political and economic, provide research opportunities to explore small and medium sized enterprise export and import activities. The strategies associated with a small business entering the international arena are largely unknown and have been researched very little. Further, there is a lack of empirical support for specific measures that determine organizational effectiveness in these environments. Kirchoff found no single predictor of firm effectiveness (6). Yet, proxy measures of sales, ROI, and so forth appear to correlate to exporting success.

It is a challenge for small businesses worldwide to become involved in international markets. According to Daniels, et al. (1984) many entrepreneurs do not move into international markets because of ignorance, fear, or both. Many of those who do make the effort find there are many barriers to success. Some have succeeded, however, and are enjoying tremendous success. Currently, the news is full of larger firms racing to establish economic ties with Eastern Europe. For example, it is estimated that Eastern Germany will import \$110,000,000 of computers; Poland, \$400,000,000 of food and medical equipment; Romania, \$680,000,000 of high tech investment goods; and Hungary, over \$320,000,000 of chemicals, pharmaceutical supplies, and farm machinery (14). Smaller firms have not developed strategic plans to compete, but are seeking information which is unavailable. Where and how to access this is invaluable information is a critical success factors for SME's that export and import.

Almost all for-profit firms operating in the inland northwest are classified as a SME (small or medium-sized enterprise) (5). The success of these businesses in entering international markets is vital to the economic health of an economic region according to the 1988 Washington State Economic Development Agenda. One of the goals is to "enhance a state's stature as a center for international trade." This could be accomplished through "strategic partnerships" designed to combined SME's in a given region with international firms to expand overseas markets for a state's products and to encourage foreign investment (9). Additional joint ventures with existing government agencies or larger firms also offer tremendous opportunities for SME's to develop international markets and acquire the knowledge to successfully serve these markets: e.g., U.S. Department of International Trade, State Departments of Trade, Small Business Association, and U.S. Customs to name a few.

Considering the role of SME's in the regional economies and the importance of fostering economic development in the

nation, the character and extent of international trade potential for SME's in the orient, Canada, and Eastern Europe is an important new development. Little is known, however, of the strategy formulation and implementation procedures followed by those entrepreneurs who achieve success in these markets (11). So far, research has focused on large firms in international trade (7). The difficulty with this is that substantial differences exist between relatively small firms and more complex organizations with specialized divisions, technical expertise, substantial resources, and in some cases, foreign staff. It is likely that strategic management processes would be substantially different in SME's and in large, well established and financially stable firms. A clearer understanding of the processes necessary for SME success will substantially aid in building greater understanding of strategic management theory, in promoting new economic ties, and strengthening programs of business education which include international marketing and strategy components.

DESIGN

Due to the exploratory nature of the project, the pretested mail questionnaire was designed to assess factors which were perceived by the responding SME's as leading to effectiveness in exporting. The responding companies were also asked to provide financial and other performance information for the past five years. In addition, there were a series of questions included which asked the responding companies to identify differences in domestic and international strategies and structures.

A total of 1,150 questionnaires were mailed to members of the Washington State Export-Import Association with a response rate near 10%. Respondents spread were evenly across several industries. Responses were analyzed as to degree of importance of factors contributing to effectiveness and percentage of responses indicating differentiation between domestic and international approaches. Responses on factor importance ranged from very important (+2) to not important (-2) on 13 factors, and additional comment space was provided on each questionnaire. Comments were analyzed to gain additional insight.

RESULTS

Table 1: Survey Design and Results

Thinking about your export activities, rate how the following assist your firm in achieving effective results:

Very Not Very Not Important Important Neutral Important Important +2 +1 0 -1 -2

Foreign Language skill 11 28 26 19 17

Knowledge of foreign culture 28 51 12 4 5

Foreign government(s) 12 39 31 12 7

U.S. government 17 4 25 11 6

State government 10 20 36 19 14

Trade shows 13 33 29 13 11

Credit terms 52 32 8 2 6

Countertrade/barter arrangements 6 19 29 14 31

Sales/Exporting national Financial data 20 43 20 12 3

Feed back from sales force 52 31 8 4 2

Sales data & feedback 37 39 12 6 3

Intuition/Exper. w/Mgmt. team 28 40 24 2 3

Sales data & intuition 30 39 24 2 3

Does your company differentiate the following elements between domestic and international (export) markets?

Yes No Don't Know No Response

Production adaptation (differences between domestic and international models) 55 40 3 2

Pricing Strategies 60 36 1 3

Sales force organization 51 44 2 3

Promotion strategies (advertising & publicity) 56 35 1 8

Distribution Channels 58 30 3 8

INFERENCES

It is recognized that the preliminary design raises more questions than it gives answers. The low response rate is largely due to responding companies reacting negatively to the request for financial information and executive performance over the past five years. SME's typically react negatively to requests for financial data. One typical response to the request was "none of your business." However, given the intent was to identify a workable design and methodology and to construct a more in depth paradigm, the small response rate was not a significant setback.

It appeared from the responses (especially the comments) that companies tend to identify a specific niche for their product in the international market and do not attempt a diversified product line or marketing mix. Further, there is very little overlap in product niche intercompany with firms avoiding attempts to

penetrate niches already occupied by another company. Exceptions would include logs, lumber, and building materials. This is in line with Toffler's ideas presented in Powershift, 1990, in which it was proposed companies will increasingly need to identify the best market for their strengths.

It was also identified that companies exporting to more than one country tend to export to countries having traditional ties or common geographic boundaries (such as Japan and Korea or Germany and France). Explanations may include common shipping carriers, use of local agents with ties in both countries, common product niches due to cultural similarity, or common opportunities. From comments made by respondents, SME management teams do not appear to have technical exporting expertise overall, fail to recognize separate categories of exporting expertise such as financial vs. marketing, and do not believe in joint ventures with other businesses. Further, there is a lack of evidence that federal and state governments have been successful in contributing to export effectiveness.

From survey responses, the knowledge of foreign culture, credit terms, and feedback from the sales force and sales data are the most significant factors associated with effective results. Personal knowledge, sales data, and intuition were also identified as significant in affecting results. It can be inferred from the results that since most companies either work through agents or resident sales personnel, local information regarding procedures, capital transfer, and sales niches is critical to effectiveness. Trade shows and government assistance were helpful to some firms. But most responses were neutral to their impact.

The majority of responses to the issue of whether responding firms differentiate their structure and strategies between domestic and international markets indicate considerably more firms do differentiate than do not. Most firms do adapt their product design to be more effective in international markets. This supports the earlier inference, that SME's tend to identify a product need (niche) in a foreign market and adapt their product to meet this need. The pricing strategy is also differentiated and it is argued this is support for the concept that SME's tend to go into markets with a need for their product where there is little competition and price their product to cover costs and produce profit rather than meeting competition as they do in domestic markets. Promotion strategies and distribution strategies are also different than in domestic markets with agents and resident salesmen identifying monopolistic opportunities with informational promotions versus competitive comparisons.

FUTURE RESEARCH

Future research is being designed to improve response rate by not asking for specific financial statements but rather to accept SME self perception of effectiveness. The inference of SME's focusing on a singular product and differentiating it to satisfy a monopolistic market with local agents is to be tested. The relationship between promotional and distribution strategy and the product monopoly concept is also being explored. The specific tendency of SME's to network with each other or to liaison with government also needs better identification. The avoidance of entering markets in which there would be competition possess strategic challenges more complex than simple product diversification and needs clarification.

What specific sales data and feedback is used for product strategy is also to be pursued. Specific differentiation approaches used by SME's in international markets is also to be explored. Preliminary indications in this survey have raised a number of important issues for further research. Discussion of these issues is encouraged and appreciated.

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INTRODUCTION

Foreign trade is often viewed in American business as a process that only involves large organizations such as General Motors and IBM. Businesses that buy or sell products abroad are supposed to be multifaceted firms whose assets total in the billions of dollars. This fictitious profile often prevents many smaller companies from trying to export or import goods. However, selling to foreign markets can sometimes stimulate growth for a product that has saturated its U.S. market. A foreign market can also provide raw materials cheaper than a U. S. market. Cheaper raw materials can result in a more competitive product, thus higher productions and profits that could lead to company expansion.

Canadian trade is the single largest component of U.S. trade, and U.S. trade makes up three-fourths of all Canadian trade. Additionally, 1.5 million American jobs are supported by trade with Canada (2). In 1987, the United States exported \$59.6 billion of goods to Canada while the U. S. imported \$69.2 billion of Canadian goods. It is a market that can provide excellent opportunities for potential exporters because most small businesses view Canada as a safe and secure trading environment (9). Besides minimal language and cultural differences, U.S. and Canada share similar economic systems making Canadian business practices much simpler to understand than those of many other foreign countries. In addition, sales can be made directly to the customer in Canada, eliminating the need for export agents thus making Canada a simpler market to enter.

Still, most smaller businesses are not willing to investigate international markets unless they have a chance of getting some positive results. (It is important to note that small businesses are defined by the Small Business Administration standards for each industry. For instance, wholesalers are small if they employ fewer than 100 people and retail/service industry is small when annual receipts do not exceed \$3.5 and \$13.5 million, depending on the industry.)

Like other companies who fall far below the SBA maximum standards for "small companies," the companies in this study need to see firms similar to themselves successfully exporting and/or importing goods. In other words, current exporters and importers can serve as role models to new companies who are interested in trading products.

Agricultural products are just some of the many products that are being exported to Canada. The agriculture industry includes not only farmers and herders, but also food processors and wood harvesters. The market for U.S. hardwoods and other wood products

is particularly profitable right now because of an expanding Canadian furniture market (5). Other agricultural markets are expected to grow as trade barriers are eliminated between the U.S. and Canada in the next ten years.

The Southern Alleghenies Region of Pennsylvania could be faced with losing a significant portion of its forest should its trees die as a result of the gypsy moth infestation. Presently, the lumber from these trees is only being sold as kindling. However, a higher value product could be produced with the development of conscientious plan to harvest, mill and sell these trees before they begin to deteriorate and depreciate in value. The increased profits from the sale of the value-added timber would allow something positive to result from the loss of these trees .

A large portion of this plan entails the identification of a market for the surplus lumber. Canada could prove to be an excellent market for this timber because of an expanding household furniture market. The Canadian furniture industry needs the imported raw materials to make furniture and/or furniture imports to satisfy demand. This area's native Appalachian hardwoods are very popular with the Canadians who would be willing to pay a premium for the timber.

This study's objective to show how small agricultural businesses in the Southern Alleghenies Region export to markets such as Canada. A profile of small agricultural companies that trade these goods is also offered, dispelling some of the myths about exporters. The problems that can be associated with foreign trade are also indicated along with some suggestions that could provide resolutions to these issues.

BACKGROUND

The U.S./Canadian Free Trade Agreement that was signed on October 3, 1987, by the United States and Canada is best considered as a capstone to over 200 years of trade and 130 years of trade agreements between the two nations. Separate territories since the American Revolutionary War, Canada and the U.S. have been natural trading partners who share the world's longest border. Even before Canada gained its independence from the British Empire in 1867, efforts were being made to ensure that trade between the two nations would not be impeded (3). The following is a brief summary of trade agreements between the U.S. and Canada:

1854 - First free trade agreement signed. Animosity created during the American Civil War between the U.S. and Great Britain ended that treaty in 1866.

1911 - A second attempt at a free trade agreement was signed. This agreement, however, did not even last a year due to internal Canadian political problems.

1935 - A Most Favored Nation agreement was signed as part of the U. S. Reciprocal Trade Agreement Program in an attempt to break down protectionist barriers.

1947 - 1979 - Seven rounds of the General Agreement on Tariffs and Trade (GATT) talks are held. U.S. and Canada are participants and make a number of agreements that begin to lower their trade barriers.

1965 - Auto Pact is signed making all trade in cars, trucks and parts duty-free.

The latest free trade agreement took effect on January 1, 1989. It was the biggest step ever taken by both nations to ensure that markets remained open for exporting/importing and that any existing protectionist barriers were dismantled. This agreement is expected to bring about a 3% rise in Canadian GNP and a 1% rise in U.S. GNP (1).

A significant part of the agreement is the elimination of all bilateral tariffs between Canada and the United States. All tariffs will be eliminated in stages beginning January 1, 1989, and ending January 1, 1998. There are three levels of tariff reduction and all products have been assigned to one of these levels:

Level 1 - Immediate elimination of tariffs

Level 2 - Elimination of tariffs within 5 years, 20% cut per year

Level 3 - Elimination of tariffs within 10 years, 10% cut per year

In addition, a bi-national tribunal has been created to settle any trade disputes between U.S. and Canadian companies.

Traditionally, agriculture has been one of the more protected markets, but the agreement implements numerous measures to encourage more trade. The U.S. should benefit from (11):

- 1) Reduced tariffs on fresh and processed fruits and vegetables, an area with traditionally high tariffs.
- 2) Raised import quotas on poultry and poultry products
- 3) Elimination of Canadian import licenses for U.S. wheat, barley and oats when U.S. price supports are less than or equal to Canadian support levels for their products.

The two countries are also working towards harmonizing technical regulations affecting agriculture, food, beverages and certain other goods. These regulations often resulted in non-tariff trade barriers that kept U.S. goods out of Canada (11).

PROCESS

Agriculture is the largest industry in the state of Pennsylvania, and in 1988 its exports contributed \$236.8 million to the state (7). The Pennsylvania State Department of Agriculture sponsors programs that support the export of food and wood products by assisting with marketing and networking with exporting specialists.

Since agriculture is also the single significant industry within Pennsylvania's Southern Alleghenies Region, a survey sample group was developed from its agricultural companies. A database of 280 local agriculture companies which include farming, forestry, and food processing was developed. The names were collected from numerous public and private directories that were published for specific agricultural industries and for firms already identified as being involved in foreign trade. All the businesses surveyed were from the six-county Southern Alleghenies Region served by the Saint Francis College Small Business Development Center and includes Bedford, Blair, Cambia, Fulton, Huntingdon and Somerset Counties.

Each agricultural company was sent a three-part questionnaire asking information about:

1) company demographics 2) exporting/importing involvement in Canada 3) exporting/importing in countries other than Canada

The purpose of the first part of the questionnaire was to develop a profile of businesses involved in trade. The other two parts placed special emphasis on accessing information from the companies about:

1) What they had learned about exporting/importing, either in practice or through research 2) Why they were or were not interested in exporting/importing 3) Foreign firms that had requested to trade with them

Since the responses to the surveys often raised further questions, responders who had agreed to provide further information were personally contacted. The questions they were asked dealt primarily with background information about their particular industry and how they fit into foreign markets. For instance, one company that has exported to Canada discussed the problems and solutions that it had encountered when exporting. The agriculture trade marketing specialist for the Commonwealth of Pennsylvania was contacted for further information about Pennsylvania agriculture in general and about the services offered to potential exporters.

RESULTS

A total of fifty-seven surveys were returned, which represents approximately 20% of those distributed. (See Figure I) Therefore, the data from this survey should be significant, since most

literature considers 20% to be a high rate of return. Part of the process included sending reminder cards to encourage more companies to return the survey. Before the cards, 34 surveys were returned and after the cards were sent an additional 23 were returned. These 23 surveys were 40% of the total return which justified the time and money involved in the creation of the cards.

Of the 57 surveys returned, 5 provided no information because the companies had gone out of business. Fifty-two businesses thus contributed information about themselves and their exporting/importing history. The majority of those companies (46%) reported gross sales of over \$1 million in 1989 and they employed an average of 29 full-time workers. The operations of these businesses ranged from manufacturing to retailing and the types of customers they served were equally diverse.

Sixteen companies, or 31%, were involved in foreign trade. Sixty-three percent of those 16 reported gross sales of over \$1 million in 1989. Two of the companies employed over 300 people while the rest averaged twenty-three full-time employees. Most of these companies were involved in manufacturing or wholesaling.

Fourteen companies had been involved in trade with Canada. Quebec and Ontario were the primary sources and/or destinations of their goods, but almost every province had been involved in a transaction. The principal products being exported are lumber products: hardwoods, furniture squares and upholstered chair framing lumber. At one time, two other companies had exported some processed food products. One had its product discontinued and was looking for a new market. The other had become frustrated with the paperwork and restrictions on colors and stabilizers and the bilingual ingredient labels required on all packaging. One lumber exporter was not comfortable with collecting payments from

buyers that lived out of the country. Lumber is also currently being imported from Canada as a fish and lobster.

Thirteen of the businesses (93%) that had traded with Canada had been approached by Canadian firms to export/import products. All of the American companies had accepted the offers, and half of them listed a good selling price as being an important factor in their decision. One importer commented that low freight rates had made it cheaper for him to import his french fries from Canada than to buy them from the West Coast.

Thirty-eight companies had not traded with Canada but 24% were interested in and wanted more information about trading with Canada. Only 5% had even investigated the possibility of trading the Canada. Three firms had been approached by Canadians to begin trade relations, but one had found a U.S. division of the same firm to handle its business, one had gone out of the logging business and the third could not produce the quantities of raw materials that the Canadian firm needed. (See Table 1)

Nine companies had traded with countries other than Canada. These businesses had exported to Europe and Asia and imported from the Far East, Israel, Europe, Mexico and Guatemala. Current exports consisted of lumber and leather while imports were mostly food products such as sesame seeds and tomatoes. One company that no longer imports mentioned that it had not been very impressed by the quality of the product it had received and was very cautious about re-entering foreign markets. Two other businesses who no longer traded goods wanted to find new markets where they could begin trading again.

Eight of these companies had been approached by foreigners to become involved in trade but three had refused the offers. One had been concerned that his mode of payment was unsecured, and another had been required to purchase more than his company could have afforded. Price was again the primary reason that companies had accepted the offers.

Of the 43 companies that had not traded with countries other than Canada, almost one third of the businesses were interested in getting involved in trade. Nine percent had investigated the possibility of doing so, but found exporting and/or importing to be too complicated or too expensive, and one company simply was holding off until it had ore information. Six companies had been approached by foreigners to trade goods, ut limited resources and unstable markets kept companies from entering international markets.

One food processor who was interviewed bout is Canadian trade, exports its product through a Canadian distributor to 11 of the provinces. Despite its success, he company is not pleased with the amount f paperwork that must be filled out before shipment can cross the border. The paperwork is not only time consuming but complicated so that "guesswork" is often used for answering unclear or vague questions. Regardless, the company has benefitted from the Free Trade Agreement because tariffs on this product have already been cut twice. This business had also been approached to export to Israel nd the Philippines but it is cautious bout entering other foreign markets because of the additional paperwork and the concerns about ensuring the quality of it product.

Some implications that could be significant o small businesses in the Southern Alleghenies region include:

- 1)Small businesses are trading with Canada and other foreign countries (277% in Canada, 17% in countries other than Canada).
- 2)Small businesses are interested in getting involved in foreign trade (24% in Canada, 30% in countries other than Canada).
- 3)Small Businesses are being approached by foreign firms who want to trade with them (31% in Canada, 31% in countries other than Canada).
- 4)Most of the companies from this region involved in foreign trade had gross sales over \$1 million in 1989. They employ an average of 23 full-time employees and are primarily manufacturers and wholesalers.
- 5)Lumber is one of the primary products being exported from this region into Canada.
- 6)The majority of companies choose to export because the are offered a good price for their product.
- 7)Small businesses often find that they do not have the resources available to produce enough product for export. Other

small businesses do not have enough capital to import products that must be bought in large quantities.

8)The bureaucratic component of exporting can sometimes prohibit companies from exporting.

APPLICATIONS

The results from this survey reaffirm the importance of foreign trade to the Southern Alleghenies Region. Nevertheless, there are still a number of businesses that are not involved in trade because they have never been approached by anyone to trade or they have never had the initiative to investigate it themselves. It is these companies that need to be made aware of the opportunities available in exporting and importing. Presently, members of the Southern Alleghenies Planning and Development Commission (SAPDC) and the Saint Francis College Small Business Development Center (SBDC) are involved in two projects that could expand participation in the area of exporting.

First, the data results from this survey were presented to the Southern Alleghenies Agricultural and Natural Resource Committee. Following the meeting where the gypsy moth problem was also discussed, a letter was written to the committee's chairperson suggesting that exporting their hardwoods and their value-added products to Canada should be investigated more thoroughly. It was also recommended that a cooperative be established among the members of the silviculture industry. The idea for the cooperative is based upon a similar cooperative that is being considered by this region's hay industry. Since exporting can often require more resources than one company can supply, the purpose of the cooperative would be to enable its members to combine their resources and thus increase profits.

Second, the SAPDC and the SBDC formed a Southern Alleghenies World Trade Association. The organization's members are private companies, banks and export specialists interested in learning about and exploiting the exporting capabilities of this region. The goal of the organization is to provide exporters and potential exporters with an opportunity to network with each other and with service providers. The forum for the networking is a quarterly

dinner/presentation meeting where a presenter will discuss current issues that affect small businesses in foreign trade.

Even more can be done to get businesses involved in foreign trade markets. For instance, organizations such as the SBDC and the SAPDC could research potential markets for small businesses to enter. They could also provide educational services such as seminars so that companies can begin to understand the issues related to international trade.

The survey points out that exporting and importing products with Canada and other countries is a profitable marketing option for small agricultural businesses. When conducted successfully, exporting and importing can provide the means for these companies to revitalize and expand their operations. To help them start successful trading ventures, agricultural businesses should be aware of the services available. For example, many government agencies exist for the sole purpose of providing information and services to exporters. These organizations will take products abroad to trade shows assist companies with identifying trade leads and help find ways for businesses to simplify and expedite their trade transactions. Some of these are:

Agricultural Information and Marketing Services (AIMS) - A part of the Foreign Agricultural Service (FAS). AIMS provides trade leads to interested companies, maintains a database of 15,000 foreign buyers who want to purchase U.S. food products and publishes a newsletter for foreign importers with lists of U.S. companies that are offering goods for export. Many of these services are offered at no charge to the exporter (10).

Eastern United States Agriculture and Food Export Council, Inc. (EUSAFEC) - EUSAFEC represents the department of agriculture of ten northeastern states, one of which is Pennsylvania. It provides assistance with the mechanics of exporting, education about export issues and collects data and other information for companies interested in exporting (4).

Mid-Atlantic Forest Products Export Coal in - This is an organization that helps coordinate the export of value-added wood from the states of Pennsylvania, New Jersey, Maryland and Delaware. It collects trade leads and helps companies set up their initial exporting ventures (6).

Pennsylvania Department of Agriculture The Department of Agriculture's International Trade Division takes

Pennsylvania products to foreign trade shows, provides credit reports on foreign buyers to exporters, can help with export documents and can help companies deal with the U.S. and other foreign governments (8).

The United States had a negative balance of trade in 1989 and will continue to do so unless more businesses take an interest in exporting. Importing goods can be beneficial too, because materials that are imported created jobs for the people who process

those materials. Foreign trade is a viable option for small agricultural businesses that benefits not only the businesses but the economy as a whole. These companies should be encouraged to explore and become involved in international trade.

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Table 1
Summary of Survey Results about Canadian Trade

QUESTION RESPONSEN %

Traded with Canada? Yes 14 27.0 No 38 73.0

Of those that have traded with Canada

Still trading with Canada? Yes 10 71.4 No 4 28.6

Wants to resume trade with Yes 3 75.0 Canada? No 0 0.0 Not sure 1 25.0

Approached by a Canadian Yes 13 92.9 Company to trade goods? No 1 7.1

Accepted offer made by Yes 13 100.0 Canadian Company? No 0 0.0

Of those that have not traded with Canada

Interested in trading Yes 9 23.7 with Canada? No 25 65.8 No response 4 10.5

Investigated the possibility Yes 2 5.3 of trade with Canada? No 33 86.8 No response 3 7.9

Approached by a Canadian Yes 3 7.9 Company to trade goods? No 32 84.2 No response 2 7.9

ABSTRACT

This paper presents a model of rural business development and how Small Business Institute programs fit into the model. A census was made of all 520 SBI directors. Approximately eight percent of the SBI directors indicated they were involved in community development programs other than the traditional one-on-one counseling. While the initiatives appear to be successful, the weakest efforts exhibited by SBIs occur in the evaluating phase while the strongest occur in the implementing phase. The findings indicate that most of these efforts have been local responses to local needs on a project by project basis rather than addressing all phases of the model in a comprehensive manner.

INTRODUCTION

RURAL DEVELOPMENT

Community development became an important aspect of rural development strategies during the 1960's and 1970's. Rural health care and physician recruitment were major initiatives. Developed in part to assure equal access to rural residents, regional planning and development commissions emphasized intergovernmental planning and growth strategies. The Economic Development Administration began and continues to fund many of these efforts, often in cooperation with other federal agencies and the states.

Economic studies of rural America have been conducted by the federal government, state agencies, colleges and universities, local development organizations, and private consultants during the 1980's. Most studies recommended states consider both agriculture and non-agriculture approaches in crafting long-term solutions to the farm and rural crisis in their states. In a 1986 survey, conducted by the Center for Agriculture and Rural Development at The Council of State Governments, four basic approaches were identified: agriculture-related development, transition assistance, rural business assistance and rural community assistance.

More than 500 state programs in 34 categories were identified. An update of this survey in 1988 found over 700 programs in 30 categories. Three state agencies emerge as the principal factors in state agriculture and rural policy formation: agriculture, economic development, and community affairs. Other state agencies such as mental health, education and labor often provide "transition assistance" to individuals and communities in distress.

The diversity of programs reflects the diversity of the rural economy. This groundswell of activity is a natural response in trying to save a declining way of life, and demonstrates the strong sense of independence and self reliance rural America has long been known for. In addition to the 700 programs identified in the 1988 study, many rural communities also have local initiatives to blunt the steady drain on their economies and citizens. Such efforts increase the number of programs addressing rural development many times, and adds to the complexity of an already confusing array of state and federal projects.

RURAL BUSINESS DEVELOPMENT MODEL

A general model of business development in rural areas has been designed by the author while working at the council of States Government's Center for Agriculture and Rural Development. It draws on the U.S. Small Business Administration, Economic Development Administration and the Tennessee Valley Authority rural development experiences.

This model is generic in nature and zeros in on rural development. Each one of the five phases could apply to a variety of key issues such as education, health care, and quality of life which plague progress in rural areas. Phase V and perhaps Phase II contain elements common to any type of comprehensive rural initiatives while the other three phases have elements unique to business development. Organizing and evaluating are weak links in the model. Many programs offer help and advice but do little to build independence and grass root level initiatives.

With the exception of leadership development few projects recruit, structure, and establish groups to carry on after the

projects termination. The impact of development efforts are usually measured, if at all, in soft descriptive terms instead of hard facts. There is little evidence of effective criteria establishment, monitoring, and follow up.

Assessing is the first step in rural business development and establishes a base line for the following phases. In order for development to progress in an orderly fashion and have maximum effect, information should be gathered and analyzed to describe the business climate. If essential pieces of community puzzles are missing expansion efforts will be retarded and many new ventures doomed to fail before they are launched.

Once assessed and organized, a community is in position to develop a long term approach to over all business development. Several strategic, or even better a combination of strategies, can be pursued to improve local business conditions such as strengthening existing business, creating new ones, recruiting new industries, and retaining local money.

Implementing involves transforming the plans from an idea or concept to a reality. In this phase actual businesses or potential

businesses receive help determining feasibility, capital, information, training, and technical assistance.

SMALL BUSINESS INSTITUTES

Purpose and Scope

The purpose of this survey was to determine the extent of SBI involvement in rural economic development.

Small Business Institutes have traditionally concentrated their efforts in the implementing phase through one-on-one counseling to individual businesses. SBI's were originally conceived to aid troubled businesses backed by SBA financial support. Because of tightened loan requirements the number of SBI cases generated by the SBA has dwindled causing the SBA and some schools to start thinking in terms of broadening the SBI's scope to include community based business development.

Over 500 schools provide assistance to our 7,000 small businesses each year. These businesses are geographically dispersed throughout the county.

A majority of participating colleges and universities are located in rural areas resulting in a disproportionate high number of cases to be located in small communities. With the exception of a few nationally recognized projects no organized efforts have been made by schools to concentrate on individual communities. Cases are normally chosen on an individual as needed basis rather than a planned community wide development approach.

Analysis

A census was made of all 520 SBI directors. Each director was sent a two page questionnaire consisting of three sections. Section I was based on the five phases of the general rural business development model (assessing, organizing, planning, implementing, and evaluating). The directors were asked whether they had been involved, were now involved, or just involved in these phases. Section II attempted to determine the scope of involvement by requesting numbers of students, teams, cost, duration, and types of business or activities. Section III asked for evidence of success and leads on other university rural development activities.

Findings

A total of fifty three directors returned questionnaires. Responses were received from twenty nine schools located in twenty one states who have either been involved or are now involved in rural development projects. Fourteen schools in eleven states indicated that they were not and had not been involved in rural economic development. The result of the survey was summarized by phase:

Assessing

1. Number of Schools Past and Presently Involved-21 2. Number of Teams Involved-63 3. Number of Students Involved-241 4. Funding Levels \$300 - \$15,000 5. Number of Schools Currently Involved-9 6. Time Span of Project 2.5 to 6 months

Organizing

1. Number of Schools Past and Presently Involved - 15 2. Number of Teams Involved - 36 3. Number of Students Involved - 135 4. Funding Levels \$200 to \$1,000 5. Number of Schools Currently Involved - 11 6. Time Span of Project 2.5 - 6 months

Planning

1. Number of Schools Past and Presently Involved - 18 2. Number of Teams Involved - 42 3. Number of Students Involved - 201 4. Funding Levels \$200 to \$10,000 5. Number of Schools Currently Involved - 11 6. Time Span of Projects 1 to 12 months

Implementing

1. Number of Schools Past and Presently Involved - 26 2. Number of Teams Involved - 205 3. Number of Students Involved - 579 4. Funding Levels \$400 - \$10,000 5. Number of Schools Currently Involved - 15 6. Time Span of Projects 1 to 12 months

Evaluating

1. Number of Schools Past and Presently Involved - 12 2. Number of Teams Involved - 5 3. Number of Students Involved - 6 4. Funding Levels \$400 5. Number of Schools Currently Involved - 7 6. Time Span of Projects 2.5 to 12 months

In addition to the schools responding to the survey, five universities had SBI programs which were identified as being involved in extensive rural economic development demonstration projects. A summary of these projects are provided below:

1. Illinois Project

School: Illinois State University Director: Robert Kerber Phases: I, II, III Towns: 2 Students: Results: Information Not Available

Teams were involved in a variety of projects which included economic analysis, attitudes of citizens, consumer studies, organizing leadership, downtown revitalization, tourism, transportation, recreation, promotion and business development.

****This project has been considered by the White House staff for possible incorporation into national policy for rural development.**

2. Wisconsin Project:

School: University of Wisconsin-Eau Claire Director: Richard Lorentz Towns: 2 Phase: I Students: Results: Informal Evaluation Only

The project concentrated on improving the overall business environment in the two communities. The projects were broken into four areas: a community resource profit, economic analysis, shopping behavior and individual business profiles.

****This project has been studied by the White House staff for policy purposes.**

3. Nebraska Project:

School: University of Nebraska, Omaha Director: David Ambrose Towns: 14 Phase: IV Students: Results: Formal Evaluation Not Available

This Project has won awards from Exxon, Freedom Foundation, Joint Council on Economic Education and the National Association for Industry-Education Co-operation.

It has also been written up in Business Week and the Wall Street Journal. Mid-career graduate students spend two weeks in one town working to improve already existing businesses.

4. Virginia Project:

School: James Madison University Director: Rodger Ford Towns: 1 Phases: I, III, IV Students: Results: No Evaluation To Date

The project was a joint venture between James Madison, Virginia Highlands Community College, and the Appalachian Regional Commission. A site selection process was developed for phase I which included criteria and assessments. SBI subcenters were set up at the junior college to deliver phase IV counseling.

5. Georgia Project

School: University of Georgia Director: Rudy Kagerer Towns: 3 Phases: I, II, III, IV Students: Results: Just Being Implemented

This is part of a Kellogg Foundation grant to mobilize and network existing rural development agencies. A detailed inventory of the business environment was developed, communities were organized to promote development, strategies were developed, existing businesses are being strengthened, and new ones were created.

DISCUSSION

Responses to the questionnaire were received from fifty-three schools located in twenty-eight states. There was a fair regional representation with gaps found in the far west, great plains, and east coast.

The level of involvement of SBI by phase followed a pattern found in previous studies of rural economic development: (i.e., in descending order of involvement) implementing, assessing, planning, organizing, and evaluating. The number of schools providing traditional one-on-one business counseling outnumbered the schools evaluating rural development programs two to one and have almost one hundred more students involved in implementing than in the next closest phase, assessing.

The level of funding differed significantly from a high of \$15,000 to a low of \$100. This differential seems to be explained by the scope of the project. Projects involving more students, teams, and greater lengths of time cost more.

The government rate set by SBA, \$400 per case, appears to be the norm for most schools. The length of time also varied but not to

the extent of funding varied. Most variation was found in planning and implementing phase ranging from one to twelve months. The duration was likely to be determined by either the course length or project completion date.

The specific type of businesses or activities identified in each phase also varied significantly. The implementing phase was most well defined, and the evaluating phase was sorely lacking in information. Implementing consisted of traditional counseling involving all types of businesses and all types of services specified in the questionnaire. Planning activities were also well defined and similar to those defined in the questionnaire.

Traditional types of businesses were counseled in assessing phase but the types of activities were only generally described. This was also the case for the organizing phase.

Only seven SBI directors provided any evidence of success. Most indicated that they do not track this type of data. Of

those reporting, 29 new businesses were created and 129 businesses were retained. One Main Street project resulted in the creation of several new fans and significant reinvestment in the downtown area.

Of the five SBI demonstration projects, Nebraska seems to be the most successful to date. The director identified a rural community and sends in teams of graduate students to provide traditional SBI counseling.

The work is concentrated into a time span of three to four weeks. This project is the longest running project and has worked with most communities. It is apparently well received by the communities served because there is a waiting list of small towns requesting help, plus it has received numerous awards for innovation in education.

The Illinois project covers all aspects of rural business development with exception of evaluating the worth of the project. Numerous types of community data are collected, task groups are organized, strategic plans developed, and individual businesses are advised. Two communities have been helped over the last past six years, and plans are being made to work with a third town.

The Wisconsin project concentrated on assessing the business climate in two communities and worked with high schools as well as college students to leverage. The information was used by the Chamber of Commerce and local banks to promote new businesses, attract new industries, and strengthen current business. The students currently are not working with any new towns.

The Georgia projects also worked with both high school and college students. Two communities have been participating and services were provided in all areas of the development process except evaluating. Several businesses were started at one town including one by the students themselves. A third town will be helped in the future.

The Virginia project established an SBI program in a community college in a depressed rural area. A selection process was used to identify the community in which to work. Traditional counseling was provided to thirty-three businesses. An evaluation plan was developed but not fully implemented at this time.

CONCLUSION

The SBI is a well established geographically dispersed program uniquely situated for mobilizing students throughout the country into a force which could help attack problems plaguing rural communities. Until recently the services provide one-on-one counseling to small business. The cases were randomly generated throughout the school's service area.

In the past five years there has been a move to focus the efforts on communities in order to improve their business climate. The rollover effect of a holistic approach to business development serves to provide greater opportunity for successful business retention, expansion, and creation than the traditional random one-on-one counseling.

We were seeking profiles of programs which had experienced rural economic development and did not request replies from schools that had not. Twenty-five percent of the questions were received by schools who had SBI programs but did not have a small town focus. Several of these schools were located in urban areas and had an urban mission. There were, however, some attempts being made by the urban schools to move beyond the city into satellite towns.

Most SBIs service rural areas, and many of the schools which were not involved in a rural development program indicated an interest in getting involved. Only five schools provided an in depth look at their programs. These programs were created to be demonstrations for illustrating the benefits and evolving and integrating SBIs into the main street of rural business development. Neither the demonstration SBIs nor those responding to the survey provided hard data supporting the success of their programs.

Further, information needs to be generated concerning what works and what does not, what is transferable and what is not, and how this information can be shared. It seems imperative that means other than testimonials, attitudes, and case examples be devised to evaluate success.

Until now no attempt has been made to organize and integrate SBIs into the rural development systems at the state, regional, or national level. It is being done at the local level in reactive rather than pro-active manner. The local

programs have moved to fill gaps in the system - a local response to a local need. Because a functioning network of SBIs is already in-place, it could be rapidly employed on a much larger scale of rural development. In order for this to happen, plans will have to be made, support will have to be established, coordination will have to be developed, and funding will have to be secured.

PREPARING SBI TEAMS TO DEAL WITH FUNCTIONAL WORKPLACE ILLITERACY

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ABSTRACT

This paper describes the seriousness of illiteracy problems in small businesses as reported by 134 owners and/or managers of small businesses. The focus is on the reading, writing, and computational abilities and skills of employees, customers, and suppliers. Suggestions are offered to help SBI directors and student teams when they encounter illiteracy problems in a client's business.

INTRODUCTION

SBI Directors and students on consulting teams may encounter a problem that plagues many businesses-functional workplace illiteracy (FWI). Within or associated with the client's business there may be people who have reading, writing, or computational skills that are deficient and inadequate for the demands of the job and the business.

ILLITERACY IN AMERICA

Illiteracy is a national problem that adversely affects business organizations and operations. Businesses need people who can read, write, and compute, yet according to the Coalition For Literacy, 27-million Americans can't read. (#1) Secretary of Labor Elizabeth Dole described this growing problem when she said,

"At the same time that skills levels are, increasing, you have about 500,000 young people dropping out of school each year and another 500,000 who complete high school but are functionally illiterate. About 20% of workers are functionally illiterate, and many have skills that are obsolete or soon will be obsolete because of the increased technology." (#2)

The problem is even more critical as evidenced by the declining scores on the college entrance tests that gauge advanced reading skills of students hoping to enter colleges and universities. (#3) Verbal scores on the Scholastic Aptitude Test taken by students entering college in 1990, are down and tied for the worst performance ever. (#4)

ILLITERACY PROBLEMS IN BUSINESS

Illiteracy is a major problem for many businesses. The Bottom Line: Basic Skills in the Workplace, a joint publication of the U.S. Department of Labor and the U.S. Department of Education,

describes a major concern of business as the need for workers with stronger basic skills to accomplish tasks in the workplace of today and to adapt to the workplace of tomorrow. (#5) The Wall Street Journal describes American schools as " ... producing students who lack the skills that business so desperately needs to compete in today's global economy." (#6)

The illiteracy problem is described in greater detail in many business oriented publications. FORTUNE, in a special issue, discussed the problem and what businesses are doing. (#7) Supervisory Management offered suggestions for supervisors. (#8) Articles on the problem of illiteracy in business have appeared in recent issues of Association Management and IABC COMMUNICATION WORLD. (#9 and #10)

ISSUES FOR SMALL BUSINESS

While the problem and the responses by businesses are well publicized, Anderson describes two items that are of special interest to those involved with small businesses. First, the issue of work force illiteracy is elusive in that the most of the published literature is anecdotal relating to a few dramatic instances rather than solid data. Second, most of the data does not include small businesses. (#11)

ILLITERACY PROBLEMS IN SMALL BUSINESSES

The Survey

Information about illiteracy problems in small business was obtained from questionnaires completed by the managers and/or owners of 134 small businesses in Texas. Participants in the study were asked to mark the blocks that best describe the seriousness of nine problem areas for their businesses. The problem areas, presented in figure 1, involve the reading, writing, and computational skills/abilities of employees, customers, and suppliers.

FIGURE 1

SERIOUSNESS OF LANGUAGE AND MATH PROBLEMS

AS REPORTED BY SMALL BUSINESS OWNERS AND/OR MANAGERS

VERY SERIOUS SERIOUS SLIGHT NO DESCRIPTION PROBLEM PROBLEM PROBLEM PROBLEM

Reading abilities/skills 1 5 28 100 of employees 0.7% 3.7% 20.9% 74.6%

Writing abilities/skills 1 8 38 87 of employees 0.7% 6.0% 28.4% 64.9%

Mathematical or computational abilities/ 2 6 36 90 skills of employees 1.5% 4.5% 26.9% 67.2%

Reading abilities/skills 1 5 43 85 of customers 0.7% 3.7% 32.1% 63.4%

Writing abilities/skills 1 3 37 93 of customers 0.7% 2.2% 27.6% 69.4%

Mathematical or computational abilities/skills 0.7% 3.0% 30.6% 65.7% of customers

Reading abilities/skills 2 2 13 117 of suppliers 1.5% 1.5% 9.7% 87.3%

Writing abilities/skills 2 1 15 116 of suppliers 1.5% 0.7% 11.2% 86.6%

Mathematical or computational abilities/skills 1.5% 0.7% 11.9% 85.8% of suppliers

Totals may not equal 100% due to rounding.

The Respondents

More than half (54.6%) of the businesses were described as retail operations. The others included 2.2% wholesalers, 5.2% repair and service operations, 7.5% manufacturers, 16.4% professional services, and 14.2% with combined operations. The businesses ranged in size from no full-time employees to 250 full-time employees. Sixty per cent of the businesses reported having part-time employees.

The participants included 79 males and 55 females. They ranged in age from 20 years to 60 years.

Survey Results

The summary of responses, presented in figure 1, reveal that illiteracy and innumeracy are problems for small businesses. Figure 1 presents the number and percent of respondents marking each block.

Reading, writing, and computational skills and abilities of employees are problems for small businesses. While nearly 75% of the respondents indicated "no problem" with the reading ability/skills of employees, one in four respondents did find this to be a problem area. More than one-third (35.1%) of the managers and/or owners of small businesses indicated problems with the writing ability/skills of employees. Nearly one-third (32.9%) described the mathematical or computational abilities/skills of employees as a problem. Considering the importance of reading, writing, and

computational abilities/skills of employees, it is discouraging that so many managers and/or owners of small businesses describe these deficiencies as problems for their businesses.

The literacy and numeracy abilities/skills of customers are problems for a large percentage of the small business owners/managers. Only 63.4% stated that the reading ability/skills of customers were not problems for the business. A large percentage (30.5%) reported problems with the writing ability/skills of customers. One-third (34.3%) reported that the mathematical or computational skills of customers were problems for the business.

Although the literacy and numeracy problems with suppliers are not as great as those with employees and customers, problems do exist. Problems with the reading ability/skills of suppliers were reported by 12.7% of the respondents. A slightly higher percent (13.4%) reported problems with writing ability/skills of suppliers with the highest percent (14.1%) indicating problems with the mathematical or computational ability/skills of suppliers.

Reading, writing, and computational deficiencies of employees, customers, and suppliers are problems for many small businesses. SBI directors and students on the consulting teams must be prepared for FWI problems in small businesses.

PREPARING STUDENT TEAMS FOR FWI PROBLEMS

The program director must be alert for reading, writing, and computational deficiencies of student team members. Declining SAT scores, criticisms of public education, and performance on proficiency exams point to the possibility of language and computational deficiencies of college students who may be on the consulting team. Students with deficiencies will need special attention.

Team members should be alerted to the problem of FWI in small businesses. The information presented in this paper, supported with local area studies, can be useful in emphasizing the reality of such problems for small businesses.

Many articles describe the signs of reading, writing, and computational deficiencies. Student consultants should read industry related materials for specific examples of deficiencies, efforts to hide the deficiencies, and the resulting problems for the business.

While the student consultants should be alert for language and computational deficiencies, they should NOT react immediately to their observations. The observations should be professionally noted and discussed in privacy with the director and other team members.

Student teams should be alert for language and computational deficiencies of customers and suppliers. Customers who are unable to read directions may need graphic aids. Suppliers who deliver the wrong materials may be causing costly problems for the business. The client may need to find new methods for working with customers or suppliers who are illiterate.

Local area programs for combatting illiteracy and innumeracy should be contacted for information and assistance. Community education programs are being alerted to the problems within small businesses. (#12)

The section "Opportunities for Improvement" in the final report can address the problem of illiteracy. Local area remediation programs can be identified and described as well as the possible benefits from such programs.

CONCLUSION

Functional workplace illiteracy is a problem for small businesses. It is a problem that will not go away. SBI directors need to recognize the magnitude of the problem and be prepared to assist the student teams when they encounter illiteracy.

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PERCEPTIONS OF RURAL SMALL BUSINESS OWNERS AND MANAGERS TOWARD CHILD CARE ASSISTANCE*

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* The authors wish to acknowledge the assistance of field workers Joe Black, Jodie DeWitt, and Michelle Henry.

ABSTRACT

Child care assistance for employees may be one of the most serious issues facing employers in the 1990s. But, many employers have yet to deal with this issue. For small employers, ignoring the issue may be detrimental to future development and survival. This paper will present the results of a survey of rural small business owners and managers. It will also examine various forms of child care assistance, paying particular attention to viable options available for small employers. Finally, a child care assistance strategy for small employers will be outlined.

INTRODUCTION

Day care was once considered a private, family decision. This has changed. Day care is now an issue of major concern to employers and employees. This concern is especially important for small business owners and managers.

Small businesses play a vital role in the economy. Small employers will continue to create new jobs in the coming years. Given the shrinking work force, small employers will find it more difficult to recruit workers to fill these new jobs. Therefore, it will be necessary for small employers to be more creative in offering compensation and benefits in order to attract and retain qualified employees. The availability of child care assistance may mean the difference between losing or retaining productive employees.

The pressure on small employers to provide child care assistance comes from changing demographics. According to the United States Department of Labor's Child Care, A Workforce Issue (15), a number of changes have occurred and others are expected in the work force. Today, more than 70 percent of the women between ages 25 and 34 are in the labor force. Only 35 percent were employed in 1950. By the year 2000, 61.5 percent of all women will be in the work force. In addition, two-thirds of the new entrants into the labor force between 1986 and 2000 will be women. In terms of sheer numbers, women will have more influence than ever before, and many will be working in small businesses.

Since more and more women are entering the work force, day care has become a major employment issue. Women, however, are not the only employees to whom child care assistance is directed. Child care has become a necessity for men as well as women, for white-collar and blue-collar workers alike, and for top level managers as well

as employees just entering the work force.

Should employers provide assistance for child care? Those employers responding "yes" to this question believe that getting involved in child care helps increase recruiting, retention rates, productivity, morale, quality, and public image. At the same time, they indicated that child care initiatives decrease accident rates, absenteeism, tardiness, and turnover (2; 5; 6; 11). On the other side, those employers who say "no" tend to express concern over lack of demand, expense, liability, lack of knowledge, and equity (2).

CHILD CARE ASSISTANCE OPTIONS

Many employers feel that caring about children requires caring for children in onsite child care facilities (4). An onsite facility is only one alternative. According to the literature (2; 4; 5; 6; 7; 11; 16), the four most common options include: information and referral services, flexible human resource policies, financial assistance, and direct assistance.

Information and Referral Services

Some employers opt for Information and Referral Services, commonly called I & R. This occurs when the employer provides information to its employees about day care providers, including in-home providers and day care centers (4; 9; 11). A comprehensive I & R service involves either an in-house consultant or an outside, contract referral agency

working closely with care givers in the area. Providing newsletters and workshops for parents enables them to better understand the system and the services available.

The bulk of organizations that offer I & R appear to do so because it is one of the cheapest ways to assist employees (9). Some companies have received added cost savings by pooling their resources to form an I & R consortium.

Flexible Human Resource Policies

Human resource policies that are flexible are increasing in popularity (4; 5; 10; 13). Such policies include flextime, job sharing, work sharing, work at home, part-time work with benefits, flexible maternity/paternity leave, and flexible sick leave. All or a combination of these alternatives can allow parents more freedom, more time with the family, and less conflict between work and family obligations.

Financial Assistance

Businesses are also assisting working parents by providing financial assistance. Employers may consider a "cafeteria" or flexible benefit plan. Under the "cafeterial" plan, the employee chooses benefits from a "menu" of options up to a specified amount. The employer generally pays for a core package of benefits for each

employee, and additional benefits are available at the employee's expense (7; 16).

The most popular financial assistance arrangement offers a "flexible spending account" that is funded by voluntary salary deduction (7; 16). Typically, the employee will designate a certain amount for dependent care at the beginning of the year. This amount is deducted from the employee's pretax wages and placed in the "flexible spending account." During the year, the employer pays the care provider or reimburses the employee directly. Since the amount in the "flexible spending account" is no longer part of the employee's salary, he/she saves by paying no income or social security taxes on the money. The employer saves on social security and payroll taxes. Any money left in the account at the end of the year is forfeited.

The voucher system is another type of child care assistance that employers are offering. In some instances, the employer makes direct payments to day care providers to secure reduced rates and priority placements for employees' children. Otherwise, direct subsidies are paid for care of the parents' choosing (1). The voucher system can be fully or partially subsidized by the employer.

Direct Assistance

The most serious commitment that an employer can make is by building a day care center onsite or near the firm's operations. A number of employers have done just this (4;5; 6; 8;14). However, this is often an expensive alternative in terms of equipment, qualified day care personnel, liability insurance, and administrative costs.

Employers that want to make a commitment of this sort but cannot afford to on their own often team up with others with similar feelings. Thus a consortium of employers may build their own day care center or contract with a day care provider to operate a center for the organizations involved (3).

REVIEW OF CURRENT RESEARCH

Several studies have been undertaken in order to determine if and how organizations are involved in child care. One of the most recent efforts was a 1988 survey by the Society for Human Resource Management (12). The results indicated that 71 percent of those organizations with less than 100 employees and 63 percent of those with 100-500 employees are "not currently involved in child care." Two percent of those employing less than 100 employees noted that they are "currently providing child care assistance," while six percent of those with 100-500 employees responded that they are "currently providing child care assistance." An overwhelming majority of those noting that they are "currently providing child care assistance" cited flexible spending accounts and flexible benefit plans, respectively, as the type of assistance being

provided.

It appears that many small employers have not yet considered child care assistance programs. But, does this hold true of small employers in rural America?

The remainder of this paper will present the results of a survey pertaining to how small business owners and managers in rural America view child care assistance. In addition, a child care assistance strategy will be developed for small employers.

SAMPLE METHODOLOGY

The sample for this study was drawn from a rural, Southern county's Chamber of Commerce membership list, an up-to-date enumeration of businesses by employment size. It was assumed that the Chamber of Commerce membership list would consist of the more progressive companies in the county. Thus, the owners and managers would be more sensitive and interested in the current human resource issues like child care assistance.

This population frame consisted of 533 (N=533) members from various industries in the county. The sample size was 52 units or approximately 10 percent of the frame. Since three of the contacted businesses refused to participate in the survey, a response rate of 94 percent or 49 sample units resulted (n=49).

Using a judgment sampling technique, the field workers chose the actual sample units by attempting to assure representativeness simultaneously across several industries and employment size categories. The sample is comprised of units from the industries as indicated in Table 1. Table 2 summarizes the firms in the sample by number of employees.

The questionnaires were administered by personal interview in December of 1989. Only the owners or managers of the sample businesses were interviewed because it was believed that these individuals would know the most about the day care policies in their respective businesses.

		TABLE 1 SAMPLE INDUSTRIES	
Industry Number %			
Retail Services	10 21%*	Restaurants	4 8%
Hotels/Motels	4 8%	Building Supply/ Hardware	4 8%
Auto Dealers	4 8%		
Banks	3 6%	Department/Discount Stores	3 6%
Wholesalers	3 6%	Supermarkets	2 4%
Other Retailers	12 25%**		
Total 49 100%		Key: *	
Cleaners, Cable TV, Travel Agent, Etc.		** Flower Shop, Sign Shop, Auto Parts, Etc.	

		TABLE 2 SAMPLE FIRMS BY	
NUMBER OF EMPLOYEES			
# of Employees Number %			
Less than 25	30 61%	26 to 50	8 16%
51 to 100	9 19%	101 to 200	2 4%
		Total 49 100%	

RESEARCH FINDINGS

Of the 49 sample businesses, 96 percent (47/49) indicated that they do not provide child care assistance for their employees. Only four percent (2/49) provide some sort of child care assistance. Both of these businesses have fewer than 25 employees. One organization provides a flexible spending account that is funded by voluntary salary deduction; the other has an onsite child care facility.

Various reasons were given for not providing child care assistance. These are outlined in Table 3.

		TABLE 3 REASONS FOR NOT	
PROVIDING CHILD CARE ASSISTANCE			

Reason Number %

No need 16 34% Financial reasons 10 22%

Not enough children 6 13% Business too small 4 9% No response 3 6% No idea 2 4% Regulations 2 4% Not responsibility 2 4% Corporate guidelines 2 4% _____

Total 47 100% _____

The number of "no need" responses from Table 3 is rather interesting when responses to other questions are considered. The small business owners and managers were asked if their employees ever expressed a need for child care assistance. Sixty-three percent (31/49) said their employees have not expressed a need, while 35 percent (17/49) said their employees had expressed a need. The remaining respondent was not aware of the needs of employees. But, when asked if their employees actually use some kind of child care arrangement, 74 percent (36/49) responded affirmatively.

Even though respondents cited varied drawbacks to organization-sponsored child care, 30 percent (15/49) indicated that child care assistance was/would be beneficial to the business. Three specific benefits were mentioned. These were: convenience to the employees, morale of the employees, and less absenteeism.

Another interesting finding dealt with the respondents' knowledge of child care assistance options. At first, the researchers felt that the respondents would be totally unaware of the various child care assistance options, except possibly onsite facilities. Surprisingly, almost one-half (47 percent, 23/49) were either aware of one other option or seemed receptive to other options besides onsite facilities. In fact, 26.5 percent (13/49) of the owners and managers said they would be willing to form some type of partnership arrangement with other local businesses interested in providing child care assistance for their employees.

Ultimately, the 47 small business owners and managers not currently providing child care assistance were questioned about their intentions in the future. Fifty-three percent (25/47) said they are "not willing to provide any child care assistance for their employees." But, twenty-six percent (12/47) expressed an interest in providing child care assistance in the future. The remaining 21 percent (10/47) were "unsure."

IMPLICATIONS

Additional research is necessary in order to uncover the amount of knowledge that rural, small business owners and managers have about child care options. Rural, small business owners and managers seem to have a receptiveness toward, and at least a limited

understanding of, the various child care assistance options.

CHILD CARE ASSISTANCE STRATEGY FOR SMALL EMPLOYERS

Although the majority of the small business owners and managers surveyed indicated that they were "not willing to provide any child care assistance for their employees," a number expressed an interest in formulating a child care assistance program. Their basic comment was: How do we get started? The following strategy was developed by the authors in order to answer this question.

Step One: Familiarize yourself with the child care assistance options.

It is important that you gather information about the various child care assistance options. Specifically, you will want to inquire about information and referral services, flexible workplace policies, flexible spending accounts, flexible benefit plans, voucher systems, on/off site child care centers, and a child care consortium. Information can be obtained from public and university libraries, as well as the Department of Labor. The Department of Labor provides a computer-based, information bank "hotline" which profiles the dependent care policies of American businesses. The "hotline" number is (202) 523-4486.

Step Two: Assess employee needs.

The best way to respond to the needs of your employees is to find out the type of child care assistance that would best meet their needs. An employee survey would be the best vehicle for addressing these needs. Questions that need to be addressed are as follows. How many children are represented? What are the ages of the children? What kinds of care are they currently receiving? Are employees content with this care? How many employees attribute child care concerns to their absenteeism? How many employees attribute child care concerns to their tardiness? How many employees attribute child care concerns to other work-related problems? How can the organization assist employees with their child care needs?

Step Three: Study your business.

It is important that you conduct a thorough evaluation of the business. First, examine the demographics of your labor force. Do you have a significant number of female employees with small children? Do you have a significant number of male employees with small children? How many employees, male and female, are single heads of families?

Next, determine how much production time is lost to absenteeism and turnover. How much of this absenteeism and turnover can be attributed to child care responsibilities of your employees? Are night shifts causing problems for employees with children?

An analysis of the organization's resources is also required. Be sure and consider the projected savings of implementing a child care assistance program in terms of reduced absenteeism, reduced tardiness, lower turnover, increased productivity, improved morale, and so forth.

Step Four: Evaluate the community.

When evaluating the community, you should obtain responses to the following questions. Do child care facilities exist? Are existing facilities adequate to the need? What do the existing facilities charge per week? What are other businesses doing about child care assistance for their employees? Would other businesses be interested in a joint venture of some type?

Step Five: Analyze the options.

A thorough examination of the child care assistance options should be conducted. This examination should consider the results of the employee survey, analysis of the business, and evaluation of the community. It may be necessary to consult child care providers or experts during this stage.

At this point, a cost/benefit analysis for the various options is often useful. Then, the most viable option for your business should be determined.

Step Six: Develop and implement a plan.

The plan of action should specify what the business will do to assist employees with child care and when the business will begin providing such assistance. Specifically, what will the business provide? What will employees have to do? When will the assistance begin?

The implementation process should begin by communicating the plan to your employees. It is vital that employees fully understand what the child care assistance program entails. This understanding can be enhanced by appointing a knowledgeable employee to answer questions about the selected child care assistance program.

Step Seven: Modify the plan.

At times, it may be necessary to make changes in the plan of action. Be sure and keep open communication with your employees so that you can track needed changes. Encourage employees to present any problems they may have as well as possible solutions. In other words, flexibility is the key.

Step Eight: Evaluate the plan.

A cost/benefit analysis of any business decision is inevitable. In order to conduct a proper cost/benefit analysis, be sure and set realistic goals. For instance, how is the child care assistance program to impact absenteeism? Tardiness? Turnover? Morale? Etc.?

CONCLUSION

Child care assistance for employees is no favor; it is an investment. An examination of the financial costs involved is inevitable. But, equally important is the other side of the question: What is the cost for not providing assistance? The effectiveness of the choice is not determined by the amount of money spent, but rather by how well thought out and planned the response is to the employees' needs.

Small employers have a choice. They can take initiative by developing individual innovative solutions that capitalize on emerging demographics, or they can ignore and thereby lose their opportunity to shape programs that work cost effectively for everyone--parents, children, and their businesses.

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PUBLIC ACCOMMODATIONS FOR THE DISABLED: IMPLICATIONS OF THE AMERICANS WITH DISABILITIES ACT FOR SMALL BUSINESSES

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ABSTRACT

This paper examines the public accommodations provisions of the Americans with Disabilities Act (ADA) of 1990. Specific details regarding compliance with the Act are provided. In addition, certain ambiguities of the ADA are discussed.

INTRODUCTION

The Americans with Disabilities Act (ADA) of 1990 (2) is undoubtedly the most significant law in terms of potential impact on business since the passage of the Occupational Safety and Health Act of 1970. Enacted on July 26, 1990, the ADA protects the disabled (or handicapped) individual from discrimination in employment (Title I), public services and transportation (Title ii), public accommodations (Title iii), and

telecommunications (Title IV). Title V contains miscellaneous provisions detailing exemptions, attorney's fees, coverage of Congress, and amendments to the Vocational Rehabilitation Act of 1973.

Before the enactment of the ADA, the primary federal law addressing discrimination against the disabled was the Vocational Rehabilitation Act (VRA) of 1973 (4). However, the VRA only covers federal agencies, recipients of federal financial assistance, and federal contractors. The ADA will impose obligations that are similar in nature to those imposed by the VRA upon many more private employers and businesses, as well as state and local governments.

PROVISIONS OF THE ADA

Under the ADA, an individual with a disability is one who "has a physical or mental impairment that substantially limits

one or more major life activities, has a record of such an impairment, or who is regarded as having such an impairment" (2, Section 3). A major life activity includes functions such as caring for oneself, walking, seeing, hearing, speaking, and working.

Title I

Under Title I, all businesses with 15 or more employees will be required to disregard disabilities (or handicaps) when making employment decisions and to make special accommodations for disabled employees at their own expense, unless cost is too burdensome. The ADA, like other major civil rights legislation, includes a variety of sanctions for violators, including those engaged in job discrimination. It follows current civil rights law by allowing victims of employment discrimination to seek back pay, reinstatement, and attorney's fees.

The Equal Employment Opportunity Commission (EEOC), the agency responsible for processing and investigating employment charges, has 12 months in which to promulgate regulations implementing the employment provisions. Enforcement of employment provisions will begin on July 26, 1992.

Title III

Although the employment provisions are of concern to both large and small businesses, the ADA's most significant impact on small businesses is likely to emerge from its Title III, Public Accommodations and Services Operated by Private Entities. According to John Cerretani, Senior corporate counsel/vice president of Comerica, a Detroit, Michigan bank holding company, this section of the ADA does nothing more than "try to meet the expectations of a group of customers" (1). He continues by saying that "the debate is over, business must comply" (1) with the ADA

by making their facilities usable and accessible.

The public accommodations provisions of the ADA apply specifically to all businesses defined as "public accommodations." This term is an extremely inclusive definition and brings more small businesses under the Act's coverage than those required to meet the ADA's employment discrimination provisions. As an example of some of the business enterprises which would be defined as "public accommodations," the following list is provided: bakeries, banks, bars, beauty shops, bowling alleys, clothing stores, day care centers, dry cleaning establishments, funeral homes, gas stations, grocery stores, hardware stores, health spas, hotels, professional offices (i.e., medical, dental, legal, etc.), restaurants, shopping centers, theaters, and travel agencies. It should be noted that this list is by no means exhaustive. Furthermore, the proscription against discriminating in public accommodation is based on the type of business establishment rather than the size of the business establishment; and this applies to virtually all small businesses (not just those with 15 or more employees).

Having generally established what firms are affected by the ADA, it is only natural that the individual effects be examined. Under the Act, it is emphatically stated that "No individual shall be discriminated against on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages, or accommodations of any place of public accommodation by any person who owns, leases (or leases to), or operates a place of public accommodation" (2, Section 302(a)). This very nebulous legal proscription includes not only policies, practices, and procedures which deny the disabled access to a public accommodation, but physical barriers as well.

Though a business's policies or procedures can cause it to incur certain legal liabilities if it is found to deny access (i.e., injunctions or a fine not exceeding \$50,000 for first offenses or \$100,000 for second offenses), these can, nonetheless, be readily changed once the owner/manager is made aware of them.

The aspect of the new legislation which cannot be so easily remedied focuses on the

physical access to public accommodations and commercial facilities. Unless the owner/manager can show that it is structurally impracticable to make the facilities accessible to the impaired (and the ADA is particularly vague as to what is acceptable as such proof), he/she will be held as violating this provision and liable for its penalties.

The place of business is expected to be accessible to the "maximum extent feasible" to individuals with a disability, "including those individuals who use wheelchairs" (2, Section 303(a)). This would include insuring that those confined to wheelchairs have an unobstructed "path of travel" in and out of the public accommodations. Further, the area should be altered to allow easy access to restrooms, telephones, and drinking fountains.

When making these alterations, the Act does consider whether or not these structural modifications are "readily achievable." The term "readily achievable" is more or less equivalent to the term "reasonable accommodation" in the VRA. Both terms allude to the feasibility of the business meeting its obligations under the Act without incurring an undue hardship in doing so. This is to imply that the business can achieve the alterations without much difficulty or expense.

Four broad guidelines are provided for making a compliance determination. First, the nature and the costs necessitated with compliance must be assessed. Essentially, this involves determining what changes must be made in order to meet minimal compliance and the estimated expenses associated with these modifications.

Once the costs have been estimated, the financial condition of the individual facility under investigation must be examined. Here, the overall financial resources of the facility involved in the action are ascertained. Other factors taken into consideration at this juncture are the number of persons employed at the facility and the impact that the cost of making the alterations will have on its continued operation. For a single facility business, the "readily achievable" determination would not proceed beyond this point.

If the business has multiple locations/

facilities (in varying degrees of compliance), then the overall financial resources of the entire operation will be reviewed. This would include considering the overall size of the total enterprise. Additionally, the number, type, and location of the individual facilities would be evaluated. Again, the organization's total work force size would be a factor meriting consideration.

Finally, the investigation should examine the type of operation (or operations in the case of diversified companies) in

which the firm engages. Such an assessment should include the composition, structure, and functions of the work force. As in the previous investigations, some deference to the fiscal relationship of the specific facility in question to the covered business is authorized.

Once the designated information is collected, the investigating body is to reexamine it, analyzing it as thoroughly as possible. The investigating body will then make a determination (on a case-by-case basis) whether structural modifications are readily achievable.

Title III of the ADA incorporates remedies available under Title II of the Civil Rights Act of 1964 (3). Thus, plaintiffs have a private right of action and the right to seek injunctive relief from a judge. The remedies provision also gives the attorney general the right to bring an action in cases of pattern or practice of discrimination or in suits of general public importance. In such cases, a judge can assess a civil penalty of not more than \$50,000 for the first violation provided the facts of the case warrant such a penalty. The judge may also award monetary damages to disabled individuals affected by the discriminatory action if the attorney general so requests.

PROBLEMS WITH TITLE III

The problem with these guidelines is that they are unduly vague and ambiguous. In this respect, "readily achievable" is very similar to the "undue hardship" assessments contained in the VRA. There is little guidance for achieving consensus between the affected parties. What an owner/manager

perceives as a readily achievable modification may not necessarily be viewed as such by disabled individuals or the investigating body. In an attempt to increase the discretion of the investigators, the ADA fails to provide clear and understandable guidance to businesses as to what is expected of them in making structural modifications.

Just as important, the ADA is not explicit in informing the business community as to what circumstances exempt a business from strict compliance. If the VRA's "undue hardship" is a harbinger of events to come, then businesses may expect a more concise definition of "readily achievable" to be slowly developed through a lengthy series of judicial decisions. It would, therefore, be reasonable to expect an increase in litigation until this public accommodation issue is more fully resolved.

CONCLUDING REMARKS

The ADA has major implications for American business. Small businesses may find themselves particularly vulnerable when attempting to comply with the public accommodations provisions of the Act. Precipitated on the assumption that smaller businesses will need time to digest the Act and to comply with its new requirements, Congress has delayed the effective date of the public accommodations provisions a full 18 months from the date of the ADA's enactment. Thus, the public accommodations provisions become effective on January 26, 1992.

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A "FIRST STEP" SAFETY AUDIT FOR SMALL BUSINESS

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ABSTRACT

The importance of health and safety programs for small businesses are at a critical point. Without a health and safety program, a business could lose competitive edge. This paper presents a first step safety audit which will: (1) gauge how well a small business is doing in terms of employee safety and health and, (2) sensitize a small business owner to the type of actions management must adopt to provide an effective health and safety program for their employees.

INTRODUCTION

In the past, it has been recognized that small businesses will not have extensive safety programs. Small start-ups do not have the "organizational slack" of medium and large sized competitors. This is exemplified in the employee safety record keeping and reporting exemptions permitted firms with fewer than 10 employees by state and federal governments. But, current events in the area of health and safety preclude a small business from anything other than a total commitment in this area. For example, in many small businesses the owners may not be aware of the hazards caused by chemicals commonly used in their business. Often, information concerning potential hazards associated with these chemicals is provided to large users but may not be directly communicated to a small business since they are considered secondary users. As stated by Bex, though it may be quite unintentional, information to small users may simply fall through the cracks.[1] Even without specific legislation, it is argued that businesses have an ethical responsibility to create and promote a health risk program.[2]

The Growing Need For Safety In Small Business

It is the authors' contention that most small businesses need help in identifying what they can do to improve the safety and health of their employees, customers, and other persons passing through the premises. In the past dawdling around with safety in the new venture phase may have been worth the risk. However, recent trends suggest that the cost/benefit threshold for attending to organizational safety may occur much earlier in the life-cycle of the successful firm. Inability to predict costs stemming from poor safety can be catastrophic for the small business and thus,

employee safety is no longer in the "nice to have" category. Some emerging trends that invite early development of safety management programs for small businesses include:

1. Intensification of government regulation of small business safety. In particular, new government regulations include the Occupational Safety and Health Administration's (OSHA) Hazard Communication Standard. This standard "requires every workplace in the country to identify hazardous substances on the premises, list them, and train employees in their use." [3]
2. Soaring costs of liability and health care insurance. The liability crisis has been widely recognized and documented. Nearly every small business has been rocked by traumatic increases in the costs of liability and/or health insurance. According to Huneycutt and Wibker, "The cost of liability insurance has become prohibitive increasing by as much as 1,000 percent in one year for some firms." [4]
3. Growing propensity for employees and customers to sue or claim disability for illnesses and injuries acquired in and around business facilities and premises. Many law firms specialize in such cases and offer free services if the plaintiff receives no compensation. Juries and judges tend to be sympathetic toward the disabled employee or customer and awards often go to the party with the "deepest pocket." [5]
4. Increases in reportable injuries and illnesses in service industries. In the healthcare and motel/hotel industry, workers who are required to lift mattresses and/or patients, are reporting higher than average injury rates due to back injuries. [6]
5. Vulnerability of executives to criminal charges when there is evidence of managerial negligence in on-the-job

accidents.[7] OSHA has long possessed the power to levy fines on business firms for safety and health violations. The amounts are often substantial and have, sometimes contributed to the end of troubled businesses.[8]

Besides the threats posed by these emerging trends, lack of attention to on-the-job safety and health can have significant impact on the bottom line. In 1986 the national average number of work days lost was 63.9 per 100 full time workers. For young firms, and especially those in the new venture stage, the cost of replacing workers who miss work because of work injuries or illnesses will have serious consequences on the bottom line.

Furthermore falling below the industry average for lost time due to accidents or illnesses can cost the small business in terms of worker's compensation insurance premiums. Firms with better - than-average accident prevention rates pay lower premiums.

Finally, at least in California, a firm's accident experience may influence the amount of dividends distributed by worker's compensation fund.

A "First Step" Safety Management Audit

There is a myriad of safety rules and regulations applicable to small businesses. One almost needs an advanced degree in safety management to stay out of trouble. It is very easy for academics and government regulators to criticize poor safety management programs;--it's another thing to help the small business do something about it. Small businesses can no longer wait to develop a systematic approach to the management of safety and health in the workplace.

Even for "new venture" firms with carefully developed and implemented safety programs, the benefits are likely to exceed the resulting cost. For a small business, the first step in developing a health and safety management program is a "safety audit" conducted personally by the owner/manager of the small business. This can be done using a questionnaire designed to enable the owner/manager to evaluate their safety and health program. The primary objective of the "safety audit" is to sensitize the small business owner to the type of actions management must adopt to provide an effective health and safety program for their employees.

The questions included in the questionnaire for the proposed safety audit were developed using the existing literature on the subject. Those selected represent important parameters gauging how well a company/organization is doing in terms of employee safety and health. The questionnaire has 16 questions and the owner/manager is given a choice of 4 responses. The remaining six questions provide an opportunity for 'YES' or 'NO' responses. The first 16 questions have a score connected with their response. The same is true with

'YES'/'NO' answers. These scores directly reflect a business's/organization's efforts about a health and safety management program -- the higher the score the greater the effort. These scores were developed based on the subjective judgment of the authors. A copy of the questionnaire can be found in the APPENDIX. (An interactive version of the questionnaire will be available on diskette to attendees of this session at the conference.)

Once you have completed the questionnaire, please total up your scores for each statement you marked.

Use the descriptions given below to gauge where your business stands.

0 - 15

EMERGENCY!! Your organization/business is currently doing very little in terms of health and safety management. This is a perilous situation and you are vulnerable to all the factors discussed. At this point, it is appropriate that you apply the 80/20 rule: identify the areas where you are most vulnerable and then focus your efforts in these particular areas. That is, identify the 20% of needed changes that will bring you about 80% general improvement in your safety and health management program. It is critical at this time to use all the free professional and health advice and assistance you can hire a safety and health consultant to provide concrete recommendations on how to remedy your current situation.

15 - 30

PAY ATTENTION!! Your business may be jeopardized by a neglect of employee safety and health. It is important that you review the questions where your scored less than 1 and answered 'NO' and seriously consider implementing the implied recommendations within statements of higher value or 'YES' responses. In addition, use all the free professional advice and assistance you can and seek out and hire the services of a professional health and safety consultant.

30 - 40

CONGRATULATIONS!! Your company/organization is doing very well in the area of health and safety management. Your involvement in this area will provide benefits far outweighing the costs and may provide the competitive edge you require to be competitive. It is important at this time not to rest on your laurels but to keep up the good work and continually reassess and modify as required your health and safety program. Work on the questions in which you had a low score or responded with a 'NO'. Decide whether the risks you are taking in neglecting these areas are worth the expenditures of time and money you are saving through this neglect.

CONCLUSION

This paper suggests that a small business may not be the safest place to work. Recent trends, however, show that firms are running greater safety and health risks than ever before. A "first-step" safety and health audit is prescribed to sensitize owners/managers to the relative strengths and weaknesses of the small firm's safety and health program. The audit consists of the owner/manager responding to a 22 item questionnaire, designed to bring him or her to the point where an intelligent appreciation of the problems involved can be made. The questionnaire may not fit every organization and some parts of the questionnaire maybe more

important than others. However, if an owner/manager investigates the issues presented, the small business would be very well on the way to improving workplace safety.

Based on this self analysis, the owner/ manager can appreciate more fully the value of a health and safety programs. Perhaps even more critical is the realization that a health and safety program directly effects a firm's ability to compete in today's turbulent business environment.

APPENDIX

MANAGEMENT SAFETY QUESTIONNAIRE

To complete the questionnaire please check-off the sentence which BEST explains your current situation. Scores corresponding to each question represents the degree of effort to provide a safe working environment.

(1) DOES THE FIRM HAVE A WRITTEN SAFETY & HEALTH (S&H) POLICY?

1 No S&H written policy exists. (0-0)

2.A policy has been issued, and there is a general awareness of its existence. (0.5)

3.A policy has been issued and distributed through first-line supervision. The policy includes a "commitment to comply with S&H requirements." (1.5)

4.In addition to "3", the policy is reviewed at least annually and is endorsed at all levels of management. (2.0)

(2) IS MANAGEMENT INVOLVED IN SAFETY AND HEALTH?

1.Management is not involved in an S&H program. (0-0)

2. Management has issued a S&H policy and directives establishing the S&H program. (1-0)

3. In addition to "2", management requires that appropriate S&H reports and plans be submitted to them for review.

(1.5)

4. In addition to "3", management takes an active interest in S&H matters through required briefings and participation in program planning and execution. (2.0)

(3) DOES YOUR FIRM HAVE A SAFETY & HEALTH TRAINING PROGRAM?

1. Training in S&H policies and practices is not available or not used. (0.0)

2. Training is available and is required for supervisors. (1.0)

3. Training is required of supervisors and other individuals engaged in hazardous occupations and/or engaged in assurance activities. (1.5)

4. S&H training is required for all personnel. (2.0)

(4) IS SAFETY TRAINING CONSIDERED IN JOB ASSIGNMENTS?

1. There is little evidence that S&H qualifications are considered in making job assignments. (0.0)

2. Personnel are well qualified for assigned tasks, but consideration of safety qualification is informal. (0-5)

3. S&H qualifications are formally considered in making job assignments. (1.5)

4. In addition to "3", training in S&H policies and practices is a job requirement and there are provisions for transfer of S&H information to new or transferred employees. (2.0)

(5) DO YOU HAVE TOXIC HAZARDS LISTS AS REQUIRED BY OSHA?

1. Toxic Hazards are not formally identified. (0.0)

2. A basic list of significant toxic hazards exists. (1.0)

3. A complete list of significant toxic hazards exists, categorized by degree of risk perceived. (1.5)

4. In addition to "3", a hazards list is reviewed and updated by supervision on a regular basis as part of the S&H plan. (2.0)

(6) ARE WRITTEN PROCEDURES AVAILABLE FOR HAZARDOUS OPERATIONS?

1. Written procedures are available for only a few hazardous operations. (0.0)

2. Written procedures are available for most hazardous operations but are seldom updated and not always used by operators. (0.5)

3. A comprehensive system of written procedures exists which includes periodic updating and a formal compliance system. (1.5)

4. In addition to "3", controls are formally reviewed by personnel trained in hazards control. (2.0)

(7) IS THERE A SYSTEM FOR MONITORING NEW HAZARDS?

1. No system exists for monitoring new hazards. (0.0)

2. Informal monitoring for new hazards occurs as a supervisory function. (0.5)

3. Monitoring for new hazards is an assigned function performed and documented systematically. (1.5)

4. In addition to "3", performance of the monitoring function is periodically reviewed. (2.0)

(8) DOES YOUR FIRM HAVE AN EMERGENCY RESPONSE PROGRAM?

1. No emergency response program exists. (0.0)

2. An emergency response program exists but is not well-documented or known. (0.5)

3. A complete emergency response program is implemented, including documentation and training. (1.5)

4. In addition to "3", effectiveness of the program is periodically checked. (2.0)

(9) ARE ENVIRONMENTAL CONDITIONS MONITORED?

1. Environmental conditions are not monitored. (0.0)

2. Environmental controls are automatic, but there is no formal monitoring of the control operation. (1-0)

3. Monitoring of environmental conditions is an assigned function, performed systematically, and is documented. (1.5)

4. In addition to "3", monitoring is periodically reviewed. (2.0)

(10) ARE THERE PROVISIONS FOR AN ONGOING OCCUPATIONAL HEALTH PROGRAM?

1. No occupational health services are available. (0.0)

2. Minimal health services are available, such as first-aid stations but no system exists for their use. (0.5)

3. Medical services are available and procedures exist for their use. An industrial hygiene function exists. (1.5)

4. In addition to "3", physical examinations are scheduled regularly and correlated with possible exposure to health hazards. (2.0)

(11) ARE SUPERVISORS HELD RESPONSIBLE FOR ENFORCING S&H POLICIES AND REGULATIONS?

1. Supervisors are not held responsible. (0.0)

2. Supervisors perform S&H functions but without much guidance. (0.5)

3. Supervisors perform S&H functions, are trained and provide guidance. (0.5)

4. In addition to "3", supervisors have sufficient administrative control and authority to assure that all S&H requirements are met. (2.0)

(12) IS SAFETY REFERENCE MATERIAL AVAILABLE?

1. No reference material is available. (0.0)

2. Limited reference material is on hand but not readily accessible for line organizations. (0.5)

3. Ample reference material appropriate to institutional needs is stocked in a central location. (1.5)

4. In addition to "3", listings of material available are routinely routed to line organizations along with abstracts of

significant material. (2.0)

(13) ARE SAFETY RECORDS MAINTAINED?

1. No central storage for S&H records exists. (0.0)
2. Record storage facilities exist, but little control is exercised over issuance, and retrieval is difficult. (0.5)
3. Complete S&H record storage exists with strict controls over issuance of documents. The retrieval system is effective. (1.5)
4. In addition to "3", record storage is reviewed periodically for completeness. (2.0)

(14) ARE CORRECTIVE ACTIONS DOCUMENTED?

1. Corrective actions are unplanned and not documented. (0.0)
2. Corrective actions are unplanned but are documented when performed. (0.5)
3. A corrective action plan exists and is initiated whenever an S&H deficiency occurs. Implementation is verified and documented. (1.5)
4. In addition to "3", corrective action reports indicate that an analysis was made to determine causes of S&H deficiencies and the appropriate information is communicated to other applicable organizations. (2.0)

(15) ARE SAFETY RECORDS REVIEWED AND EVALUATED?

1. Record reviews are not used as a means of evaluating the S&H program performance. (0.0)
2. Informal evaluations of the program are based on record reviews. Such evaluations are not performed as an independent function. (1.0)
3. Formal record reviews are conducted and documented in accordance with a review plan. (1.5)
4. In addition to "3", appropriate actions are taken to improve employee safety and health based on record reviews. (2.0)

(16) DO YOU HAVE A SAFETY AUDIT PROGRAM?

1. No safety audit program exists. (0.0)
2. Independent audits are performed but reports are not submitted directly to management. (0.5)
3. Independent audits are performed for management. (1.5)
4. In addition to "3", audits are performed by teams of trained individuals. (2.0)

(17) ARE HAZARDS WARNINGS DISPLAYED? yes (1.0) no (0.0)

If yes, in addition, are they communicated to all employees? yes (0.5) no (0.0)

(18) IS EMPLOYEE HEALTH SCREENED PRIOR TO EMPLOYMENT? yes (1.0) no (0.0)

(19) IS SAFETY A CONDITION OF EMPLOYMENT? yes(1.0) no (0.0)

(20) IS PROTECTIVE CLOTHING AND EQUIPMENT PROVIDED? yes(1.0) no(0.0)

(21) IS THERE A SAFETY COMMITTEE? yes(1.0) no(0.0) If yes, does the committee meet regularly? yes(0.5) no(0.0) Are the committee minutes recorded? yes(0.5) no(0.0)

(22) HAVE YOU SET GOALS FOR PREVENTING OCCUPATIONAL INJURIES? yes(1.0) no(0.0)

If yes, are they measurable? yes(0.5) no(0.0)

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TECHNIQUES FOR AN RESULTS OF IMPLEMENTATION OF AN EMPLOYEE INVOLVEMENT PROGRAM IN A SMALL HIGH-TECHNOLOGY FIRM

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ABSTRACT This paper reports the results of an employee involvement program on members of a small high tech firm. The areas of behavior (commitment) of employees and attitude of these employees toward management are described. A technique for the implementation of such a program is presented.

INTRODUCTION

A Brief Industry Background

The computer evolution started affecting instrumentation in the early 1970's when manufacturers incorporated microprocessors in their products to create more intelligent instruments. Since that time instruments have gotten smarter, often containing microcomputers of greater power than the average personal computer (PC).

This evolution in instruments can be seen even with the basic volt-ohm-meter (VOM). The first VOM was little more than a meter and switch-selected range resistor. This simple instrument has evolved into the digital multimeter (DMM) of today. These DMM's, when interfaced with a computer, make a powerful data acquisition system.

The next step in this evolution was the reducing of the DMM to a single printed circuit board that plugs directly into the computer. This eliminates the cabinet, display, switches, interface and power supply from the DMM. The instrument can no longer operate "stand-alone," but this is a small penalty compared with the cost reduction achieved.

Relevant Research

The concept of employee involvement (EI) in the modern era was introduced as quality control circles (QC) in 1962 by Dr. Kaoru Ishikawa and the Union of Japanese Scientists and Engineers (JUSE) as a tool to enhance quality of production by Japan's large firms involved in the manufacture of durable goods (15). In the United States the first EI program was formed in 1971 at General Motors' Tarreytown, New York assembly plant, grew to 300 programs in 1979, and to over 3,000 in 1980 (15)! Employee involvement beginnings can be traced to the concept of participative management and self control originated with large firms in the private sector and was first practiced by the DuPont company after World War I. By the mid 20's, Alfred P. Sloan, Jr. of General Motors used the term "Management by Objectives and Self Control" systematically with

great conceptual clarity. In the public sector the basic concepts were also strongly advocated by Luther Gulick and his associates in the mid and late 30's in their studies of the organization and administration of the Federal Government (10).

Certainly today, as in the beginning, employee involvement seems to have become more popular among the large multinational conglomerates than it is among the smaller high-tech firms. It is more discussed as a tool of the large, rapidly expanding, high technology-type firms (1) (12) (16) (22) (26). Much of the literature on the subject of employee involvement has been limited to big business and large government agencies with conclusions based on a comparative analysis (1) (7) (8) (9) (16) (22) (26).

Smaller high-tech firms are not implementing employee involvement for a variety of reasons which include: 1) the belief that EI is a tool that only big business can understand; 2) the belief that it requires a staff of specialists that only a large firm can afford; and 3) the lack of perceived need (5) (11). This article dispels the above and points out the benefits a small high-tech firm can derive from an employee involvement program.

The objectives of this study were: 1) to generate and evaluate empirical data in order to determine what influence EI would have on members of a high tech firm in the areas of behavior (commitment) of employees (4) (6) (18) (24) (27) (30) (31) and attitudes of these employees toward management (leadership) (10) (21) (25) (27) (28) (29) (30); and 2) to report techniques that were utilized by a consultant in introducing this EI program into an emerging high-tech firm.

Employee Involvement -- A Tool of participative Management

An employee involved program is a process whereby a group of workers doing the same or similar work in the same department or work area meet regularly and voluntarily (usually once a week on company time) to discuss problems associated with their jobs. The group's objective is to identify the real cause of a problem and to discover way(s) to eliminate that cause.

This process implements the behavioral theories of Maslow and McGregor with the quality concept of Deming. This process is a subset of the broader concept of quality of work life which links productivity, motivation and job satisfaction through recognition of the importance of the employees' perception of their individual work contributions (2) (4) (7) (25) (27) (30) (31).

THE BEGINNING GROWTH OF DATA INSTRUMENTS

Overview

Data Instruments incorporated on April 15, 1984, with the charter to design and market state-of-the-art electronic instrumentation for the personal computer market.

Data's success bordered on exceptional. It's net income rose from -\$71,000 (1984), -\$27,000 (1985), to +\$130,000 (1986), +\$210,000 (1987), & +\$370,000 (1988).

Data markets it's products to small portion of the ever-expanding personal computer market, joining a number of manufacturers who are in the "personal instrumentation" business. These companies range from printed circuit board manufacturers to system manufacturers. Data does not compete directly with any of the current participants but in stead identifies and fills holes in the "personal instrumentation" market.

The DM-100 series was Data's first product. This instrument, designed for the APPLE and IBM user, is a printed circuit board plug-in that allows the user to make automated measurements of voltage, resistance, and frequency. The DM-100 is positioned between the traditional approach of interfacing a tabletop DIGITAL MULTIMETER to a computer and low precision plug-in boards. The DM- 100 is a unique approach to high-precision, automated measurements.

The next product was a data display scroller. This product allows a computer user to display data as a continuously scrolling graph on the computer's CRT while the experiment is in process. The present approach is to display data using a graphics controller after all the data has been acquired. Since personal computers are not capable of efficient simultaneous acquisition and display of data, this product will release the computer of the display task and give the user immediate feedback. The APPLE version of this product was released in the first quarter of 1985. A version addressing the rest of the market, including IBM, was released in the third quarter of 1985.

Marketing

The company concentrates on two major personal computers - the APPLE and the IBM PC. There are presently more than 1 million of each of these machines in the field, with APPLE having the original edge due to its greater installation base. IBM has become the standard due to its greater installation base and therefore has become the industry leader. Most technical applications of personal computers are based on one of these two machines.

A realistic estimate of the percentage of these machines going to technical application is 20%. Data will be profitable by placing its product in less than 1% of these machines, or less than .2% of the total number of APPLE and IBM personal computers.

There are a number of companies marketing add-on data acquisition boards for PC's. They tend to be multichannel analog input-output boards typically for low to medium resolution stimulus/measurement applications. The DM-100 product is unique in the market place, providing a low cost-method of making automated, high-precision measurements of voltage, frequency, of resistance.

The current alternative is a systems digital multimeter communicating with a computer via the IEEE-488 instrument base. The cost of such an instrument is typically in the \$1000-\$2000 range. Additionally, an IEEE-488 interface must

be purchased for the computer at a typical cost of \$500, yielding a total system cost of \$1500-\$2500. Clearly, a plug-in board at \$550 is a more cost effective solution.

The DM-100 finds applications in any industry making precise measurements of voltage, frequency, or resistance. In the analytical chemistry market, one of the major users of personal computers, the product can be connected to spectrophotometers, fluorimeters, PH meters, chromatographies, and scales.

Another major user of the board will be companies involved in automated test and calibration of instrumentation. This includes the manufacturers of such instrumentation, as well as many electronic service and rental companies.

APPLE computers have appeared in medical research laboratories, research hospitals, and universities all across the country. These institutions are using them to automate their experiments as well as to reduce collected data. Typically, they are interested in precision measurements taken from resistance temperature devices (RTD's), various flow and pressure transducers, as well as from low-level analog voltage sources. A key requirement for applications is that the equipment be electronically isolated. Since most of the available data acquisition boards are neither isolated nor precise, this is a key selling advantage for Data's boards.

The company advertises in industry trade journals such as American Laboratory, Instruments and Apparatus News, Electronic Design, laboratory Equipment, Physics Today, and Byte Magazine. Leads generated from these advertisements are followed by Data's representatives. Advertising consists of 2/3-pages, 2-color ads enhanced by a two-color product brochure and multi-page Product Description to provide additional product information. Advertising will become more intense as sales begin to generate cash.

Data has four manufacturer's representatives under contract and is actively soliciting more to achieve total domestic representation.

Key Personnel

One of the principle founders of Data Instruments, Inc. was James J. Flower. Flower developed his initial expertise in electronics while working for Gould Inc. (Instruments Division) in Cleveland from 1977-1978 as a design engineer. At Gould, Flower was responsible for the design and production of a system named "speed gage", a multi-capacitive transducer and microprocessor electronically controlled gaging system.

Flower then moved to Gilford Instrument Laboratories in Cleveland from October 1978 until April 1984. Gilford manufactures and markets spectrophotometer based instrumentation. The two main categories of products are research and clinical chemistry analyzers.

The design of these products utilizes the knowledge and effort of chemical, electronic, mechanical, and software engineering. Flower had total electronic responsibility for four major systems. Flower's educational background is an engineering degree from Cleveland State University in 1976.

Roy W. Hart, the other principal founder, also developed a wide range of experience at Gould from 1976 through April 1984. Hart moved through the levels of application engineer, design engineer, senior design engineer, and product manager. In the latter position, Hart was responsible for all market and business aspects of assigned products, including market research and analysis, business planning, marketing/engineering, coordination, and new product introduction. Hart's education includes an engineering degree from the University of Dayton in 1976, and an M.B.A. from Case Western Reserve in 1983.

Flower's insight into the expanding opportunities of computer application in the instrumentation field ignited the entrepreneurial thrust that resulted in his convincing Hart to combine their talents in the Data venture.

Planning for the Future at Data

Both Flower and Hart were pleased with positive cash flow in 1987, but they were concerned with maintaining the innovative open climate among employees that both identified as Data's competitive strength. In 1987 they retained the services of a consultant to implement an Employment Involvement program.

METHODOLOGY

Sample

The firm in this study is a high-tech company in northeast Ohio with annual sales of nearly \$3.2 million and total employment of thirty six full-time and twelve part-time employees. Only twenty two full-time employees participated in the program and the study. These twenty two employees were with the firm at least one year which included a four month training period and the first eight months of the employee involvement program. The remaining fourteen employees had less than one year with the firm and were not included in the training and/or implementation of the program.

Questionnaire data were collected from the same twenty two members for two time periods: pre-employee involvement phase and postemployee involvement phase. All individuals were involved in the use of EI training conducted prior to initiation of the program. Nine respondents were male and thirteen female with the breakdown according to the three organizational levels and types of work (line - staff) as follows: two top-level line; one top-level staff; eight middle-level line; four middle-level staff; two lower-level line and four lower-level staff.

Procedure

The researcher worked directly with the respondents which included a four month employee involvement program. The study was approved and supported by top management, questionnaires were distributed by

and returned to the researcher (who had no affiliation with the firm) and the results remained anonymous.

The model utilized for the procedural section of the study contained the following phases:

Interview Phase

During this phase the researcher attempted to develop a non-threatening environment, trust, confidentiality, openness, and rapport. Members were informed that all responses were anonymous; no one within the organization would see individual questionnaires; only aggregate data would be included in the feedback phase; and individuals not willing to complete the questionnaire were not required to do so.

The Researcher

A. Explained to employees at each level of the organization the management's goals, i.e. 1) to determine what problems existed in the organization as perceived by members at each level through use of questionnaire 2) to generate options 3) to recommend solutions 4) to implement change

B. Explained the questionnaire to members, responded to questions regarding the questionnaire, his role, etc.;

C. Explained the necessity for objectivity in responding to the questionnaire.

Data Gathering Phase

This was the sole responsibility of the researcher. Respondents were instructed to complete the questionnaire at home and return by inter-office mail. Questionnaires were completed for the pre-employee involvement training phase (T1 Fall 1988) and the postemployee involvement implementation phase (T2 Fall 1989) by the same sixty-two respondents. Again, anonymity was emphasized; respondents were not required to sign the questionnaires.

Analysis of Data Phase

Conducted independently by both the researcher and members of top management of the firm.

Implementation Phase

This phase was the sole responsibility of the researcher with administrative support. In this study the implementation phase consisted of 12 three-hour sessions conducted over a four-month period in which the principles and concepts of a successful employee involvement program were explained to three separate groups consisting of members from all three levels of the firm.

Feedback Phase

Results of both the pre-employee involvement questionnaire and the post-employee involvement questionnaire were discussed individually with each participating member of the organization and the

researcher. In addition, the researcher was available for open-ended types of individual sessions which were conducted in confidence. (See Figure I).

FIGURE I

PRECEDURAL MODEL

INTERVIEW PHASE LEVEL I LEVEL II LEVEL III Developing Climate for Researcher Development of Trust. Confidentiality. Non-threatening Environment

DATA GATHERING PHASE Pre Survey (T1) By Researcher Post Survey (T2)

DATA ANALYSIS PHASE Analysis of Data by Analysis of Data by Researcher Top Management

Joint Analysis of Data by Top Management and Researcher

IMPLEMENTATION PHASE Implementation of EI Program

FEEDBACK PHASE Pre Survey Feedback of Resources Post Survey Pre and Post Surveys 1.a. What were problems ? What changes occurred ?

MEASUREMENTS OF VARIABLES

A modification of the Likert questionnaire (17) (18) per Melcher (21) was utilized with the scale expanded from one to nine. In addition to being used in Likert's own work, the original instrument has been employed in recent evaluations of O.D. Programs (13) and a human relations program (14). Behavioral dimensions were measured as follows: individual behavior as measured by job involvement, work-goal commitment and sense of achievement; intra- group behavior lateral (behavior among co-workers), as measured by confidence and trust, job-related communications and cooperation patterns; intra-group behavior vertical (behavior between leader and subordinates), as measured by trust, flow of requested information, communication screening and acceptance of decisions of immediate superior; inter-group relations lateral (behavior between work groups), as measured by confidence and trust, interaction patterns and cooperation. The dimensions of attitudes of subordinates toward managers (leadership) were measured as follows: representation (superior emphasizing either need of subordinates or needs of higher management); interaction (close relationships between superior and subordinates); standards (amount of shared responsibilities in setting standards); goals (shared responsibilities in setting goals); participation (in decisions directly related to task performance); direction (close to no direction from superior); rule enforcement (strict to loose adherence); and motivation (use of rewards vs. sanctions).

FINDING/IMPACT OF THE INTERVENTION PROCESS

Table I indicates that there were significant changes in four of the eight dimensions of attitude of employees toward management (leadership measured). Changes in one dimension, goals, was significant at the .01 level and standard participation and

motivation were significant at the .10 level using the t-test. The change in representation, interaction and direction and rule enforcement were found to be insignificant.

Table I also indicates that there were significant changes in five of the fourteen behavioral dimensions measured (all at the .10 level).

Within the category of individual behavior the dimension of work goal commitment increased significantly (.10 level) from the pre- space to the post-employee involvement program. In the category of intra-group behavior lateral, again only one of the dimensions, cooperation patterns, increased (.10 level). Of the five dimensions measured within the category of intra-group behavior one was significant at the .10 level. This was trust upward.

The changes in the dimension of cooperation within, the category of intergroup relations lateral, was found to be significant at the .10 level. Confidential trust and interaction patterns were found to be insignificant.

SUMMARY AND CONCLUSIONS

Hopefully this paper has described, through a longitudinal approach, both the influence of a consultant's intervention and the use of an employee involvement program has had on a small high tech firm. Evidently the original climate created by Flower and Hart was very employee oriented since four of the eight dimensions of attitude of employees toward management indicated any change in the post EI time period and one at the .01 level. That dimension being, not surprisingly, goals.

Further evidence that the Ei climate in was unusually employee oriented was the response to the fourteen behavioral dimensions. Five dimensions changed significantly and all at the .10 level.

Hopefully, the EI program will continue to maintain a productive climate.

This study also reported techniques that were utilized by the consultant in introducing employee involvement into a small high firm; techniques that are affordable to this type of firm.

Obviously, some of the positive effects described above are a result of the introduction of the employee involvement program. However, there is no attempt to isolate the specific causal factors due to the limitations of the methodology utilized in this study.

Of course, the findings of this research are generally limited to the research setting described; however, generalizations could be derived from more broadly-based research settings that could support, modify or refute the findings of this study.

TABLE 1 PROFILE OF CHARACTERISTICS OF THE ORGANIZATIONS(a) ----- ----- Characteristics of the Organization Pre E1 Post E1 -----

--- LEADERSHIP (Managers) Representation (superior representing 6.16 6.70*** either needs of subordinates or needs of higher management) Interaction (between superior and subordinates) 6.30 6.40***

Standards (amount of shared responsibilities 5.40 7.20*** in setting standards) Goals (shared responsibilities in setting goals) 4.10 6.85* Participation (in decision making) 5.15 6.68** Direction (close vs. no direction from superior) 5.85 6.15*** Rule Enforcement (strict vs. loose 5.75 6.25*** adherence to rules) Motivation (use of rewards vs. sanctions) 6.25 7.10**

BEHAVIORAL PATTERNS -- INDIVIDUALS Jobs Involvement 5.70 6.30*** Work-Goal Commitment 6.45 6.00*** Sense of Achievement 7.45 7.55***

BEHAVIORAL PATTERNS -- INTRA-GROUP LATERAL (among co-workers) Confidence and Trust 5.70 7.00*** Job-Selected Communications 6.45 6.00*** Cooperation Patterns 5.10 7.00***

BEHAVIORAL PATTERNS -- INTRA-GROUP VERTICAL (Between Leader and Subordinates) Trust Downward 5.40 5.95*** Trust Upward 6.45 6.00*** Flow of Requested Information Upward 5.40 6.00*** Communication Screening 7.28 7.20*** Acceptance of Immediate superior's Decisions 4.42 5.00***

INTERGROUP RELATIONS LATERAL (Between Work Groups) Confidence and Trust 6.20 6.78*** Interaction

Patterns 5.20 7.00*** Cooperation 5.45 6.95*** ----- * Significant at the .01 level ** Significatn at the .10 level *** Not Significant

(a) Questionnaire and continuous (see below) used in this research are modifications taken from Structure and Process of Organizations: A Systems Approach, Arlyn J. Meloner. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1976, Appendix A, pp. 435-445. 1-----to-----9 Low High

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ABSTRACT

"Managing Diversity in the Small Business Workplace" discusses how America's demographic revolution will effect the management of small businesses in the near future. It describes the changing composition of the American workplace, highlights the implications of these changes, and describes a rationale and a set of implementation guidelines for a small business diversity program.

INTRODUCTION

Twenty years ago Neil Armstrong took "one small step for man, one giant step for mankind." Few could foretell the incredible impact that space research would have on current technology. From microwave ovens to cordless car phones, lives have dramatically changed as a consequence of the effort to put an American on the moon.

Even more revolutionary has been the impact of social trends which became visible in the 1960's:

- * Betty Friedan's *Feminine Mystique* was a manifesto for the equality of women in education and the workforce;

- * Martin Luther King's "I Have a Dream" speech was a clarion call for equality for Blacks.

- * Caesar Chavez's leadership of a successful boycott of grapes brought national attention to the plight of Chicano migrant workers.

- * The "Special Olympics" highlighted the capabilities of the handicapped.

- * Asian boat people began migrating to the United States looking for freedom from war and the opportunity to learn and to succeed.

As the Hudson Institute's *Workforce 2000* and other future oriented publications have demonstrated, these trends are now having -- and will continue having -- significant impacts on how American small businesses recruit, train, retain, and promote their workers. (1)

This paper 1) highlights key facts regarding the demographic revolution; 2) assesses the implications for small business management; 3) demonstrates why small businesses should develop diversity programs; and 4) outlines steps for implementing a diversity program.

The Demographic Revolution

1. The 1990's will confront American small business with significant labor shortages especially for young workers.

The workforce will be growing at its slowest rate since the 1930's. John Naisbett, author of *Megatrends*, points out that there will be 4 million fewer entry level applicants in the 1990's than there were in the 1980's -- simply because there will be more people leaving the workforce than will be entering it.

Young people will be especially scarce, with two million fewer people aged 16-24, or an 8% drop, in this segment during the 1990's.

In fact, the Tower-Perrin survey indicates small businesses are already having difficulty filling current positions. (2)

2. Small service businesses will create virtually all of the new jobs, most of which will require higher levels of skill and education than ever before.

Continuing the trend of the 1970's and 1980's, virtually all new jobs will be created by small business, primarily in the

service sector. Over half the new jobs will be in service occupations, administrative support, and marketing and sales. Most of these jobs require above average scores in reading, math, and language. In fact, of all new jobs that will be created over the 1984-2000 period, more than half will require some education beyond high school and almost a third will be filled by college graduates.

Whereas today, only 22 percent of all occupations require a college degree, 30% of new jobs will require a college degree. This figure underestimates the trend, given that many jobs currently held by high school graduates, such as technical salespeople and managerial accountants, will be filled in the future by college graduates.

In fact, "jobs that are currently in the middle of the skill distribution will be the least-skilled occupations of the future, and there will be very few net new jobs for the unskilled." (3)

This is disturbing given the results of a study the US Dept. of Education conducted which showed that among 21-25 years old, large numbers of workers lack basic skills:

- * 40% of Whites, 60% of Hispanics, and 75% of Blacks could not locate information in a newspaper or almanac.

- * only 25% of White, 7% of Hispanics, and 3% of Blacks could decipher a bus schedule.

- * only 44% of Whites, 20% of Hispanics, and 8% of Blacks could correctly determine the change they were due for the purchase of a 2-item restaurant meal. (4)

The fastest growth categories: lawyers, natural scientists, and health professionals require the highest level of ability in reading, math, and language.

3. Not only will the labor market be tighter, it will also be more diverse.

It will be more female, more nonwhite, and more mature.

- a. White males will make up only 15% of all new labor entrants in the next 10 years.

- b. The biggest impact will be "the feminization of the workforce." Sixty two percent of new entrants will be women, including 42% white native American women, 13% black native American women, and 9% women who have immigrated to the US.

Over half of the women joining the workforce will have children at home. In fact, the majority of children under six will have mothers in the workforce.

Most working mothers want part-time employment, flexible hours, or stay-at-home jobs. As the Hudson Report concludes, "If employers fail to provide sufficient jobs with flexible working arrangements, more mothers may choose to leave the labor force during their child rearing years, further reducing the numbers of new workers entering the workforce." (5)

- c. Native nonwhite Americans will make up 20% of all new workers.

- d. Immigrants will constitute 22% of all new workers. In fact, two thirds of the world's global migration will be to the United States. By 2000, people of Hispanic origin will make up 20% of the total US population. And cities such as San Francisco will have Asians as a majority of their citizens early in the next century. (6)

- e. In addition, the American workforce will be "middle aging" in the years ahead, with the average age climbing from 36 to 39 by 2000. (7)

4. Ethnic minorities are exercising increasing market power.

Blacks and Hispanics make up a \$425 billion annual consumer market, one that will grow to \$650 billion by 2000, a market larger by far than our combined total exports to Japan and Canada, our two largest international consumers. (8)

Implications For Small Business

These demographic trends have important implications for small business today. Managers will need to change the way they recruit talent. And they have to create multicultural work environments that will allow their business to value and profit from the

diversity of the new labor force mix of the coming decades. In short, small business organizations that are to be successful in the twenty-first century are going to have to begin implementing changes now.

1. organizations will have a much more difficult time than in the past in recruiting talent.

Not only will there be fewer applicants from which to choose, but because of labor shortages, they will have to work harder to retain the employees they do successfully recruit.

Compounding the problem will be the behavior of large businesses, which will be dipping more deeply into the labor pool. This means small businesses will need to raise incentives to attract and retain workers, increase the productivity of existing staff, equipment, and methods, or recruit more from a pool of nontraditional applicants.

They will be recruiting not only women and a variety of ethnic minorities, but also others who differ from the mainstream in age, appearance, physical ability, experience, and lifestyle. (9)

2. To attract excellent talent, small businesses will have to implement successful diversity programs.

As Burnell Robers, CEO Mead Corporation, has pointed out, one of the biggest challenges facing organizations in the 1990's will be fostering "the fundamental values of the corporation without stifling the creative and productive talents" of diverse employees. (10)

Rationale for a Diversity Program

Small business leaders should view promoting diversity as more than a business necessity -- they should view it as a solid business decision -- with a positive rationale behind it. As Rosabeth Kantor shows in *The Change Masters*, companies with progressive human resource policies have higher longterm profitability and financial growth than their non-aggressive counterparts. (11)

Done well, a diversity program can result in improved profitability because of four factors: 1) better decision-making; 2) improved ability to deal with customers; 3) better management of all workers; and 4) better ability to recruit the best of all talent available.

1. A diversity program leads to more creative and effective decision-making.

For example, Nancy Woodhull, President of Gannett News Media concludes that USA Today has been successful because readers find its format and news stories interesting because they reflect the insights and active involvement of a diverse group of employees,

including women and minorities, both young and old. (12)

2. A diversity Program improves an organization's ability to meet the needs of customers.

Business success in large part is a reflection of a superior understanding of consumers and their needs. To sustain this superior understanding of consumers, small businesses must develop a workforce that reflects the demographics of its customers. And who better knows the needs of women, Blacks, Hispanics, Asians, the handicapped, the dual career family, and the single parent family than women, Blacks, Hispanics, Asians, the handicapped, dual career couples, and single parents?

Promoting diversity can also help on the international front, an area of major opportunity for American small business. Markets both at home and abroad are becoming more competitive and demanding. Therefore, it is critical that

organizations develop workforces that are effective in dealing with a diversity of cultures, not only within their own organizations, but also in terms of the workforces of their national and international suppliers, distributors, and customers.

Speaking to this point, Felice Schwartz observed in a recent issue of the Harvard Business Review that black women often enjoy significant success in the international arena, an arena which is becoming more and more important to American small businesses. (13)

3. A diversity program will help develop better management of all company talent.

Participants from all levels of organizations have commented that diversity training has broadened their horizons and expanded their enjoyment of different people. Not only do they find that they appreciate others more, they also find their coworkers appreciate them more now that they better understand each other.

Diversity training also prepares managers for the reality that in the future they will increasingly be teachers and nurturers of highly specialized professionals, knowledgeable workers who often will have more detailed knowledge of job-relevant subjects than they do.

Thus, it is important to have a program to develop and reward managers who can effectively manage people in what Peter Drucker calls "turbulent times." As he points out, increasingly supervisors must act as assistants, resources, and teachers. And the new elements in the labor force -whether they are physically handicapped, working part-time, single parents, or minorities with various ethnic backgrounds -- require different leadership than supervisors have traditionally been trained to give. (14)

4. A diversity program also improves the ability to recruit, develop and retain the best of all available talent.

Workers will be attracted to companies in which they know they can succeed on merit and in which their ideas will be listened to and respected, regardless of race, gender, handicap, or ethnic origin.

Implementing a Diversity Program

So far, this essay has discussed why, given that the workforce of the future will be highly diverse, small businesses begin now to develop work environments which encourage diversity.

Now it turns to the question of implementation -- the steps small business organizations can take to implement successful diversity programs.

1. The first step is to gain commitment from leadership to make the development of a multicultural environment a top priority.

The Tower-Perrin survey shows that top management support is crucial for success. "Among organizations where concern about labor shortages is reflected in strategic plans, 42% recruit nontraditional workers, such as the handicapped or elderly and 51% apply a marketing approach to hiring.

By contrast, among those that have not yet translated concerns into specific plans, just 16% recruit from nontraditional sources and only 35% market to prospective candidates." (15)

Unfortunately, the survey also revealed large businesses were far more likely to fall into the former group and small businesses in the latter group.

An initial step for top management in developing a diversity program is to inform its employees of its strong commitment to diversity. For example, top management at Procter & Gamble issued the following Multicultural Vision statement: Procter & Gamble is a multicultural organization whose members are committed to the business value of a diverse workforce. We achieve a full contribution from all segments of our workforce advantaging or disadvantaging no one as a result of cultural background. We fully develop and challenge each individual's talents. Our diversity has increased our ability to market products that give us a competitive advantage. We are a model for the entire business

community and proud of it.

2. The second step is to align the organization with these goals. The key to success here is demonstrating that diversity is not simply an equal opportunity commitment, but rather a business decision which effectively prepares the organization for the future. Diversity training -- with visible top management support -- often is effective in gaining support for diversity programs among middle management as well as administrative and technical workers.

3. The third step is to build a diverse organization through effective recruiting, an area where many small businesses need to improve.

Small business, in general, is far behind their larger counterparts in this area. Companies that recruit less than 75 entry level workers annually are only half as likely as companies that hire 300 or more entry level workers annually to have articulated diversity programs. (16)

Small business managers should investigate making more intensive use of placement office interviews, internships, presentations on college and high school campuses, and community involvement. Successful recruiting also requires a commitment to meeting numerical targets. To be successful, small business organizations must set goals. Experience indicates that if an organization does not have a female minority goal, it will find it does not have female minorities on its workforce.

Recruiting, however, is only an initial step.

4. The fourth step is to provide growth and development opportunities for all.

The key to the success of a diversity program lies not simply in meeting statistical targets, but also in creating an environment in which people focus on sharing ideas freely on how to take advantage of business opportunities without interference from nonrelevant factors, such as race, gender, religion, or physical handicap.

Thus, first class training and development opportunities must be made available to each individual. Yet a great majority of small businesses are lacking in this area. The Tower-Perrin survey indicated that over two-thirds of companies, and more in the small business sector, spend less than \$2000 per year on any kind of training. Yet in light of the facts about the growing skills gap between what abilities new jobs will require and the inadequate preparation in language and mathematical skills of many young adults, investing in training has become a necessity, not an option. (17)

Small business organizations must also recognize and reward "diversity champions," managers who advocate diversity and mentor employees on how to benefit from diversity. In addition, it means that organizations must create a corporate environment that promises involvement, commitment, recognition, and system changes which guarantee the continual improvement of the work environment.

It also means tracking results and holding managers accountable for their behavior. Small business managers must document -- as part of their annual performance review -what they have done to help create a successful multicultural environment in their areas of responsibility. (18)

And small business organizations should not expect their new employees to do all the adjusting. They should work to achieve mutual adjustments, where employees work together to benefit from their differences, rather than argue about them.

These adjustments include taking into account the family circumstances of employees. Small business should consider a variety of techniques to adjust to changing lifestyles, including cooperation with a high quality day care center, flextime, job sharing, "mommie tracks," sick leave care for children, pregnancy leaves, cafeteria style benefits, and part time work.

Part of the adjustment includes making sure promotions and salary increases are based on contribution, with no one disqualified because of gender, race, ethnic origin, religious creed, or physical handicap.

Ultimately, in the twenty-first century, leadership positions in small business should mirror the race, gender, and

lifestyle make-up of the entire workforce.

This is not to say that implementing an effective diversity program is easy. It is not. Budget limitations, inflexible management styles, racial and gender biases all must be identified and overcome.

In addition, managers must be trained to appreciate the attitudinal and lifestyle differences of their employees. This is significant because it means that a uniform set of responses to employee behavior, recommended in such books as *The One Minute Manager*, which has proved to be highly popular among small business managers, may backfire. (19)

For example, some Native American and Pacific Rim employees have been penalized for appearing to lack leadership because they believe it is immodest to champion their own causes.

Some Asian and female employees do not want to be touched, which they perceive as being overly personal and familiar, not the honest camaraderie the manager intended.

Some women and men are uninterested in talking sports, while others feel uncomfortable in highly formal settings, such as country clubs, particularly those clubs that in the past have had histories of discrimination.

In short, because of these cultural differences, small business managers will have to adjust their management styles to understand and respect the feelings of each individual in their workforce.

Last, small businesses will have to invest additional effort into some employees, especially those who have excellent potential, but need extra development because of social, cultural, and educational deficiencies. In particular, small business leaders must take the

initiative to form partnerships to improve America's much-maligned public education system.

Operational Guidelines

While there are few hard and fast rules for successfully taking advantage of the opportunities a diverse business environment provides, the following key principles are good guides to management behavior:

- * Develop an environment in which no group has an advantage or disadvantage because of gender, race, ethnic origin, religion, handicap, or lifestyle.
- * Gather data on progress toward diversity -- this includes having multilevel cultural task forces, meetings with minority employees, and comprehensive surveys of company attitudes.
- * Conduct training in diversity for all employees.
- * Follow up training with accountability.
- * Make sure all employees share the burden of adjustment, not only minorities, the handicapped, and women.
- * Promote qualified people from all groups to highly visible positions. This will help reinforce the idea that promotion is based on contribution, and not on being a member of a preferred group.
- * Work to continually improve the working environment for all employees. (20)

James E. Preston, president of Avon, has observed that the United States is not a melting pot, it is a mosaic, "composed of many cultures, many races, many colors, many religions." He believes we all have to recognize that "America's greatness is a result of the fact that we are this beautiful mosaic, the only one in the world." (21)

Small business managers should now move forward in creating effective multicultural environments that benefit from the everchanging American mosaic.

Just as the space program has revolutionized technology from microwave ovens to nonstick surfaces to heat resistant materials, so will the social and demographic revolution change the way that Americans will recruit, train, retain, and promote its increasingly diverse workforce.

Small businesses that now incorporate an emphasis on managing diversity as a focal point of their human resource development programs will reap the benefits of a sustained competitive advantage in the American and international marketplace.

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4. Cited in Johnston & Packer, pp. 102-103.

5 Johnston & Packer, pp. xx, 85-89.

6. Copeland, "Learning to Manage a Multicultural Workforce," *Training*, (May 1988), p. 50.

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8. Cited in interview with George Hale of The Procter & Gamble Co.

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14. P. Drucker, *Managing in Turbulent Times* (New York: Harper and Row, 1980).

15. Tower-Perrin, pp. 2-3, 15-16.

16. Tower-Perrin, pp. 2-3, 15-16.

17. Tower-Perrin, p. 3.

18. Copeland, "Making the Most of Cultural Differences," *Personnel*, (June 1988), p. 60. See also, R. Thomas, Jr., "From Affirmative Action to Affirming Diversity," *Harvard Business Review*, (March-April 1990), pp107-117.

19. L. Copeland, "Learning to Manage a Multicultural Workforce," *Training*, (May 1988), p. 50.

20. Nelton, p. 21.

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ABSTRACT

A major concern of most business organizations today is hiring and retaining quality personnel given changes in employee demographics and work/family values. This paper suggests that nontraditional scheduling presents a viable approach for small businesses to attract and retain quality employees.

The paper first explores the changing nature of the workforce, both in terms of demographics and attitudes concerning balancing career/family obligations. Though women and/or clerical employees have typically been the group(s) targeted for nontraditional work schedules, evidence is presented to suggest that alternative work schedules should be available for broader groups of workers, specifically, men and professional/manager employees.

Various approaches to nontraditional scheduling are presented, both full-time and part-time options. Job-sharing, when two employees share one full-time position, is also discussed. The paper explores advantages and implementation concerns that should be considered by small businesses before implementing a nontraditional work schedule.

The authors conclude that small businesses must embrace some major shifts in personnel policy to attract and retain quality workers. How small businesses treat their people could be the variable that distinguishes them from their competition.

INTRODUCTION

A key ingredient for the success of most businesses is the quality of their employees--small businesses are no exception. A major concern of most business organizations today is hiring and retaining quality personnel given changes in the demographics and values of employees. Though small businesses' personnel policies may be somewhat limited since they lack many resources available in larger organizations, the small size should benefit them in providing flexibility to address employee needs.

The purpose of this paper is to explore nontraditional scheduling as a vehicle for small businesses to attract and retain key personnel. Specific issues discussed include an overview of the changing workforce, employees who are likely candidates for nontraditional scheduling, specific approaches to nontraditional scheduling, and advantages and disadvantages of this approach.

CHANGING NATURE OF THE WORKFORCE

Evidence suggests that individuals currently entering the workforce are motivated by different values than the previous generation. Many "baby-busters" (men and women born after 1964) place more emphasis on having both a successful career and a rewarding personal life. This should not be construed to mean that younger employees lack job commitment--to the contrary, most of them are quite dedicated--but they tend to be less willing than their predecessors to sacrifice family and personal interests for the sake of their career. Human resources managers are also noting that more potential employees are asking about their businesses' family policies during the interview process.

Considering that between a half-million and a million fewer young Americans will start to work each year through the end of the century than in the 1970's, [1] businesses cannot ignore the baby busters' sentiments. The following quote summarizes this demographic imperative:

In the 1950s, the gray-suited, security-minded Organization Man became a corporate archetype. In the 1960s and 1970s, it was the socially responsible corporate do-gooder. But specialists in management, including executive recruiters, human-resource executives and academics, say none of these changed the tone of corporate life as much as the baby-busters may change it. [2]

Not only are younger employees entering the workforce concerned with greater balance between their personal and professional lives, but employees approaching management positions are also beginning to question the time

commitment required for career success. According to a survey conducted in Canada, 57 percent of the professional employees responding would change their working arrangements with a proportionate adjustment in pay. [3] More professional and management level employees are balking at working a grueling number of hours at the expense of time spent with their family, even if it means lost pay and promotions. These employees are pressing businesses for more flexibility in work options.[4]

Firms who continue to only consider "traditional" individuals as potential employees will find themselves settling for less quality, because high performers will be drawn to employers who offer flexibility.

TARGETED EMPLOYEES

More Than a Gender Issues

In recent years women have comprised a steadily increasing proportion of university graduates. In response to this demographic shift, many firms have utilized nontraditional scheduling on a limited basis by allowing flexibility for female

employees with young children. Although this approach is a valid start, it has two flaws. First, by targeting women, firms assume that women are the only ones interested in flexible work options. Thus they stand to lose (or never even hire) valuable male employees who also desire more personal time.[5] Though women have typically been the catalyst in pushing employers for more flexible work schedules, a study by Du Pont found that 25 percent of their male employees had considered seeking another employer who might be able to offer more work/family flexibility.[6]

A related problem is that nontraditional scheduling may take on the appearance of a "woman's perk." Firms targeting only may, intentionally or not, conclude that women are less committed to their careers than their male colleagues. In reality, research suggests that there is little difference in career dedication between men and women.[7] But perceptions can often be more important than facts; one study found that only about half as many men as women surveyed believed that women in public accounting have the same level of commitment as do men.[8] Firms targeting nontraditional work options primarily toward women may be unwittingly perpetuating these disparate perceptions.

Although parents with young children are an obvious target group, other employees may also be interested in spending less time on the job. For example, dual-career families with or without children may simply want and be able to afford more leisure time. Older employees who have established their career but want to spend more time on philanthropic or civic pursuits might welcome a nontraditional schedule. Another interested group, potentially either younger employees with career uncertainties or older employees nearing retirement, might want a flexible schedule to pursue educational goals or non-conflicting business opportunities.

Positions Appropriate for Nontraditional Scheduling

Nontraditional scheduling frequently is discussed in the context of clerical or other nonprofessional positions. However, as noted earlier, professional and management level employees are seeking a better balance between their personal and professional lives. Accordingly, small businesses should adopt a broad definition of job classifications appropriate for nontraditional scheduling.

Though success with nontraditional scheduling in clerical positions is well documented, some businesses are beginning to report success with management employees. Specifically, The Travelers Corporation is aggressively marketing part-time employment to its management and corporate officers.[9] Many CPA firms have also reported success with nontraditional scheduling of their professional staff.

APPROACHES TO NONTRADITIONAL SCHEDULING

The phrase "nontraditional scheduling" has varying connotations encompassing many work options, both full-time and part-time. Some of the alternatives described have been successfully utilized by large corporations. But they merit equal consideration by small businesses because most involve little or no incremental cost to the organization, yet provide significant benefits to employees.

Full-Time Options

In what is popularly known as "flextime," the employee chooses his/her own hours around a designate core period of time. Obviously this arrangement is somewhat constrained by the nature of the work; i.e., businesses that require significant interaction with clients/customers during regular business hours may not be able to offer a great deal of flexibility. But many professional jobs, especially those that are project-oriented, are viable candidates for flextime.

Another option successfully utilized by some businesses is compacting the 40-hour workweek into fewer, usually three or four days. Like flextime, the feasibility of this approach is largely dictated by the nature of the work.

A concept that has been successfully utilized in the accounting profession is the variable day, or leisure bank, concept. Employees accumulate overtime hours to be taken as time off during non-peak periods. This approach appeals to both employers and employees because it negates some of the personal sacrifices employees make during the busy seasonal periods, with little cost to the employer.

An alternative gaining increasing amounts of attention allows employees to perform some work at home (flexplace). Though work that necessitates interaction with clients and other staff members may not appear to be well-suited for this arrangement, adequate communications access and computer resources can render a substantial list of feasible tasks. Some combination of flextime and flexplace could provide a particularly attractive alternative for employees.

Part-Time Options

Other options entail less time on the job than is considered typical. Although part-time possibilities will be a lure in recruiting new hires, these plans will also aid in retaining employees who might otherwise leave their position because of excessive time demands on their personal life. Some employees may opt for permanent part-time positions, but many will only temporarily need to reduce their workload--for example, while starting a family. Firms can respond to these needs by reducing

either the number of days worked per week or the number of hours worked per day.

Another approach that some professional/service firms have successfully utilized is allowing the employee to service some designated number of clients--the agreed upon number would be less than the employee's normal load. The employee in turn commits to handling the needs of those clients, regardless of the amount of time required during a given period.

A key ingredient in the success of this approach is accessibility when the employee is not "on the job." Communication can be maintained via phone, written memos, or computer access.

Short duration personal leaves are also a viable option. Many firms have made a start in this direction by offering parental leaves, but the scope should be expanded to accommodate employee's other personal interests. Businesses with seasonal activity could offer two or three month summer leaves, or even offer ten-month employment to some employees. This approach can simultaneously reduce salary costs and provide a valuable employee benefit without impairing client service.

A Combination: Job Sharing

Job sharing can best be described as a combination of full-time and part-time employment; job sharing occurs when one full-time position is performed by two employees who each work part time. Firms with little or no experience in nontraditional scheduling could experiment with job-sharing when a current full-time employee desires to reduce his or her present workload. It is also a viable consideration when a staff reduction is necessary; rather than laying off employees, the employer could allow one or more jobs to be shared.[10]

A key factor in the success of job sharing arrangements is coordination and communication between the job sharing partners. It is crucial that each employee is aware of all activities during his/her time away from the job. The job sharing partners should be responsible for overlapping to coordinate activities. This overlap can be accomplished in person (perhaps over lunch), by phone, by written communication, or any combination of the above.

ADVANTAGES/IMPLEMENTATION CONCERNS

Advantages

Retention of Key Employees.

Ironically, many employees become most valuable to the firms at the same time that they may choose to reduce their workload. Nontraditional scheduling allows employers to keep employees who might otherwise leave the organization.

Client Service.

Though a frequently voiced opposition to nontraditional scheduling is the potential disruption in client service, some firms have found the opposite to hold true. Particularly in professional service organizations, some firms have found that servicing a reduced number of clients can actually improve client satisfaction, because with fewer clients to serve, the employee may be able to accomplish client needs more quickly.[11]

Improved Moral/Productivity.

Many firms report that employees are happier when they have greater control over the work schedules. accordingly, productivity can increase and absenteeism generally decreases. Declines in absenteeism are particularly marked for firms with part-time employees, because employees have more time for personal affairs/errands when they are off the job. Since flexible scheduling (especially the full-time alternatives) does not impose any significant new cost on employers, gains from work schedule flexibility are "cheap" benefits from the company's perspective.

Advantages Specific to Job Sharing.

Though job sharing enjoys the above benefits of nontraditional scheduling, it also has unique benefits of its own.

1. Job sharing can improve the quality of work performed; synergism is operating. Particularly if the employees have complementary strengths, the employer benefits more than when only one employee fills the slot. Additionally, job-sharing partners typically exhibit less burnout than their full-time colleagues.
2. Job sharing increases flexibility and job coverage. During peak workload periods, both employees may be able to work. And if the employees are flexible enough, one employee may be able to work full time during the illness or vacation of the job sharing partner. Additionally, if one partner quits, the other partner should be able to fill in until a replacement can be found.
3. Effectively, job sharing can be described as part-time work, but it typically presents less administrative problems for the employer than creating part-time positions.

Implementation Concerns

The previous section cited strong support for the use of nontraditional scheduling. But nontraditional scheduling, particularly the part-time version, is not problem-free.

Work Environment

One of the greatest pitfalls of nontraditional scheduling is the climate that results when supervisors do not embrace the new

option. Many employees now in supervisory positions were required to work "regular hours," and thus they may resent the new flexibility available to younger employees. Unfortunately, there is abundant anecdotal evidence of employees who did not utilize a flexible plan because they feared that it would be the "kiss of death" for their career as well as employees who did take advantage of an option only to return and find that their career had in reality been derailed. Businesses must guard against thinking that time spent in the office equals job commitment. Most importantly, this

cannot be merely a written policy--it must be a reality at all levels of the organization.

Women have frequently faced this perceived lack of job commitment because traditionally they have had primary responsibility for child-rearing. But the threat maybe even more serious for men because many individuals and organizations do not consider it "normal" for men to be involved in family concerns. Recent studies indicate more "stress equity" between the sexes; men in the workforce report a growing amount of stress as they attempt to mesh career and family obligations.[12]

The workplace must come to acknowledge the importance of the socialization process. Family roles and responsibilities that were in place when business owners/managers came of age no longer prevail. Though small business owners/managers may be resistant to changing a system that has always worked for them, they must acknowledge that the traditional "Ozzie and Harriet" style family of the 1950s is becoming extinct. The climate of the firm must be conducive for employees to balance their personal and career aspirations. Small business owners and managers must be willing to accept that personal time is not a gender issue--it is a broad- based personnel concern.

Supervisory Issues.

As practical matter, supervising employees who are not on a traditional schedule may create new problems. Management must also ensure that the compensation, promotion, and benefits structure is equitable for both full-time and part-time employees. Specifically, policies on issues such as raises, promotions, and health care coverage for part-time employees must be formulated.

Supervisors also must be careful to proportionally reduce the workload of employees who are working less than full-time. Some employees who report dissatisfaction with going to part-time positions note that the workload reduction was not commensurate with the reduction in compensation. These individuals felt that their supervisors still tended to expect the same amount of work to be performed.[13]

Adequate Communications

A recurrent theme throughout businesses who have successfully employed nontraditional scheduling is the importance of adequate communication when the employee is not at work. Particularly for job- sharing arrangements, adequate communication between job- sharing partners is crucial for smooth operations of the business.

Customer Service

A key issue in the success of any personnel policy is meting customer/client demands. Further, client needs should be met without undue hardship on traditional employees. If a part-time professional employee's client encounters an unexpected crisis, that employee must be flexible enough to ensure that client service is not impaired.

Enough Employees?

A major practical obstacle to adopting nontraditional scheduling is availability of personnel. How can employees work fewer hours while the pool of quality employees is shrinking? Depending on the business size, one solution is to form a reserve pool of temporary/part-time workers, possibly from former employees and retirees. One CPA firm reported hiring former employees for a specified number of hours per week during busy season to relieve the burden on the regular staff. But a long-term objective is that firms utilizing nontraditional scheduling will attract more quality employees, thus making the plan feasible. This contention has been verified by some firms who report that applicants for "shared" jobs tend to be better qualified applicants.

CONCLUSIONS AND RECOMMENDATIONS

If small businesses are to prosper in an increasingly competitive environment, attracting and retaining high-quality employees is imperative. Flexible scheduling is one vehicle for accomplishing this goal.

Although it is not an easy task, small businesses must embrace some major shifts in personnel policy. This undertaking will be further complicated because most owners and managers came through the ranks "the hard way", when

traditional scheduling was essentially the only available avenue. Nonetheless, experts agree that employers will increasingly offer employees more options to balance their work and family obligations. While many firms offer these benefits purely for business reasons, other employers contend that helping employees cope with family responsibilities is worth the cost, no matter how high.[14]

Retaining the status quo is much easier, but small businesses who do so may find themselves without needed human resources. By accommodating employees in need of nontraditional scheduling, firms are developing a viable, long-term relationship that simultaneously keeps the firm competitive. How small businesses treat their people could be the variable that distinguishes them from their competition.

CONTINGENCY PERSONNEL PLANNING FOR SMALL BUSINESS: A LOOK AT FAMILY LEAVE ISSUES

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ABSTRACT

An increase in women in the work force is projected for the 1990's, with a subsequent increase in women who will be working during their child bearing years. Even small businesses will encounter employees who will need family leave time. Federal legislation has been reintroduced, and many states already have legislation in place. Small businesses were polled to determine the types of policies that are in place, and plans for dealing with future requests for family leave. Results show that a redivision of labor and the employment of temporary workers are the mainstays of maintaining work flow.

INTRODUCTION

The need for contingency personnel planning for small business can be illustrated by two distinct yet related personnel areas, due to recent events and the dictates of the current employment market. American business was taken aback recently when employees serving in the military reserves became subject to call up by the government. For the first time since 1968 some employers have had to respond to personnel on military leave (11). News reports indicate that the business community was unprepared for the loss of personnel to military service (6). In the meantime, the changing composition of the labor force has made planning for the employee who has children or who may have children a new concern, with the need for leave time for birth or illness in the family becoming a growing reality. Since World War II the age of the youngest child of working women has continued to decline; currently 50% of the women with a child under one year of age are in the workforce.

The purpose of this paper is to inform small business owners and SBI Directors who consult with small business owners of the growing need to include personnel planning in the formulation of strategic plans, particularly contingency plans for workers requesting family leave. This paper will: a) Summarize the family leave activity at the state and federal level, b) Discuss why small business will be involved in family leave activity, c) Provide results of a survey which polled a sample of small and large businesses to determine current policies and how they respond to family leave requests, and d) Provide recommendations for planning and accommodating family leave in the small firm.

A LOOK AT THE LITERATURE

There is a growing literature on the emerging activity related to family leave (7;23). Articles which review federal legislation activity include Clay and Feinstein (5), Kovach (13), Radigan (26), and Samuels, et.al. (27). Other articles review state government activity such as Nelson's (20;21;22) annual review of state labor law changes, and articles by Smith (28), Spivack (29), and Oberst (24) in publications targeted at state legislators. Personnel journals help with the design of policies (14;15;17;25) and practices (10). Policies in place in the largest firms have been documented by Catalyst (4) and others (9;12;18). Research has begun on the policies and practices of small firms (2), such as the study by Worthington (33). Trade journals bring news of family leave activity to their readers (1;3;8;19;30).

FAMILY LEAVE ACTIVITY AT THE FEDERAL AND STATE LEVEL

There are four major antecedents to "family leave" as represented by the Family & Medical Leave Act of the 101st Congress:

1. The Pregnancy Discrimination Act of 1978 (PDA). The PDA introduced the concept that pregnancy be treated like any other disability. The point is that if an organization has a disability policy, pregnant women were entitled to as much time off while disabled as any other employee who was disabled for another reason.
2. California Legislation. The law requires up to 4 months of unpaid maternity leave. The concept is that women should have time off from work for childbirth. a. The legislation was challenged by the district court, but, b. Was upheld by the U.S. Supreme Court in the case of California Federal Savings & Loan Assoc. VS Guerra.

3. Federal legislation. Author of the California legislation, Howard Berman, became a representative in the U.S. Congress from the Los Angeles Area. Legislation was first introduced during the 99th Congress which called for job-protected parental leave. The parental leave concept is that an employee should accrue time off for the birth of a child. Originally only a woman's issue, under pressure to treat both sexes equally, the equal treatment model would have the concept childbirth cross over from the woman's agenda to the family agenda. This has resulted in expanding the concept of parental leave to include either parent.

4. Changing Demographics. Changing demographics create pressure in the workplace for revised personnel policies and alternative ways to meet productivity demands. Small business will be involved in family leave issues whether or not they come under federal or state legislation because of the reality of demographics.

The concept of family leave became a part of proposed legislation in the 100th Congress. That is, eligibility for job-protected family leave should include birth of a child, adoption, serious illness of a child, spouse or parent. The addition of leave for illness required a transition. As originally defined, pregnancy was to be treated the same as any other disability; but that brought about a conflict about how disability ought to be defined. H.R. 2020 defined disability as the total inability to perform a job, a notion of disability that the disabled rights advocates had been struggling for years to overcome. H.R. 202 was revised and "medical leave" was substituted for "disability leave" (26). This change allowed the family leave concept to move forward with the support of disability rights advocates. An additional concept is that of job-protected leave, the federal legislation mandates the right to return to your job (or a similar job). Paid leave, a form of job protected leave, is not under consideration at this time.

Legislation the Federal Level

President Bush vetoed the family leave legislation on June 27, 1990. Congress was unable to override. In response, a new bill, the New Employee Leave Bill, H.R. 5500, was introduced August 3rd, 1990 by Representative John LaFalce (D-N.Y.), Chairman of the House Committee on Small Business (See Table 1).

TABLE 1 PROPOSED FEDERAL LEGISLATION

Unpaid Maternity/paternity leave for newborn or newly-adopted children: 8 weeks per year

Leave to care for seriously-ill children: 8 weeks every two years

Leave for seriously-ill employee: 8 weeks every two years

Additionally, employees would have to utilize available disability, sick leave, vacation or personal time before this leave. Time taken with such available other leave would count toward the time limits. Continuation of health insurance by the employer during the leave would be optional. Employers with worksites of less than 50 employees would be exempt if the total number of employees of that company within 75 miles of the worksite is less than 50.

Legislation at the State Level

Legislation has been increasing at the state level with nearly 50 percent of the states having some type of family leave. In a number of states the legislation affects firms with a limited number of employees. See Table 2 for examples.

TABLE 2 STATE LEGISLATION REQUIRING LEAVE COVERAGE FOR SMALL FIRMS

Connecticut b/a/si/s/p/e 16 weeks All firms by 1993

Louisiana b/ 16 weeks 25 employees

Maine b/a/si/s/p/e 8 weeks 25 employees

Minnesota b/a 6 weeks 20 employees - one site

New Jersey b/a/si/s/p 12 weeks 50 employees by 1993

Oregon b/a 12 weeks 25 employees

Rhode Island b/a/si 13 weeks 30 employees

Vermont b/ 12 weeks 10 employees

Wisconsin b/a 6 weeks 50 employees

Wisconsin si/s/p/e 2 weeks 50 employees

(birth/adoption/, serious illness of child, spouse, parent, employee)

Why Small Business Will Be Involved In Parental Leave

Proposed federal legislation would cover 39 percent of all employees. Although not covered directly, due to their size, small businesses will be involved in family leave because of the demographics of the labor force. Women and minorities will dominate projected additions to the labor force in the 90's. Current labor force demographics show that:

* 57% of all American women work, * 80% of them are of childbearing age, * 90% of whom will be pregnant sometime during their working lives. * 50% of mothers of children under 1 are employed. * 59% of mothers of children under 3 are employed. * 64% of mothers of children under 5 are employed.

A SURVEY OF FAMILY LEAVE POLICY

The Survey Sample

Respondents to the family leave survey do business in two large midwestern cities. The sample is a convenience sample and is not necessarily representative of the local areas, other geographical areas, or of the nation as a whole. The sample includes two groups of small businesses. The first answered a questionnaire distributed at a meeting of the small business council of the chamber of commerce, the second was drawn from small business owners involved in a task force to promote small business growth and development. A third group was composed of larger businesses drawn from firms who were recognized for their support of community service organizations (United Way). It was assumed that the larger business organizations represented proactive firms who would have progressive personnel policies including family leave provisions. Seventy three percent of the larger business firms returned a completed questionnaire and eighty one percent of these respondents included a copy of their leave policy. Twenty percent of smaller firms included a copy of their policy.

Questionnaires

A total of 41 questionnaires were completed representing 25 small firms and 16 large firms. Although the sample was small, the primary goal of the sample was to find out what kinds and how these firms responded to employees on leave.

Survey Results

Significant findings (at the .05 level):

1. 66% of the responding firms have a leave policy to deal with serious personal illness. Type of business is a determinant for having a policy. Service and financial businesses are more likely to have a policy than manufacturers, wholesalers, retailers and construction firms.

Size of firm is also a predictor for having a leave policy for serious personal illness with policies almost universal for

the firm with more than 50 employees. Nevertheless, 52% of firms with 35 or fewer employees had such a policy.

2. 63% of the respondents have a leave policy to deal with childbirth. Again there is a significant difference by type of business, with service and financial businesses more likely to have a policy in place.

Size of firm is also a predictor for having a leave policy to deal with childbirth with policies more likely in the larger firm. Ninety four percent of the firms with 35 or fewer employees have such a policy.

3. 54% of the respondents indicated that the maximum time off for childbirth. Size of the firm is a predictor of maximum time off. For firms with 35 and fewer employees, time off ranged from 6 weeks to 12 weeks. The small firm with the most liberal benefit has only 5 employees, but is a franchise participating in a common franchise policy. Time off for the largest firms range from 6 weeks to more than 26 weeks.

4. 37% of the respondents have a leave policy to deal with illness in the family. Firm size is a predictor for having a policy with only 30% of the smallest firms having a policy compared to 63% of the largest firms (over 1000 employees).

5. 76% of the respondents replied that an employee has taken an extended leave. Whether that leave was provided by a stated policy or by an arrangement varied by firm size. A large majority (65%) of such leaves in the smallest firms was by special arrangement, where as 100% of the leaves in the largest firms was by stated policy.

6. 85% of survey respondents have a leave policy that includes some paid leave. The length of paid leave for serious personal illness, childbirth, or illness in the family differs significantly according to firm size for managers.

Disability insurance is a factor in 29% of the responding firms. Non-insured paid time off ranges from two weeks or less to the entire length of leave for serious illness with larger firms more likely to grant more than 12 weeks of paid time off. Maximum paid

time off for childbirth is 26 weeks unless serious disability occurred. Minimum paid time off is 6 weeks for the larger firms with smaller firms having as little as 2 weeks or less.

The length of paid leave for serious personal illness and childbirth differs significantly according to firm size for non-managers.

Disability insurance for non-managers is a factor in 22% of the responding firms for serious personal illness, but 15% for childbirth. Maximum leave time of 12-26 weeks for serious personal illness is more likely in the large firm. Thirteen percent of the small firms grant a leave of 2 weeks or less, 9% cover from 7 to 12 weeks. The childbirth leave for the non-manager is more likely to be four weeks or less in the small firm, while larger firms have a minimum of 6 weeks paid leave.

7. 73% of those taking a leave in the responding firms have the right to return to the same or comparable job following a leave. When an employee with rights to reinstatement is on leave there is a significantly greater variety of measures used to maintain work flow. Using other employees to cover some of the work is used universally by firms granting job retention rights. The most popular combination is other employees covered and temporarily hired (34%). Work is also postponed and some employees take work home.

Excerpts From the Questionnaires

1. 66% of the respondents have found some practical way to deal with employee absences while still maintaining the work flow of the organization. For example:

*Turnover is high; just replace and by the time they come back another opening will have occurred.

*Small enough that others fill in. Most jobs can be replaced by temporary workers.

*Short term absences are covered by other employees increasing their work load, work postponed and increased hours.

*The employees in our section work as a team and can, to a certain degree, pick up each others work and responsibilities. Each try to share with the others what they are working on.

*We all pitch in and do their work on a short time basis- long term we have not had to deal with.

*Someone helps within the staff in their area and a temporary employee fills in where needed.

*The affected department's employees cover for each other some overtime involved.

*Other employees cover - which often creates overtime pay. Extending part-time hours; i.e., students. Call in retirees - temporary assignments.

*We have a temp. service within our organization; use temps. from several agencies; and have hired individuals (college students, teachers in summer break) as temporary help outside of agency referrals.

2. 54% of the respondents indicated that prior arrangements to handle employee absences had been satisfactory.

3. 5% of the respondents indicated that results had been unsatisfactory; the remainder did not comment. # It is survival. # Yes, we approach each case flexibly. # The biggest difficulty is to have an opening for the person when they return if a new employee has been hired. # Not satisfactory for a long time, but keeps things going.

Relevant Statistics

1.20% of employees gave more than 30 days notice before taking a leave.

2.32% of employees gave less than 30 days notice before taking a leave. The remainder varied or no policy.

3.56% of responding firms tie leave eligibility to length of service.

4.15% require one year of service for leave eligibility.

5.10% require six months of service for leave eligibility; the remainder varied or no policy.

6.76% of responding firms have fringe benefits protected during the time a person is on leave.

7.73% of responding firms include the right to return to the same or comparable job.

8.32% grant job protection for leaves of six months or less.

9.2% grant job protection for leaves of 6-12 months.

10.37% checked "other" for job protection time limits; this includes both longer periods and special arrangements of some "no policy" firms.

Future Guidelines

No business can afford to ignore personnel planning. Because the probabilities predict that the small business owner will be faced with employees who will need leave, it becomes a question of whether the firm will be prepared or unprepared when an employee takes a leave. Employee expectations develop as the result of awareness created by media discussion (16;32). A good example is the Business Week (110 cover story describing the best companies for women and telling how to make your company woman-friendly. In the long run, the workforce will be more experienced and loyal if providing for needed family leave becomes an integral part of the family planning process. Every firm should have a family leave policy, even if it can not directly compete with the more comprehensive policies of big business. The small business is characterized by its flexibility, and that capability should also be utilized in the family leave area. Here are some things to consider when formulating a policy:

For the organization with standard benefits, there are several key issue to consider when developing a family and medical leave policy:

- 1.An organization with medical leave must specify that is job-protected leave.
- 2.The maximum additional unpaid job protected leave must be specified.
- 3.An organization creating a family and medical leave policy would consider: a) the amount of paid family and medical leave. b) the maximum term of additional job-protected unpaid leave. c) the length-of-service eligibility for such a leave. d) eligibility affected by part-time job status. e) eligibility affected by job rank.
- 4Will vacation and sick leave be used to provide some paid family leave.
- 5.Determine which benefits will continue, and who is responsible for premium payments.
- 6.Determine the procedures for reinstatement.

Ways to Improve Productivity During Leave-Time:

- 1.Schedule reentry over time beginning with work at home or part time work.
- 2.Provide cross-training of employees.
- 3.Establish a relationship with temporary help services who understand the requirements of your firm.
- 4.Use the leave-taker as a trainer to improve the performance of the temporary replacement.
- 5.Hire the replacement well in advance.
- 6.Provide written instructions to the replacement.
- 7.Designate and employee(s) to be the advisor to the replacement(s).
- 8.Increase participatory decision making and staff autonomy to achieve employees who are better prepared for the increased responsibilities that come when employees on leave result in a temporary redistribution of work assignments or more unsupervised work.
- 9.Acquire working relationships with child-care referral services for well baby and sick baby day-care services in order to minimize time-off when child care arrangements deteriorate.
- 10.Implement flex-time and/or job sharing to help employees balance work and family responsibilities.
- 11.Foster an organizational climate which invites dual-career job employees to thrive in the organization.

It takes time and energy to plan for maximum productivity during any leave. The Catalyst (4) study concluded that a company's first step should be to communicate that pregnancy and the short-term absence of valued employees is an expected, natural and manageable event.

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ABSTRACT

In recent years research using personality traits attempted to identify those persons that start businesses. This paper utilized a DISC Test to identify small business owners through personality traits and then requested the owners of these small businesses to provide reasons for starting their business. The results indicate that classifying entrepreneurs and small business owners by personality traits remains a difficult and elusive area of research. The results indicate that no one personality emerges to explain why a person starts a business however people start businesses for a variety of reasons.

INTRODUCTION

Review of the literature abounds with different definitions for entrepreneurship, but several definitions for entrepreneurship stand out. For example, Joseph Schumpeter noticed that entrepreneurs created new ideas and created different combinations of resources which spurred economic activity.(1) Peter Drucker focused on defining entrepreneurship from a corporate and bureaucratic viewpoint, here resources must be allocated to opportunities rather than problems.(2) Ten years later in 1974 Drucker noted that "an entrepreneur has to redirect resources from areas of diminishing results to areas of high or increasing results. He has to slough off yesterday and to render absolute what already exists and is already known. He has to create tomorrow.(3)

These definitions define certain situations. In recent years entrepreneurship has focused on individuals that play critical roles in changing stagnant bureaucracies into decentralized, adaptive and creative forms.(4)

Although these definitions are noteworthy, they do not explain the reasons for starting a small business nor do they purport to attempt to classify small businesses and personality characteristics of their owners. In fact, most of the literature on entrepreneurship emphasizes the exceptional success stories. J.C. Penney's, Apple Computer, the Marriott Corporation, Hewlett Packard, IBM, Ford and others. These successes have spearheaded research on what characteristics does an entrepreneur possess: self-confidence, creativity, initiative, optimism, knowledge of the market and many others.(5)

Others have attempted to provide a novel functional personality theory to explain different types of entrepreneur. One of the approaches creates four categories of entrepreneurs based on an extensive list of personality traits. These four categories are finders, binders, grinders, and minders. Briefly, finders create new products and services or processes; grinders generate a new use or a product or service; minders replicate an existing product; and binders synthesize a number of ideas. To explain these categories major corporations heads are then identified with these categories.(6)

Another approach to categorizing entrepreneurs has been the use of DISC tests and models which measure behavioral tendencies of individuals. For example, D means to dominate; I means influential and persuasive; S means stable and relationship oriented; C indicates compliant and detailed. For a listing of some of the four style behavior grid training and consulting models see the 1982 November issue of Training Magazine. Other models have developed more extensive assessment scales such as acumen.(7)

Today most research concerns the use of these instruments to ascertain the behavioral tendencies of managers in the corporate structure.(8) However, few researchers have attempted to measure the behavioral tendencies of small business owners and the reasons for their entry in the competitive world of business. These are the purposes of this paper.

Why do people start businesses? David Silver suggests that entrepreneurs start their own business because they are dissatisfied with their careers and their organization. Also, they had a clear vision and a single minded determination to succeed. Another writer, Albert Shapiro observed an increase in new ventures when unemployment rose.(9) This suggests that many people that start businesses were forced to find an alternative means to earn an economic livelihood. Furthermore, as corporations adapt to a changing environment many employees have been faced with pursuing other employment alternatives. Merger acquisitions and decentralization and the lean and mean structure has dumped some highly educated and highly skilled people into the job market. Some of these dislocated managers start new businesses

based on new ideas, new market niches, or new services and products that add value to society. Others begin businesses because of their professional backgrounds, their vision, and a determination to be independent.

PURPOSE OF SURVEY

Their paper attempts to determine why people start businesses. First, in surveying owners of small businesses in St. Joseph, Missouri, an open ended survey was utilized to ascertain the reasons why owners of small businesses decided to start their venture. Second, the owners of the small businesses were tested using The Personal Concept Test - DISC marketed by Jack Mohler Associates.(10) The DISC test was derived from Marston's four

factor theory.(11) Marston's four factor theory has four major dimensions: People are classified into four categories which are briefly explained below.

Dominant Qualities Hard driving and results oriented Achievement and goal oriented Assertive and active Creative or judgmental Confident and a risk taker

Influential Enthusiastic-can motivate others Approachable and people oriented Optimistic and confident Wants to lead Avoids details by socializing Tendency to be disorganized

Steady-Relationship Predictable and dependable Organized and systematic Friendly and helpful Good listener and patient Avoids risks Conceals emotions

Compliant-Detailed Thorough and well prepared Factual and technically competent Reliable, accurate, systematic Sensitive and detailed oriented Likes routines and procedures Not a risk taker

The implications associated with the Marston' theory allow us to formulate some interesting observations about why people start businesses, an about their personality characteristics. Forty responses were received for compilation purposes. The results and the reasons for beginning a business were analyzed by the type of business:

RESULTS

Types of Behavioral Tendency Businesses Responses D I S C

Restaurants 3 1 2 Computer Electronics 6 2 1 1 Barbers/Beauty Salons 4 2 2 Autos 2 2 Accounting/Attorneys 3 2 1

Miscellaneous includes: Types of Behavioral Tendency Businesses Responses D I S C

Pet Store 1 1 Flower Shop 1 1 Bike Shop 2 2 An 1 1 Fitness Center 1 1 Educational supplies 1 1 Gift Shop 1 1
Swimming Pool Shop 1 1 Handicap Braces 1 1 Music Shop (Partners) 2 1 1 Antiques 1 1 Flower Shop 1 1 Other
Corporations 1 1

REASONS FOR BEGINNING BUSINESSES

Responses D I S C Hobby 4 2 1 1

Desire for Independence 8 1 2 3 2 Family History 2 2 Previous Experience 10 2 3 3 2 Job Satisfaction 2 1 1 Few
Alternatives or no other opportunities 3 1 2 Preference for spouses career 1 1

IMPLICATIONS AND CONCLUSIONS

The literature has suggested that those that begin businesses would exhibit certain personality characteristics such as dominance. For example, High D's are considered entrepreneurial types." However, the results of this sample indicates that people who open small businesses have no specific behavioral tendencies based on Marston's four factor theory, but there are some interesting reasons for opening a business.

A desire for independence, previous experience, and an appropriate opportunity produced are the most prevalent

reasons for going into

business. Next hobbies, no other economic alternatives, family history, and job satisfaction produce the second set of reasons for starting a business. However, no specific personality traits could be traced to any specific reason for beginning a business. Considering the results of the sample, no single personality trait emerges as a determining factor that explains why people start a business. Therefore, tests that screen people as entrepreneurs should not be used or seriously considered in attempting to determine the possible success of prospective entrepreneurs. Personality traits and the reasons for beginning a business suggest a complex interplay that requires more research. The value of the DISC test and other personality tests may lie in the mix of employees that a prospective business owner will hire. Sales personnel should be dominant or influential. Customer service personnel should be relationship or steady while the maintenance of inventory records and books require a detail oriented individual. Furthermore, forming appropriate teams within the business may help improve performance. The ideal team represents one person from each category of the DISC test, but other combinations can be constructed based on the situation and the environment. These applications of Marston's four factor theory could be the more important application of his theory.

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A RISK MANAGEMENT ANALYSIS OF EMPLOYEE DRUG ABUSE AND TESTING FOR THE SMALL BUSINESS OWNER

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ABSTRACT

The purpose of this article is to provide a risk management analysis of the prevailing thoughts on the subject of drug abuse and testing as they potentially affect the small business owner. The analysis will emphasize two critical steps in the risk management process: identification and measurement.

INTRODUCTION

Few issues in recent memory have stirred the American public as passionately as drug abuse. In the workplace, drug abuse is a particularly vexing problem which businesses are now fighting with increasing ferocity. Indeed, a recent Newsweek article estimated that educating and testing programs implemented to detect employee drug use have become a \$250 million industry.(8)

The reasons for such an expenditure are undeniably compelling. It has been estimated that drug and alcohol abuse costs U.S. industry \$30 to \$60 billion a year in absenteeism, lost productivity, accidents and health care. More specifically, the U.S. Chamber of Commerce states that a recreational drug user is a third less productive than other employees and in all probability is four times likelier to be involved with injuries on the job. The drug user is also three times more inclined to be tardy, twice as likely to request early leave, and two and half times more probable to be out eight days or more.(4) It is no wonder that employers are being vigorous in their attempts to root out drug users through drug testing and other means.

In March of 1989, the U.S. Supreme Court issued two important and far-reaching decisions on drug testing in the workplace. The cases, *Skinner v. Railway Labor Executives Association*(9) and *National Treasury Employees Union v. Von Raab*(6) dealt with two drug testing schemes, one for railroad workers and the other for U.S. customs workers. The implications of these cases appear to give certain employers both large and small, even in the private sector, greater latitude in testing workers for drugs. Employees, on the other hand, including unionized workers who thought they were contractually protected, may have legitimate concern that their privacy rights are eroding away.

IDENTIFICATION: THE SKINNER CASE - GOVERNMENT ACTION IN THE PRIVATE SECTOR

Generally speaking, federal constitutional protections afforded workers in the public sector from illegal governmental conduct do not apply in the private sector. This means that a government worker at all levels, federal, state and local, is protected from unreasonable searches and seizures as defined in the Fourth Amendment. These protections include how drug testing can be conducted. Furthermore, a government worker would be protected under the Due Process and Equal Protection Clauses of the Fifth Amendment from illegal government conduct.(2) In *Skinner*, however, the issue of what constitutes governmental conduct necessary for Constitutional protections, has become clouded.

In *Skinner* the Court ruled that the railroads "must be viewed as an instrument or agent of the government."(9, p.1411) The implications of this ruling are very important. That is since the Federal Railway Administration (FRA) regulations now pre-empt state laws under the Constitution's Supremacy Clause plus supersede any private agreements, federal law including the Fourth Amendment and other relevant Constitutional provisions, would necessarily apply to the railroad's drug testing scheme. This holding becomes critical since the railroads' drug testing scheme, discussed later in the opinion, was ruled to be constitutional under the Fourth Amendment.

The Departments of Defense (DOD) and Transportation (DOT), among other federal agencies have, like the FRA, issued regulations(5) that are somewhat similar to those that were ruled on in both the *Skinner* and *Von Raab* cases.(7, p. 125) These regulations will affect the many contractors who do business with these governmental entities or are subject to their regulations. Those businesses, as agents of the government would, like the railroads, be controlled by the Fourth Amendment and interpretations of it as enunciated in both *Skinner* and *Von Raab*.

IDENTIFICATION: LEGAL IMPEDIMENTS TO DRUG TESTING - THE VON RAAB CASE TAKES A NEW

DIRECTION

Three of the most controversial and thus major legal and ethical impediments to drug testing have been: (1) should drug testing be permitted when there is no perceived or documented drug problem in the targeted workplace?; (2) are the testing methods reliable? and (3) does a positive drug test need to prove that there was on-the-job impairment?(10) As will be explained, the Von Raab case has answered all three of these questions.

Can a Workplace Be Testing Without a Perceived or Documented Problem?

As mentioned, one major problem with implementing drug testing programs has been the absence of specific evidence that there is a drug problem grave enough to warrant the justification of intruding into a workers' privacy. Indeed, in the U.S. Customs Service, only five out of 3,600 employees tested positive under this program. Such an insignificant number, in the opinion of the Treasury Employees Union, gives rise to a "suspicionless search" that is not a "sufficiently productive mechanism to justify [its] intrusion upon Fourth Amendment interests."(6, p. 1394-1395)

The Supreme Court was not moved by the Union's argument. The Court instead ruled that even though only a few were innocent of drug use, that fact did not impugn the program. The Court's rationale was that since drug use is one of society's most serious problems there is little reason to think that any workplace is immune from it. And since detection of drug use is difficult it becomes necessary to use such a program so long as it advances a government policy. The Court further contended that such a program is similar to suspicionless housing code inspections(3) and stopping of motorists at checkpoints,(11) both of which are legal.

How Reliable Does the Testing Methodology Have To Be?

The Supreme Court in Von Raab also discussed the issue of the reliability of drug tests. In effect the Court sanctioned the drug testing procedures promulgated by the Department of Health and Human Services (HHS)(13) and implemented by the U.S. Customs Service in its testing program.

The Supreme Court found the procedure as used by the Customs Service, quite satisfactory because the "collection and analysis of the requisite samples do not carry the grave potential for arbitrary and oppressive interference with the privacy and personal security of individuals that the Fourth Amendment was designed to prevent."(6, p. 1394)

The Supreme Court's strong ratification of the HHS drug testing procedure may have important implications to the small business owner. The reliability of drug testing had, in the past, been a target of complaints which were often warranted. Indeed, cases of mishandling, false positives and other procedural problems, cast serious doubts on the efficacy of urinalysis.(2, pp. 317-321) Such doubts had a chilling effect on many employers desiring to implement drug testing but fearful of lawsuits by disgruntled employees. Those employers who use these guidelines now may point to the apparent reliability of this approach if legally attacked, in particular, if the employer is in the public sector or is deemed to be an "agent of the government" in the private sector.

Is Proof of On-the-Job Impairment a Prerequisite to a Valid Drug Testing Program?

A third, ongoing issue of drug testing has been whether it is necessary to prove the connection or "nexus" between urinalysis and

on-the-job impairment. Urinalysis cannot, for instance, prove that a person who tests positively for the THC metabolite found in marijuana, is presently intoxicated or had ingested it days or even weeks ago. Hence, the tests may punish and stigmatize a person for off-the-job usage that have may no effect on how the worker performs on-the-job.

The Von Raab case, by implication, indicated that this dilemma is no longer an impediment to drug testing. The Court, although not grappling directly with the issue, stated that the Customs Service has a "compelling interest in preventing the risk of life of the citizenry posed by the potential use of deadly force by persons suffering from impaired perception and judgment." Similarly, the Court felt that having physically fit employees with "unimpeachable integrity and judgment" were compelling interests the Customs Service should ensure as well.(6, p. 1386)

In the foregoing pronouncement, however, the Court made no mention of the "nexus" problem and as such did not

distinguish between on-the-job and off-the-job drug use. Indeed, the Court's statement that there are compelling interests in having a "physically fit" employee with "unimpeachable integrity and judgment" infers that drug abstinence is an ongoing duty imposed on certain workers and thus not protected from the intrusion of drug testing.

In the Skinner case, moreover, the Court stated that drug use, regardless of when it may have occurred, is important information and therefore relevant. As an illustration, the Court stated that "[E]ven if urine test results disclosed nothing more specific than the recent use of controlled substances by a covered employee, this information would provide the basis for further investigative work designed to determine whether the employee used drugs at the relevant times." (9, p. 1421)

MEASUREMENT: A STANDARD FOR DETERMINING THE REASONABLENESS OF DRUG TESTING COMPELLING GOVERNMENT INTERESTS VS. THE EMPLOYEE'S PRIVACY EXPECTATIONS

Arguably the most important implication of the two cases was the emergence of a new standard for determining the reasonableness of drug testing. As mentioned, the Fourth Amendment's prohibition of unreasonable searches and seizures by the government or its agents of their employees in the public sector has often been the most critical legal hurdle to overcome in a drug testing program. The new standard, discussed below, may now legalize many types of drug testing programs which formerly would have been legally risky.

In general, a search is reasonable and therefore legal if a warrant is issued upon proving the existence of probable cause. However, as explained in the Von Raab case, "neither a warrant nor probable cause, nor, indeed, any measure of individualized suspicion, is an indispensable component of reasonableness in every

circumstance." (6, p. 1390) Consequently, the Court stated that "where a Fourth Amendment intrusion serves special governmental needs, beyond the normal need for law enforcement, it is necessary to balance the individual's privacy expectations against the Government's interests to determine whether it is impractical to require a warrant or some level of individualized suspicion in the particular context." (6, p. 1390) Thus, to apply this test on a case-by-case basis, it is necessary to articulate the special governmental needs or compelling interests and then weigh these needs against the employee's privacy expectations. If the governmental interests outweigh the privacy expectations then a search, even without a warrant or individualized suspicion, would be deemed reasonable and legal.

MEASUREMENT: IMPLICATIONS OF SKINNER AND VON RAAB TO THE SMALL BUSINESS OWNER

In light of the discussion of these cases and their implications, what might all this mean to the small business owner? One very important inquiry is what businesses like the railroads under the FRA, will be considered agents of the government. Private businesses, such as airlines, trucking and others that are more pervasively regulated businesses, fit into the category of agents of the government under the Skinner analysis, especially in light of regulations issued by the Department of Transportation. Moreover, whatever private sector businesses which are deemed to be agents, the relevant federal laws will preempt conflicting state laws as well as labor agreements and arbitrations. For those which are less regulated, it remains to be hammered out in the courts their status as agents with important implications either way. If a business is not an agent of the government, a worker would have to rely on traditional common law actions in tort, such as invasion of privacy⁽¹⁾ or defamation or possibly state statutory⁽¹²⁾ or constitutional protections⁽²⁾ to fight an employer's drug testing policy he/she feels is illegal.

Secondly, if a business is considered to be an agent of the government, it no longer has to ponder what were once considered impediments to drug testing. Thus, proving that there is a drug problem as a prerequisite to a testing program, wrestling with the reliability of the testing procedure, and determining if the positive results have a direct impairment effect or "nexus" on the worksite, are no longer important issues.

Thirdly, to legally justify any type of drug testing approach (i.e. tests which are random, mandatory, announced or after an accident etc.) it will be necessary to prove that there are compelling governmental interests and then to demonstrate why they outweigh the employee's privacy expectations. These interests include integrity, public safety and protecting sensitive information. Whether more interests will appear in the future, of course, remains to be seen. In any case, these interests must be weighed

against an employee's expectations of privacy. Furthermore, those employees with jobs which incorporate any of these interests, will be deemed to have considerably diminished privacy expectations. However, the connection or "nexus"

between the employee's job and the interest(s) must be direct and therefore not so broad as to include other employees with only an indirect or incidental connection to the interest.

The bottom line, assuming a private business is an agent of the government, is that business can potentially justify even a random, mandatory drug testing now. The business would first have to articulate characteristics in its workplace such as public safety to warrant such a procedure since it is unlikely that integrity or protection of top secret information in the context of the Von Raab case would be present in many private businesses. Again, businesses such as the airlines and trucking would fit neatly into this category. Pilots and truckers would also have diminished privacy expectations due to the direct implications their drug use could have on public safety.

CONCLUSION

The testing of employees for drug use is becoming pervasive in both the public and private sectors. Two recent Supreme Court decisions, *Skinner* and *Von Raab* may help clarify the parameters of drug testing, particularly in the public sector, but possibly in areas of the private sector as well. In either case, as more lower court decisions continue to illuminate employers on what they can and cannot do, employers can concentrate their efforts and resources on eliminating the well documented effects of drug use in the workplace and less on concerns on whether they are treading on the legal rights of their employees. Employees, on the other hand, must grapple with the realization that the legislative, executive and judicial branches at all levels of government are aggressively pursuing a public policy aimed at purging drugs from the workplace. The eventual outcome may be a sacrificing of privacy rights, especially for workers in certain industries.

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COMPENSATION POLICIES FOR FRANCHISING BUSINESS

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ABSTRACT

Many changes have taken place in franchising organizations during the last quarter century including the compensation practices for franchisors and franchisees. This article investigates the compensation systems which are generally used in franchising organizations. This paper covers the reward and incentive policies which may be used by franchisees and franchisors for different level managers in promoting and motivating their employees.

INTRODUCTION

In today's rapidly changing world, over one-third of retail sales in the United States are handled through franchising outlets. Over 20% of our gross national product is attributed to franchising operations. Franchising has become the fastest growing method of doing business in the world today. Franchisors and franchisees both depend upon highly motivated and dedicated employees to help run and operate their business practices. The compensation policies which are used in a franchise organization need to be solely tailored for that franchise organization. Traditional compensation systems which are found in well-established or bureaucratic organizations often hamper the desired performance levels in franchising organizations. One example, the seniority- based compensation systems, while being very useful and beneficial for manufacturing firms, often are detrimental or send a poor message to employees in franchising organizations. In this article we review the compensation policies which can be used to encourage and develop proper attitudes and behaviors of franchising employees.

Characteristics of a Franchising Organization

There are specific characteristics which differentiate franchising organizations from other traditional organizations. The main differential is found in the partnership which exists between the franchisor (headquarters corporation) and franchisee (local store). The franchisor is looking for growth through enlarged number of units being opened and larger sales volumes per unit. The franchisor is interested in selling franchises and developing company-owned stores on as rapid a basis as possible. The franchisee, on the other hand, is looking to utilize an established system to establish their own business units. The franchisee wants large sales and improved profits.

Franchisees act as entrepreneurs in that they are individuals who establish a new business for the purpose of developing profit and growth. This entrepreneurial trait is characterized by the innovative behavior of the franchisee. Franchisees have a tendency to use strategic management practices as they search for growth and profit opportunities.

Key Employees

The key employees of both the headquarter organization and the franchising organization are concerned with profitability, innovation, creativity, cooperation, and a desire to have a highly successful franchise outlet. The compensation policies established for these employees should be developed by the franchisor or the franchisee to properly inform these employees that their behaviors are responsible for the success and profits of the organization. Proper attitudes and behavior should be properly rewarded.

There are two different groups of individuals in franchise operations which need specific reward strategies based on their performance. These two groups include: (1) the headquarter organization staff responsible for the operations and sales of franchise units and (2) the managers and assistant managers of the individual (franchisee) stores.

ORGANIZATION LIFE CYCLE

The organization life cycle is an important concept which allows us to relate the compensation policies (including incentive programs) to the business strategy and practices of the franchising organization. The organization life cycle as adopted by a franchising organization consists of four organizational stages including: (1) start-up, (2) growth, (3) mature, and (4) decline. The organization life cycle can illustrate the developmental stages of a franchising organization

with the sales revenues and size of the organization (see Figure 1).

The organizational life cycle matrix shown in Figure 1 relates the organizational characteristics with the different compensation packages and incentive programs for both the headquarters organization staff and the franchisee staff.

Start-up Stage. The growth rates for most beginning franchising organizations is often very slow during the start-up phase. This slow start-up is generally coupled with a small number of units actually sold and opened during the first few years of operation. The central focus of the franchising business is generally aimed at developing financing for the organization and controlling costs. It is during this stage of business that risk is very high and it is difficult to attract employees and provide them with sufficient pay and incentives to encourage them to join the franchise operation.

Growth Stage. The growth stage is shown during a rapid expansion. It is quite often during this time period, often from two to ten years, that the franchise will expand from twenty to more than a hundred stores. As stores begin to open, other people begin to realize the impact these stores may have and the opportunity for personal and financial success. The focus of the business is centered around increasing the number of stores sold and opened. The focus of the compensation program is around recruiting, training, and retaining key employees. The risk factor is moderating during the growth stage and success is on the horizon for the headquarter's franchising operation. It is important during this stage that key employees receive compensation for their several skills. Employees need to be recognized for their sales efforts as well as for handling new start-up franchises.

Mature Stage. Generally the mature stage will occur after the franchise has been operating for six to ten years and the number of units have increased to over one hundred throughout the United States. Sales revenues have increased from medium to large and the growth rate continues moderate to strong. The main focus of the business is generally around profitability and the risk factor has declined to being low. The pay and incentive side is generally focused on the consistency or motivation of the key employees.

Decline Stage. If a franchising corporation begins to decline, it is primarily because the franchisees have become disgruntled with the franchisor due either to lack of sales or services provided from the franchisor to the franchisee organization. The growth rate may begin to decline and become negative and earning power of the business will also be declining. The risk factor is becoming high and the central focus of the business becomes survival rather than profits. The pay and incentive focus is often around cutbacks and lay-offs. However, it is important to retain key employees if the business is going to turn around and recover.

Compensation Policies for the Headquarter's Staff

The beginning franchising organization is generally divided into three different executive offices including: (1) president's office, (2) director of sales, and (3) director of operations. These three offices form the executive staff of most beginning franchising organizations and constitute the main creative, innovative, and driving force in the development of the franchising program.

The base salary and benefits of these three key individuals is often the below the market level initially, but as the organization expands and develops through the growth stage, the salaries and benefits should be raised to a competitive market level. As the organization evolves into the mature stage, these individuals are often above the market level of compensation.

Many of these key employees are initially brought on board because of incentive programs including initial stock options with broad participation by this very select number of people. As the organization will grow, the stock options would become more limited to key employees, and finally during the mature stage a stock purchase program may be initiated as an additional incentive for a limited stock option program to other employees. The short-term incentives are generally in terms of stock or cash bonuses based upon performance of the key employees.

For key employees, the stock option may be the strongest incentive or inducement for joining the beginning franchising corporation. Stock options are a great attraction and incentives for a new employee. These options also have the tendency to hold on to top talent as they see the organization grow and develop. The most common stock options would include incentive stock options (ISO), non-qualified stock options (NQSO), and restricted stock. With the ISO, the employee receives an option to purchase stock at a specific price at the time the option is granted (generally the book value or market value) and would have up to ten years to exercise such option. With the ISO, no tax is paid when the

grant is exercised: however, the gains on selling the stock will receive capital gains treatment.

The non-qualified stock option, while similar to the ISO, does require the employee to pay taxes when the option is exercised as well as when the stock is sold. The restricted stock option generally remained with the company for a fixed period of time, usually three to seven years. Stock options have become more and more valuable in attracting employees both initially and during the growth stage. As the company grows, the eligibility for stock options becomes more restricted with only the key executives and specially targeted employees being able to participate during the growth and mature stages of the business. The director of sales and sales staff may often receive commission of \$500-\$2000 for each franchise sold. This commission incentive is generally based on 3-15% of the initial franchise fee. Cash bonus systems may also be developed for the operations manager and his staff, generally based upon the sales increase of franchise and company-owned stores for which they have direct responsibility.

Compensation Policies for Franchisee Units

The franchisee generally has two major classifications of employees who receive salary and pay incentives. These generally include the store manager and the assistant manager(s). The salary structure for managers and assistant managers is generally very competitive within local markets and franchise stores should try to ascertain what the competitive base salary is competing stores.

A franchisee is generally responsible for the success and profitability of the franchising unit. Therefore, the franchisee wants to bring on board the best managers and assistant managers available to insure the success and profitability of the business. The initial benefit package for managers and assistant managers is generally below the market level because of limited finances available in franchising. It is important that the base salaries be competitive for initial managers and assistant managers.

Several first time managers of franchising operations are recruited from competitive firms and promoted from assistant managers to store managers. The managers and assistant managers from a specific unit are generally quite young and don't have a lot of experience in management or operations. The long-term incentives for these individuals are often provided through travel and profit-sharing programs. Travel programs have been very successful for franchise managers and assistant managers and should vary from year to year, while profit-sharing may often be anywhere from 3% of the sales of the franchise unit. Figure 2 illustrates the incentive or cash bonus system which may be used for store managers and assistant managers in franchising outlets. The short-term incentives are often based on cash bonus systems. Many managers or assistant managers develop an incentive system based on sales or percent of increase of sales or a previous period of time. Figure 2 illustrates how a manager with a 13% increase over the previous year's quarter would receive a \$1000 bonus with two assistant managers. This bonus could rise to \$6000, assuming expected increases in business sales.

Also shown are different travel incentives for store managers and assistant managers who have been able to obtain expected sales levels for a given period of time. There is generally a differentiation in reward structures between the store manager who may be going to Honolulu and the assistant store manager who is sent to Orlando, FL.

Combining the cash bonus system with the employee profit-sharing program and travel plan provides a generous base-salary and benefits package for the managers and assistant managers in the franchisee stores. This system should allow the franchisees to recruit, train, and retain the necessary key managers in a franchising operation.

CONCLUSION

Both franchisors and franchisees need to be able to recruit, train, and retain top quality executives to manage and run their respective operations. Many franchisors fail in providing appropriate compensation systems both in a short run and long run, and are unable to keep their key executives for a long period of time. We have identified in this article specific compensation policies which would help both the corporate headquarters organization as well as the individual franchisee units. We have reviewed the choice pay incentive systems based upon the development stage of the franchise life cycle.

Key executives are the strength of the franchising system. To be able to retain these executives a fair and proper compensation policy needs to be developed for the key executives and the headquarters or animation as well as the managers and assistant managers in the individual franchise units. Both long-term and short-term incentive packages

need to be developed and used to insure success of the franchising units.

Figure 1 Relationship between stages in the life cycle, organization characteristics and compensation strategy for franchising firms. -----

Organization Characteristics Start Up Growth Nature Decline -----									
----- Corporations: Years 0-3 variable, 2-10 10 plus variable Size (no. of units) 1-20									
21-100	101 plus variable	Sales Revenue	very small	small	to medium	medium to large	declining	Growth Rate	slow
rapid	moderate	negative	Pay & Incentives	attract employees	recruiting,	retention	consistency,	layoffs,	Focus
innovation,	training	motivation	cutbacks	motivation	Risk Profile	high	moderate	low	high

Headquarters Staff:

Base Salary below market level market level at or above at or above market level market level Long-Term Incentives (broad participation) (limited partici- stock purchase, not offered pation) cash bonus Short-Term Incentives stock or cash bonus cash bonus profit sharing not offered

Franchise, Company-Owned Staff:

Base Salary market level at or above at or above below market level market level market level

Long-Term Incentives travel, profit travel, profit travel, profit cash bonus sharing sharing sharing Short-Term Incentives cash bonus cash bonus cash bonus cash bonus

Figure 2 INCENTIVES FOR COMPANY - OWNED STORES

Increase in quarterly sales over previous years' quarterly sales

Percent Increase	Total Store Bonus	Mgr.	Asst. Mgr.	Asst. Mgr.	0 - 2.0%	No bonus	0	0	0	2.01 - 4.0%	400	200	100	100
4.01 - 6.0%	800	400	200	200	6.01 - 9.0%	1200	600	300	300	9.01 - 12.0%	1600	800	400	400
12.01 - 15.0%	2000	1000	500	500	15.01 - 18.0%	2400	1200	600	600	18.01 - 21.0%	2800	1400	700	700
21.01 - up	3200	1600	800	800										

STORE MANAGERS: Any company-owned store manager with annual sales of \$500,000 or more for any continuous twelve month period between now and Dec 31, 1991 will receive a 7 day, 6 night expense paid trip to Hawaii for two.

ASSISTANT STORE MANAGERS: Any company-owned assistant store manager with annual sales of \$500,000 or more for any continuous twelve month period between now and Dec 31, 1991 will receive a 5 day, 4 night expense paid trip to Orlando, Florida for two.

INCREASING THE PARTICIPATION OF MINORITY OWNED SMALL BUSINESSES

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ABSTRACT

The problems of the minority business community represent an important challenge in the promotion of small business enterprises. This paper presents a coordinated approach for identifying and incorporating minority owned small businesses within the business community. The development program includes the establishment of a minority business incubator, needs assessment through a Chamber of Commerce Minority Business Task Force, and the initiation of a Minority Business Loan Pool.

INTRODUCTION

Minority owned small businesses often face problems that effectively leave them out of the mainstream of the business community. Greene (2) discusses some of the problems associated with small businesses and reviews the literature on minority business problems. Butler, Neves, and Sanyal (1) focus on the capital problems of small businesses, review this literature and provide a study on innovation within the minority community to overcome these financial problems. This paper builds on the literature addressing the problems of the minority owned small business by explicitly focusing on the participation of minority owned businesses and proactive strategies to identify and incorporate these businesses within the mainstream business community.

The most apparent example of the relative isolation of the minority business community can be seen by attending a local Chamber of Commerce meeting. The minority business community is typically not well represented in this type of organization.

Another example of isolation that contributes to the failure of small businesses involves the banking relationships of minority owned small businesses. Without an established banking relationship it is more difficult to obtain the financial help needed.

In the most extreme case, the isolation of minority owned small businesses forces them into the underground economy. In this extreme, the business owners do not have traditional advertising, checking accounts, or official business relationships.

The Winthrop College Small Business Development Center in concert with the Rock Hill area Chamber of Commerce and local lending institutions have engaged in a multifaceted effort to identify minority owned businesses address their problems and bring them into the mainstream business community.

The minority community efforts include the establishment of a minority small business incubator program using funding from the Economic Development Administration. In addition, minority owned businesses were surveyed through the work of a minority business task force of the Chamber of Commerce. One survey instrument explicitly addressed financial needs within the minority business community. This survey was done in cooperation with local lending institutions to serve as a guide for the type of lending pool needed to support the needs of the minority community.

PROBLEMS OF MINORITY SMALL BUSINESSES

The Region of South Carolina that includes York County and the City of Rock Hill has not been a fertile economic spawning ground for prosperous minority owned small business enterprises. Therefore minorities are not well represented in business organizations in the region. For example, minorities do not participate in Chamber of Commerce activities -- thus, depriving the Chamber of important resources and depriving the minority community of a voice and active participation in economic decision making.

However, there are many more minority owned businesses than the records indicate. Most of these are solid, "underground" businesses that have been operated for years without a business license, a business telephone, or, in many cases, even a business name. Workers in these enterprises do not enjoy fringe benefits such as insurance,

workman's compensation, unemployment insurance, or membership in the social security program. Consequently, they have little long term security.

Owners of such minority businesses do not develop banking relationships. They operate on current cash flow and often do not purchase the equipment necessary to improve performance. For example, if heavy equipment is needed, it is rented on a daily basis. Over a short period of time, the minority business owners will pay the rental agent many times over the cost of owning and maintaining the equipment.

Many minority underground business owners have attempted to legalize their operations but have been frustrated by procedural obstacles and ceased such efforts and continue to rely on traditional practices. The most often mentioned frustration is with the banking community. Banks require detailed financial records by businesses seeking assistance. They want records that

the minority entrepreneur has not kept and cannot generate from memory. A chain of failed relations with banks has developed in the minority business community. These business people have come to expect and accept that they cannot be successful in borrowing from banks.

A mechanism is needed to assist these existing and new minority businesses in overcoming the obstacles which prevent their advancement. Services such as information retrieval, business planning, basic record keeping, management assistance, and marketing assistance would greatly benefit the minority business community.

In addition, an "incubator" is needed to provide such basic assistance as a telephone answering service, message service, bookkeeping and other accounting services, and management consulting services. Such an incubator program has been initiated, funded in part by a grant from the Economic Development Administration.

MINORITY SMALL BUSINESS INCUBATOR

The minority small business incubator was initiated with the mission to serve new minority owned business ventures in the three county area of York, Lancaster, and Chester Counties in South Carolina. As a result of the incubator it is anticipated that new minority owned business ventures in this three county area will be able to begin operation following sound business principles. This will be evidenced by a decline in the failure rate of minority owned small businesses. Prior to the initiation of the incubator program the failure rate had been estimated at 90 percent over a five year period.

Further more, existing businesses in the service area, which did not begin operation properly or are having problems legitimizing their businesses, would be assisted with incubator services. one major focus of the incubator program is to encourage underground businesses to pay taxes, insurance, social security, and to fully legitimize their business.

The end result will be an increase in the three counties tax base, more employment opportunities, and more participation by minority owned firms in the business community.

The small business incubator was conceptualized as providing basic assistance through a telephone answering service, message service, bookkeeping and other accounting services, tax advisory services, legal advice, secretarial and other office services, and management assistance. Each small business client is assessed a varying fee based upon his or her ability to pay.

The incubator attempts to attract its clients from underground businesses as well as new business formations. The incubator attempts to get these clients operating in a fully legal manner as quickly as possible. That is, they purchase a business license, withhold taxes and social security payments from employees' pay, file tax returns, and perform other functions that are required of legitimate businesses.

The incubator also actively seeks expanded business opportunities for its clients. Larger contracts, contracts with government, and longer term contracts for services could result. Increased growth, profitability, and long term survival is an expected outcome.

FINANCIAL NEEDS OF MINORITY OWNED BUSINESSES

In order to determine the needs of the minority business community, a task force of the Rock Hill Chamber of Commerce was formed on minority business. This task force determined that a survey was needed to assess the financial position of minority owned businesses. This information could be used to design an appropriate financing vehicle for the minority community. The survey instrument is included in Appendix A. The population for this survey was a list of 91 minority businesses identified through the Winthrop College Small Business Development Center and the Minority Business Incubator program. A sample from this list was selected and a total of 17 business owners responded. This response rate actually represents more than 17 businesses, since some entrepreneurs were engaged in more than one venture. The survey was designed to obtain information on the owner's home and business as well as their loan experience and needs.

SURVEY RESULTS

The following three points highlight the survey findings: 1. The financial needs of minority business owners are primarily for business loans not home loans. 2. Since minority businesses in this region are primarily in the service industry, any program targeted to this sector must recognize the lack of extensive collateral. 3. The role of the Small Business Development Center to assist in the preparation of loan applications did not meet with any serious objections.

Home Ownership

This sample of business owners were also home owners, with 15 of the 17 owning their own home. Further, one third of those who owned a home stated that it was currently paid for. Only two

members of the sample expressed interest in a home or home improvement loan. The concerns of these business owners (and their financial needs) were directed toward their business.

Business Assets

The businesses surveyed have a median of 8 years experience with a range of 1 to 40. The orientation is toward service industries with a median net income of \$25,000 and a median value of business assets in the \$22,000-\$25,000 range. (On the high end, net income and business assets ranged to \$200,000 and \$500,000 respectively.)

One implication from the current level of business assets is that a relatively small loan pool could have a major impact on the minority business community. Excluding the largest company, other businesses reported a combined level of business assets less than \$400,000.

Banking Relationships

Although 15 of the 17 businesses reported that they had applied for a loan, many reported difficulty in obtaining funds. Consequently, fewer than one half of the businesses in our sample reported that they had received a loan (8 of the 17). For those who had obtained loans, half attributed their success to their banking relationship.

The Chamber of Commerce received the above summary of the survey results and recommended that bank representatives meet to discuss the financial needs of the minority community that were indicated. A primary focus of this meeting was the potential to establish a financing vehicle for minority businesses.

A FINANCING VEHICLE FOR MINORITY OWNED BUSINESSES

There are seven major commercial banks that lend in the Rock Hill area. Representatives from these banks were invited to a meeting with representatives from the Small Business Development Center to discuss the potential for targeting loans to the minority business community. The plan discussed would involve each financial institution contributing a specified amount to a loan pool dedicated to this use.

The banking representatives were particularly interested in this proposal since a lending arrangement of this type could be considered as supporting community development as specified in the assessment factors used to evaluate their compliance with the Community Reinvestment Act.

CONCLUSION

The original proposal to initiate a minority business incubator was put forth in June of 1988. This project has now passed the start up phase of identifying its potential client base and is beginning to expand operations. The Chamber of Commerce Survey of Minority Owned Businesses was conducted by the Minority Business Task Force in late August of 1989.

By late September of 1990, an agreement on the composition and nature of the financing vehicle for minority businesses is almost in place. A loan pool of \$20,000 was decided upon. A detailed set of criteria were developed that expressed the qualifying loan purposes, the information needed in the loan packet, the loan criteria, and the application process. A breakdown of the loan criteria by type of loan is available from the authors.

The outreach to the minority business community contains three important elements: 1. The Minority Incubator Program; 2. The Chamber of Commerce Minority Business Task Force; and 3. The Minority Business Loan Pool.

Combined these three components represent a program designed to increase the presence, participation, and profitability of the minority business community.

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The Frank L. Roddey Small Business Development Center

1. Do you own a home or rent? _____ 2. How old is the home? _____ 3. What was the purchase price (range)? _____
4. Who holds the mortgage? _____ 5. What is the current market value? _____ 6. How many dependents? _____ 7.
Number of employed in household? _____ 8. What is range of other income? _____ 9. How do you classify your
business? _____ 10. Is it a full or a part-time business? _____ 11. How many years in business? _____ 12. How
many employees do you have? _____ 13. What is net income of business? _____ 14. What is the value of your
business assets? _____ 15. Have you ever applied for a bank loan? _____ 16. From what bank? _____ 17. Was the
loan approved or disapproved? _____ 18. In your opinion why was it approved or disapproved? _____
_____ 19. How many times have you applied?
_____ 20. What kind of loan do you want? Or if you applied for a loan, what kind of loan did you apply for?
_____ business _____ personal _____ new business _____ home improvement 21. What type of collateral would
you be willing to use? _____ business assets _____ home _____ car _____ other 22. Would you use the service of
the Small Business Development Center in preparation of you loan application? _____

UNDERSTANDING AND CONTAINING RISING HEALTH-CARE COSTS

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ABSTRACT

Providing employee health-care benefits began as an outgrowth of paternalistic gestures by early industrialists and eventually became a common part of many benefit packages in response to governmentally imposed wage controls during World War II. American workers have grown accustomed to receiving healthcare benefits and now consider adequate coverage to be a right rather than a benefit.

Although a great deal has been written about providing health-care benefits to private sector employees, there appears to be a void in examining how small businesses are continuing to provide this popular benefit to their employees in a changing environment. This paper helps to fill that void by providing useful information to both academicians and practitioners on the causes and possible solutions to coping with the rising costs of providing health-care services.

Cost-Related Issues in Providing Employee Health-Care Benefits

Both providers and users of health-care services are being challenged to cope with an upward spiral in health-care costs. Health-care costs continue to rise and are projected to increase by perhaps as much as 20% in 1990 (2). By the end of 1989, the average employer's medical benefit costs had increased to more than 13% of payroll, as compared to 5% of payroll just ten years ago (10). In a survey of more than 1,750 private and public employers with a total work force of 12.5 million, the Princeton, New Jersey, benefits consulting firm, Foster Higgins, found that the average cost to employers of providing health-care benefits increased by 20.4% per employee in 1989 (3).

The primary reasons for increasing healthcare costs are an oversupply of hospital beds and facilities' higher labor costs, and the intensity of service including the widening availability of expensive medical technology, the increasing number of AIDs cases, drug treatment programs, an aging population, and surgical transplants of human organs (1; 4; 6). Physicians have also been shown to provide some unnecessary and ineffective medical care in an attempt to avoid malpractice law suits adding to the overall health-care costs (4; 10).

Although customarily paying more per employee for their health benefits coverage than larger companies, small companies are still more likely to pay the full cost of health insurance premiums for their employees. A 1987 study by the Small Business Administration found that almost three-fourths of firms with less than 100

employees paid 100% of the employees, health insurance premiums and 87% of family premiums. A 1989 survey of small-and mid-sized northeastern companies revealed that 40% had made no attempts to control health-care costs (10).

There are several explanations as to why small companies pay more for insurance coverage than large firms. These include 1) the higher administrative costs per individual for the insurance carrier when working with small numbers; 2) higher costs of medical underwriting; and 3) the inability to self-insure or participate in health-maintenance organizations (HMOs) or preferred-provider organizations (PPOs). Small companies are also less likely to incorporate other cost-savings ideas such as preadmission certification, second opinions, outpatient surgery, concurrent review, discharge planning, and high-cost-case management (10).

Legislative Issues in Providing Employee Health-Care Benefits

In the last 20 years, almost 800 laws have been passed in the United States, mandating coverage for specific conditions and certain health-care providers. State mandated benefits vary widely, but typically require coverage for psychologists, optometrists, chiropractors, alcoholism-treatment, newborns, the mentally and physically handicapped, and conversion privileges for separated workers.

The end result is that these requirements prove to be very costly and are paid only by those companies that 1) are forced to purchase regulated insurance, 2) have adequate financial resources, and/or 3) have the desire to continue to provide coverage for their employees. These same requirements have forced some businesses to either limit or eliminate coverage altogether unless they are large enough to self-insure which exempts them from state mandates as set forth in

the provisions of the Employee Retirement Income Security Act (ERISA) of 1974.

Gail Jensen, an economist at Wayne State University, has determined that legislative requirements have been the primary reason 16% of small businesses offer no health benefits coverage. In response to these restrictions, some states are suspending mandated coverage requirements to enable small businesses that currently have no employee insurance to provide low-cost policies (7; 8).

Under health-care continuation rules contained in the Consolidated Omnibus Budget Reconciliation Act of 1986, better known as COBRA, employers are required to allow former employees, divorced and widowed spouses of employees, and former dependent children to continue health care at group rates. Employers are also required under COBRA to provide notice of these continuation privileges to separated employees. The provisions under COBRA have been expanded since the initial passage requiring employers to provide coverage

for former workers who were excluded from initial coverage due to medical conditions. In addition, the length of time that continuation coverage must be provided has been expanded from 18 to 29 months (9).

Potential Solutions to the Problem of Providing Health-Care Benefits

Faced with both rising costs and cumbersome legislative requirements, employers are beginning to re-examine health-care benefit provisions. If health care costs continue to rise as projected, immediate and significant savings could be accomplished through several available cost control approaches.

- * Increase front-end deductibles to at least \$100 and perhaps as high as \$500 per employee and/or dependent.
- * Require employees to pay a portion of their own and/or their dependent's insurance premiums.
- * Limit the maximum benefit payments available to employees and/or dependents.
- * Implement or increase employee co-payments for medical services e.g. a 90/10 or possibly an 80/20 split while adding a stop-loss provision to limit an employee's total liability (typically \$2,000 or less per employee).
- * Change insurance carriers in order to obtain more attractive premiums and negotiate for a minimum two-year contract to avoid having premiums raised on an annual basis.
- * Assume a portion of the risk of providing health-care coverage by self-insuring high cost first dollar payments and contracting for Third Party Administration (TPA) of claims.

Caution should be exercised before using any of these alternatives. Due to potential tax and regulatory implications, consult with your accountant and/or legal counsel prior to implementing any changes.

Since any of these cost control options would have a noticeable financial impact on the employees due to cost shifting, it is recommended that firms consider providing flexible spending and reimbursement accounts in conjunction with the implementation of any of these alternatives. Flexible spending and reimbursement accounts not only lessen the actual employee costs for out-of-pocket payments but also aid in attempts to educate employees about the true cost of medical services and make them more conscious of these expenditures.

Flexible spending or reimbursement accounts were first introduced in 1974, but have been slow to catch on. Flexible spending or reimbursement accounts allow employees to pay for health-care services, deductibles, and co-payments not covered by their employers' plans with pre-tax dollars. Either the employee or both the employee and employer may make contributions to these accounts.

Multiple administrative actions which can be classified as "managed care" approaches are also available to small firms in the search for alternative means to control health-care costs.

- * Require preadmission certification and utilization reviews prior to hospitalization in order to establish medical necessity, appropriate care, and length of hospital stay.
- * Require second opinions in order to verify the need for elective surgery.
- * Utilize discharge planning.
- * Coordinate dependent benefits to encourage dependents, especially working spouses, to seek and use coverage available through their employers.
- * Require more outpatient care including preadmission testing and surgery.
- * Provide coverage for home health care or hospice care to avoid the high cost hospitalization.

Small businesses located in larger metropolitan areas should also consider more formalized approaches to "managed

care" such as:

* Encouraging employees to join Health Maintenance Organizations (HMOs) where available since these organizations are designed to cover an employee's entire medical needs. * Utilizing the services of Preferred Provider Organizations (PPOs) where medical practitioners provide services at a discount.

Small businesses should also explore the opportunities of requiring medical underwriting of individuals prior to acceptance in group plans, and joining with similar companies through purchasing groups to obtain pooled insurance coverage. Small firms can join together in Multiple Employer Trusts (METs) either on a local basis or through national and regional associations in order to obtain health-care insurance premiums at costs similar to larger employers.

In addition, the potential cost savings available through long-term preventive health-care measures should also be explored.

* Employee wellness programs which encourage employees to change unhealthy behaviors, monitor health conditions, and engage in preventive health care can be designed and implemented. * Presentation of employee education programs including information about the costs and effective use of health-care benefits. * Externally administered Employee Assistance Programs (EAPs) designed to assist employees and their dependents in finding help for alcohol, drug, emotional, family, emotional, and other personal problems.

Employee Assistance Programs may only be available on a cost-effective basis to companies located in larger metropolitan areas, but any firm can establish effective wellness and education programs.

Realizing that new and more restrictive legislation may be enacted and costs may continue to rise, small firms should explore currently available opportunities to reduce their health-care cost burden while providing employees with adequate coverage and financial protection. As decision makers investigate both the costs and problems of providing health-care coverage to all employees, there is a critical need to examine and develop creative solutions.

SUMMARY

In the face of rising health-care costs new approaches to controlling these costs as well as adequate utilization of presently available cost control techniques must be explored. Since most employees consider health-care coverage to be a right, accurate information about the cost and cost control alternatives of providing these benefits must be communicated in order to develop a greater appreciation of the benefits being provided.

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THE AUTONOMOUS WOMAN ENTREPRENEUR IN TWO-CULTURAL SETTINGS

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Abstract

As women are becoming more independent and starting their own businesses, it is interesting to investigate what factors are associated with this autonomy. Do more autonomous women behave differently than less autonomous women? What characteristics are associated with autonomous women entrepreneurs? How do autonomous women entrepreneurs from different groups behave differently? Two groups of women entrepreneurs ($n = 128$, $n = 55$) from the same geographic area, but with different cultural backgrounds were tested to see if culture played a significant role in the relationships. Several major differences were found. Conclusions and implications are discussed.

Introduction

In recent years the growth in the number of U.S. women entrepreneurs has been spectacular, from 1.9 million owners in 1977 to 3.7 million (28% of all U.S. businesses) in 1985. If this rate were to continue, by the year 2000, women would own and operate approximately 50% of all U.S. businesses (37). Their influence is even more keenly felt in service industries, the most rapidly growing segment of the economy, where women own the vast majority of the businesses (37, p. 286).

At first, women entrepreneurs were concentrated in retail establishments, where they currently own fifty percent of the businesses, and in service companies, where they own seventy-five percent of the firms (37, p. 286). They are now entering non-traditional industries such as computers, information services, financial services and high technology firms. While the numbers are impressive -- women are starting their own businesses at twice the rate of men--their revenues lag substantially. Several factors have been cited to account for these lower revenues, including discrimination, ineffective government programs designed for women, inadequate data to assist policy limit access to credit, and lack of training, development and technical assistance.

However, the lack of growth in revenue and in other key dimensions of business success requires a more fundamental explanation. It is not sufficient to cite external factors as being the major impediment to growth. The lack of growth is at least equally likely to be due to the characteristics of the entrepreneur herself. From this perspective, it is possible to formulate an equally impressive set of factors that explain the lack of growth and revenue. A partial listing of factors might include, for example, a lack of business experience, and/or knowledge of

business discipline, limited objectives, a part-time effort; family obligations, lack of drive, commitment to the business, and willingness to risk, and a preference for small scale operations.

Of these factors, one of the more fundamental to or embedded in the make-up of women entrepreneurs (or any entrepreneur, for that matter) are those relating to personality characteristics. It is recognized that there is increasing criticism of a trait approach to entrepreneurship, i.e., although valuable work in the area of vocational testing resulted, the view, was largely one of a static individual in a static world (4, p. 394). However, the primary shortcomings of personality trait analysis lie in the tendency to construct universal traits without sufficient regard to intervening variables and the failure to design instruments which operationalize and unambiguously measure the initial construct.

With this reservation in mind, this paper focuses on a particular personality trait analysis as the starting point. Accordingly the following research question can be formulated: What characteristic(s) of female entrepreneurs correlate(s) significantly with key aspects of entrepreneurial activity? Considerable Montanari (32) reviewed the then existing literature (31; 11; 25; 24; 34; 38; 13; 7; 8; 27; 26; 35) to narrow the list of traits relevant to entrepreneurial research. The six personality characteristics they selected were achievement, autonomy, dominance, endurance, order, and locus of control. Of these, they found support for autonomy in three of the studies they reviewed (11; 24; 36), as well as for achievement in three (31; 25; 36). In this paper only autonomy was selected for more extensive analysis, since it appeared to lead to new insights and understanding of the women entrepreneur, in view of the strides women have made in shedding traditional roles, the women's liberation movement, establishing new career paths, and creating structures to enable them to realize these roles (i.e., day care centers, female mentors, and professional networks).

The Traditional View of Autonomy as It Relates to Entrepreneurship

Autonomy has long been thought of as a major characteristic of entrepreneurs. The person who did not "fit into" the corporate environment or who was resentful of the supervision and control of a possibly capricious boss often long sought for the day that he or she could start their own business and not be under the "yoke" of someone else or a bureaucratic "straitjacket." Shapero (38) describes the "uncomfortable,, entrepreneur who is dissatisfied with his or her job or position, waiting for the chance to become "free" and start their own business. Collins and Moore (11) suggest that the entrepreneurial personality is characterized by an unwillingness to submit to authority, an inability to work with it and a consequent need to escape from it. The boss is seen as someone who must be rejected because he is a 'drunkard and a fool" (11, p. 69) who places him in situations of insecurity and danger. He thus abruptly cuts the situation of his life and begins a new enterprise in which he can use his own energies to create a world

more tolerable to himself. "This world is his new business, and from it, he rigidly excludes all those superordinate figures that have betrayed and injured him in the past" (11, p. 69). This behavior is based on Maslow's need for autonomy which Collins and Moore define as "the condition of having full direction in one's life" (11, p. 251). Mescon and Montanari (32) provide a list of adjectives which define a person with a high need for autonomy (see Table I below). Schwartz (36) made one of the early studies identifying a high need for independence among women entrepreneurs. More recently Chaganti (9) and Sexton and Bowman-Upton (37) utilized autonomy in describing entrepreneurs in their research. Hills and Welsch (22) found a strong relationship between independence and entrepreneurial intentions among 2000 university students.

Table I Characteristics of Autonomy

Description of High Scorer

Tries to break away from restraints, confinement, or restrictions of any kind; enjoys being unattached, free, not tied to people, places, or obligations; may be rebellious when faced with restraints.

Defining Trait Adjectives

Unmanageable, free, self-reliant, independent, autonomous, rebellious, unconstrained, individualistic, ungovernable, self-determined, non-conforming, uncompliant, undominated, resistant, lone-wolf.

The Evolution of Autonomy Among Women Entrepreneurs

The women entrepreneur is a fairly recent phenomenon which has only received concentrated attention since the 1970's. Earlier in the 19th and 20th century the "romanticist" version of the woman dominated which located her proper sphere in the home and held her nature to encompass domesticity, selflessness, submissiveness, purity and piety (29). Aldrich, et al (1) suggest that women are more likely than men to have access to a limited range of jobs, be shunted to jobs with little chance of promotions to positions of significant responsibilities and to experience tokenism in upper level jobs. Since women are expected to be more "caring," "self-less" and "passive," they are more likely to be tied to the family, have limited work opportunities and have interrupted careers. When one also considers the "tokenism" of women represented in executive positions, it is no small wonder that women turn to entrepreneurship with its enhanced freedoms as a career. In a more recent article Berlin and Johnson (3) describe the traditional woman's lot to "preserve the simple virtues, nurture her children, and soothe her husband by providing him with a haven from the heartless world of industry and commerce" (3, p.

80). They contend the modern reconstitution of the woman question was to make "romantic woman" into a female version of "economic man."

"All of the traits of nurturing and domesticity that had previously been viewed as constituting the essential nature of woman were now seen as products of bad socialization that needed to be undone, leaving her free to 'do her own thing,' e.g. dress for success, climb the corporate ladder, be assertive, and take responsibility only for herself" (3, p. 80).

The woman has sought out an independence and autonomy based on the concept that she is responsible to herself first in a maturation process that emphasizes growth and development.

Given the growth in numbers of women entrepreneurs it is safe to say that among them are a substantial number with

independence-related characteristics. In fact, Sexton and Bowman-Upton (37) found that females scored significantly higher on autonomy scales than men, utilizing a modified Jackson Personality Inventory and Personality Research Form E test instrument. They concluded that growth oriented females tended to prefer ventures that provide new and different experiences with fewer restrictions. Other studies suggest similar levels of autonomy between women and men entrepreneurs (18; 21; 9; 17).

More recently, Reynold and Miller found "autonomy/independence" to be the major personal objective (44%) when comparing it to "challenge/pursue idea" (22%) and "income/estate for family" (20%) among white females. These data were quite similar for minorities and white males in Minnesota and Pennsylvania. Hisrich (23) suggests that in contrast to men, women entrepreneurs tend to be motivated by independence and achievement arising from job frustration where they have not been allowed to advance and perform at a higher managerial level in spite of their capabilities.

The concept of autonomy or independence suggests some kind of detachment from individual's or groups around the woman entrepreneur. This detachment can take place at several stages in the development and 'career life-cycle of an individual. The first detachment can take place during adolescence and young adulthood when the young girl separates herself from her family and establishes her own identity. The second detachment may take place on her job as she recognizes that she needs to have more control over her destiny in her career and may leave a confining and limiting position. The constraints upon her autonomy are often a motivating factor in starting her own business.

Miller (33) and Gilligan (15) stress the centrality of affiliation and interpersonal connections of women which they contrast with autonomy, suggesting that they are at different poles conflicting with each other. By dichotomizing them, they suggest that autonomy

has no meaning for women but is something beneath them, beyond them or unnatural to them. This is the view of "hostile autonomy" (3) which reflects uncaring disconnection and as the degree of hostility increases, oblivious insensitivity, neglect and abandonment. On the other hand, "friendly autonomy" represents respectful recognition of the interests and abilities of the other and the self. Expressions of autonomy may lead to isolation, but not necessarily if the person works to keep the lines of communication open, i.e. a person can still be autonomous. In fact, Berlin and Johnson contend that ignoring autonomy can subvert relationships by eliminating their free, generous giving and receiving aspects. Lack of autonomy can be harmful to relatedness in underscoring the absence of both freedom and warmth when care giving takes place from a submissive position.

The Autonomous Hispanic Woman Entrepreneur

The concept of autonomy by itself is rather meaningless without identifying and documenting its context. This study therefore attempts to identify those contextual factors which modify or are modified by the level of autonomy of women entrepreneurs. In short since single trait analysis is inadequate by itself, it must be buttressed with a variety of variables to see how autonomy works in conjunction with these. The variables include a variety of demographic, psychological attitudinal items, small business problems and a variety of information sources utilized by the woman entrepreneur. The model was tested among white women in a large industrial city. As a control for the major contextual variable of culture, the same model was tested among a group of Hispanic women entrepreneurs from the same city. The Hispanic women have been exposed to different culture and socialization backgrounds. This design is intended to demonstrate that cultural forces impact differently within the two groups as they relate to autonomy.

Hispanic women had a slightly lower autonomy score (13.35) than non-Hispanics (15.09) but were not considered to be significantly different from each other. Differences were expected to show up in behaviors and attitudes related to the autonomy variable which represented the divergent cultural factors to which the groups were exposed. The research questions are: "Are there significant differences in the factors which correlate with autonomy in different cultural settings?" "What is the impact of entrepreneurial autonomy in two cultural settings?"

The concern in this study is more with finding hypotheses that can be further tested in greater detail taking into consideration cultural and contextual variables rather than testing particular hypotheses as the final result.

In this study the primary set of cultural values which might be expected to modify relationships among selected variables and autonomy relate to the still predominant traditional role of women. This traditional role is not unique to any particular culture; at an earlier time many, if not most, U.S. women were strongly

influenced by these more narrowly-structured traditional mindsets.

In any case, it is postulated that U.S. Hispanic women entrepreneurs will be more likely to be influenced by the following cluster of cultural predispositions which, in turn, would lessen the relationship with autonomy: - Dependence on others for support. - Deference to males - especially macho males; subservience. - A reluctance to disagree. - Acceptance of authority and the status quo. - Accommodation to existing arrangements. - Interdependent with others for support. - Focussed on the primacy of the family

The impact of these cultural forces will be discussed in the analysis of results.

Individual and Contextual Factors Related to Autonomy

The model of the autonomous women entrepreneur is broken into two parts: 1) those factors which contribute to autonomy, and 2) those factors which are affected by autonomy, as shown in Figure 1. Characteristics which contribute to autonomy were chosen based on the fact that they are relatively stable, inherent and not necessarily under the control of the woman entrepreneur. Factors being affected by autonomy were chosen on the basis of outcomes of a series of entrepreneurial behaviors. These included the frequency of small business problems which the entrepreneur often had a direct hand in creating, controlling and solving.

The second set of factors affected by autonomy was the selection of information sources which were made under the deliberate control of the entrepreneur. It was felt that the entrepreneur had a greater freedom of choice and was able to enact some discretionary behavior on the formation, identification, analysis and outcomes of these variables, i.e., they were less "given" and "inevitable" than the initial factors which predict the occurrence of autonomy.

Of the demographic variables, age and experience in the field are expected to be positively related to autonomy. As the women entrepreneur gains success and a heightened sense of achievement her options become more numerous. Her independence is enhanced as she is able to pick and choose from a variety of business projects from which she is able to identify the "plums" based on her expertise and experience. As she adds more employees, she is in a position to free herself from delegatable tasks and is able to focus on activity where she is able to exercise her discretion. However, adding additional family members to her staff may constrain or limit her autonomy especially if they feel that they have "earned" the right to influence the entrepreneur. Therefore, it is expected that there is a negative relationship between the number of family members working in the business and autonomy.

Figure 1 Autonomy

Perseverance Follow Work Schedule Engrossed

Demographic Age Field Experience Employees Added Family Members Working in Business

Problems Training Employees Diseconomies in Purchasing Heavy Expenses Poor Employee Attitudes

Risk Taking Seeking stimulation Gamble Provisions for retirement

Self Esteem I Feel Inadequate Need to Prove Worth

Information Sources Vendors Personal Associations Catalogues Newspapers Magazines Government

Affiliation Actively Seek Help My Own Way of Solving Problems

Trust Trust in Asking for Trouble Don't Tell Relatives Everything

Machiavellianism People Don't Work Unless Forced

Of the entrepreneurial characteristics, perseverance, risk taking, self-esteem and Machiavellianism are expected to be positively related to autonomy. These are elements that allow the woman to work hard, take some calculated chances and manipulate herself into a well respected position of accomplishment and achievement. Once in this position, she

can regard herself in a positive light in her

own mind and does not require others to reach her goal. In fact, she may shy away from adulation and honors from the outside because she has already proven her selfworth to herself. As a result, she insulates herself from others and does not seek them out for affiliation. As a self contained unit, the entrepreneur is not beholding to anyone and is confident that her way of solving problems is the best. In fact, she may distrust others as being less competent, resourceful and envious of her success. Thus, it would be expected that there is a negative relationship between both need for affiliation and trust with autonomy. The profile of this entrepreneur is thus of an experienced woman who has worked hard and made something of herself and is now mistrustful of others who may want to attach themselves to her. She resists relationships and remains independent.

Autonomy may also be the source of some problems that the woman entrepreneur encounters. Being somewhat autonomous may be associated with a lower need to communicate with employees who may become resentful and develop poor employee attitudes. If the entrepreneur does not communicate with her employees and spell out her expectations in terms of telling them how to do their job, problems of training and development may arise. The entrepreneur may feel that she is independent or aloof from her employees and insulates herself from them. This lack of communication and information sharing can also lead to coordination problems and heavy operating expenses. Being small and relatively independent, the entrepreneur may be unwilling to cooperate with other owners to take advantage of economies of scale in purchasing larger lots at lower prices. Her independence thus prevents her from entering into these cooperative arrangements. Overall, a positive relationship is expected between autonomy and the frequency of these problems described.

Being more detached and insulated from others, the autonomous entrepreneur will most likely not be receptive to various information sources available. She may be satisfied with her current method of operation and outcomes and reject these information sources as an interference or disturbance to her peace of mind, freedom or mode of thinking.

Methodology

Three-hundred and thirty-three (333) non-Hispanic women business owners who were members of a large business women's organization, were surveyed, and 150 responded (response rate - 45%). Minor omissions on the returned questionnaires reduced the number of usable responses to 128. A variety of types of businesses in a large midwestern city were surveyed, including retail, distributor/wholesaler, manufacturing, and service.

Fifty-five Hispanic women entrepreneurs were administered the questionnaire in person. Thirty-one of those were preceded by structured and unstructured interviews and six of the respondents to the questionnaire were also included in a focus group. These

additional research activities were conducted to explore the business environment and cultural background of Hispanic entrepreneurs in greater detail to provide additional insight and understanding in the interpretation of the analysis of questionnaire data.

The means of demographic variables for the two samples are shown in Table 2. The profiles of the two sample groups are remarkably similar with respect to age and experience in the same field. However, non-Hispanics have on the average a higher level of education and more years of business. In both groups fifty percent of the entrepreneurs had fathers who were entrepreneurs, while the Hispanics had a higher proportion of entrepreneurial mothers. Hispanics also had a higher proportion of ownership, but lower ratio of family members (full time) in the business.

The ratio of family members in the business part-time and the ratio of family members in the business is about equal in the two groups. More employees were added and dropped in the non-Hispanic firms indicating a higher level of mobility but not necessary growth and development. Percent of equity in both samples is very high and about equal. In summary there are general similarities in the two samples, but with large differences in some of the contextually driven relationships.

The key variable "autonomy" was measured using five indicators to form a scale. These indicators were developed by Steers and Braunstein (40) and have an Alpha Cronbach of .699. Since the emphasis in this paper is on how autonomy itself is differentially impacted in two cultural settings, other psychological variables were measured using only individual item indicators. This helped to insure sensitivity to the cultural values that impact on autonomy. In contrast,

macrolevel variables focus on psychological variables per se. The sources of these micro-level scales (indicators) is as follows: Risk taking Self-esteem (2) Affiliation (40) Perseverance (19) Trust (28) Machiavellianism (10)

Small business problems were identified primarily from an analysis of 300 cases counseled in a Small Business Institute as well as from the business literature (14; 20; 41; 42). The sources of information utilized by entrepreneurs were identified by the authors. These sources were categorized as follows: consultants, vendors, personal, association, catalog, newspaper, magazine, and government institutions.

The Statistical Package of the Social Sciences was used in analyzing the data (1988).

Results

Surprisingly, opposite results occurred between the Hispanic and non-Hispanic women (see Table 3). The predicted relationship held for Hispanic women (older/more autonomous) but not for non-Hispanic women. The younger women among non-Hispanics apparently feel more freedom and autonomy. Respect for age may be more prevalent in the Hispanic culture. Similarly, less experienced non-Hispanic women feel more autonomous, i.e., they may have more choices and alternatives careerwise than their more experienced counterparts. As Hispanic women add more employees and family members to their business, they experience more autonomy. The Hispanic entrepreneur is in a position of enhanced autonomy now that additional human resources are at her disposal, even if they are family members.

Table 2 Demographics of the Two Samples

Non-Hispanic	Hispanic	Women	Women	N=128	N=55	-----
Age	38.45	38.44	Education	16.00	12.71	Years of experience in field 10.70 10.20 Years of business experience 13.90
11.15	Father an entrepreneur	64 (50%)	27 (50%)	Mother an entrepreneur	51 (40%)	19 (65%) No. of firms as equity
0.43	0.74	Employees added in past year	2.20	0.32	Employees dropped in past year	2.21 0.34 Family members/full-time
0.73	0.26	Family members/part-time	0.46	0.42	Family members as investors	0.46 0.52 % of Ownership 84.00 87.31

Table 3 Pearson Correlation of Predictors of Autonomy

Non-Hispanic	Hispanic	Women	Women	N=128	N=55	
DEMOGRAPHIC VARIABLES -----						Age -.177* .302* Years of Field Experience -.150* .062* Number of Employees Added in the Previous Year -.135 .225* Number of Full Time Family Member
Employees -.113 .269*						
ENTREPRENEURIAL CHARACTERISTICS -----						Perseverance Follow a Work Schedule Carefully -.069 .219* Often Become Wrapped Up in Work .146* .211 Risk Taking Risking New Experience in Search for Stimulation .150* -.107 Risk Money for Sheer Excitement of Gambling .222** .041 Don't Make Provisions for Retirement Early .163* .258* Self-Esteem Feel Inadequate to Handle New Situations (R)(1) -.014 -.270* Need to Prove Worth and Excellence .207** -.211 Affiliation Actively Seek Help From Others -.306*** - .191 My Own Way Is Best (R)(2) .209** .052 Trust Completely Trusting Is Asking for Trouble (R)(1) -.262** -.333** Don't Let Relatives Know Everything (R)(1) -.282*** - .285** Machiavellianism People Don't Work Hard Unless Forced .200** -.020

----- (R)(1)=Needs to be Reverse Coded (R)(2)=Reverse Coded Prior to Computerization

*=P less than or equal to .05 **=P less than or equal to .01 ***=P less than or equal to .001

Hispanic women that follow a work schedule feel more autonomous. Perhaps this schedule allows them to do other things and enjoy additional advantages. Non-Hispanic women who often become wrapped up in their work feel more autonomous perhaps because they chose to become more engrossed in this manner, i.e., they love their work and pursue it as a matter of personal choice.

All three risk-taking indicators were positively related to autonomy for non-Hispanics, whereas only one indicator of the Hispanic women was significantly related. This indicates that non-Hispanics are in a position to take more risks and the Hispanic woman will be cared for by her family upon retirement and does not need to make such provisions early in her career.

A stronger relationship existed between feelings of adequacy and autonomy among Hispanic women. Their variety of experiences

undergone in a strange and new country have allowed them a rich and varied response to new situations. In contrast, the more autonomous non-Hispanic women need to prove their worth and excellence. This may be due to acceptance of the norms of the more competitive culture in which they have chosen demonstrate their competence.

Non-Hispanic women do not actively seek help from others and believe their own way is best. This indicates an emphasis on self-reliance as a method of attaining autonomy and independence. These relationships were not verified for Hispanics, probably demonstrating a stronger need to affiliate based on their more socially oriented culture. Non-Hispanics further demonstrate their detachment by a lack of trust in others and by their unwillingness to let relatives know what they are doing. These relationships hold for both Hispanic and non-Hispanic autonomous entrepreneurs.

Finally, Non-Hispanic autonomous entrepreneurs believe that people do not work hard unless forced. This relationship did not hold for Hispanic entrepreneurs perhaps due to a closer-knit relationship between entrepreneurs and workers.

The only small business problem with a positive relationship with autonomy was coordination of activities (see Table 4). Three other problems were negatively related to autonomy (only for non-Hispanic women). In the case of Hispanic women, fewer training and development problems resulted from autonomy, indicating stronger ties between entrepreneurs and workers despite their autonomy. They may have a strong sense of responsibility to train their employees.

In terms of the consequences of autonomy, the more autonomous the non-Hispanic women entrepreneurs, the more they tend to avoid the use of information sources (all of eight relationships with information categories are significantly negative as shown in Table 4). In contrast, among Hispanic women entrepreneurs, only one relationship was significant. Apparently, the non-Hispanic's high need for autonomy implies either the desire to demonstrate an independence from traditional sources or the lack of a perceived need to use such sources. In the case of Hispanics, they are presumably willing to use these sources based on their cultural patterns of accepting more traditional institutions while maintaining their autonomy.

These patterns are further demonstrated in Table 5, in which there were 29 of 34 inverse significant Pearson correlations between autonomy and specific information sources for non-Hispanic women entrepreneurs. At the same time, of 33 relationships shown for Hispanic women entrepreneurs, five are significantly negative and three significantly are positive. Also, it should be noted that among Hispanics, there is positive correlation with reading the Wall Street Journal. The autonomous Hispanic women entrepreneurs also have a very strong inverse correlation with the use of the Internal Revenue Service as an information source. Neither of

these correlations holds for the non-Hispanics.

Implications for Small Business Development Administrators

The results of this study emphasizes a well-known general observation among small business administrators, but one which is frequently overlooked in designing such services; namely, entrepreneurs differ markedly in their acceptance and use of small business information and assistance services.

For example, in the case of non-Hispanic autonomous women entrepreneurs it is easy to see that information services do not play a very important role in their external assistance needs. While further investigation of these findings are in order to determine the causes, this type of finding indicates the following measures could be helpful:

- 1) Surveys of potential users of small business services should include analysis of preferences and previous utilization patterns and their relation to various entrepreneurial types.

- 2) Alternative "packaging" and "delivery systems" to interface with different types of entrepreneurs should be tried on a pilot basis.
- 3) The effectiveness of various liaison personnel with various entrepreneurial types should be measured and evaluated.
- 4) The degree of acceptance (or rejection) of traditional norms, attitudes and behaviors is a key factor. The more an entrepreneur rejects traditional modes of doing business, the more it may be necessary to consider new methods of communication and support system design. These and similar considerations will be incorporated in future studies by the authors.

Table 4 Pearson Correlation of Factors Affected by Autonomy

Non-Hispanic Hispanic Women Women SMALL BUSINESS PROBLEMS N=128 N=55 -----
 ----- Training New Employees -.133 -.245* Coordination of Activities .183* -.022 Diseconomies
 of Scale in Purchasing -.210 ** -.189 Heavy Operating Expenses and Overhead -.200** .033 Poor Employee Attitudes
 Toward Work -.164* .145

INFORMATION SOURCE CATEGORIES Consultants -.228** -- Vendors -.328*** .054

Personal -.232** .212 Associations -.267*** .051 Catalogs -.265** -.009 Newspapers -.190* -.042 Magazines -.247* -
 .005 Government Institutions -.186* -.291**

----- * = P less than or equal to .05 ** = P less than or equal to .01 *** = P less than or equal to .001

Table 5 Pearson Correlations of Information Sources and Autonomy

Non-Hispanic Hispanic Women Women N=128 N=55 ----- Banker -.203** -- CPA -.153* -.243* Lawyer -
 .257** -.018 Management Consultant -.161* .025 Vendors -.237** -.006 Suppliers -.220** -.051 Employees -
 .328*** .107 Competitors -.127 .219* Business Associate -.377*** .163 Middlemen -.092 .259* Business Club -
 .307*** .077 Professional Societies -.181* .007 Computer -.210** -.054 Yellow Pages -.234** .069 Catalogs -.202** -
 .077 Manuals -.190* .067 Handbooks -.206** .118 Chicago Tribune -.148* -.014 Sun-times -.181* .082* New York
 Times -.173* -.253* Wall Street Journal -.143 .253* Inc -.111 -.273* Fortune -.194* -.098 U.S. News -.207** -.041
 Newsweek -.209** -.049 Nations Business -.314*** -.128 Money -.312*** -.067 Newsletters -.194* -.217 Libraries -
 .174* -.151 Banks and Savings and Loans -.151* -.096 University -.186* -.276* Local Government -.204** -.046 State
 Government -.212** -.097

Internal Revenue Service -.080 -.526***

----- *P=less than or equal to .05 **P=less than or equal to .01 ***P=less than or equal to .001

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FRANCHISING: AN EDUCATIONAL DEVELOPMENT

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ABSTRACT

Franchising, as an American business method, has become the most rapidly growing method of doing business throughout the world today. Franchising, as an educational opportunity, is just beginning to develop in the United States. This article reviews the opportunities and methodologies available to teach franchising at the collegiate level.

INTRODUCTION

Franchising, as a method of doing business, is growing rapidly throughout the world. Today in the United States over 1/3 of all retail sales are developed through franchising organizations and this figure is expected to rise to 50% by the year 2000. Franchising continues to grow and build as a very unique method of serving customer needs quickly, conveniently, and economically (9). Franchising also accounts for approximately 20% of our Gross National Product and continues to grow and expand into new industries and different areas of business.

While franchising is widely known and recognized, it is not well understood (1). While franchising is not suitable for all types of businesses, it is appropriate for many businesses who may easily replicate or duplicate their business operation into new localities and geographical areas. Franchising is a costly, complicated, and at times, a risky method of expansion and should only be undertaken and entered into after thorough research and understanding of its methods and legal requirements.

Franchising Education

There is an opportunity for franchising education in the United States. As franchising continue to grow and its method is adopted by more industries, students and practitioners need to acquire knowledge and understandings of the principles and operations surrounding franchising organizations. Franchising education should be able to sweep the country in the 1990's as did entrepreneurship and small businesses in the 1970's (5).

Franchising is currently taught at several major universities as well as small colleges. The opportunity for franchising education is readily available through franchising textbooks (5) and several articles and pamphlets which have been developed for franchising education. The International Franchise Association also has a library of resources available for franchising education.

INTERNATIONAL FRANCHISING

The development of franchising continues throughout the world. In 1988 there were over 350 U.S. franchisors operating in over 32,000 outlets in many countries around the world (7; 8). While American franchisors continue to expand internationally into many foreign countries, there are other franchisors who are now invading the United States in the development of their franchising program, such as Fast Frame from the United Kingdom. Many foreign countries have found a rising demand for franchising operations because of a demand for quality consumer goods, services, increasing technology, improving mobility, increasing disposable income, expanding urbanization, and a shift of emphasis toward servicing convenient products (11). Canada, Japan and European companies are rapidly expanding their franchising operations. There are many different ways for these firms to expand internationally including joint ventures, using master franchisors, company owned operations, and even franchising to single individuals. Many franchisors will use more than one method during international expansion. The joint venture operation is probably the greatest method of expansion currently being used.

Individuals studying franchising should realize and understand the serious problems associated with local customs, laws, and regulations of foreign countries. Franchisors entering foreign countries should generally adhere to the following three steps: 1.) obtain trademark registration for each foreign country, 2.) deal only with the most reputable and competent companies or individuals, and 3.) review and learn about all applicable laws (12). Many countries will limit the repatriation of monies back to a foreign country as well as requiring local ownership or local workers to run

and operate the business. Certain nations also will limit different businesses from foreign countries into their home markets (10). The international role of franchising continues to increase in popularity and should be expected to grow even stronger in European markets with the unification of the European community in 1992 (9).

EDUCATIONAL OPPORTUNITIES

The study of franchising is a very new and exciting opportunity for students to learn about one of the most remarkable methods of doing business in the United States and throughout the world. Franchising education is a close fit with other entrepreneurial studies such as small business start-up and entrepreneurial

classes. The franchising experience allow hands-on opportunities for students to learn more about business start-ups, growth and development in the real world.

The 1970's saw small business and entrepreneurial classes emerge across the nation while students and business people cried out for help in the establishment and development of business endeavors. The 1980's continued with the growth of entrepreneurial courses throughout this country. Almost every business college in both large universities as well as the community college level began teaching students how to develop business plans and analyze entrepreneurial opportunities. The 1990's provide an opportunity for a new form of entrepreneurial education - franchising education. It is anticipated that franchising education will emerge as a main focus in entrepreneurial endeavors. While franchise ownership is not designed for everyone, there are close to 3,000 franchisors and some half-million people who have decided to become franchisees in the United States (4).

Classroom Methods

The study of franchising is a very unique opportunity for students. This educational experience provides the students an opportunity to grasp one of the fastest growing methods of doing business in the world. The franchising methodology which has been adopted by several universities throughout the United States includes the use of a franchisor or franchisee business plan or feasibility study (see Figure 1). The business plan/feasibility study provides the student with an opportunity to develop and analyze the proper operations of a franchising organization. The study would include the major areas of: executive summary, marketing, management, finance and accounting, and legal aspects. The students should be able to incorporate and integrate all the components of a franchising organization into this overall plan.

Figure 1 THE FRANCHISE FEASIBILITY STUDY/BUSINESS PLAN

Names of Group Members _____ Name of Business: _____
 _____ Final Grade: _____

Poor Average Excellent I. Executive Summary(Maximum 10%) () () () () () A. General Overview () () () () ()
 B. Summary of Findings () () () () () C. Final Recommendations _____

II. Marketing(Maximum 20%) () () () () () A. Major marketing objectives () () () () () B. Market Plan & Pricing Strategy () () () () () C. Recruitment Plan & Flow Chart () () () () () D. Franchisee Prospectus () () () () () E. Franchisee Sales/Advertising () () () () () F. Location Selection () () () () () G. Grand Opening Plan () () () () () H. Customer Advertising (on-going) _____

III. Management(Maximum 20%) () () () () () A. Operations Manual () () () () () B. Training Manual C. Headquarters () () () () () 1. Organizational Structure () () () () () 2. Policies () () () () () 3. Personnel(Wage & Salary) D. Franchise () () () () () 1. Organizational Structure () () () () () 2. Policies () () () () () 3. Personnel(Wage & Salary) () () () () () E. PERT chart _____

IV. Financing & Accounting(Maximum 20%) A. Headquarters () () () () () 1. Start-up or Turning-key Cost (itemized) () () () () () 2. Financial Position for Securing Franchise () () () () () 3. Pro forma Income Statement () () () () () 4. Pro Forma Balance Sheet () () () () () 5. Projected Cash Flow () () () () () 6. Break-even Analysis () () () () () 7. Ratio Analysis () () () () () 8. Provision for Taxation _____

B. Franchise () () () () () 1. Start-up or Turning-key Cost(itemized) () () () () () 2. Financial Position for

Securing Franchise () () () () () 3. Pro forma Income Statement () () () () () 4. Pro Forma Balance Sheet () () () () () 5. Projected Cash Flow () () () () () 6. Break-even Analysis () () () () () 7. Ratio Analysis () () () () () 8. Provision for Taxation _____

V. Legal Aspects(Maximum 20%) () () () () () A. Contracts Licenses, Trademarks, Prospectus, Disclosure Document () () () () () B. Business Structure () () () () () C. Insurance: Type & Cost () () () () () D. Provisions for Franchise & Business Termination _____

VI. Appendix(Maximum 10%) () () () () () A. Building Plans () () () () () B. Layout Design () () () () () C. Graphs () () () () () D. Working Papers () () () () () E. Diagrams () () () () () F. Layouts () () () () () G. Charts _____

A traditional lecture method is insufficient in teaching a franchising course. There is a need to develop a franchising course around the business plan/feasibility study and to use different guest speakers from both the franchisor and franchisee business world. Students should be able to inquire and gather information about developing proper marketing plans, site selection, advertising programs, promotion programs, pricing, product/service development, sales, and management programs. Students would also be required to develop a franchisor prospectus which could be used as an advertising tool to encourage prospective franchisees to join the franchisor's family.

The business plan/feasibility study needs to also include a brief outline of the operation manuals, training manuals, sales manual, grand-opening manual, and advertising manual for the franchising operation. Students should be able to identify all the important components of these manuals, and provide at least an outline format, or a brief description of the overall operations.

Students will also be required to develop organizational structures for both the headquarters (franchisor) operations and the entrepreneurial or individual (franchisee) operations. A PERT chart needs to also be developed for the franchisor and the franchisee so that they may both understand the steps necessary to take to secure and start the franchising operation.

The finance and accounting sections will provide financial information for the both the franchisor and franchisee. Forecasted financial statements for the both the headquarters and franchisee organizations need to be developed with a monthly cash-flow statement indicating a three to five year projection of the sales, revenues, and expenses for the franchising operations. These forecasts should then become the budgets for the first year of operation of the franchisor and/or franchisee.

THE FRANCHISOR

Franchising was originally developed to allow the franchisor to expand existing businesses in a rapid fashion. Franchising is designed to replicate or duplicate a successful enterprise in a different location or setting (6). It is important, however, before the franchisor decides to franchise that they perform a self-evaluation analyzing relative strengths, weaknesses, opportunities, and threats involved to individuals and to the business itself. Prospective franchisors need to also determine if the company has sufficient financial support to expand and develop through the franchising method (3). A franchisor checklist has been established to allow the franchisor to review and honestly perform a self-evaluation as well as evaluate the business opportunity (see Figure 2).

The franchisor/franchisee relationship is one of the major causes for the success or failure for the franchising operation. It is important that the franchisor realize the necessity of developing a proper communication program with the franchisees and to provide them with continuous value throughout the franchising experience. One of the major opportunities in franchising is for an individual to enter into a business which has the benefit of an established product service name or a method of doing business, and where the franchisor continuously provides on-going value or a value added for the franchisee (2). Franchisors will continue to help their franchisees and provide improved products and services for the franchisee. Growth occurs for the franchisor and the franchisee as the franchisee increases his sales and revenues through improved services and products.

Figure 2 FRANCHISOR'S SELF CHECKLIST

Directions: This is a self-administered evaluation. Circle the rating that most accurately represents your own

characteristics, then add up the score and enter it at the bottom of this list.

Ratings: 5=Excellent; 4=High; 3=Average; 2=Low; 1=Poor.

Excellent High Average Low Poor (5) (4) (3) (2) (1) Activity Level Energy 5 4 3 2 1 Drive 5 4 3 2 1 Passion 5 4 3 2 1

Business Experience Prior Experience 5 4 3 2 1 Managerial Skills 5 4 3 2 1 Hard Working 5 4 3 2 1 Self-Confidence 5 4 3 2 1 Common Sense 5 4 3 2 1

Goal Setting 5 4 3 2 1 Seeks Responsibility 5 4 3 2 1

Others Oriented Communication Ability 5 4 3 2 1 Ethics 5 4 3 2 1 Encourages Others 5 4 3 2 1

Dealing With Self Tolerance of Ambiguity 5 4 3 2 1 Enjoy Challenges 5 4 3 2 1 Dealing with Failure 5 4 3 2 1

Business Opportunity

Excellent High Average Low Poor (5) (4) (3) (2) (1) Product or Service Customer Need 5 4 3 2 1 Growing Demand 5 4 3 2 1 Desirable Product 5 4 3 2 1 Established Product 5 4 3 2 1

Established Business Opportunities Easily Duplicated 5 4 3 2 1 Brand Recognition 5 4 3 2 1 Site Selection 5 4 3 2 1 Advertising 5 4 3 2 1

Profitability Profits 5 4 3 2 1 Revenues 5 4 3 2 1 Return on Investments 5 4 3 2 1 Start-up Costs 5 4 3 2 1 Operations Manager 5 4 3 2 1 Sales Manager 5 4 3 2 1 Marketing Personnel 5 4 3 2 1 Field Support 5 4 3 2 1

Total Score: _____

Date of Evaluation: _____

Beginning Franchising

Students and faculty alike will be faced with the prospect of starting and developing a franchising business. The following checklist is one which has been developed to help beginning franchising organizations (see Figure 3). This checklist is simply referred to as a parent company (franchisor) development checklist. This checklist has been designed to help a new franchisor understand the activities which they need to become involved with before actually starting the franchising operation. It is important for the franchisor to have an attorney who is familiar

with franchising and its complexities draw up these documents to insure proper compliance with the FTC disclosure rule.

Future Franchisee

One of the main keys to developing a successful franchising system is the acquisition of strong franchisees. The development of a strong franchisor/franchisee relationship will generally bring about the greatest success in a franchising operation (2).

A franchising package should be developed for the franchisee which generally includes a pamphlet containing a lot of information about the franchising operation and an application to become a franchisee. This brochure or pamphlet is a strong advertising document of the franchisor to encourage future franchisees to sign the franchise agreement. If the franchisor believes the franchisee to be very interested and appears to be a strong candidate for becoming a franchisee, then the franchisor should send them the franchise disclosure document as well as the franchise agreement so that they may know all the information relative to becoming a franchisee.

The first meeting between the franchisor and franchisee is generally considered a "qualifying" meeting for both parties. During this time both the franchisor and franchisee are often trying to sell themselves to each other. The franchisor is

seeking those individuals who would make a good "fit" within the franchising system and the franchisee is looking for a franchisor with a good background and a strong service support system.

Entrepreneurial students have a great need to be exposed to the world of franchising. Franchising has become the fastest growing method of doing business throughout the world. Franchising education will provide the knowledge for both students as well as prospective franchisees about the strengths and weaknesses of developing a franchise unit.

CONCLUSION

Franchising education will probably become the entrepreneurial education program of the 1990's. Franchising is the fastest growing method of doing business in the United States and now throughout the world. Educational programs have now been developed to allow franchising to be taught at all levels of university and college involvement. Teachers and professors are joining the excitement of franchising by providing students with new curriculum and education opportunities through franchising courses.

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Figure 3 PARENT COMPANY (FRANCHISOR) DEVELOPMENT CHECKLIST

Person Finishing ACTIVITY Responsible Date

SALES Advertising Initial Announcement _____ Franchise Advertisement _____
Run Advertisements _____ Preliminary Information Folder _____
Response system to Initial Inquires _____ Telephone Inquiry Qualification Guide _____
Application Forms Form Letters and Paragraphs-Prospects _____ Form Letters and
Paragraphs-Franchisees _____

FINANCE Franchisor Pro Forms Cash Flow Statement(5 yrs) _____ Franchisor Pro Forma Income
Statement(5 yrs) _____ Franchisor Pro Forma Balance Sheet _____ Franchisee
Pro Forma Cash Flow Statement(5 yrs) _____ Franchisee Pro Forma Cash Flow Statement(5 yrs)
Franchisee Pro Forma Balance Sheet _____

MANAGEMENT Organization Chart _____ Location Selection _____ Store
Design & Decor _____ Operations Manual _____ Training Program _____
Headquarters Training _____ Inventory Control _____
Personnel Selection _____ Field Support Programs _____ Field Crew _____

LEGAL Uniform franchise Offering Circular Financial _____ Earnings Claims _____
Site Criteria _____ Acknowledgement Form _____ Franchise
Agreement _____ Trademark Registration _____ Tradename Registration _____

_____ Compliance _____

Registration State _____

Figure 3 PARENT COMPANY (FRANCHISOR) DEVELOPMENT CHECKLIST (continue)

MARKETING Franchisee Store Advertising Initial Advertising _____ Grand Opening Campaign
_____ Continuous Support _____ Advertising Manual _____
Public Relations _____ Promotion _____ Pricing _____
Sampling _____

MARKETING RESEARCH Target Market Research & Identification _____ New Product Research
_____ Franchisee Profile Development _____ Manager Profile Development
_____ Competition Analysis _____

ACCOUNTING Franchisor Chart of Accounts _____ Accounting Controls _____
_____ Franchisee Chart of Accounts _____ Franchisee Accounting System _____
_____ Computer System _____

Figure 4 FRANCHISEE'S CHECKLIST

Directions: Circle the score that most accurately represents your applicant's characteristics, then sum up the score at the bottom or the list.

Ratings: 5=Excellent; 4=High; 3=Average; 2=Low; 1=Poor.

Excellent High Average Low Poor (5) (4) (3) (2) (1) Business Background Prior experience 5 4 3 2 1 Skills 5 4 3 2 1
Past performance 5 4 3 2 1

Educational History Ability to think 5 4 3 2 1 Decision making 5 4 3 2 1 Desire to learn 5 4 3 2 1

Activity Level Self-oriented 5 4 3 2 1 Drive 5 4 3 2 1 Endurance 5 4 3 2 1

Impressions Appearance 5 4 3 2 1 Positive attitude 5 4 3 2 1 Communication skills 5 4 3 2 1

Adequate Capital At least one company- owned store 5 4 3 2 1 Legal cost 5 4 3 2 1 Initial operating costs 5 4 3 2 1
Developmental costs 5 4 3 2 1 Fund expansion 5 4 3 2 1

Ability to Work with Franchisor Adaptable 5 4 3 2 1 Sense of ethics 5 4 3 2 1 Friendly 5 4 3 2 1

Total Score: _____

Date of Evaluation: _____

A DRIVE WITH DIRECTION THE TYPE A - HIGH SELF-MONITOR PERSONALITY-PROFILE: - IMPLICATIONS FOR COMPANY PERFORMANCE

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ABSTRACT

This paper deals with the anomaly that the Type A personality, characterized by strong personal drive combined with disorganized and unfocused behavior, is often highly productive. The research forwards a more complex personality profile of the Type A personality linked with individual propensity towards monitoring environmental cues as explaining such successful performance. Empirical data from a sample of midwestern small business owners support hypotheses that these are independent personality factors and businesses run by individuals high on both factors will outperform businesses run by owners with other personality combinations. Implications for SBI consulting are discussed.

INTRODUCTION

Past research has shown a positive relationship between Type A behavior on the part of the small business owner and success of the business as measured by return on investment and growth in sales revenue (Boyd, 1984). In this study, we will consider whether such results reflect simply Type A behavior, or whether there is a more complex personality cluster present, which, while it includes the Type A profile, is not solely impacted by Type A. We will also consider the implications of such a personality cluster for how we, as SBI consultants, may provide the best levels of assistance to our clients.

Type A behavior is defined as "individuals which exhibit enhanced hostility, ambitiousness and competitiveness, and are often preoccupied with deadlines and with work (Chesney and Rosenman, 1980). Everly and Girdano (1980) have identified four measures of Type A behavior, they are:

1. Hostility - defined as a person who is excessively competitive
2. Time Urgency - defined as a person who races against the clock even when it is not necessary
3. Polyphasic Behavior - defined as a person who tends to undertake two or more tasks simultaneously, even when it is inappropriate to do so
4. Lack of Proper Planning - defined as a person who rushes into work without first deciding on a plan to accomplish the desired task

On an intuitive level, we would be hard pressed to understand how such an individual, high in Type A characteristics, could perform successfully in a business environment, except through sheer effort. However, there may be an additional mitigative personality factor that makes sense of this seeming contradiction.

A personality factor that has been posited as critical to this personality/environment interaction is the recognition that individuals may vary significantly in their level of reaction to the various messages or signals that the outside world sends them. Individuals characterized as "high self-monitors" are very sensitive to these environmental cues and adjust their behavior according to the expectations of their relevant external environment; in contrast, individuals characterized as "low self-monitors" are often oblivious to these external data and therefore tend to maintain similar patterns of behavior irrespective of situational demands (Snyder and Campbell, 1982). Since responsiveness to external demands is an important contributing factor to business success, (i.e. without satisfied customers there is little likelihood of survival) we would hypothesize that "high self-monitors" will be more likely to lead their businesses to higher performance levels than will "low self-monitors".

In terms of our roles as SBI consultants, we will likely find significant differences in terms of the degree of inherent receptivity of our clients as a function of "high" versus "low self-monitoring". We may have to make significant

adjustments in the ways that we deal with these different people.

Is there a possible interaction effect between Type A and "high/low self monitoring"? If the highly driven Type A individual is also sensitive to the outside world, it is quite possible that the business person will be higher on hostility, polyphasic behavior, and time urgency due to a recognition of more relevant external factors to deal with. However, such an awareness may sensitize this individual towards planning, which is contrary to the Type A profile. It appears that a mixture of Type A and high self-monitoring behaviors might prove to blend into a combination that would enhance performance.

Hypothesis to be Tested

Hypothesis 1: Companies run by individuals who are high on Type A characteristics will outperform companies run by individuals who are low on Type A characteristics. This hypothesis is consistent with previously reported findings (Boyd, 1988).

Hypothesis 2: Companies engaged in higher levels of internal performance evaluation will outperform companies engaged in lower levels of performance evaluation.

Hypothesis 3: There will be a significantly higher level of internal performance evaluation utilized by companies run by individuals who are high on Type A characteristics as compared to companies run by individuals who are low on Type A characteristics. If hypothesis 1 and 2 are supported and this hypothesis is not supported, this would suggest that the strong possibility of an additional explanatory variable for predicting success.

Hypothesis 4: Individuals who are high on Type A characteristics will be more likely to be "high self-monitors" than will individuals who are low on Type A characteristics. The hypothesis is forwarded to test the degree of independence of the two personality variables. If this hypothesis is rejected, this suggests that they are independent personality factors.

Hypothesis 5: Companies run by individuals who are "high self-monitors" will engage in higher levels of internal performance evaluation than will companies run by individuals who are "low self-monitors". This is consistent with the theoretical discussion. Also, if Hypothesis 3 is not supported and this hypothesis is supported, this suggests that "high self-monitoring" may be a significant factor in explaining company performance.

Hypothesis 6: Companies run by individuals who are "high self-monitors" will outperform companies run by "low self-monitors". This will especially reflect itself in terms of the trend in the change in performance from one year to the next.

Hypothesis 7: Companies run by individuals who are both high on Type A and high on self-monitoring will be more likely to engage in internal performance evaluation than will companies run by individuals who are high on only one of these; in turn, the lowest level of internal performance evaluation will be in those companies run by individuals low on both Type A and self-monitoring.

Hypothesis 8: Companies run by individuals who are high on both Type A and self-monitoring will be more likely to outperform companies run by individuals who are high on only one of these; in turn, the lowest level of company performance will be in those companies run by individuals low on both Type A and self-monitoring.

Hypotheses 7 and 8 merge those individuals who are high on Type A's and "low self-monitors" with those who are low Type A's and "high self-monitors". We will also test if there are significant differences in company performance between these groups. If such differences are found, this would suggest that one or the other of the two personality variables plays a more dominant role.

METHODOLOGY

To test our hypotheses, we utilized a questionnaire previously developed for a study of Canadian business owners (Adams, 1988). A stratified (by type of business), random sample of 1000 small businesses in the Kansas City area was generated by Sorkin's Directory (a private company that specialized in maintaining a computerized, current

comprehensive directory of businesses in several major cities). Questionnaires were mailed to this sample; 211 responses were received with 165 judged as usable. our respondents averaged 25.3 employed, with a range from 1 to 101. A comparison of the response rates for various types of businesses with their prevalence in the original sample shows that the responses are reasonably representative of the initial sample.

Prevalence in Type of Business initial sample ----- Retail 16% Wholesale 13%
Construction 10% Manufacturing 16% Service 45%

Prevalence in usable Type of Business responses ----- Retail 19% Wholesale 7%
Construction 6% Manufacturing 12% Service 52%

The measures used in this study are as follows:

(1) Type A/B - questions originally developed by Everly & Girdano (1980) measured the 4 submeasures (time urgency, hostility, polyphasic behavior and lack of planning). An overall Type A/B score was generated (range = 0-14), with higher scores indicating stronger tendencies towards Type A behavior.

(2) "High/Low self-monitor" traits - Respondents were asked five (Likert scale) questions dealing with the degree to which they monitor both the behavior of their customers and competitors. The five responses were combined into a standardized score for each respondent.

(3) Internal Performance Evaluation Respondents were asked five (Likert scale) questions dealing with the degree to which they developed business plans and strategies, reevaluated existing plans and analyzed ongoing financial and performance data. These variables were combined into a standardized score for each respondent.

(4) Company Performance Respondents were asked to indicate the percentage increase in sales for their company for 1987 versus 1986 and 1988 versus 1987. We created an additional variable comparing these two figures to determine whether 1988 performance improvement was larger or smaller than 1987.

The statistical analyses of these data included: Spearman correlation between variables, t-tests for differences between 2 categories of respondents, and ANOVA for differences between 3 categories of respondents.

RESULTS

Hypothesis 1 - partially supported

A t-test comparison of company performance between companies run by high versus low Type A leaders showed the following:

1987 improvement High Type A 14.6% Low Type A 7.4% Stat. Signf. $p < .10$

1988 improvement High Type A 17.3% Low Type A 7.4% Stat. Signf. $p < .01$

Difference in 1988 vs 1987 improvement High Type A 2.7 Low Type A 0 Stat. Signf. ns

This hypothesis is supported in 1988, with partial support in 1987. It is interesting to note that companies run by high Type A personalities not only outperform companies led by low Type A personalities, but show an upward versus stagnant trend line (albeit the percentage improvement is not statistically significant).

Hypothesis 2 - strong partial support

Correlational analysis shows that in both 1987 and 1988, improvement in company performance was positively related to higher levels of internal performance evaluation (1987, $r = .19$, $p < .05$; 1988 $r = .23$, $p < .01$); these findings support hypothesis 2. However, there was a negative correlation between the level of internal performance evaluation and the difference between the 1988 and 1987 level of improvement ($r = -.19$, $p < .05$), which partially rejects the hypothesis.

Hypothesis 3 - rejected

A t-test comparison of the level of internal performance evaluation of companies run by high versus low Type A personalities shows no significant differences (1.8 versus 1.1, $t=.61$, ns.). This rejection of hypothesis 3, when combined with the results of hypothesis 1 and 2 suggest that a consideration of an additional explanatory variable is warranted.

Hypothesis 4 - rejected

A t-test comparison of high versus low Type A personality leaders shows that they are not significantly different in the degree to which they are self-monitors (.15 versus -.11, $t=1.11$, ns). Thus, we are free to proceed with the assumption that Type A and self-monitoring are two independent personality variables.

Hypothesis 5 - accepted

A t-test comparison of companies run by "high" versus "low self-monitors" shows a significant difference in the level of internal performance evaluation (3.44 versus -.33, $p<.001$). This stands in marked contrast to the lack of significant differences seen in Hypothesis 3.

Hypothesis 6 - strong partial support

A t-test comparison of companies run by "high" versus "low self monitors" is summarized below:

1987 improvement High self-monitor 10.1% Low self-monitor 12.2% Stat. Signf. ns

1988 improvement High self-monitor 15.5% Low self-monitor 8.8% Stat. Signf. $p<.10$

Difference in 1988 vs 1987 improvement High self-monitor 5.4% Low self-monitor -3.4% Stat. Signf. $p<.01$

These results indicate that companies run by "high self-monitors" made significant improvements in 1988 versus 1987, while "low self-monitors" actually declined in terms of relative improvement. These findings suggest that "high self-monitors" are making on-going adjustments to further enhance their companies performances, while "low self-monitors" may be likely to be less responsive to changing conditions, and hence the-downward-trend.

Hypothesis 7 - supported

ANOVA analysis shows the following results:

Low on both Type A & Self- Monitoring Mean score on Internal Performance Evaluation -1.27

High on either Type A or Self- Monitoring Mean score on Internal Performance Evaluation 2.30

High on both Type A & Self- Monitoring Mean score on Internal Performance SIG Evaluation 2.89 $p<.05$

Here we can observe that the differences between being low on both and high on at least one of the personality factors is far more pronounced than is the difference between high on one versus high on both.

Hypothesis 8 - strong partial support

ANOVA analysis shows the following:

Low on both Type A & Self- Monitoring % Improvement in Company Performance '87 8.16

High on either Type A or Self- Monitoring % Improvement in Company Performance '87 12.66

High on both Type A & Self- Monitoring % Improvement in Company SIG Performance '87 12.55 NS

Low on both Type A & Self- Monitoring % Improvement in Company Performance '88 2.03

High on either Type A or Self- Monitoring % Improvement in Company Performance '88 14.66

High on both Type A & Self- Monitoring % Improvement in Company SIG Performance '88 18.45 $p < .01$

Low on both Type A & Self- Monitoring Difference in % Improvement 1988 vs 1987 -6.13

High on either Type A or Self -monitoring Difference in % Improvement 1988 vs 1987 2.00

High on both Type A & Self- Monitoring Difference in % Improvement SIG 1988 vs 1987 5.90 $p < .05$

These results suggest that companies run by individuals who are a combination of a high Type A and a "high self-monitor" personality profile will ultimately outperform companies run by individuals high on only one of these dimensions and will definitely out perform companies run by individuals low on both of these dimensions. Companies in the latter category show a trend towards declining performance. It would be interesting to track these companies over an extended time frame.

As discussed earlier, we also performed a t-test comparison of the level of company performance between companies run by high Type A/"low self-monitors" versus low Type A/"high self-monitors". The results of these analyses were nonsignificant, which suggest that neither personality factor is the dominant factor; rather, we can conclude that while both may play an important role by themselves, they are especially significant when found in combination.

DISCUSSION

The results of this study strongly suggest that we need to examine not only whether an entrepreneur is a Type A or Type B personality, but must also consider whether the person is a "high" or "low self-monitor". The results of this study strongly suggest that individuals who are high on both of these personality variables will lead companies that, over time, tend to outperform companies led by individuals who are only high on one or the other, and especially companies led by individuals who are low on both personality factors.

What we are seeing is very simple: drive combined with direction will result in higher levels of success than will drive without direction or direction without drive. It appears that the gap will likely grow over time. The most interesting phenomenon seen in this study is that of comparing 1987 and 1988 levels of improvement. When we view the trend line from 1987 to 1988, we see the difference between vibrant companies on the upswing and companies that are starting to stagnate. Future research might consider tracking companies over an extended period of time (e.g. five years) to determine whether these differences become especially pronounced.

What implications do these findings have for SBI consultants? In simple terms, we are likely to see both high opportunity and high frustration. On the opportunity side, sensitizing present and potential business owners to the need to be aware of the messages being sent to them by the outside world will help us to help them enhance their chances of success. On the frustration side, often those with the greatest need for this advice are those least likely to listen. However, we may still be able to partially deflect this tendency by pointing out business options such as (1) franchising, or other affiliation strategies where the business person depends on other companies run by more externally sensitive individuals to perform this function, or (2) taking on a partner who will fill this gap. The key to our success as SBI consultants will be to (1) recognize that these different personality profiles are significant in terms of business success, (2) recognize the potential difficulties in dealing with "low self-monitors", and (3) be prepared to adjust advising our methods to fit the needs of our clients.

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STRATEGIC TRAINING UNITS FOR GROWTH-ORIENTED MANUFACTURING

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ABSTRACT

Training for many small business manufacturers represents a major capital investment in human resources. How well entrepreneurs allocate their limited training dollars can make or break the enterprise. This paper proposes that small businesses account for their training costs by employee and track revenues generated from training by strategic training units. A "five-star" approach is suggested for an accounting of training related to the customer, statistical process and quality control, product development, manufacturing and distribution.

INTRODUCTION

There exists a need for comprehensive training strategies in small businesses. What are the hidden training costs of firing, hiring, promoting, or retiring an employee? Who knows? As one operation's manager said, "I don't think I want to know."

The definition of training here extends to informally organized on-the-job training, as well as formally organized programs of training. Full attention to training costs by employee and revenue centers offers several direct benefits: (1) bases for adjustments to the training programs, (2) changes in the pricing of training-related products and services, (3) more complete record of the investment in personnel, (4) better organization and operation of revenue centers. (5) coordination of training with capital investments, (6) support for added compensation to and a targeting of training costs for revenue centers and (7) retention of skill-rich employees. These benefits more than justify "the need to know" from an accounting perspective for the true cost of training.

STRATEGICALLY TARGETED TRAINING

Without a strategically targeted training program, a small business significantly reduces its chances of success (2). The best trained employees quickly become obsolete at an accelerating rate as technology changes (8). Just the mandated increases in the minimum wage, implemented in 1990 and scheduled for 1991, require that small businesses generate ever-increasing sales and profits to pay for these wage increases. The rising costs of benefit packages--especially health care which is projected to increase at

double digit rates into the foreseeable future (4)--all require greater profits to fund benefits. Training programs which are self-funding generate the needed revenues to pay for these programs.

Yet self-funding training programs present other problems. On the one hand, training which is profitable both for the company and employee increases the value of that employee to the company. On the other hand, this value-added calls for added compensation to retain skill-enriched employees. Top performers expect adequate merit pay, for they are most likely the first to receive lucrative offers from competitors. Replacing these "heavy hitters" proves at least as costly.

Not only will a new hire usually command a higher wage, but new hires also require orientation and on-the-job training. With the ill-prepared group of workers who are beginning to enter the workforce, more small businesses must invest in additional training and development to adequately prepare these workers. Moreover, for well-trained employees pay becomes a potential dissatisfier (5), particularly if training enhances the "marketable" skills of employees. Pickle and Abrahamson (9) make note of the dilemma faced by small business owners, who must accept training as a continuous process. Continuous training is needed to upgrade skills in a changing and competitive environment. However, this training also presents employees with increasingly more challenging opportunities for advancement. The alternative to skill enhancement is make-work training.

To make training cost effective, small business managers must identify their "top performers" in a timely manner. Part of this identification involves an accounting for training costs by employee, rather than just a line-item expense on the

income statement. While one might be tempted to keep detailed records of training only on the top performers, much is sacrificed by slighting the skill development of other employees. Ellig (1) points out the need for viewing employees as investments, since in the foreseeable future the number of personnel reaching working age will drop significantly. The ever present potential for dissatisfaction with pay and/or benefits can turn even the best employee into a "bad employee" (7). Most any employee, once turned bad, can quickly offset the efforts of key "top performers." Therefore, slighting training hurts the entire company. In addition,, as Marshall and Briggs note, "As technology becomes more pervasive, people who want to improve their incomes and productivity must acquire learning, thinking, and problem solving skills not traditionally a part of their jobs (6, pp. 212-213).

Small business owners may be lulled into a false sense of complacency by asking themselves the following question, "If my competitors neglect training, why should I invest in it?" That attitude ignores training strategies employed overseas by the Japanese, South Koreans, Germans and other potential competitors. Present-day barriers to skilled-labor movement are rapidly

dissolving, as world-class companies locate and import skill-rich employees. Just as capital moves through currency markets, so too are employees crossing national labor pools. As Marshall and Briggs comment, "Countries with limited physical resources, like Germany and Japan, have enjoyed superior economic performance because they have been forced to develop their human resources" (6, p. 211).

STRATEGIC TRAINING UNITS

To meet this world-class competition for skilled labor, smaller manufacturers need to establish centers of revenue creation, based on the ability of training to generate revenues. The authors refer to these revenue centers as Strategic Training Units (STU's). How does the training of personnel generate revenues? The answer to this question requires an assessment of one's business lines and how training enhances productivity in these lines.

An example of STU's comes from a rapidly growing manufacturer in Monroe, Louisiana, Sunbelt Plastics. In only fifteen years, this company has grown from nothing to the largest single facility producing blown film plastic products in the U.S.

The "Five Star Program" at Sunbelt is indicative of the STU approach. This program places a balanced emphasis on benefits derived from customers, statistical process and quality control, product development, manufacturing and distribution. The "five stars" in the program designate centers through which training dollars generate more revenue to fund continued training and growth. While each small business is unique, these five-Star centers serve as a model for manufacturers wishing to grow through a strategically balanced approach to training.

Training at Sunbelt cuts across management levels, product lines and seniority. The training function operates independently of other functional, hierarchical, departmental and strategic designations in the organizational structure. What may seem as an extreme, quality assure personnel develop skills in making customer calls and assisting with sales closings. Customer contacts even originate from executives discussing products and problems with operators to discussions with customers during plant tours.

Statistical process and quality control training also generates revenues. Close behind, a commitment to training for quality, are innovations which increase the quantities and revenues produced. More products of higher quality mean higher revenues to cover more training.

Product development training generates product innovations in quality assurance, customer sales, operator insights, and even in training decisions themselves. As the head of R&D surveys the shop

floor from his office overlooking the plant, product development training continues as an integral, nearly indistinguishable component, of the manufacturing process. Production and training blend in such a way that new product development training almost seems to function as a training program.

Sustainable revenue generation also originates from other training closely tied to the manufacturing process. The blending of scheduling, inspections and operations affords unique opportunities for on-the-job training and revenue generation. Training affords personnel at all levels learning opportunities not traditionally incorporated into their work. These learning opportunities also require employees to develop problem solving skills not typically a part of their jobs.

For example, product delivery presents endless opportunities: Who knows what drivers may learn while delivering products? What if a purchasing agent expresses an interest in other sunbelt products? Does the driver know how to respond to the customer's needs?

ACCOUNTING FOR STRATEGIC TRAINING UNITS

Will the driver ignore the comments, brush off the customer, or in the attempt to avoid problems say, "I don't think I want to know"? Accounting for costs and revenues has revealing outcomes. Perhaps, distribution is not taken seriously as a distinct STU. Treated as a stepchild, no one can identify revenues associated with

TABLE 1 TRAINING LEDGER CARD

Employee: Joseph Spulerra Hired: 2/15/88 Birthdate 10/3/53 Starting Wage: 9.50/hr. Position: Forklift Operator									
3 3 3 ANTICIPATED 3 3 3 ESTIMATED 3 BENEFIT 3 3 DATE 3 DESCRIPTION 3 COST 3 PERIOD 3									
2/17/88 3 Company orientation 3 500 3 1 yr. 3									
2/18/88 3 Cost of time taken by employee 3 2,000 3 6 mos. 3 3 3 and others from on-the-job 3 3 3 3 training in forklift operations 3 3 3 3 (1 week) 3 3 3									
4/15/88 3 Plant-safety training & testing 3 1,500 3 5 yrs 3 3 3 (labeled entire week) 3 3 3									
5/15/88 3 Problem-solving training in 3 5,000 3 10 yrs 3 3 3 teams (2 days a week for 3 3 3 3 3 weeks) 3 3 3									
7/20/88 3 Training on new shrink-wrap 3 500 3 2 yrs 3 3 3 machine pallets. 3 3 3									
3/8/89 3 Electricians school, stage 1 3 3,900 3 1,000 cost 3 3 3 training (2 days a month through 3 benefit 3 3 3 11/89). Dropped out of training 3 past 1989 3 3 3 11/30/88. 3 3 3									
6/30/89 3 Merit raise (wage up to 3 41,600 3 20 yrs 3 3 3 10.50/hr.; 1.00/hr. raise for an 3 3 3 3 estimated 40 hrs./wk. 3 3 3 3 for 20 yrs) 3 3 3									
9/10/89 3 SPC training in Atlanta for zero 3 4,700 3 8 yrs. 3 3 3 defect program (1 week) 3 3 3									
TOTAL 3 3 59,000 3 3									
3 3 3 TRAINING COSTS 3 3 3 PERIOD 3 REMAINING 3 3 DATE 3 1988 1989 3 COST 3									
2/17/88 3 500 -0- 3									
2/18/88 3 2,000 -0- 3 -0- 3									
4/15/88 3 225 500 3 775 3 3 3 (9 mos.) 3 3									
5/15/88 3 333 500 3 4,167 3									
7/20/88 3 104 250 3 146 3 3 3 (5 mos.) 3 3									
3/8/89 3 -0- 2,900 3 1,000 3									
6/30/89 3 -0- 1,040 3 40,560 3 3 3 (2,800/yr.) 3 3 3 3 for 6 mos.) 3 3									
9/10/89 3 -0- 196 3 4,504 3 3 3 (4 mos.) 3 3									
TOTAL 3 3,162 5,386 3 51,152 3									

distribution, and drivers receive little else besides "safety training." Accounting by STU identifies those areas either

takes-all-approach covers expenditures for new technologies, but does not have funds to adjust prior year compensation for inflation. Employee earnings erode. Small businesses under this scenario are technology rich and employee poor.

Under the short term with the employee takes-all approach (row 2, column 1) training margins only cover current employee raises. Management must find additional capital or erode its current position to fund operations. In the long-term (row 2, column 2) if employees take all, training margins only fund wage increases to cover inflation. Worse yet, training generates little or no money for purchasing the new equipment and tools needed by personnel to use their new-found skills.

The goal of maximizing training benefits through STU accounting should be in the mutual interest of both small business owners and their employees. Why leave these benefits to chance? By using training ledgers for costs and revenue analysis, managers could make present value projections of future revenues and training costs by STU. As these projections of training margins materialize, both short-term and long-term benefits are realized (Table 2, row 3):

- (1) Short-term, training generated funds compensate employees for performance-based increases in skill levels.
- (2) Short-term, training margins provide funds to cover current operating costs.
- (3) Long-term, margins from training allow wages to increase for inflation.
- (4) Long-term, training enables small businesses to purchase or leverage the equipment needed by employees to use their training.

This accountability for a strategically viable training program reveals financial realities previously hidden from view. Understandably, then, small business owners and personnel/human-resource managers might still say, "I don't think I want to know." But having said this, the benefits to manufacturers and their employees more than justify the added work of accounting for these training margins.

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THE LEADERSHIP EQUATION: HOW THE SBI CAN HELP SMALL BUSINESS REGAIN ITS COMPETITIVE EDGE

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ABSTRACT

This article discusses the conference theme and concludes that leadership is at the core of what we refer to as "competitive edge." The author argues that, perhaps, the single most important thing that Small Business Institute directors can do to help restore the competitive edge of American small business is to teach leadership as well as management.

This article explores the elements of the leadership equation, and expresses it as 25 practical tips concerning how to lead. It recommends a mini-bookshelf of seven works on leadership that can be added to an Institute's small business library for less than \$150.00. This article has been abridged due to space limitations. A copy of the complete article is available from the author upon request.

INTRODUCTION

We live in an era of economic challenges. It is an age of increasingly scarce resources and world markets. Enterprises face increasingly fierce competition not only from down the street but from enterprises halfway around the world that have access to cheaper labor, less expensive raw materials, or better technology.

In the 1950s and 1960s Americans made about one-quarter of all the manufactured goods in the world market. (16, pp. 5-6 and 24-26) Then our competitive edge started to slip. Entire product areas that used to be dominated by American industry are now challenged by foreign producers. Our trade deficits are now enormous. Our domestic deficits are also.

What can we do, as SBI directors, to help turn this situation around? What is the single most important thing that we can do to improve our counseling efforts and help restore the competitive edge of our small business client base? The focus I recommend is teaching leadership.

CHALLENGES FOR THE 1990'S AND BEYOND

As with any complex situation, many factors can be argued to have contributed to the slippage in the United States' competitive edge. Still I suspect our main challenge for the 1990's and beyond may be found in the words of in the words of Gerald Marks, Robert B. Reich

and Malcolm Baldrige. (16, p.24-25) Marks said, "When the United States sobers up to the situation, more Americans will realize that our trade deficit had been Made in America ... Business executives and politicians shout for a level world playing field. But that is no substitute for playing the game better." Reich said, "The solution lies within us. If foreigners can do something better and more cheaply, we ought to learn to do it as well. If our competitors are willing to sacrifice... for the future, then we had better make similar sacrifices if we hope to stay in the game. " Finally, analyzing the slippage in the United States' competitive edge, Malcolm Baldrige concluded, "We were simply out managed. There is no excuse for that, and there is no one to blame but American management."

IS MANAGEMENT WHAT IS LACKING, OR IS IT LEADERSHIP?

Small business owners are obviously the top managers for their businesses and the SBI program has been dedicated to improving the management skills of entrepreneurs, present and future. In this sense we have been dealing with the issues raised by Marks, Reich and Baldrige for some time. But can we improve our focus?

We need to move beyond the skills commonly taught in core courses in business schools. Important as these skills are, we need to redirect our focus towards the essential ingredient required to put these skills to work -- leadership. As Warren Bennis and Burt Nanus have expressed it, "The problem with many organizations ... is that they tend to be overmanaged and underled. There is a profound difference between management and leadership, and both are

important. "To manage" means "to bring about, to accomplish, to have charge of or responsibility for, to conduct." "Leading" is "influencing, guiding in direction, course, action, opinion." The distinction is crucial. Managers are people who do things right, and leaders are people who do the right thing. The difference may be summarized as activities of vision and judgement -effectiveness versus activities of managing routines -- efficiency." (2, p.21).

As SBI directors, we can know what Bennis and Nanus mean. In our dealings with our case clients over the years, we have seen repeatedly that good management is needed to make a small business efficient; but, above all, good leadership is needed to make it succeed. Leadership is at the core of what we refer to as competitive edge. The SBI program will definitely increase its impact if each of us teaches leadership as well as management.

IS THERE EMPIRICAL EVIDENCE?

Do our students and our clients need leadership education? There is a considerable body of evidence that suggests they do.

First it is clear that something is not working. Small Businesses fail frequently. For example a recent study funded by the Small Business Administration indicates that 37.3 percent of small businesses survive the first six years after start-up. (17,pp.24-25) In this fiercely competitive age, we cannot afford a 37% success rate. The SBA and the SBI must continually improve efforts to strengthen the small businesses that form a vital part of our economic system. We know action is called for, but is leadership education a top priority?

Research on reasons for small business failures hints at inept leadership, but usually cites poor management as a prime reason for failure. (20) Often it is not clear from these studies where poor management ends and poor leadership begins. This means one must view this body of literature inconclusive simply because a clear distinction has not been made between effective management and effective leadership. Making this distinction is not all that easy. Required are elaborate, expensive, and interview-intensive research designs which must address a population reluctant to reopen fresh wounds. It is not surprising that the results of business failure research isolates mismanagement factors and only raises strong suspicions about leadership factors.

Research on what it takes to be a successful small business owner also suffers from a lack of clear distinction between management and leadership. Fortunately, there is one big difference. Everyone seems eager to talk to the successful to try to learn the secrets of their success, and the successful enjoy talking about how they became successful. As a result the popular press is full of success stories with titles like, "Tips from the Top," "Today's Leaders Look to Tomorrow," and "Business Lessons from Billionaire Ross Perot." (3, 18, and 13) While anecdotal, many of these articles are painstakingly compiled from extensive interviews. And what do the highly successful tell us? Their message is that effective leadership is critical to success.

I suspect that serious researchers of small business failure and success already have the empirical evidence to prove that effective leadership is at the core of competitive edge. All that is required is a different perspective -- a reanalysis of raw data already collected by careful research designs, this time with leadership in mind. This reanalysis, combined with new studies designed to separate management factors from leadership factors, will probably confirm what successful leaders have been telling us all along.

THE SPECIAL ROLE OF THE SBI IN LEADERSHIP EDUCATION

Bennis and Nanus argue that business schools are focusing on the wrong thing. They feel we should be teaching the principles of effective leadership rather than simply management skills. We

should be helping our business students begin the lifelong process of internalizing these principles.

"The major problem is that what management education does do moderately well is to train good journeymen/women managers; that is, the graduates acquire technical skills for solving problems. They are highly skilled problem solvers and staff experts. Problem solving, while not a trivial exercise, is far removed from the creative and deeply human processes required of leadership. What's needed is not management education but leadership education." (2, 219-220).

By its very nature the SBI program has great potential for overcoming the criticism Bennis and Nanus level at business

school education in general. The dynamic, real world nature of the student team counseling process and the tutorial nature of the instruction involved are two reasons why.

The SBI program can train people to be leaders in addition to training them to be managers. The vast majority of instructors involved in the SBI are good at teaching management and are aware of the need for leadership even if they have not taught it explicitly. All most of us need to do to improve our programs is to adopt a new perspective -- a new focus. We can do this by bringing the critical leadership equation to the surface during the consulting process and helping our students assimilate it.

THE LEADERSHIP EQUATION

The first thing students and clients must realize is that the leader has a job to do just like everyone else in the enterprise. Using a systematic leadership approach improves the probability for success, just as it does for any other type of job.

There are four critical steps for doing any job: PLAN, DO, CHECK, and ACT (PDCA). The steps are repeated over and over. The key point that students and clients must realize is that for best results, no matter what the job, you cannot just DO it. You must PLAN it first. Once you do the job, you must CHECK on the outcomes. Then you must ACT to better achieve the hoped for results. As the cycle of effort, analysis and improvement is repeated over and over, the job holder becomes increasingly effective and more competitive. The four elements of the PDCA cycle combine synergistically to create a competitive edge and to continuously hone it.

The PDCA cycle can be defined for students and clients both in terms of the continuous improvement of work (management cycle), and in terms of what it takes to be an effective leader (leadership cycle). I call this latter definition the leadership equation. We need to focus on teaching the leadership equation and on how to continuously improve leadership effectiveness.

The leadership equation refers to the job of leadership. It goes beyond mere efficiency. It also deals with issues of effectiveness. It is a people equation. As such it may appear "soft" or "impressionistic." However, it can be stated in terms of practical tips which helps students and clients realize its real world power. These tips are also useful to you because they are teachable.

TWENTY-FIVE TIPS ON HOW TO BE AN EFFECTIVE LEADER

I have broken down the four major elements of the leadership equation into 25 teachable tips on how to be an effective leader. I use these tips to focus student thinking on leadership issues. They were derived from a number of writings on leadership. (2, 4, 5, 7, 11, 13, 15, 19) The twenty five tips are presented in Table 1.

Most of the tips given in Table 1 sound pretty easy, but they are not. You can anticipate that your students and clients are going to need some-help from you as they try improve themselves as leaders. Studying the books listed in the next section will prepare you for providing the help they will need.

TABLE 1 TWENTY-FIVE TIPS ON HOW TO BE AN EFFECTIVE LEADER

PLAN Tip #1. Decide what it is you really care about. You cannot lead anyone anywhere until you know where you want to go. Tip #2. Think big. No goal is impossible to achieve if it is really worthwhile. All you need to do is find the right people to help you. Tip #3. Focus on giving not getting. Tip #4. Know the work. Tip #5. Commit yourself. Often the actions required for accomplishing great things are quite simple. The tough part is maintaining the self-discipline to actually do them. Tip #6. Accept responsibility for accomplishing the goal. You can always find excuses for failing, you can always find someone else to blame. Don't do it. Tip #7. Accept responsibility for your group. You are responsible for their behavior and for their well being. Tip #8. Involve others. You don't have to PLAN, DO, CHECK, or ACT on your own. In fact it is smart not to. You can get a lot of help by asking for it. The smart leader trains all her people to be leaders.

DO Tip #9. Select your people rigorously. Tip #10. Get people excited about your goal and the PLAN. Tip #11. Have high expectations for yourself and your group. Tip #12. Take charge. If you want it, you must make it happen. You must lead by saying, "follow me" and setting a good example. Tip #13. Don't just give orders and expect people to

follow them. Tip #14. Move forward. Once you have set goals and gotten people excited about them you, must make progress. When an obstacle arises, don't stop to blame anyone, take action to get it handled. Tip #15. Keep at it. There will be problems, setbacks, disappointments, and failures along the way. A lot of mistakes will be made. Focus on learning from the mistakes. Encourage everyone to keep trying. Tip #16. Build lean teams that know how to do the whole job. Focus on building your team. Be picky in member selection. Train and cross train aggressively.

CHECK Tip #17. Keeping score is very important. Tip #18. Be there. You can't CHECK and ACT properly if you DO by remote control. You need to be there, look and listen, and follow up. Tip #19. Have a winning attitude. No matter how bad things get, keep your mind focused on the good things that will result when you and your people reach the goal. Keep up the desire to finish first. Smile and be cheerful. Tip #20. Say what you mean and do what you say. Never lie, cheat, or steal. Do not associate with or tolerate anyone who does. When you make a promise, keep it. If you are not sure you can keep the promise, don't make it. Your people's promises are your promises. You can't pick and choose who to play it straight with. Tip #21. Have a bias for action. Put things in priority order and do the most important first. Do it now! When in a crunch, remember that you will get more results with, "ready, fire, fire, fire" than with, "ready, aim, aim, aim." Tip #22. Give credit when it is due. You cannot reach your goals on your own. Make your people feel important. Tip #23. You open the door to the future by challenging the way things are now. Ask yourself, "What do I believe is impossible to do in my field, but, if it could be done, would fundamentally change my business?" Ask it of everyone, over and over. Tip #24. Coach your people or replace them, but don't ignore them. If you have a worthwhile goal, it must come first. You cannot afford to have a nonperformer on your team. Don't use firing as an easy out, a cover up for the fact that you didn't do your job as a leader. If you have been a good coach then you have the right to replace when they don't work out.

Tip #25. You succeed by helping others succeed. If you want to be a success you must help those around you succeed in their lives. You must coach, counsel and teach.

A MINI LEADERSHIP BOOK SHELF

Table 2 presents a short list of seven leadership books, selected from many worthwhile titles, that can form the core of the leadership selections in a Small Business Institute library. Acquiring these books is an action you can take today to improve the leadership education component of your Small Business Institute Program.

TABLE 2 A MINI LEADERSHIP BOOK SHELF

1. Bennis, Warren and Burt Nanus Leaders: The Strategies for Taking Charge (New York: Harper & Row, 1985).
2. Brown, J. Douglas, The Human Nature of Organization (New York: AMACOM, 1973). 3. William A. Cohen, William A. The Art Of The Leader (Englewood Cliffs, New Jersey: Prentice Hall, 1990). 4. De Pree, Max Leadership Is An Art (East Lansing, Michigan: Michigan State University Press, 1987). 5. Fournies, Ferdinand F. Coaching For Improved Work Performance (Blue Ridge Summit, PA: Liberty House, 1987). 6. Manske, Fred A., Jr. Secrets of Effective Leadership: A Practical Guide To Success (Memphis, TN: Leadership Education and Development, Inc., 1987). 7. McGregor, Douglas The Human Side of Enterprise (New York: McGraw-Hill Book Company, 25th Anniversary Printing, 1985).

Also one article of particular interest,

8. _____ "Thriving on Order" INC., Volume 11, NO. 12, December, 1989, page 46 et seq.

CONCLUSION

This article has addressed the issue of how the Small Business Institute program can help small business return our nation to a position of leadership in world markets. Leadership is, in my view the key word. It is at the core of what we refer to as "competitive edge." I have argued that, perhaps, the single most important thing that Small Business Institute directors can do to help restore the competitive edge of American small business is to teach leadership, in addition to simply teaching management.

Once you focus on the need to teach leadership, you will become aware of the frequent opportunities to teach leadership occurring during the small business counseling process. You will be surprised at how easy it will become to teach valuable leadership

lessons without being didactic or consuming large blocks of precious class time.

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SMALL RETAILERS USE OF FAX MACHINES

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ABSTRACT

The development of facsimile technology has been rapid during the decade of the 1980's with early application toward large business firms. However, during the later years of this decade, the emphasis changed with faster, smaller, and lower cost fax machines better meeting the needs and budgets of small business firms. This study found that a majority of small business retailers are accepting the fax system as an integral part of their business operation.

INTRODUCTION

The development of facsimile technology has brought small business a swift method of exchanging information. Although its development for small business is still in its infancy, its use to the small business retailer rests upon ease of implementation and has become affordable for small business usage during the last 2 or 3 years. The basic requirements for its use is a telephone link or (of more recent developments) a fax board for a personal computer.

Facsimile technology (commonly referred to as FAX.) provides a system of sending documents, photographs, diagrams, blue prints, drawings and statistical information to any location that has a telephone line. Purchase orders from buyers to suppliers represents a breakthrough in allowing the small business retailer to order merchandise on short notice and receive small lot shipments at short intervals. The relatively inexpensive cost of sending written material via fax, and receiving it in timely fashion, makes a more salient bottom line with delivery service budgets being reduced.

During the last 2 or 3 years, the makers of fax equipment have undergone a change in marketing strategy. The earlier philosophy of distributing fax systems only to large companies, (which, at the time seemed already saturated), was replaced with the development of machines targeted to the needs and budgets of smaller companies. A continuing change in technology developed fax units that are smaller, faster and sell for a lower price. A growing emphasis of marketing toward the small business retailer has found sales rapidly increasing in firms all the way from medium size firms to "mom and pop" operations. In addition to the lower cost units, the short turnaround time has been important. What used to require a 10-day turnaround time via the mail has been cut to less than

four hours via fax. The simple exchange of fax data (of a few pages) may require only minutes. Delivery of timely information to a designated fax machine often results in a higher degree of precision and understanding often lost when using the U.S. Mail or overnight delivery.

The rapidly developing use of the fax machine by small businesses has led to network applications. Networks extend to regular supplies, branch or home offices, or a hub machine and relayed to another office. Such features as delay and transfer sending of data reduces cost. A network of compatible fax machines allow the user to employ similar machines from a vendor to effect greater time and money savings by taking advantage of proprietary transmission speeds. For smaller firms sending frequent messages to remote locations, a machine with delayed operation allows the data to be sent at a later time to take advantage of lower telephone rates. Even though you may not plan to send a high volume of faxes, you may find you'll receive many more than you ever anticipated. Already, fax has been linked with a voice-processing system which allows businesses to accept and send fax documents through a touch-tone phone. Besides allowing users to review voice and fax messages from remote locations, the system can forward a fax message to another machine at a specified time. New developments include resident memory or memory add-ons for storage of a large number of pages. Thus, opportunities exist for memory- to-memory transmission and data-base storage. Broadcasting capabilities, auto-dial, automatic page feeders, and the use of plain paper are among the current features requested for fax systems. Additional security features are on the drawing board for those who desire more private communication when faxing data from one source to another. Confidentiality is assured by personal mailboxes which are password protected. Due to developing misuse of fax machines such as non-business users for faxing lunch orders to the deli or sending letters to relatives thousands of miles away, concerned managers will request features built into their units that will make control and tracking possible.

Small business retailers are beginning to accept the fax system as an integral part of their business operation.

Frequently, the owner/manager of a small business retail firm depends largely on the recommendations of the sales person in selecting an appropriate fax system for their firm. Many are first time buyers and purchase the fax system primarily based on price. However, the small business retailer is quick to recognize the improvement of service to the customer as a result of faster order entries and return of merchandise. The faster turnaround of ordering and receiving merchandise allows the smaller retailer to maintain a smaller overall inventory yet provide a varied assortment of desired goods for the customer.

SURVEY

This study was undertaken in trying to, determine the use of facsimile technology by small business retailers. The small business retailer is fast becoming the focal point of the marketing effort by the makers of fax equipment.

A sample of 2000 retailers was randomly drawn from a national list of small business retailers. A pilot study was conducted initially in Little Rock, Arkansas, in seeking major questionnaire defects or biases that might adversely affect the survey results. A two-page questionnaire was mailed to the selected firms with a cover letter explaining its purpose. The questionnaire contained some questions pertaining to demographic data and questions of fax equipment used by the participating small business retailers. A total of 252 questionnaires were returned for a total of 12.6 percent. This percentage was lower than we desired but it was felt that the wide base of the study (national in scope) reflects meaningful implications in considering use of fax machines as well as types of machines purchased for use by the small business retailers. This study is descriptive and may or may not be a sample that is truly representative of the entire population.

STUDY

1. Does your company currently have one or more fax machines?

RESPONSEABSOLUTE PERCENT FREQ

YES 169 67.1 NO8232.5 NO RESPONSE1.4 TOTALS252100.00

Sixty seven percent of the retailers currently have one or more fax machines. Over 32 percent of the retailers did not have a fax machine. Having one third of the retailers without fax machines still gives the fax industry much room to grow.

2. How many fax machines does your company have at your present location?

RESPONSEABSOLUTEPERCENT FREQ ONE13278 TWO169 THREE74 FOUR53 FIVE11

SIX00 SEVEN32 EIGHT00 OVER EIGHT53 TOTALS169100

Of the retailers that have fax machines seventy-eight percent only have one machine. It was interesting that five retailers had over eight machines in one location. Thirty-seven of the small businesses had more than one fax.

3. Do you feel the number of fax machines used by your company in the future will:

RESPONSEABSOLUTEPERCENT FREQ Greatly Increase106 Increase5029 Remain the Same11065 Drop Off00 Drop Off Greatly00 TOTALS170100

Sixty five percent of the retailers feel that the number of fax machines used by their company will remain the same. Only six percent feel that there will be a great increase. Twenty-nine percent of them feel that there will be an increase in uses.

4. Please rate the following uses of the fax machine by your company on a scale of 1 to 10 with 1 being "not very important" and 10 being "extremely important".

ABSOLUTE FREQ 1 2 3 4 5 6 7 8 9 10 ----- Sales Information 22 7 8 7 18 7 8 20

15 47 Advertising 60 18 13 7 18 7 4 8 5 11 News Releases 59 16 10 11 19 2 3 6 4 19 Price Quotes 21 0 0 5 10 9 8 18
 22 65 Administrative Functions 16 6 9 3 16 9 9 19 20 52 Technical Development 47 10 13 8 20 8 6 8 14 17 Inventory
 Control 60 15 10 7 14 4 3 8 6 16 Transmission of Financial Data 31 10 6 4 18 4 6 13 14 48

The fax was listed as most important when used as a price quote. Administrative functions was second most important. Sales information and transmission of financial data were next on the list of uses considered important. Inventory control and news

releases were not as important to the retailers. Advertising was also very low in importance.

5. On an average, how often are the fax machines used at your location? ABSOLUTE FREQ More than 20 times a day26 16-20 times a day11 11-15 times a day22 6-10 times a day39 1-5 times a day58 Less than 5 times a week8 Less than 5 times a week3

On an average the largest group used their fax 1-5 times a day the smallest group usage was less than 5 times a month with 3 responses. Six-ten times a day finished in second place. More than 20 times a day finished third.

6. Please check the positions of the people using the fax machines.(check all that apply)

ABSOLUTE FREQ Top Management142 First Line Management87 Technical/Production60 Marketing/Promotion69 Middle Management77 Secretarial125 Financial/Accounting84

Top Management was the most frequent users of the fax. Secretarial was a close second with 125 responses. The group that used the fax machines the least was the Technical/Production workers. Marketing/Promotion was the next lowest group.

7. Are your fax machines connected to the PC's or mainframe computer in the company?

ABSOLUTE FREQ YES NO PC'S 7 159 MAINFRAME 2 146

As the response show the fax machine and the computers are not hooked up together in many retail stores. This is true and an area where the use of the fax can grow. Both the PC and mainframe computer can work very well with the fax machine.

8. From which of the following companies have you purchased your fax machines? (check all that apply)

ABSOLUTE FREQ Canon36 Panasonic14 Pitney Bowes6 AT&T8 Savin3 Sharp39 Burroughs0 Murata22 Ricoh15 Minolta2 Xerox6 Sanyo2

There was not a dominant company in the group. Most retailers did not have a certain company in mind. Sharp had been purchased by the largest group of retailers. Canon was second with 36 responses.

9. What type of maintenance arrangement has been made for the fax machines you own?

ABSOLUTE FREQ Maintenance contract purchased with the fax42 In-house maintenance18 Maintenance contract with other company6 Call as needed basis86

Most retailers are calling maintenance companies as needed. The next largest group is a maintenance contract purchased with the fax machine. Eighteen companies used in-house maintenance.

10. How do you rate the cost effectiveness of the fax machine?

RESPONSE ABSOLUTE PERCENT FREQ ----- Very Effective8953 Effective6538 No Opinion106 Not Effective53 Very Ineffective00 ---- TOTALS169100

Over 50 percent of the retailers rated the fax machine very cost effective. Ninety-one percent said that it was very

effective or effective. Only 3 percent said that the fax was not effective.

SUMMARY

Small business retailers have seemed to accept the fax system during the past two or three years. A major step in leading to the general acceptance of fax systems by small business retailers was the faster, smaller, and lower cost machines.

The small business retailer is becoming a focal point of the marketing effort by the makers of fax equipment with over 67 percent of the retailers now owning and using a fax system. Retailer knowledge of the types and use of fax equipment seems to be minimal with a general lack of concern for a special brand of fax system. Sharp and Canon were the top companies listed in the survey. The limited number of "times used per day" indicates a lack of awareness of the increasing features that are being added to the current fax systems. The number of "times used per day" should increase considerably during the decade of the 1990's as additional features are added: i.e. delayed sending and storage of data, review messages from remote locations, memory to memory transmission of data, auto dial, and personal "mailboxes" which are password protected for security of confidential information.

The study indicated a strong preference for continuing use of the fax system and probably will increase the number of fax machines per firm in the future. It is expected that with an increasing number of fax units per company in the future, an increased number of transmissions will occur daily.

The study revealed that few users of fax equipment are aware of the current usage of fax equipment operated through a computer. As a computer add-on, the fax system should be available at a lower cost while still providing the rapid transmission of data.

The use of the fax system seems to be in its infancy when we consider the number and types of features that have been added to the basic fax system. It is anticipated that the small retailer will utilize additional fax features as they are being added to the fax systems that will result in improved service to the customer while reducing inventory levels yet providing a varied assortment of goods for timely delivery to the customer.

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SMALL BUSINESS FAILURES: A FRAMEWORK FOR ANALYSIS

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ABSTRACT

This article examines the myriad factors often cited as contributing to small business failure. Based upon a review of the literature addressing small business failures, three general problematic areas are identified: finance, management, and marketing. Within each of these three problematic areas, numerous specific difficulties are identified and examined. Building upon this three area framework, a diagnostic checklist is presented which may be used by a small business to identify existing, as well as potential difficulties.

INTRODUCTION

Small businesses are vital to a strong economy. As evidence, consider that in 1980 small businesses represented 9.4 of the 9.8 million total businesses in the United States. Further, small businesses annually account for approximately 40% of the U.S. gross national product (5) and 60% of the nation's work force (10).

Despite their importance, many small businesses fail each year (3). According to the Commerce Department, of every ten small businesses that are opened, seven will survive their first year, three will survive after three years, and only two will remain after five years (7). Given the desirability of improving basic understanding of and response to the problems faced by small businesses, the purposes of the present effort are the following:

1. Review the small business failure literature.
2. Identify the most problematic causes of failure.
3. Develop a self-assessment questionnaire or checklist.

LITERATURE REVIEW

The causes of small business failure have been extensively documented. While a review of the literature yields an array of pitfalls, it is both desirable and possible to reduce and group these problematic areas by function. Such a categorization is presented in Table 1. The results of this procedure indicate that finance related difficulties appear most frequently as reasons for small business failure, closely followed by managerial problems. While important, marketing related difficulties are less apparent.

Finance

Finance related issues appear to be the number one cause of small business failure with three specific sub-problems frequently contributing to small business failure.

An estimated 80% of all new business fails due to under capitalization (17). The inability to secure adequate long term financing and/or the high cost of such must be regarded as a serious problem. Furthermore, small firms typically require more frequent refinancing and are more highly leveraged, thus exacerbating the problem (4).

O'Neil and Duker (14) report small business firms that fail have an excessive debt. As a result, debt management is a time consuming and expensive task. Financial institutions charge a higher rate to the small enterprise (i.e., 2-3 points) to compensate for the greater risk (6).. O'Neil and Duker (14) suggest that small business owners spend considerable effort in debt planning and developing working relationships with financial institutions (3).

Cash flow problems also proliferate. Since cash flow represents the life blood of the organization, prolonged inadequacy of such flow lowers a firm's performance and/or leads to its demise (8). The cash flow problem often appears to be managerially based (8; 20); management simply does not realize the critical nature of cash flow.

Because management often tends to underestimate start-up and operating costs (19), cash flow becomes a problem even before the firm opens its doors. Williams (20) suggests first achieving financial stability by developing a financial plan, even if these skills must be acquired commercially. This includes pre-planning overall debt structure, operating capital and accounts receivable, as the latter area tends to be problematic for small business (11).

The ability to control costs contributes to small business failure. Excessive spending inevitably leads to financial problems, especially during periods of high inflation (9). Contributing to the cost control problem is management's fiscal irresponsibility. Management either does not exercise prudent control or ignores fiscal reality. The optimal strategy to follow in this situation may be "simply to spend smarter." This includes tightening up on routine expenditures and collection procedures while critically examining costs, purchase options, and accounting procedures (11).

Management

Managerial problems rank as the second leading cause of small business failure. Three specific managerial concerns described below appear to contribute heavily to small business failure.

Opening a small business requires the desire to be in business and the possession or ability to possess a given amount of practical skills. Unfortunately, many new owners seem to discount the value of business knowledge and/or experience. Without prior experience, training or education, the new owner is normally ill-equipped to manage a business (20).

A logical skills solution is for the prospective owner to gain experience by working for someone else in a similar business. This allows the would-be enterpriser to learn something about practices and operations before setting up shop. Other alternatives include low or no-cost counseling provided by SCORE, ACE, SBDC, SBI, and others as well as the development of managerial expertise via self-study or some type of programmed learning (13).

Planning is critical for the small business (12) to insure profitable operation (14). The absence of planning may leave a business operating on a day-today basis, reducing its ability to utilize resources. Long range planning should allow the firm to anticipate and prepare for the future better. However, unclear, inadequate or nonexistent long range planning on the part of most small businesses is usually the rule rather than the exception (3).

According to Peterson and Lill (15), the keys to small business success are the development of managerial expertise and adherence to a master plan. They concluded that unprofitable firms lacked goals and clearly defined policies and objectives whereas successful firms tended to possess such direction. It is critical for a small business to prepare and adhere to a comprehensive business plan consisting of financial, managerial, and marketing components. Unfortunately, many owners and managers are not willing or do not have the time and/or expertise to create such a tool, even though assistance in preparing planning instruments is usually available at little or no cost.

Growth planning also tends to be problematic. Unplanned growth can transform a successful operation into an unsuccessful venture (18). By not having properly considered and planned for expansion, an organization is caught unprepared (financially and managerially), often leaving the firm with a critically tight cash flow (8).

Human resource management problems contribute to small business failures. A lack of qualified personnel often leaves a firm ill prepared to deal with a business' demands. Apparently, personnel costs are perceived by small business managers as being prohibitive even though the benefits offset the cost of implementing a human resource program (16).

Family members often become members of the small business firm. However, family members are assigned to positions where they do not perform effectively and represent an additional fixed cost (2). Therefore, recruiting, hiring, and retaining qualified personnel is essential for small business success (3).

Marketing

Marketing related problems also pose a serious threat to the small business. While not as conspicuous as financial problems, failure to address marketing issues will lead to business difficulties or failure. Three specific areas of difficulty have been identified.

The product line offered should occupy a position of central importance. However, this often is not the case. The failure to cultivate and offer an attractive product line is a prime problem facing the small firm. A business may be started without adequate thought given to product line consistency. This creates demand problems for the product and related services as well as the demand for related products (1).

2. Long term interest expense as a percent of sales: >6% 3% - 6% >3%
3. Financial institutions officers attitudes are: questioning okay enthusiastic
4. Cash flow: For the next twelve months, the current ratio will be: <1.0 1.0-2.9 3.0 or more
5. Expected sales come from various sources; what percent of expected 12- month sales does management definitely know the actual sources? <50% 50%-70% >70%
6. The long range financial plan includes details of how many of these sections: debt structure, operating capital, and accounts receivable? 1 2 3
7. Inflation is expected to be at what level over the next twelve months? >9% 4%-9% <4%
8. Operating expenses vary from planned budgets by: >6% 3%-6% <3%
9. Expenditure procedures are: nonexistent general enforced

II. MANAGEMENT

10. Training of top managers is: nonexistent partial extensive
11. Prior experience of top managers is: nonexistent light heavy
12. A business plan for the firm is: nonexistent brief extensive
13. Functional preparation for growth/expansion is: nonexistent in place implemented
14. Qualifications of key personnel are: minimal adequate extensive
15. A personnel selection and training program is: nonexistent in place implemented

III MARKETING

16. Testing of the firm's product(s) is: rare infrequent routine
17. Pruning and upgrading the product line is: rare infrequent routine
18. Customers are asked for advice: rarely infrequently routinely
19. A competitive audit is conducted: rarely infrequently routinely
20. Market and analysis for information up-dating is: rare infrequent routine

IV. Analysis: A firm with more than two items circled under the Weak Potency level is in danger of failure; the same applies for more than nine items circled at the Moderate level.

*The descriptors used are illustrative and may need modification for specific occasions.

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GIS FOR SMALL BUSINESSES

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ABSTRACT

Small business owners have many uses for demographic data but often do not have the background or resources to obtain and utilize this type of information. It is the purpose of this paper to address the uses of business demographics that are appropriate for analysis through a Geographic Information System (GIS). GIS products that address small business problems and opportunities have the advantage of being easy to interpret by the business owner. Thus, even if the owner must purchase the GIS study, he will be able to use the information without the assistance of external consultants.

THE GIS PERSPECTIVE

Small business owners account for a significant portion of the economic activity in the country. Therefore the success or failure of each business will affect not only the individuals running them but also the economic condition of the city, the state, and the country of which they are a part. This paper focuses on using business demography together with computerized geographic information system (GIS) technology as a tool for analyzing consumer behavior in the small business environment.

The key to helping entrepreneurs is in demonstrating to them that demographic data can be obtained relatively inexpensively or at no cost, that it can be manipulated without a high priced consultant and that the information is useful and important in making business decisions. Combining the business demographics with the technology of the computerized GIS technology can be used to solve many of the entrepreneur's problems and to identify potential areas of opportunities not presently being utilized by small businesses.

Pol (3) indicates that small business owners operate their stores substantially different from larger stores. The entrepreneur operates his or her business with different goals such as " ... control of action, evidence of ownership, community recognition, personal challenge, and leadership" (3, p. 232). His mode of operation is often considered irrational to larger businesses who operate with one goal in mind, profit.

The fact is that small businesses often tend to ignore business practices that are common place or normal operating procedures in larger institutions. These procedures or practices are ignored because many of the entrepreneurs lack the knowledge skill and/or desire to incorporate them. Typical small business problems include: 1) making business decisions on incomplete and often imprecise information, 2) a lack of expertise in many areas of business, 3) a lack of regional and local information rather than national statistics and trends, 4) a lack of familiarity with the value of demography in their business, 5) a lack of knowledge or interest in historical sales trends or sales forecasting, and 6) a tendency not to engage in strategic planning based on marketing research because of limited financial resources and more pressing day-to-day problems (3).

However, by not addressing the above issues the entrepreneurs are unable to answer many questions facing them on sales forecasting, business decline or growth, store image, location, customer profiles, availability of new markets, labor force supply, or demand issues (3). These questions can be addressed using business demography and GIS technology with relative simplicity. The geographic information system has been compared to a visual computerized spreadsheet (1). Thus the same information seen in the spreadsheet is presented in a geographic format that is easier to read and visualize, therefore it can be absorbed more quickly and used effectively in making business decisions by individuals who have not been trained to analyze data.

Pol (3) indicates that small business problems and opportunities can be classified into five categories each of which can be addressed using a demographic perspective. These categories are: consumer profiles, site selection, identification of market area(s), demand and sales forecasts, and market share estimation. In this paper site selection and identification of market area(s) are combined because they have many commonalities and rely heavily upon each other in data analysis. Each of the now four categories will be looked at in relation to business demography and utilization of GIS technology to help small businesses answer important questions.

Consumer Profiles

Small business owners starting a new firm or ones that have been in operation for a while are interested in the characteristics of the people who buy from them now and people who might potentially buy from them in the future. They want to know why people purchase or do not purchase goods and services.

There are several ways to get demographic data needed to identify customer profiles. Currently demographic and expenditure information is collected and published by the government and other private agencies. These sources provide information about population size, number of households, income distribution, educational levels, age distribution, etc. They include the Census of Population and Housing, the Economic Census, the Census of Retail Trade, Survey of Buying Power, Editor and Publisher Marketing Guide, and Bureau of Labor Statistics.

There are many ways this secondary data as well as internal company information can be used by small business owners. If internal data is available it can be used to profile current customers. Information from credit card holders, checks, customer lists, and buying behavior can be analyzed and plotted on a GIS system. This will tell retailers where customers are geographically. For example, one can divide customers into good, better, and best categories and provide special privileges for the best. Customers can be identified by any demographic variable (such as income above \$25,000) and special media messages designed to meet their needs.

If internal data are not available, then customer spotting techniques can be used such as license plate surveys to find household locations by block, city, county, and state of individuals shopping at a particular store or shopping area. This information can then be used to construct a base of customers. The demographic data associated with the block, census tract, or zip code of the customer can then be used to profile the customer. This is not as accurate as having an internal data base, but it does supply small retailers with information that is useful and that can be collected with little time, effort, money and with no internal record keeping.

A more ambitious retailer could survey customers asking them demographic, psychographic, and attitudinal questions which later can be combined with purchase behavior. This would help the small business man to clarify who his strong customers were and understand the attitudes of these individuals. The survey information can easily be combined with current demographic data using GIS technology to: 1) identify areas that would offer market potential in the sense that they match the customer characteristics but are presently untapped, 2) anticipate changes in the market that may affect the customer base, 3) identify the best prospects to be placed on a direct mailing list, and 4) tailor selling messages to the best prospects needs and lifestyle.

All of the above application can be mapped using GIS technology. Coverages with different characteristics can be made to match the needs of the business. Decisions makers can see in color and/or symbols any particular characteristic or combination of characteristics. This visual geographic representation makes it easier to analyze problem areas and market opportunities. Each can be easily identified and dealt with in a timely manner.

In the example above, different customers good, better, and best can be plotted in different colors for easy identification. High vs low income customers can be plotted using color and symbols. This makes analysis easy. Criteria that may have been hidden in a table or difficult to see may suddenly be sending off signals loud and clear. The data is presented in a meaningful visual way that leads to efficient and sophisticated analysis without the aid of a business consultant. The analysis is no longer a mystery, but instead a clear picture is drawn upon which decisions can be made. What may have been a missed marketing opportunities can easily be highlighted on a map. The target market objectives of the business can be presented visually to employees at any level of the company and be easily and clearly understood.

Identification of market area(s)/Site Selection

These two areas are considered together since one must first locate the strongest market area before deciding on the best site within these markets. Many small businesses are particularly interested in site selection because of the feelings associated with the old adage that the three most important things to remember in opening a small business are location, location, and location. Some criteria that are not demographic in nature are important in site selection such as cost factors. However, demographic information is essential in deciding the optimal site for a small business and the GIS system can help in this analysis.

The definition of a trading area is based on customer origin mapping that shows the store's ability to attract customers. Ghosh (2) indicates that data for this mapping can be gathered by three survey methods: 1) customer interviews, 2) customer records, or 3) license plates. By which ever method collected, the data is then plotted on a map to visually see the customer distribution. Customer origin maps can be used for many types of analysis. Ghosh (2) outlines five applications: 1) delineating trade areas into primary, secondary, and fringe areas, 2) discovering customer characteristics to better meet customer needs, 3) targeting advertising and promotion through the appropriate media using the proper campaign, 4) gauging competition by identifying overlaps in trading areas and oversaturated markets, and 5) planning expansion so as not to cannibalize existing stores.

Each of these applications include combining business demographics with GIS technology to answer complex questions in a simplistic easy to digest visual format. Trading areas can be designed by a radius out from the store based on a variety of criteria: 1) primary, secondary, and fringe trade area definitions, 2) mileage distances set in 1/2 mile, 1 mile, 1 1/2 miles, 2 miles, etc., and 3) actual drive time or distance to the store following the road patterns calculated and plotted on the screen through a network routing package. This last option would take into account the natural and man-made barriers that would effect time and distance factors and thus influence patronage.

Using GIS technology, trade areas can be designated by different colors. Customers can be designated by different symbols depending on various characteristics. For example, the primary trade area could be blue, secondary yellow, and fringe red with circular symbols representing those people with incomes under \$25,000 and square symbols representing those people with incomes of \$25,000 and over. The map would then visually indicate the composition of each area by income level thus helping the store owner see the composition of his/her customer trade area. Other variables can be substituted for income such as age, education, or expenditure patterns. In addition, these characteristics can be combined on the map for a more detailed analysis of the data.

The competitive environment is a major area of interest to small retailers. The map overlays of the trading area of one store with competitive stores' trading areas show areas of intensive competition in the marketplace. At times stores may have trade area overlaps from more than one competitor indicating that relocation or aggressive promotion may be necessary to compete in this area.

GIS mapping is particularly useful for expansion decisions. The trading areas of new stores can be superimposed on the same map to evaluate overlapping areas. Large overlapping areas indicate the location is an inappropriate site for consideration of a new store. Potential new store sites can also be overlaid with competitors. Large overlap of competitors with each other or with a proposed new store location may indicate that the area is overstored already and another site would be preferable.

When choosing a store location the characteristics of various trading areas need to be evaluated and compared. With GIS mapping population density, household size and population changes can be combined on one map to help make a decision on the most appropriate site in this particular situation. This method can visually take into account not only the factors listed above but also show the size and shape of a number of trading areas at one time. Using these maps small business owners can easily target the markets that offer the highest concentration of their best prospects.

Demand and Sales Forecasting

Forecasting is an area that is generally overlooked by small business retailers. It is considered to be complicated and costly to engage in for practical purposes. However, some rather simplistic forecasting can be accomplished through linking incidence rates to consumer projections (3). For example, divide sales from the Census of Retail Trade for a particular product, such as children's apparel, by the number of households of a specific type, such as families with children. Now, multiply that factor by the number of households with children in a particular census tract and the result is the estimated sales of children's apparel in that census tract. Future sales are adjusted by projecting changes in households with children and adjustments in the consumer price index. Profits can be projected by subtracting out cost of goods and expenses. By linking projection for the market area to incidence rates, forecasts can be produced.

Another popular simplistic forecasting method that can be used by small businesses is the analog method (2). This method uses a similar store in terms of size, store service, pricing, merchandising policies, level of competition, and site characteristics that is already in operation. By using customer spotting and secondary sources of information trade area and market penetration information are determined for the present location. The analog then serve as the basis for developing sale forecasts for the new store.

To do forecasting it is first necessary to identify the target market and trading area. This type of information is necessary to develop the incidence rate and market penetration. Mapping can be done to show projection information for the market area, incidence rate, market penetration, or the overall sales forecast.

Areas can be identified for expansion, consolidation, or repositioning of existing facilities market by market. Businesses can evaluate their current product positioning and identify which consumer markets to target this year, next year, and five years from now. Changes in the market can be anticipated and appropriate planning can be done to meet the challenge of changing consumer needs.

Market Share Estimation

Market share estimation is another area seldom attempted by small businesses. Market share is calculated by dividing company sales by sales of the area (census tract, county, city, state). For example, company sales may be compared to sales in the city. The company sales figure comes from internal company records. The city sales figure may come from economic censuses, Census of Retail Trade or County Business Patterns (3). In addition, small retailers will find that following market share figures for their business over a period of time provides good baseline information to show a pattern of growth or decline in the marketplace.

Market share can be mapped not only in quantity but also by location. Over a period of time geographic shifts in market share can be observed.

CONCLUSION

This paper addresses the use of a Geographic Information System to provide relatively inexpensive studies that the owner can use without the assistance of outside consultants. In particular, we discuss the use of GIS products for analyzing consumer profiles, identification of market areas and site selection, demand and sales forecasting, and market share estimation. The use of demographics can assist the small business owner in understanding his business environment, and hence, improve profitability and performance.

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SUCCESSION IN THE SMALL BUSINESS HOW SMALL BUSINESS INSTITUTES CAN HELP

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ABSTRACT

Over the years, much has been written about succession problems in small and large businesses. Less has been written about practical ways for small business owners to "solve" succession problems. SBI Teams and SBI Directors can play a vital role by helping clients in this important area. This paper offers an approach for SBIs to use in assisting clients with succession planning. An underlying theme of the paper is that the principles of good succession planning are the same whether successor ownership/leadership comes from within or outside the family, or even from outside the company.

INTRODUCTION

The succession issue is a very important one: We are often reminded that small businesses create most of the new jobs in our economy. But we need to also realize that the most enduring contributions to our economy are made by the relatively few small businesses which survive infant mortality, particularly those firms which grow over the long run, beyond the tenure of their original founders, and become entities in and of themselves. It is when a company "breaks through" the succession barrier and becomes a sustaining organizational force that its most important and lasting contribution to the economy is realized.

Succession planning is integral to strategic planning in the small firm (7). Strategic planning is meaningless in most small companies unless succession plans are considered. Because strategic planning is a prerequisite for operational and functional planning, succession becomes part of the picture in any SBI planning project. For example, an SBI team doing a business plan-ning, facilities planning, or human resource planning case (or any other project having long-term implications) must inevitably concern itself with the client's long-run intentions; That is, what are the long-range plans for this company, and is it intended that the firm continue to exist beyond the tenure of its owner-founder?

THE PROBLEMS OF SUCCESSION - A DICHOTOMY?

Small, pre-breakthrough businesses face special succession problems (3). The things they "should" do are not always do-able, and the founder's pride and affinity for power may predispose him/her against succession planning (7). If a company is well-regarded and clearly viable, potential acquirers (maybe competitors) are likely to approach the founder with attractive offers, possibly prior to retirement time. But founder/owners of less attractive companies are faced with less attractive alternatives: Trying to keep the

firm in the family (and face a new subset of problems) or initiating an attempt to divest (another subset of problems). In the short run, these seemingly divergent sets of problems are easier not to think about. The SBI team and the workers in the client firm may see the need for succession planning, yet have serious difficulty in getting the owner's attention.

But is there-a real need for an early choice between inside and outside successors? Both inside (family or employee) and outside (acquisition) buyers will really be asking themselves the same question: "If I buy into this firm, 1: What's in it for me right now?, 2: What's in it for me later on?, 3: Is this the best place to invest my money and my time?"

Bypassing this apparent dichotomy can greatly simplify the job of the SBI Team and may make succession planning a more palatable topic for the owner. Rather than be immediately concerned with one "option" or the other and wrestle with seemingly mutually exclusive questions like: "Will Baby Jane be interested in taking over when she grows up?", "Will John Employee be willing/able to buy the firm?", "Will BIGCO be interested in acquiring the company?", the Team and the client can concentrate immediately on ways to make the company attractive for ANYONE to take over at any time, be they relatives, employees or outsiders. As stated by one respondent to a 1989 survey on the status of succession planning, "I develop all my businesses with plans to sell after fully developed" (3).

Another argument for a universal approach to succession planning is this: Family members truly capable of taking over

and successfully running the firm are bound to be as smart (and as discerning) as the average outside buyer, and maybe more so. With their inside knowledge of the firm, they are not likely to buy "a pig in a poke". They have seen the dark side of company ownership; thus founders who seek a successful turnover to family members or insiders need to SELL the company to them (and keep it sold), just as they would to outsiders.

COMPANY PREREQUISITES AND SBI TEAM OBJECTIVES

For an insider OR outsider to be seriously interested in taking over a company, several conditions need to exist:

1. Obviously, the company should be PROFITABLE, currently or potentially... Certain buyers may have uses for a currently unprofitable company, but are unlikely to pay a premium for it. SBI Teams typically work to help owners achieve profitability; thus succession potential is enhanced by their efforts.

2. The company should be easy to acquire and operate. It should be available on win-win terms, beneficial to both seller and buyer. It should present itself as an easy company to take over and to run: i.e., now running smoothly; documented, understandable organization and procedures; not overly dependent on one

individual; well-qualified, skill-balanced workforce loyal to the company and not just to the previous owner; seller available if advice needed but not disposed to compete or interfere. (These desirable characteristics can be created or enhanced by SBI Team end-products such as organization charts, position descriptions, operations manuals, and human resource management guides).

3. Potential new owner(s) must know the company is or will become available. Even if the founder's exact plans are indefinite, his/her ultimate intention to insure the firm's survival by passing it on to others should be made known. SBI Teams can help by insuring that succession planning is part of any business planning or strategic planning project. Team recommendations can be used by the client to let people know about succession planning.

HOW TO HELP CLIENTS PREPARE FOR SUCCESSION

SBI Teams should help clients establish time frames for grooming, selecting, and making commitments to successors (2). For example, if the client plans to stay in charge until 2010, why commit to Baby Jane in 1990? Maybe Employee John or BIGCO will be better prospects when the time comes. In any case, why let Baby Jane become complacent - or Employee John become alienated by choosing prematurely? BJ and EJ are free to leave at any time, and should be willing to place their bets on advancement prospects in the client's company just as they would in any other company. The team and the client can be sure that BIGCO doesn't make twenty-year commitments, even to people on the "fast track". Transfer of leadership has been likened to a relay race: The receiver of the baton must be on the track and "up to speed." The baton must be passed BEFORE the first runner slows down; then the first runner must get out of the way (1). This suggests that the client can and should groom and develop BJ, EJ and other promising people for advancement; then as transition date draws near, tilt toward (and let others discern) the future successor by beginning a gradual, systematic transfer of executive functions. When the client formally announces the successor and the effective date, few insiders will be surprised and most will find their expectations confirmed .

BEING PREPARED FOR CONSEQUENCES

When a client chooses a successor from among two or more candidates, the losing candidates may decide to depart. Clients can minimize unpleasantness by being open, tactful, and helpful (e.g. by assisting with "outplacement"), and should have replacements in mind in case of such an occurrence. Clients may be reluctant to be "coldhearted" in dealing with long-time employees and/or "their own flesh and blood", but all players should be aware that family and business seldom mix perfectly: Rules and realities about succession should be established and understood in advance. In any case, it may not be wise or beneficial to allow family members or long-time employees to use the firm as a refuge from the

outside world. If BJ and EJ are not qualified to take leadership responsibilities or willing to stay on as employee(s), use family resources to induce BJ to seek another career. If EJ elects to leave, help him to find another position. Teams can advise clients on ways to keep players informed and how to plan for severance pay, placement assistance, and replacements if needed. The client will then have done everything BIGCO would do; Maybe more.

LAST-MINUTE SURPRISES (BEST-LAID PLANS, ETC.)

1. What if the founder comes down with a dread disease or is hit by a truck BEFORE ultimate succession choices are made (or made known)? What if a forced succession decision comes early and the founder is unable to participate in making the decision?

Just as each of us should maintain a current will and "letter of instructions" to guide the executor (BJ gets the Jaguar; Junior gets the silverware), the client should maintain a current procedure, known to all players, spelling out who would temporarily assume what executive functions in case the client should be temporarily sidelined. In a sealed annex to be opened in case of permanent incapacity, the client should designate what leadership actions should be taken for the long run and why. The "why" section is needed because the survivors may or may not do as the owner would have wished; this method will at least make them aware of the reasoning which underlies the succession plan. The team should establish procedures for the client to update this annex frequently and for access in time of need.

2. What if an internal successor such as BJ or EJ reconsiders at the last minute? What if a last-minute problem arises in connection with funding? Should the client step in to fill the gap? As one survey respondent stated, "In a service business, the value is the owner's ability and personality. That's not good collateral if the seller holds the paper" (3).

The SBI Team can help the client to improve odds that potential successors will be able financially as well as willing to take over the firm, by recommending ways to get them financially involved in company operations early on, through ESOPs or other forms of financial participation. For succession and other reasons, the client should communicate with them OFTEN to be sure they have not lost their company orientation or developed other interests. If all measures fail, the client must be ready on short notice to contact BIGCO (or SMALCO, or a broker or an auctioneer). Contingency plans may never be needed, but can be very useful when primary plans misfire. SBI teams can help clients develop contingency plans and have a valuable learning experience at the same time.

CONCLUSION

Succession planning isn't an entity in itself; Succession planning

is strategic planning with an extra important small business dimension. While your SBI Team is helping a client to look for opportunities and threats, devise strategies, set goals, and do operational and functional planning, its members should think not merely from a company viewpoint, but with employee, family, and the client's personal interests consciously and firmly in mind. This approach will not guarantee smooth company succession (or success), and no SBI Team can do all the things outlined above in the course of a single semester, but by keeping succession factors in mind, the team can contribute greatly to making both things happen.

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STRATEGY FORMULATION IN SMALL BUSINESS: A CONCEPTUAL FRAMEWORK

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ABSTRACT

There are many sophisticated concepts of strategy formulation offered in the strategy literature. However, the large majority hold little promise for small firms. This research is devoted to exploring the concept of strategy in small business. In particular, this research intends to, first suggest a model of strategy formulation in small entrepreneurial firms, second discuss different strategic directions relevant to small business that has been described in the strategy literature and finally offer some guidelines on how to develop a strategy for the small business.

The Concept of Strategy

Hofer and Schendel (1) define strategy as a pattern of objectives, purposes or goals defining what type of business you are in, or should be in. Michael Porter (2) distinguishes between two types of strategy: competitive and corporate strategy. Competitive or business strategy refers to the distinctive competence of the firm. Corporate strategy on the other hand refers to the firm's mission and what business the firm should be in.

Strategy Formulation in Small Entrepreneurial Firms

There are a number of factors which shape the formulation of strategy in the small business. The firm's external environment, including economic trends, industry structure and competition is important in deciding what course of action the organization should pursue. The internal capacity of the organization is an equally important factor in shaping the strategic decision, including the small firm's resources, skills, strengths and weaknesses. In general, its distinctive competence.

However, the internal and external capabilities of the organization are not the only ingredients in the small business strategic decision making process. Entrepreneurs and small business managers are heavily influenced by what they personally want to achieve. In other words, the internal and external capabilities of the small firm is filtered by the entrepreneur's perception as well as his personality, values and expectations. The following model (see Figure 1) describes the strategy formulation process in small business. As can be shown in the figure, the strategic decision is a choice of the entrepreneur or the manager of the small firm. Therefore one way to study strategy formulation in small business is to study the entrepreneur, his personality, values and motivation (3).

Henry Mintzberg (4) tracked strategy formulation of a retail chain over a period of 60 years. He found that strategy in the entrepreneurial mode tended to be more intuitive, based on the entrepreneur's judgment, wisdom and vision.

Strategic Directions for Small Business

There are a number of strategic directions in the strategy literature that could be of greater help to entrepreneurs and small business managers. Let us discuss each briefly.

Porter Generic Strategy. Michael Porter (5) identified three types of generic strategies that can be pursued by almost any organization. These strategies help the organization achieve, build, defend and sustain its competitive advantage. A firm builds competitive advantage by such different means as cost leadership, superior product and technology, quality and reliability of service. Studies have shown that small firms must build competitive advantages to compete effectively in the market place. For example, C.R. Stoner (6) studied areas of distinctive competence for small firms, and the extent to which they form a competitive advantage. The common areas of distinctive competence identified in the study include experience and knowledge, uniqueness of product or service, better than average service, location, low cost and price, quality of product, variety of products, friendly atmosphere, reputation and unique method of marketing.

The first generic strategy identified by Porter (7) is focus (niche) strategy. This involves concentrating on a specific

market, group of customers, product or service. The firm pursuing a focus strategy creates a competitive advantage in a narrow and well defined niche to avoid head-on collision with large competitors. A study by D. Watkin (8) has shown that focus strategy is very effective for small firms.

The second generic strategy described by Porter (9) is cost leadership. This strategy implies that the firm intends to be a low-cost producer. Thus this strategy stresses cost efficiency which can be achieved by economies of scale, experience curve and capacity utilization. Indeed cost efficiency is a strong competitive advantage if the small firm is able to sustain it over a long period of time. This requires an indepth study of the small firm's cost structure as well as an efficient cost control system. In a recent study, E. Hughes (10) found that the use of process technologies (improvement in the manufacturing process rather than research on new product development) is of little risk for small companies and results in reducing cost and thus building a strong competitive advantage.

The third generic strategy is differentiation which involves offering a unique product or service that allows the small firm to charge a premium price. A small business can differentiate its product or service by such means as improving product design, features, appearance, reliability, durability, quality, faster or free maintenance and repair service and warranty. A study by Cooper, Gary and Woo (11) found that differentiation strategy is as effective as a niche type strategy in small firms. This was confirmed by Sandberg and Hofer (12) who reported that differentiation type strategy could be more effective than focus type strategy.

Miles and Snow Typology. Miles and Snow's (13) classic research identified three types of strategy that may be effective for a small business to pursue. These are the defender, the prospector and the analyzer.

The defender type involves developing a narrow product/market niche and erects barriers (i.e., competitive advantages) to protect it. In this type, the firm does not do any environmental scanning in search of windows of opportunities. The owner/manager exercises a tight control over the firm and a high degree of cost efficiency.

Unlike the defender type, the prospector is constantly scanning the environment for new opportunities, be it a new product or service or a new market. In order to be able to scan the environment, prospectors are highly flexible in every aspect of operation. Indeed R&D activities are extremely important.

Finally, the analyzer type is a combination of a defender and a prospector. That is, while part of the organization is defending its niche, the other part is scanning for new opportunities.

A study by Davig (14) reported that small firms pursuing either defender or prospector types achieve better performance compared with analyzer types. Rugman and Verbeke (15) found that prospector-type strategy is the most pursued strategy followed by the defender type. The authors concluded that Miles and Snow's strategies are more appropriate for small business than Porter's generic-type strategies.

Stages of Growth. The small firm may also pursue a strategy based on industry stage of growth (growth, maturity, decline). Chaganti (16) found growth stage industries to be more attractive for small firms simply because the learning curve presents an opportunity for the small firm to build a competitive advantage. Chaganti (17) also reported that differentiation-type strategy is more effective for the small firm during decline stage of industries.

Developing- a Strategic Direction for the Small Business

The following is a step-by-step approach to developing an effective strategy for the small business.

Step 1 - Setting Your Objectives. The first step is to define clearly your objectives or what you want to achieve. That sounds almost patronizing, however a large number of entrepreneurs and small business managers do not have a clear idea of what they want to achieve. For some entrepreneurs, it is maximizing their profit and/or a large market share. For others, it is building long-term security, a legacy for their families, or even acting out a fantasy. Indeed this step may take some soul searching, but in the process can whittle many fuzzy and unachievable objectives.

Step 2 - Defining Your Mission. The second step in developing a strategic direction is to define what kind of business you should be in. Drucker (18) noted that the key question for small business is who they are or what their mission in the business is.

Step 3 - Assessing Your Capabilities: The Situation Audit. This step involves assessing the firm's real capacity to carry out the intended mission successfully. The situation audit allows the entrepreneur or manager to assess the internal and external capabilities of the small business. The internal assessment includes assessing the firm's strengths and weaknesses in different functional areas such as marketing, production, accounting and general management. The external assessment includes scanning the environment for windows of opportunities or areas of threats.

Step 4 - Selecting a Strategic Direction. Having identified your objectives, defined your mission and assessed your capabilities, you should be able to identify different strategies, be it a niche strategy or cost leadership. To select an appropriate strategy, Rumelt (19) suggested the following criteria. First, the strategy must be internally consistent. Second, it must provide a fit between the firm and its environment. Third, the strategy must be feasible in light of the firm's resources.

Figure 2 is a strategic alternative matrix that allows you to position your firm strategically. Figure 3 is a comprehensive checklist for developing strategy in the small business.

SUMMARY

We have attempted in this research to explore the concept of strategy formulation in the small entrepreneurial firm. A model of strategy formulation was offered. The model focuses on the entrepreneur's perception, personality and values. We have also attempted to provide a literature review of different strategic directions available to small business. Finally some guidelines for entrepreneurs and small business managers on how to develop a strategy for small business were offered.

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FIGURE 1 STRATEGY FORMULATION IN SMALL ENTREPRENEURIAL FIRMS

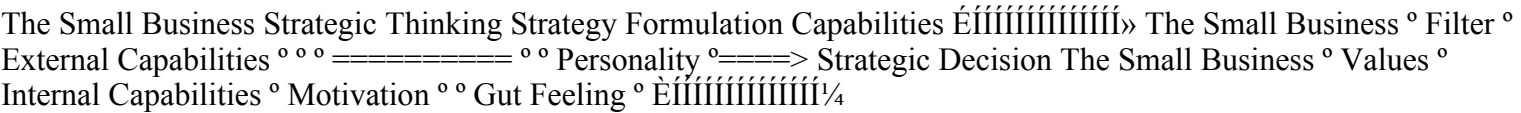
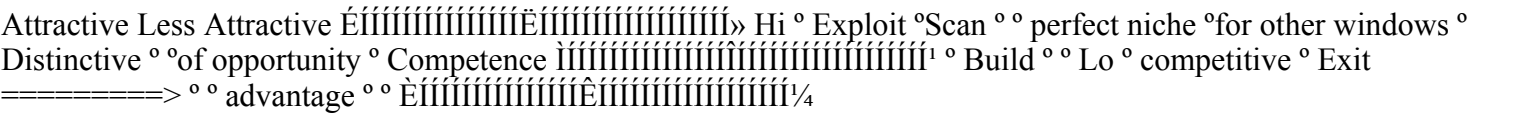


FIGURE 2 STRATEGIC ALTERNATIVES MATRIX



Adapted from A.B. Ibrahim & W. Ellis, Entrepreneurship and Small Business Management: Text, Readings and Cases, Dubuque, Iowa: Kendall/Hunt Publishing Company, 1990.

FIGURE 3 STRATEGY DEVELOPMENT CHECKLIST FOR SMALL BUSINESS

- What are your objectives?
- What business are you in?
- What are your own strengths and weaknesses?
- Do a situation audit analysis.
- What are your competitive advantages?
- What are the alternative strategies available to you?
- Rank your objectives from 1 to 6 (with 1 the most important, 6 the least important).
- Define your mission.
- Do a self assessment of your own strengths and weaknesses taking into consideration your lifestyle.
- Internal Analysis: Identify strengths and weaknesses in areas such as:

Product or service (quality, techniques, scope, position, innovation, facilities, experience) Marketing (sales force, distribution network, customer service, knowledge of consumer needs, promotion, pricing, segments) Human Resources (skills, training, attitudes, compensation). Financial (growth pattern, cash-flow, ROI) Accounting (record system, cost system, control system)

External Analysis: Identify opportunities and threats in areas such as:

Competition (competitor intelligence, size UP competitors in terms of product or service quality, dealership, resources) Customer (needs and wants, potential gaps) Socio-political (social changes, political and economic changes).

Based on the situation audit analysis identify your area(s) of distinctive competence (high to low), i.e.:

Product quality Cost advantage Location Customer service

Identify and assess different strategic directions that are available to you based on all of the above analysis. Then select the strategy that is most appropriate to your situation.

CREDIT AND EQUITY SUPPORT AS COMPONENTS OF SELF-EMPLOYMENT DEVELOPMENT PROGRAMS

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ABSTRACT

This paper focuses on the specific concept of enabling displaced workers to become self-employed through the use of assistance programs which combine entrepreneurial training and development with credit or equity support. Previous research is reviewed, existing American and European programs are surveyed, and an especially effective program in Washington State is analyzed in detail. From this analysis a set of assistance factors which appear to correlate with entrepreneurial success is presented.

INTRODUCTION

Previous research by the authors has focused on workers displaced from their jobs due to plant layoffs or closings and the concept of training these persons to become entrepreneurs.(1) It was recognized that entrepreneurial propensity is often a factor of personality traits. After administering the Miner Sentence Completion Scale - Form T to several groups of displaced workers who had participated in ten week entrepreneurial workshops it was concluded that these displaced workers tend to have lower than average entrepreneurial propensity. Thus, any efforts to enable them to become self-employed should recognize that some self-employment is more entrepreneurial than others, and that these displaced workers will have a better chance for self-employment success in non-entrepreneurial small business ventures, including one-person businesses operated from one's own home.

One of the conclusions resulting from this study was a suggestion that short-term grants or loans be given to these displaced workers to start basic small businesses that would provide income. These small grants or loans, it was argued, would be in lieu of money spent on traditional entrepreneurial programs.

At the time, this alternative seemed rather far-fetched, but subsequent research by two of the authors indicates that some programs of this nature do exist and may indeed be a viable alternative to the more traditional approaches to assisting displaced workers. This paper will analyze this concept, survey some existing programs including one that appears to be especially effective, and develop conclusions and recommendations with regard to the effectiveness of both this type of alternative and to traditional entrepreneurial development programs.

ANALYSIS

Self-Employment and MicroEnterprises

The promotion of self employment is a basic but minor component of economic development and social policy in most developed countries and in many less-developed nations. In conjunction with a wide variety of public assistance and "welfare" programs, self-employment is recognized as one means of bringing a person into the mainstream of society as a productive and contributing individual. A sizable portion of the American population (6.7%) is self-employed, and this percentage is higher for lower-income persons than for those with higher incomes.l. Furthermore, the number of self-employed persons in the U.S. has grown considerably in the past two 3 decades (up 45% since 1970).(3)

Also, the significance of tiny "micro-enterprises" or very small businesses (often home based one person operations), which have often been characterized as insignificant in terms of their economic impact, are now being recognized for their to micro" rather than "macro" effects. Although such businesses have little positive impact on the local economy and rarely create new jobs, they do provide one person with employment and self - sufficiency at a minimal cost to society. And they sometimes mark the start of a path to more significant entrepreneurial activity in the future activity that does impact the economy and create jobs for others.(4)

Self-employment programs exist throughout the United States and in many other nations. They are aimed at a variety of target groups, including existing micro-entrepreneurs, the unemployed, welfare recipients, and poor women. Although public and private funds dedicated to such programs are still relatively minimal in comparison to more traditional

income maintenance and welfare programs, the attraction of such programs to those who control social policy is that they help people to help themselves, and that they have the potential to eventually benefit not only the individual recipient but the larger community as well.

Of course, not all disadvantaged persons are appropriate recipients of such programs. A 1988 study conducted in Maine provides some indicative data.(5) In a random survey of ten percent of the state's welfare recipients (with a 25% response rate), 60 percent said they were interested in running a small business, could name one or more business ideas, and had a realistic understanding of the difficulties of starting one's own business. Eighty-five percent of these respondents cited lack of money as the major reason keeping them from becoming self-employed, while 45% cited their limited business knowledge and experience (most cited more than one reason). Clearly, these data indicate that a sizable portion of our disadvantaged population may be benefitted by self employment programs.

Our focus, however, is specifically the displaced worker, a phenomenon which has become a significant problem in our society.(6) Such an individual has by definition work experience

and should be more likely to be both interested and to benefit from such a program. Thus the study of such programs is even more meaningful in the context of this current research.

Credit and Equity Support

As discussed previously, most existing programs aimed at assisting displaced and unemployed workers to become entrepreneurs or small business owners through training, workshops, etc. have two major weaknesses. First, the typical displaced worker has a low entrepreneurial propensity and would probably perform better as an employee in a hierarchical environment. Second, it is the lack of capital that most frequently keeps a person from becoming self-employed. Therefore, the addition of credit and/or equity support to existing training activities would increase the effectiveness of most self-employment development programs.

That lack of capital is so frequently a barrier to self employment is especially frustrating because the amount of money needed to start a small business is generally quite minimal. Microenterprises and small businesses can be defined in capital requirements of from \$500 to \$100,000. U.S. census data show that half of all small business owners started their firms with less than \$5000.(7)

Some self-employment programs in this country do include capital support components in their total assistance packages, although most do not.(8) These programs usually have loan funds from which credit is supplied to qualified program participants. The purpose is to provide credit to new small business owners or entrepreneurs who would be considered too risky by the traditional credit sources, such as banks and other lending institutions. Of course, the goal is to enable these business owners to eventually become satisfactory in the eyes of potential lenders.

Loans in these programs are relatively small, and often provided in steps- a series of increasing short-term amounts, dependent upon the repayment of the previous step. In order to spread the programs' funds available for credit purposes as far as possible, these funds are also used for purposes other than direct loans, such as for loan guarantees which will convince traditional lending institutions to provide the actual loan.

Some existing self-employment programs have set up peer group lending programs, where small business owners established with the assistance of direct loans from the program are then encouraged or required to provide credit to other program participants. These programs substitute peer pressure for collateral and foster group support for entrepreneurial effort.

The biggest problem that these programs face is, not surprisingly, a lack of funding for themselves. Loans of this

nature are inherently very risky, and few of these lending programs are self sufficient. Even though most programs provide credit rather than equity assistance and thus receive their funds back in time as loan repayments, there is always a percentage of loans that is not repaid, and additional funding of the programs is periodically required.

Yet equity assistance is preferable to credit assistance. Small start-up businesses generally have weak or poor cash flow situations for a period of time, often for more than a year. The difficulties and pressures facing a new business owner

are always very formidable, and an obligatory and totally structured loan repayment schedule can often be a fatal factor. Thus, although obviously more difficult to fund, a self-employment development program which includes equity support rather than credit support is more likely to create a greater number of successful new start-up businesses. The issue of program funding then becomes a critical one.

A number of European countries have met this challenge by instituting "transfer payment diversion" programs.(9) These programs all in some manner allow the government to pay out unemployment benefits in single lump sums to qualified displaced workers who wish to start their own businesses. The first of these programs, France's Chomeurs Cr,ateurs, was instituted in 1979, and Britain's Enterprise Allowance Scheme followed in 1983. Over 700,000 persons have participated in these two programs to date, and some seventeen other countries have instituted similar programs since.

Working within the existing unemployment benefits programs, these equity support programs generally require the prospective small business owner to develop a business plan and in other ways show that he or she has a real chance for success in the proposed venture. In most programs, the entire amount of unemployment benefits that would normally be paid out over the maximum allowable period of time is paid out in one lump sum, specifically for use to start a new business. In some countries the displaced worker receives the money as soon as the business plan has been approved, while in other countries the business must be started (with personal funds or borrowing) before the government transfers the entitled funds. Most programs also provide management assistance, training, workshops, etc. in conjunction with the equity support.

Most of the businesses resulting from these programs are home-based microenterprises, but about ten percent turn into real growth businesses. One set of data indicates that for every one hundred businesses started, about 130 new jobs have been created. As more of these programs reach a maturity stage, hopefully these data will become more concrete. However, it is important to recognize that all of these transfer payment diversion programs overcome the funding issues raised earlier in this paper by simply diverting funds already available and to which the

recipients are already entitled. Thus, there is less political or practical opposition to these programs.

The Washington State Program

While most equity support programs involving transfer payment diversion are found outside the United States, one program recently initiated in the state of Washington is worthy of an in-depth analysis (10). Modeled after the European programs, Washington's version is being run on a limited one-year trial basis. One thousand laid off workers are receiving a lump sum payment of their unemployment benefits, averaging \$4,100. As in Europe, the program is for only a small percentage of all unemployed people. In selected trial cities, all newly unemployed persons are advised of this new program. About five percent of those notified indicate any interest and perhaps three percent actually complete initial applications for the program. Candidates are then required to take a four day, 20-hour series of business classes, perform market research, and then develop a detailed business plan (including financials) that is acceptable to a counselor. Since these people are already receiving their weekly unemployment benefits during this period, there is pressure upon them to complete this portion of the program quickly so as to leave as much of their total benefits available for the lump sum payment. Upon final qualification, the displaced worker receives the full payment and is assisted in the business start-up and subsequent operations by a personal business counselor from the program.

As of mid-August 1990, 477 people had enrolled in the program and 178 businesses have actually been started. Only three of these businesses have employees other than the proprietor.

Success Factors

Our analysis of these various self-employment development programs, and a subsequent series of personal interviews with directors of both the Washington State and other programs, have led us to develop a number of conclusions regarding those factors that are likely to lead to the success of these equity support programs, and to the success of other types of self-employment development programs as well. (11)

* The "open admissions" policies of most of the European programs indicate that there is more small business ownership potential in a wider range of the population than previously thought.

- * Early intervention is very important. The program must quickly recruit, screen, and select participants as soon as possible after their being laid off.
- * It is important to focus the initial part of the program on confidence building. Many people in these programs are middle aged and are scared of the prospect of starting out on their own, usually for the first time.
- * It is preferable to steer the clients toward business proposals which make use of skills which they already possess, often based on the jobs from which they were laid off.
- * All unemployed people should be made aware of these programs. Since only a very small percentage reach the actual assistance programs, the greater the initial applicant pool the better the quality and chances for success of the final client group.
- * For transfer payment diversion programs, since the amount of the lump sum payment is limited by the traditional stream of unemployment benefits, it is important to run the program quickly, leaving the lump sum payment as large as possible. Since the total lump sum tends to be small (Washington average = \$4,100) relative to the startup needs of even a microenterprise, every extra dollar can make a difference toward the chances of success.
- * Support groups are of value. In Seattle an Entrepreneurs Club of program participants has been established, holds monthly meetings, has published a membership directory, and provides a network for these budding business people.
- * Success rates in these programs seem to be higher for those participants who are older, male and married, who have had more recent and higher levels of work experience, and who have more of their own funds to invest in the new business venture. Yet success is also attained by persons who do not meet these profiles.
- * Recent federal legislation requiring most larger companies to provide advance notice of plant closings should allow self-employment programs to intervene and assist even before a person is actually laid off.
- * The most successful programs provide a continuum of self - employment development and support services. They start with a speedy but rigorous client selection process and follow up with a full range of flexible, client-responsive, and business-oriented assistance. These programs continue to serve the clients after they start their businesses.

CONCLUSIONS

Although previous research has shown that displaced workers tend to have below average entrepreneurial propensity, self-employment is still a viable option for these persons. Self-employment development programs can be effective and successful in this context if we recognize that micro-enterprise ownership rather than entrepreneurship or growth business ownership is a more appropriate goal and path for displaced workers who can not find new employment.

While self-employment development programs that do not include credit or equity support can assist people in initiating small business ownership, those which do include such support have a greater chance of succeeding. Furthermore, equity support is preferably to credit support, and the transfer payment diversion model can overcome the funding problems inherent in other equity support models.

Analysis of a wide variety of self-employment development programs leads to a series of conclusions regarding program success factors, and these have been presented above. Clearly the concept of self employment development should be pursued in the context of displaced workers, and greater emphasis should be placed on the inclusion of credit and equity support components in such programs.

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TENURE IN THE YELLOW PAGES

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ABSTRACT

How many small businesses fail and in what time frame? Numbers like 50% in five years, 50% in one year, 90% in five years, etc. are quoted in press releases, textbooks and speeches. Alpander, et al quote Siropolis "Approximately 55 percent of all new ventures fail during the first three years".(1) This paper tries to find out what the approximate tenure is for 83 Standard Industrial Classification Codes. The study is of businesses in San Luis Obispo County, California. The length of time for the study was nine years.

INTRODUCTION & METHODOLOGY

The population of San Luis Obispo County is about 214,000, with an increase of about 30,000 from 1979 to 1988. Its major industries are government, agriculture and tourism. San Luis Obispo is the largest city and the county seat. A nearby university increased from 14,000 to 17,000 students during the period studied.

The city has increased in population from 35,000 to 40,000 during the same period. One of two major north-south California highways bisects the city and the county. Two major tourist attractions, a California mission and Hearst Castle are in the county. Most of the businesses in the county are retailers, service firms and government entities. During the period 1980-88, the unemployment rate ranged from 3.2% to 4.8% in the county.

The author's rationale for the study was prompted by the apparent high turnover of retail firms in San Luis - Obispo city. Shapero determined the tenure of small firms using a count of businesses entering and exiting the Yellow pages. (2) This study tries to approximate the same methodology. The reason for using the Yellow Pages is the belief that listed businesses are serious about being in business. The Yellow Pages declined to participate in the study citing privacy records. Using telephone directories for the years 1979-1989, a count of new businesses came by noting new names in each annual directory.

Exits counted if prior names did not appear in the new directory. Firms that had been in business before the years studied counted as exits if they exited later. National chain outlets were not considered but franchises were if the owners were franchisees. The study did not include farms.

SIC code selection was upon the author's knowledge of the community. Professionals such as attorneys or dentists are not included in the count. Where it was known, transfer of ownership without changing the name of the business counted as continuing firms. If the firm changed owners and changed the major activity of the business, the firm was counted as a new business.

The number of years in business was a function of a firm's entry into, or deletion from, a directory. Tenure was in whole years regardless of starting or closure dates.

LIMITATIONS

Some businesses do not list by choice. Some home businesses do not list their phone as a business phone. Other businesses miss the deadline for listing. Some return sporadically because they are not certain of the effectiveness of the medium.

Other limitations are multiple listings for the same firm forcing guesses about the major emphasis of the business. Scrambled merchandising is very common, particularly in smaller communities. Other firms employ the tactic because the original thrust of the business, or the target market, has changed.

The author screened all citations to try to cull out as many duplications, wrong classifications, etc. as possible. The original sample size of 3,308 firms and the consistency of findings shows that the limitations are not serious problems.

FINDINGS

NEW BUSINESSES

Listings in the 1980 directory that were not in the 1979 directory counted as new businesses. San Luis Obispo County retailers and service firms dominate the business economy. Listings in the 1979 directory that were not in the 1980, or later, directories counted as closures. Each annual directory followed the same procedure.

1,056 (39%) firms of 2,711 continued operations during the period.(Fig. 1) 1,655 closed their doors over the same period. Attrition rates were slightly lower for the first three years of operations totaling 49.1% (Fig. 2) compared to the 55% mentioned earlier.

Figure 3 shows the percentage of firms that continued after starting in the years 1980-89. After the fifth year, there is a pattern of about 27% continuing in business. Continuance of these firms may occur barring death, illness or large national or regional companies moving into the area. In fact, two large department stores have entered the San Luis Obispo County trading area. Two more have extended into the extended area. There is likely to be a higher attrition rate among woman's clothing stores and other specialty shops.

The most active industries for new starts were restaurants (all dining establishments), beauty salons (hair cutting, hair styling and nail care) and antique dealers. The attrition rate for these three industries was 63.1%, 53.2% and 70.8% respectively.

The retention rate by years of operation for restaurants is shown in Table 4. Eating establishments varied from fast food to elegant restaurants. The number of new starts was nearly twice that of beauty salons. An expanding population could account for some of the activity but not the bulk of it. The author estimates that about fifteen restaurants, as opposed to fast food places and pizza parlors, dominate the market. National franchises/chains dominate the fast food market.

About half of the beauty salons went out of business over the period examined.(Fig. 5) There are very few of these firms with more than four employees in the county. Scrambled merchandising tactics grew during the period as firms added nail care and tanning facilities to their service offerings.

Firms closed before 1980 in nearly the same proportion in various industries as did those that started after 1979 and then closed.

Table I lists industries with an attrition rate over 50%. The first half of the table lists firms that have ease of entry. The high turnover of these kinds of businesses produces lower priced equipment for resale. Antique dealers take items on consignment. Some firms need little more than a telephone and a post office box.

The second half of Table 1 lists industries where inventory and equipment needs are large but financing may be available using second mortgages.

DISCUSSION

The local university is polytechnic in nature and encompasses architecture, civil engineering, agriculture, printing, computer science and business majors along with many others. Graduates and students in the majors listed above try to apply their knowledge to a business. This is particularly true where little capital is necessary and there is a strong desire to stay in the county.

The area is seen as a very desirable place to live. Many graduates, ex-students and others from out of the area have made a commitment to living in the area. To make a living, many people start their own businesses. The area has traditionally had a low unemployment rate and a surplus of student labor. Industries with ease of entry attributes attract the people mentioned above. In the author's opinion, this is the reason for so many new businesses such as gardening, auto detailing and computer retailers.

Birch, quoted in Bates & Nucci, speaks of "a foundation of massive, continual failures".(3) The term "failures" is interpreted to mean failure to stay in business, whatever the reason. Bates & Nucci call these failures "a great volatility". They maintain that businesses with five and over employees closed at an annual rate of less than 3%. They claim that many discontinuances occur among firms with small gross sales (4) and they argue that new and younger

firms with a small group of employees account for most of the discontinuances or "failures".(5) Perhaps this is the reason for such a high attrition rate in San Luis Obispo County.

No information about numbers of employees per firm was available. The author's knowledge of some firms suggests that the bulk of the firms had, at most, three or four employees.

Brockway & Mangold argue "Assessing the economic health of a market area is the first step in identifying retail market opportunities for small business."(6) The author's personal experiences with many small businesses in the county found that few new businesses do a market analysis. Fewer yet make a business plan. This is perhaps another reason for the many business "failures" in the county.

In some instances, the entrepreneur is unaware of the long hours, hard work, and pressure placed upon them. This may happen despite their experience in the industry as an employee. In all probability, closure will happen if they have no experience in the field.

CONCLUSION

The number of "failures" in San Luis Obispo County, shows a high attrition rate among thirty-one of the industries studied. The rate for all industries was also high. High is defined as greater than 50%. However, not enough is known about number of employees nor total sales per closed firm. The county is a unique macroeconomic entity in a rural setting. similar findings may occur among some of the several industries in other areas.

The findings raise more questions than answers. Is there a causal effect between the higher attrition rate of an industry and higher interest rates for bank loans to long established firms? Does the rate intensify reluctance on the part of financiers and potential investors?

Lack of a market analysis, lack of a business plan, lack of business expertise and/or insufficient starting capital are commonly thought to be major factors in business failures. If the findings of Bates and Nucci are accepted, should that group of would-be entrepreneurs who are likely to "fail" be assisted and how should this be accomplished?

SBI's can be one part of the answer. There is a market for educating would-be entrepreneurs before they start a business.

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(4) Ibid., p. 2-3.

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TABLE 1

INDUSTRIES WITH THE HIGHEST ATTRITION RATES THAT HAVE SMALL CAPITAL REQUIREMENTS

NO. OF ATTRITION CODE	INDUSTRY	STARTS	RATE	7531B	AUTO BODY REPAIR	55	92.7%	5521B	AUTO
	DETAILING	38	84.2	7349A	JANITORIAL SERVICE	54	79.6	8349*	HOUSE CLEANING
	28	78.6	5816A						
	CATERING SERVICE	41	78.0	5999V	ANSWERING BUREAUS	43	74.4	7393C	SECURITY GUARDS
	22	72.7							
	5913A	ANTIQU	DEALERS	106	70.8	0782*		GARDENERS	88
	68.2	5039S	FENCE CONTRACTORS	24	66.7	7692*			

WELDING 65 63.1 2434* CABINET MAKERS 78 62.8 7342D PEST CONTROL 26 57.7 7231B BEAUTY
SALONS 205 53.2 2293* UPHOLSTERERS 32 53.1 15 SICC's TOTAL STARTS 905 33.4% OF ALL STARTS

INDUSTRIES WITH THE HIGHEST ATTRITION RATES WITH LARGER CAPITAL REQUIREMENTS
THAT MAY BE FINANCED

NO. OF ATTRITION CODE INDUSTRY STARTS RATE 3639* APPLIANCES-HOUSEHOLD-MAJOR 49 79.6%
5945A ARTS & CRAFTS SUPPLIES-RETAIL 24 75.0 5521B AUTO DEALERS-USED CARS 44 75.0 5734B
COMPUTER-DEALERS 43 74.4 5911* SPORTING GOODS-DEALERS 29 72.4 5661* SHOE-RETAIL 36 72.2
5941A BICYCLES-DEALERS 21 66.7 5712* FURNITURE DEALERS-NEW 57 64.9 5814A RESTAURANTS 406
63.1 7999A ART GALLERIES-DEALERS 74 60.8 5992* FLORISTS 55 60.0 5161* NURSERIES-RETAIL 39 59.0
5944* JEWELERS-RETAIL 52 57.7 5713A CARPET & RUG-DEALERS-NEW 46 56.7 7212*
CLEANERS/LAUNDRIES 25 56.0 5643* BAKERIES/DOUGHNUTS 47 51.1

16 SIC codes TOTAL FIRMS 1047 31 OF 63 SICC's 38.6% OF ALL STARTS 49.2% OF TOTAL SICC's 72.0% OF
ALL STARTS

WHO HELPS THE ENTREPRENEUR: THE EFFICACY OF THE SBI PROGRAM

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ABSTRACT

Measures of economic development generally are not utilized to calculate the contribution of the Small Business Institute (SBI) program to the economy. The objective of this study was to quantify the SBI's role in providing an economic return for the federal and state support provided to this SBA program.

SMALL BUSINESS INSTITUTE

The SBI program was begun in 1972 to provide a formal university/industry interface. A number of studies of the SBI have been done but these have been descriptive in nature, lending little to knowledge regarding the economic impact of the program.

It was not until 1983 that a major national evaluation study was published (Solomon and Weaver, 1983). This study indicated that client firms achieved some increases over non-clients in their various financial ratios, but no statistics were offered. From 1983 to 1990 no papers were found which dealt with the subject of the economic efficacy of the SBI program. In 1990 Lorette et. al. were calling for the restructuring of the SBA to cure the purported support of marginal business.

The objective of this study was to quantify the SBI's role in providing a financial return for the federal and state support provided to this SBA program.

METHODOLOGY

The Sample Frame

The sample frame consisted of the 250 (of 500) randomly selected SBIs listed in the current SBA list of SBIs (1989) representing the United States, Guam, and Puerto Rico. All 250 SBIs were mailed individual signed letters and surveys.

The Questionnaire

A questionnaire was developed which sought descriptive data relative to the demographics of the SBI, its director and its clients; including sources of new clients; types of businesses served, screening of potential clients, success and failure data for clients, and economic impact of the SBI on the local economy.

Non-Response Bias

Forty-six or 18.4% of the 250 responded to the questionnaire, represent 20 states. Twenty-one of the respondent SBIs were located near or in a city of less than 50,000 population, eight less than 250,000, five less than 500,000, three less than one million, six over one million, and three failed to provide the information.

FINDINGS

The demographics of the respondent SBIs are shown in Table I.

TABLE I DEMOGRAPHICS OF RESPONDENT SBIs (n=46)

Mean Year Opened Location 80.5

(1=Urban,2=Rural) 1.4

Total SBI Cases (1989) 12.6

Total SBI Cases (1990) 14.7

Type of Client Served

The types and number of firms that have been served by the respondents are indicated in Table II. Service, retail, and manufacturing appear to be the firm types most frequently assisted. The nature of the jobs created should also be reflective of these firm types.

TABLE II TYPE OF CLIENTS PRESENTLY SERVED

(n=46) Respondents Mean Retail 33 5.0 Service 38 4.2 Distribution 7 3.4 Manufacturing 27 2.3 Low Technology 15 1.5 R&D 3 1.6 Moderate Tech 12 1.2 R&D 3 1.6 High Technology 7 0.9

Specific Industries Served

The SBI's were also asked to indicate the predominant type of firm served in each category. A large number of responses were provided, which were extremely diverse, likely reflecting both the nature of the local economy and the inherent diversity of business.

Economic Impact

Respondents were asked to provide information relating to the impact of the SBI on the local economy's business and jobs created, diversification of the economy, change in patent estates, and number of minorities, female and handicapped run businesses helped.

Table III reports the number of businesses and jobs created.

TABLE III LONG TERM RESULTS (n=46)

Since Inception of SBI: Mean Resp. New Businesses Created 24.1 23 New Jobs Created 101.0 19 Diversification of Local Economy 3.5 18

(On a scale of 1-10, where 10 is a completely new economy)

Intellectual Property

The respondents were asked about the number of patents applied for and received by clients (Table IV).

TABLE IV

PATENTS ESTATES OF SBI CLIENTS (n=46)

Inventions Mean Resp. Disclosed 9.1 15 Patents Applied 4.4 14 Patents Received 2.3 14

Client Demographics

Information was collected regarding the number of minority, female, and handicapped run businesses (Table V).

TABLE V SBI CLIENT DEMOGRAPHICS

Since Program Began Mean Resp. Minority Run Businesses 8.6 20 Female Run Businesses 14.4 23 Handicapped Run Businesses 2.7 18

DISCUSSION

An attempt was made to determine what relationships existed among a number of variables.

SBI Age and Business and Job Creation

Should older SBIs have been responsible for creating more businesses and jobs, ie. do these variables co-vary with age? Older SBIs were found to produce more business (sign. 0.002) and more jobs than their younger counterparts (sign. = 0.001). This result is different than that found in companion SBDC and business incubator studies, ie. older programs were found to be less productive in terms of creating businesses and jobs (Schwartz et. al, 1990; Southern and Schwartz, 1990). This may be the result of the SBIs being more selective in terms of clients and more productive in the use of their time.

SBI Location and Business and Job Creation

Perhaps urban SBI programs created more jobs than their rural counterparts. Rural SBI programs accounted for less new business created (sign. 0.078), but the rural locations were newer (sign. 0.105). Urban locations also accounted for greater numbers of jobs created, but the relationship was weak (sign. =0.114).

CONCLUSIONS

Impacts of the SBI program on the economy could not be calculated due to the low response rate to the questions related to economic issues. Thus, while almost twenty years old, the SBIs do not track return dollars in the same way their client firms do. Business incubators appear to be somewhat more accountable (Schwartz, et. al, 1990). However, the SBI program appears to be more productive in terms of age and firms and jobs produced than their SBDC and incubator counterparts.

The effectiveness of the SBI program relating to the creation of patents and the assistance to female, minority, and handicapped run business is unknown.

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References are available upon request to the authors.

EVALUATING AN SBI'S REAL CONTRIBUTION TO SMALL BUSINESS ASSISTANCE A CASE STUDY

Harriet Buckman Stephenson, Seattle University Elizabeth L. Konarski, Seattle University David Phillips, Phillips and Associates

ABSTRACT

An Accredited School of Business in the Pacific Northwest sought to assess what impact the SBI program had by conducting an extensive review of its Small Business Institute program.

The university had been a participant in the SBA sponsored program since the program's inception. To identify the impact of the SBI experience to participating firms, a survey of those companies who participated between 1978 and 1989 was undertaken. Client perceptions, the most frequently utilized means of evaluating the effect of student consulting, were basically positive. Sales had increased for many of the owners and a percentage of that increase was attributed to student consulting. In half of the cases in which students undertook feasibility studies, the owners actually started the businesses. While some companies reported an increase in the number of employees between the initial consulting and the present, other companies reported a decrease. Perhaps the greatest added value is derived from the educational component of the client experience for the business owner. Programs that contribute to enhancing the learning and self training of small business owners provide a needed competitive edge. The SBI appears to be such a program.

INTRODUCTION

The 1980's hosted a resurgence of new entrepreneurs. Eighty percent of all new jobs created in the United States during this period were generated in the small business sector, yet this tremendous growth was accompanied by an increasing number of business failures (12; 9; 13) costing billions of dollars in investment capital. This indeed was an expensive way for entrepreneurs to get a business education (15). Is it possible to cut down on business failures? Could the causes of business failure be isolated? Could the success factors be isolated and those then transmitted to or learned by the business owners? What makes a small business successful? If those factors are identifiable, what impact does the SBA's SBI program have on a business owner and the business, success? This case study in an AACSB Accredited University of 10 years of an SBI program explores just what the nature of the SBI consulting impact may be.

The task of identifying success factors has not been completed. While Garsombke & Garsombke (11) discussed the influence of technological change on small-medium size firm performance, Roitman & Emshoff (23) listed the inadequacy of the financial and human

resources needed to implement product ideas and market strategies as major barriers to the entrepreneurial firm's success. Bracker & Pearson (1) identified firm size, type of product, industry maturity, and the age of the firm as significant to the student teams: this achieves two purposes (1) increases the team credibility and (2) brings industry-specific expertise to the group (i.e. increase the student's technical competency).

Furthermore, it is evident that students must develop stronger consulting skills such as: active listening and feedback; sensitivity to client needs; meeting more frequently with clients; develop greater professionalism (make sure work is thorough, complete, relatively free of errors, etc.); learn decision-making and problem solving techniques; learn how to sell themselves and their ideas.

OBSERVATIONS AND SUMMARY

From the client self-reports to the survey, it appears that some owners had concerns about the technical competence and consulting skills of the SBI students. Client perceptions hinged upon the consultant's ability to earn and sustain client confidence based upon the consultant's professional competence. And, earning and keeping client trust (and, therefore, a positive evaluation) involved everything from continual demonstration of industry related expertise to listening between the lines, to providing a conduit for networking, to scouting resources, while keeping open lines of communication with clients.

Occasionally, clients will complain about a consultant's ineffectiveness in direct relation to the technical competence of the consultant. Such defensive behavior manifests itself in complaints that the consultant's approach is too narrow, uninformed, academic, impractical, or inappropriate in the situation (19). Some of the negative client self-reports from the SBI survey seem to match this phenomena. Such complaints included:

"They need to grope for reality ... come down to earth and [experience] things from a person in [my] shoes."

"As it applied to [XYZ], the student program was too much a textbook exercise, the content of which was prepared more for the effect on the instructor than for its applicability to the business."

"They had very theoretical advice that didn't really apply to our business."

It is difficult to tell whether some of the negative feedback was motivated by an objective desire to improve the SBI program (clients were potentially overall satisfied), from clients whose real needs may or may not have been met, or from the "addicted" small business owner unable/unwilling to hear the advice of outsiders and do what was truly necessary to save the business.

From the previous discussion, it is evident that consulting is a very complex process that demands close integration between technical and relational expertise.

This study went back more than a year or two to solicit input. Most research inquires upon completion or six months to a year after the consultation experience. Measuring short-term impact versus long-term needs to be explored further. If an owner goes out of business is that a failure?

This evaluation study of a decade of SBI consulting at one major SBI school has demonstrated that while measurement of the contribution of the program is a complex task, there is clearly perceived added value to the business owners. As Max Douglas and Steve Lamb (7) found in their national survey:

"With minor program refinement and faculty-student-client cooperation, the SBI will continue to play a key role in the field of experiential education." We would suggest that the SBI plays a key role in the field of education for students and the business owner/entrepreneur by contributing directly to the owners internal capacity to manage the business in the future. Rather than a one-time problem focused consultation, the SBI experience contributes to management awareness for the long term providing a highly desirable competitive edge. The role of university students as learners and business owners as co-learners in the education/learning process is a valuable contribution too long overlooked. It is collaborative learning at its best.

Research must continue to identify and quantify success factors, methods of measurement of accomplishment, and ways of establishing causal relationships between consulting and benefits. And certainly, if adding value is to be the measure, more interaction between student and client during the consulting process and clarified expectations and perceptions up front should go a long way to increasing perceived value of the experience for both owners and students. Moreover, the value of building internal capacity for making better business decisions among present and future business owners must be acknowledged.

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Table 1

Business Type Marketing/ Business Feasibility Financial Advertising Plans Studies Analysis

Service 19 4 8 12 Retail 13 4 2 7 Manufacturing 12 0 2 7 Professional 8 1 1 6 Entertainment 1 0 0 1 Wholesale 1 2 0 1
Non-Profit 2 0 0 1 Distribution 6 1 0 0 Other 1 1 1 0

Totals 59 13 14 38

% of Total 41% 9% 9.70% 26.40%

Mean Total 5.36 1.18 1.27 3.45

Business Type Strategic Business Management Planning Growth Assistance Totals

Service 4 3 3 52 Retail 1 3 0 30 Manufacturing 0 2 1 24 Professional 0 0 0 16 Entertainment 0 1 0 3 Wholesale 1 1 1 7
Non-Profit 0 0 0 3 Distribution 0 0 0 6 Other 0 0 0 3

Totals 6 10 5 144

% of Total 4.20% 6.94% 3.47%

Mean Total 0.55 0.9 0.45

TABLE 2 TYPES OF TRAINING REQUESTED BY OWNERS/MANAGERS

TOTAL TRAINING TRAINING PERCENTAGE CATEGORIES REQUESTS OF TOTAL

FINANCIAL 30 27.80% MANAGEMENT

GENERAL 15 16.70% MANAGEMENT

GROWTH 14 13.00% MANAGEMENT/ PLANNING

ADVERTISING 25 23.10% SALES/ MARKETING

HUMAN 10 9.30% RELATIONS

COMPUTERS 1 1.00%

OTHER... 10 9.30%

TOTAL 108 100.20%

USE AND CONTROL OF SBI CASE FUNDS

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ABSTRACT

A survey of 200 SBI directors yielded 124 returns which described their case load, personal experience in the SBI, and how they spent the income received from the Small Business Administration for completed case studies. While some correlation was found between types and sizes of institutions, the experience of the director and the case load of the school, the predictive value of these factors was negligible in determining the use of the funds.

No universal use of the funds was found and, although several major categories of expenditure were evident, individual institutional differences and need seemed to dominate the way the funds were spent. Each school used its own priorities, emphasizing a few uses rather than spreading out the funds over many possible purposes. Travel for SBIDA meetings and student case expenses were the most common use but some schools placed a higher value on office expenses, purchase of equipment, faculty supervision of student teams, director's salary, and general fund expenses.

Suggestions follow for use of the data and for future research.

INTRODUCTION

The broad diversity of SBI programs is evident to anyone attending a national meeting of SBI directors or reading about the unique characteristics of approaches used in case studies published in a variety of journals.

This study was designed to see if there were commonalities between the control of monies received from the Small Business Administration for case studies and the way the money earned is spent because of the type of institution involved, the number of cases completed, or the experience of the director. A second purpose was to see if the control element affected the way in which the case money was used.

THE SAMPLE

Questionnaires were sent to 200 SBIDA members on a random basis. The information presented and conclusions reached in this study are based on 124 useable returns or 62% of the possible returns. This high rate of return is even more gratifying when it is realized that the membership list from which the sample was taken includes types of individuals who are not directors that would be inclined to answer the query. Administrators who attended a national convention as well as faculty members and graduate students who were required to join the organization in order to present a paper at the preceding convention are included on the membership roster without identification as to their status with SBIDA.

The returns represented 43 states, all ten SBIDA regions, and a wide differential of case loads in institutions ranging from small liberal arts colleges to large state universities. Both public and private colleges and universities were represented by SBI directors whose experience spanned a continuum from newcomers to veterans of twenty years work with SBI programs.

CASE LOADS

There is certainly no uniformity in the allocation of case loads to colleges and universities, nor is there any reason for such an allocation. Variables are suggested under the section of the study concerning experience levels of directors which may explain the differences that are found.

The range of cases reported in the sample varied from 1 to 80 with a median of 14. Some 36% of the institutions completed ten or less cases and 14% more than thirty cases. These large case loads were found in ten states throughout the country but with only SBIDA regions 4, 6, and 7 reporting three or more such heavy commitments of SBI funds. These heaviest users were, as might be expected, from larger central and regional state universities and a few large private institutions. Only one state college reported a large case load and none of the smaller colleges and universities received 30 cases or more.

Conversely, the smallest loads tended to be found in the smaller institutions although several exceptions of large universities with small loads were noted. The small loads (of five or less cases) were found in all regions and 27 different states.

It was not surprising to find a direct relationship between institutional size and case loads nor the community size from which the cases can be drawn. The institutions with five or less cases had a median student enrollment of only 2,775 and a median community size of 28,000. By comparison, the large case load schools had an average student enrollment of 11,600 and were located in cities with a median population of 174,000.

The experience level of the SBI Director seems to have a direct correlation with the number of cases awarded. In the high case load group, the majority of the directors had over ten years experience and none less than four years experience. No director in those institutions with 5 or less cases had worked with the SBI for more than three years.

The type of university or college also seemed to bear little relevance to case size, i.e., whether a central state university, a regional state university, a large private university, or even a state college did not seem to affect the case loads. The small - private schools and colleges were different only in the fact that none of them had a large case load.

SPENDING CONTROL

There also seems to be little relationship between the experience level of directors and the control of case funds received from the Small Business Administration. The funds of the majority of the programs (77%) are controlled by either the director alone or with the director sharing the control with a department chairman or dean. Academic administrators have absolute control of some 18% of the programs and 5% of the schools have some predetermined use of the money dedicated to departmental, school, or college general funds. The one noticeable difference was that the large central state universities and large private universities had less director control or input into spending patterns than the regional universities and smaller schools. Since it is apparent that most SBI directors have absolute or at least partial control of the SBI money, other factors rather than experience are likely responsible for the control factor. It may well be that the strength of individual personalities, the breadth rather than length of experience, and the strength of the preceding director in those many schools with short tenured directors, dictates how SBI funds will be spent. Since such factors were not considered in this study, however, their impact cannot be determined.

While there was some slight tendency for academic administrators to control the use of funds in schools with medium sized case loads, no statistical importance is attributed to that information.

EXPERIENCE LEVEL OF DIRECTORS

The experience of directors varies from zero to twenty years with a mean of 10.4 years. Seventy one percent, however, have ten or less years and over 12% have two or less years, indicating a relatively high turnover of SBI leadership.

Table 1 shows the relationship of experience to the number of cases handled on an annual basis.

The data shown in the table indicates a positive correlation between the experience level of the director and the number of cases assigned and/or completed by the institution. The narrow spread, however, indicates that the correlation has little predictive value and is undoubtedly influenced by other factors as well as that experience. Such factors could include:

- (a) the dedication and commitment of the director and administrators of the program
- (b) the personality of the director and his or her influence with the regional office of the SBA
- (c) the size of the service area of the college or university with the attendant needs of the business community and potential number of cases available
- (d) the size of the institution and the potential number of student counselors available
- (e) whether or not the credit for the SBI course meets graduation requirements or is a free elective may affect the

number of student counselors available

(f) how well developed and how long the program has been in place can both impress the SBA and business community

Turnover of faculty, administrative support or lack thereof, background of the directors, salary adjustments and/or load adjustments are examples of factors which could affect the relative short term tenure of SBI directors.

EXPENDITURE ANALYSIS

Analysis of the data related to spending patterns of the funds received from the SBA can be studied in two ways as to what functions receive the largest portions of least some of their funding for such purposes. A slightly different view is noted when expenditures are classified as a portion of all reporting schools in the following table.

CONCLUSIONS AND RECOMMENDATIONS

The range of how case monies are expended does not fit a pattern but denotes a high level of local priorities and needs as far as individual institutions are concerned. Over half the respondents to the survey allocated about a quarter of their case income to each of the categories of student expenses, SBIDA travel and office expenses for the director or program. In terms of aggregate expense allocation of all schools, SBIDA travel accounted for the most money used with student case expenses close behind.

Expected solid correlation of spending and control with such variables as director experience, type of institution, geographical distribution, or number of cases contracted did not materialize or were of less than a significant level of magnitude. Other variables not considered may well be better predictors and should be investigated by future studies.

It is suggested that schools allocating no SBA monies for the most used categories carefully reexamine their priorities and intended use of the funds. A prime example would be those schools that do not send their directors to regional or national meetings for the supposed reason of lack of travel funds. Overworked directors might take note of the schools that set aside funds to pay other faculty that help supervise the student counseling teams.

Schools that spend all their funds might well consider a reserve for future contingencies. Since SBI funds are not usually kept in general fund accounts, they can be held over for the next year while other budgeted accounts may well disappear at the end of the fiscal year.

Each school that does not have input from the SBI director on the use of the funds generated by the program should re-arrange their system to at least allow for such input.

The SBA might well gather data on expenditures of funds for use in appropriation requests - i.e. , that not only do small businesses profit from SBI consulting but that the case funds are being used efficiently by higher education institutions in their training of future business managers.

Finally, it is suggested that another study be conducted that would determine how the Federal monies should be spent rather than how they are presently used.

TABLE I

DIRECTOR EXPERIENCE - INSTITUTIONAL CASE LOAD

Years of	1 - 5	6-10	11-15	16-20	21-30	Over 30	Total	Experience	cases	cases	cases	cases	cases	cases
0 - 5	6	17	6	10	7	3	49	6 - 10	3	12	9	4	5	6
	39	11	-	15	2	5	5	5	6	6	29	16	-	20
	0	0	0	1	2	2	2	7						
Total	11	34	21	21	20	17	124							

TABLE 2

TOTAL EXPENDITURES BY FUNCTION CLASSIFICATION Expenditure Ave. % SBIDA Meeting Travel 18.0
Student Case Expenditures 17.2 Non-SBI General Fund 12.1 Director/Office Expense 11.8 Other Faculty Supervision
9.9 Director's Salary 7.8 SBI Equipment Purchase 7.4 Department/School Equipment 6.2 Reserves 2.7 Research/Travel
2.2 Awards and Banquets 0.7 Other 4.0 TOTAL 100.0

SBI CLIENTS AND STUDENT CONSULTANTS: A COMPARISON OF ETHICAL POSITIONS

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ABSTRACT

This is a preliminary report on part of a major cross disciplinary ethics project. In this paper, ethical and value positions of Small Business Institute clients of one university are compared with those of senior undergraduate business SBI consultants. In general, little difference was found in ethical stands between the students and small business owners, although particular situations may foster differences. Implications are discussed for enhancing the effectiveness of the consulting relationship.

INTRODUCTION

Over 6,000 small business owners are being exposed to at least 15,000 students a year through Small Business Institutes. Are students and SBI clients "ethically compatible"? Do the two groups share the same ethics and values regarding what is right and wrong behavior in the business arena?

There is a lack of information about the ethical values of SBI clients compared with those of student consultants, and this study is an attempt to fill that void. We are questioning whether there are differences in the ethical position undergraduate consultants and SBI clients perceive others have. Also, are there differences in the ethical positions between consultants and SBI clients themselves? We are concerned about these issues because if there are difference, these differences may impact the effectiveness of the consulting process.

The turmoil of the business environment during the seventies and eighties was a nurturing environment for business schools to add ethics to the curriculum. As a result, most accredited business schools have either added an ethics component to the curriculum through ethics courses and/or incorporated ethics into each of the functional areas (2), although the assessment of the impact of ethics education for business students is mixed (3; 5; 6; 11; 13; 14; 16).

The emphasis by the AACSB on ethical coverage in the curriculum (2) raises the issue of how similar or dissimilar the ethical postures of the SBI consultants are to the clients with whom they work. The more dissimilar the values, the more difficult it may be for a consultant to communicate and/or gain credibility with the small business clients. If the fundamental ethical values of the student consultants and small business owners are markedly different, the two groups may find little in common regarding how a business should be operated and/or how to interact with various entities in the environment. Furthermore, the perceived or actual value differences may also account for some perceptions that possibly the students may not have the necessary age and maturity, technical experience, or background and knowledge, to do quality consulting (10; 15; 20).

Results of prior studies that have compared the ethical standards of business students and business practitioners have been mixed as to similarities or differences (e.g- 4; 7; 12; 18; 19). In addition to being inconclusive, all of the cited studies have measured the ethics of corporate executives and not those of small business owners.

One study pertaining to small business was a survey of subscribers conducted by Inc. The survey instrument contained four vignettes about small business/entrepreneurs. In general, respondents said they would act in an ethical manner, since it seemed to be practical to think of the long-term consequences of their actions (8).

METHOD Sample

The null hypothesis that we are testing is that there is no difference in ethical values between the student consultants and the SBI clients (SBI'S) with whom they consult. To test this hypothesis we administered a questionnaire to student respondents who were a census of the entire graduating class of Business students in an AACSB accredited university during the last quarter of their year of graduation (See Table 1).

Questionnaires were administered in-class to 112 students. All of them had used SBI consulting cases as their learning

methodology, and they had all had the same instructor for their SBI consulting course. The same questionnaire was sent to all the SBI clients that had worked with the school in the past one and a half years. Eighty eight questionnaires were sent and 28 usable ones were returned for a response rate of 32% for the clients.

There is a greater proportion of males in the student population than the SBI population, ages are different with the students in 20 to 30 range with the clients being in 31 to 50 range. Almost all of the SBI clients had no ethics course in their background while over half of the student population had a specific course.

Questionnaire

Eight vignettes from the business ethics scale developed by Clark (9) were used. Where necessary the scenarios were updated to reflect current times. For each vignette the respondents were asked to assess whether the person in the scenario would take a certain action or not and whether they themselves would or would not take the action. Vignettes, or short descriptions of a person and/or situation, have been found to be a more reliable, less biased method of measuring human attitudes and values than abstract questions attempting to directly probe the construct of interest (1; 9).

Another question, also from the Clark study (9), asked respondents who they would prefer to work with: One individual who adheres strongly and strictly to ethical commitments ("non-compromising") or another individual who is sensitive and responsive to the values of coworkers ("flexible"). This question was included to determine if there is any difference in the preference of ethical conduct of business associates between the students and SBI's.

A final set of questions, also from Clark (9), asked respondents for their level of approval to five ways that business ethics could be improved.

Data Analysis

Data were coded and analyzed using SPSS-X. Chi-square was used to test for statistically significant differences between SBI's and students on their responses to the eight vignettes and the question pertaining to the coworker. T-tests were used to determine if there were any statistically significant differences between the two groups on how they feel business ethics might be improved.

FINDINGS

Ethical Scenarios Questions 1-8 (See Appendix)

When asked what the person in the scenario would do in response to the ethical dilemma they are facing, the responses between the SBI clients and the students are not significantly different in seven out of eight scenarios. (see Table 2.)

The one question that elicits a response difference at a statistically significant level ($P = .001$) is Q5(a). The SBI clients felt that Boldt Manufacturing would indeed give advanced notice to its employees of the upcoming plant shutdown whereas the students felt the company would keep it a secret until the day of dismissal.

The responses to question 8(a), though not significantly different, suggest that there was virtually no question in SBI's minds that the Vice President of the company would send Christmas gifts to the customers (96%), whereas only 80% of the students felt that the VP would send gifts.

When comparing what SBI clients and students felt they themselves would do in each of the situations, again only one of the scenarios was able to generate a statistically significant difference in responses. (See Table 3.) In question 2(b) none of the SBI clients said they would supplement their income with unauthorized personal expenses whereas 17% of the students would (significant at .04 level). And on QB(b) a higher percentage of the students responded that they themselves would send gifts to the buyers if they were the company vice president than would SBI clients if they were the VP.

Table 4 compares the self described action choices of only those SBI's and students who felt the person in the scenario would make the less ethical choice.

There are no significant differences although clearly some directions are indicated in Questions 1, 2, 4, and 8. In question one, on the issue of using insider information to purchase stock, 63% of the SBI's who thought the person in the scenario would buy stock would buy the stock themselves but less than half of the business students would. In question two not a single one of the SBI's would pad the expense account even if they thought the person in the scenario would, whereas 25% of the students would. In question four there was a somewhat greater tendency for the SBI clients who felt the company would discharge older workers to say they themselves would discharge older workers than for the students. In the gift scenario of Question eight there was a greater tendency for the business students who felt the person in the scenario would send gifts to also respond that they would send gifts than for the SBI's.

Another interesting finding is that for question five. The clients and students had differed in their perceptions of what the person in the scenario would do (Table 2), yet the fact they felt the person in scenario would keep the planned shutdown a secret did not affect their own strong belief that they themselves would inform the employees.

A greater percentage of the students (43%) preferred to work with the more flexible White than did the SBI's (29%) although this was not significantly different.

Both students and SBI's preferred to work with the noncom- promising Easton.

Ways of Improving Business Ethics (Question 16)

Both the SBI's and students seemed to approve of at least three ways of improving business ethics (Table 6): developing principles of business ethics, having ethics courses in business schools (most favored by both groups), and having industry codes of ethics.

The differences were not significant in what the SBI's and students approved of. The SBI's were less favorably disposed to legislating stronger legislation than business students although neither group was particularly in favor of that option. An even less appealing option was to get religious leaders more active in business. The greatest difference, still not significant however, was in the religious leaders getting involved with students disapproving even more than SBI's.

SUMMARY AND CONCLUSION

There is not much difference in self described values between SBI clients and students. The one scenario reflecting a significant difference in responses might be reflective of the attitude - "if everyone else is doing it, why not." (17). In the case of padding the expense account and sending gifts, the students tend to be more inclined than the SBI's to do it themselves. This is leaning toward holding a more "flexible" situational definition of ethics which is also reflected in a greater percentage of the students preferring the more flexible White (Table 5) as a coworker than the SBI clients preferred. What impact having exposure to business ethics classes has is certainly not clear. Are ethics classes geared to making students act more ethically? Would this group have preferred less ethical postures if they had not had the ethics class they did have?

More important than differences between SBI clients and student consultants may be the tendency in both populations to feel that though they would act in an ethical way - the person in the scenario would not. This was especially prevalent in Q1 (Table 4) with forty of the business students feeling they would not buy stock with insider information although they felt the person in the scenario would - 7 of the SBI's responded that way also. Forty nine (75%) of the students who thought the person in the scenario would pad an expense account, would not themselves. On Q4, of the business students thinking the person in the scenario would discharge older workers, 36% thought they themselves would discharge the younger workers. on Q8, 44% of the SBI's who felt the person in the scenario would send gifts, they themselves would not.

On the surface, it looks like more communication would be necessary among SBI's and or among students as well as between groups to get a better understanding of what people think and why. And, although it does not appear that there are significant differences in values of student consultants and the SBI clients at least at the university in this SBI program, an individual client's values could differ greatly from any individual student or groups' values in certain situations.

How did self selection of SBI respondents affect findings - were those who responded representative of the entire SBI population at that university? Will this finding hold also for MBA consultants? Does the gender of team members

influence the outcome? What about the gender of the SBI client or the gender of person in scenario? What impact do the faculty, mentors/guides, and SBI director have? Are the faculty's values different from students' and/or clients". Do the values differ from SBI type clients to big business clients? Just what role do perceived value differences or similarities play in effective consultation experiences for the SBI program? What impact does age of participants have on the findings? Will these findings differ with different parts of the country? Internationally are business people's values perceived differently? What impact does size of business have, if any, on outcomes? What impact is there of required ethics courses? What impact does experience in workplace have on values? What impact does the industry or type of client have on these findings? Does the composition of majors make a difference - i.e., would marketing students have values more similar to certain types of business clients than would accounting students?

This preliminary cross disciplinary study has just scratched the surface. The actual differences in values/ethics between students and SBI clients is possibly not as important an issue as the general issue of being aware of individual perceptions within groups - the one SBI client a team has. Clarifying the individual's goals/objectives of the business must be done from an individual's framework - not a class or group. Effective SBI consulting will start from where an individual small business owner feels he or she is, not where the consultant thinks that person is.

APPENDIX

QUESTIONNAIRE 1990

Instructions: Please check one response for a, b. and c.

1. Virginia Stone, a member of the Board of Directors of Scott Electronics Corp., has just learned that the company is about to announce a 2-for-1 stock split and an increase in dividends. Stone personally is on the brink of bankruptcy. A quick gain of a few thousand dollars can save her from economic and social ruin. She could purchase the stock now to sell in a few days at a profit.

a. Do you think Virginia Stone would purchase the stock to sell at a profit? yes no

b. What would you do if you were Stone? buy not buy

2. Brian George is a new salesman for Sweep Soap Company. With commissions, his salary usually comes to about \$36,000 per year. George could supplement this to the extent of about \$1,800 per year by charging certain unauthorized personal expenses against his expense account. He feels that this is a common practice in his company.

a. Do you think Brian George would supplement his income? yes no

b. What would you do if you were Brian George? supplement income with personal expenses not supplement income with personal expenses

3. Wallace Brown, Treasurer of Lloyd Enterprises, is about to retire and contemplates recommending one of his two assistants for promotion to Treasurer. Brown is sure that his recommendation will be accepted, but he also knows that the assistant not recommended will find promotion opportunities seriously limited. one of the assistants, William Grimes, seems to him the most qualified for the new assignment, but the other assistant, Sylvia Leonard, is the niece of the president of Lloyd's biggest customer. Brown feels Leonard's relationship with her uncle will help Lloyd's.

a. Did Wallace Brown choose: Grimes or Leonard ?

b. Would you choose: Grimes or Leonard ?

4. Jenkins Manufacturing company is faced with the necessity of closing down one of its two Los Angeles plants. This will necessitate laying off about 100 employees. Another 100 employees will be transferred to the other plant in the same area. Though the company is not unionized, generous allowances have been set aside for separation pay. The problem which Mr. Howard Jenkins, company president, faces is whether to discharge older and more highly paid workers who have been with the company a number of years, or the younger and less highly paid workers who have less seniority. The industry is a competitive one, and Mr. Jenkins is concerned about his company's ability to compete.

a. Would Jenkins discharge the older workers - or the younger workers ?

b. Would you discharge the older workers or the younger workers ?

5. The Board of Directors of the Boldt Manufacturing Company has decided to close down its Eastbrook plant in four months. The plant employs 200 workers in a Michigan town of 30,000. At a recent Board meeting, Pauline Belcher, company Treasurer, has urged that the employees not be informed of this decision until the actual day of their dismissal. If this is not done, she argues, absenteeism and productivity declines will seriously hamper output. Henry Roscoe, Personnel Director, feels that the employees should be given some advance notice in order to plan necessary adjustments even at the cost of absenteeism and productivity decline.

a. Would the company: keep the planned shutdown a secret ? or notify the employees ahead of time ?

b. Would you: keep the shutdown a secret? or notify the employees ahead of time?

6. Larry D. Brown is President of the St. Clair Importing Company, a US firm that wholly owns a subsidiary that is a Canadian importing company. The Canadian subsidiary has been offered the opportunity to merchandise a number of products manufactured in Cuba. The Cuban price of these products is so attractive that the Canadian firm estimates it will be able to increase substantially the usual mark-up and still sell the products at a retail price below Canadian prices. Brown has contacted the US State Department, and while it would be illegal and against public policy for the American firm to market the products in the US, there is no prohibition for the Canadian subsidiary to sell them in Canada.

a. Would Brown distribute the products through the Canadian subsidiary? yes no

b. Would you if you were Brown? yes no

7. The Dodd Textile Company wants to make shirts in a large Western city. Because of the severity of competition, the company feels it would be forced to hire employees from immigrant and other underprivileged groups which accept sub-standard wages. Recently union officials have accused such plants as this of maintaining "sweat-shop conditions." Cheryl Dodd, the owner, admits conditions are not ideal and that employees can hardly make sufficient wages for a minimum living standard but says that Dodd Textile would at least provide some employment for people who would otherwise probably be unemployed. Dodd feels entitled to profits which would not be received if wages were raised.

a. Would Dodd pay substandard wages? yes no

b. Would you pay substandard wages? yes no

8. Mary Raines, Vice President of Westerly Chemical Company, feels that sending expensive Christmas gifts to customers compromises their position as buyers, and thus is a form of bribery. However, Raines knows that this is a common practice among competitors and that sales are likely to be adversely affected by failure to conform to the traditional practice.

a. Would Raines decide to send the gifts? yes no

b. Would you send the gifts if you were Raines? yes no

Which of the following would you prefer to work with? Please circle a or b.

a. Susan White: "I think that if a person joins a reputable company and then remains sensitive to the ethical values of her colleagues she won't stray far from the ethical ideal."

b. Sharon Easton: "I have some strong ethical commitments I've formulated through the years, and I'll resign before I compromise these principles."

Below are listed some suggestions which have been proposed for the improvement of Business Ethics. Rate each one

(1-approve; 2- somewhat approve; 3-somewhat disapprove; 4-disapprove)

a. Develop some widely accepted general principles of business ethics. b. Introduce courses in Business Ethics in business schools. c. Introduce industry codes of ethical practices.

d. Legislate stronger government regulation of business. e. Encourage a more active participation of religious leaders in developing general ethical norms for business.

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TABLE 1 PROFILE OF SAMPLE

Undergraduate SBI Senior business Clients Students

Number: 28 112 Gender: Male 13 66 Female 15 43 Age: < 20 0 0 20 - 30 3 90 31 - 40 12 17 41 - 50 9 0 51+ 3 0 No Answer 1 5

Taken Ethics Courses: NO 22 48 yes 3 54 No Answer 3 10 Years of School: Some College 10 Not Asked College Graduate 2.2 Not Asked Graduate School 6 Not Asked Years in Business: 1 - 5 14 Not Asked 6 - 10 7 Not Asked over 10 6 Not Asked No Response 1 TABLE 2

RESPONSES (PERCENTAGES) OF SBI CLIENTS (SBI'S) AND UNDERGRADUATE SENIOR BUSINESS STUDENTS (STUDENTS) TO WHAT RESPONDENTS FELT PERSON IN SCENARIO WOULD DO. (PLEASE SEE QUESTIONS 1A, 2A, ... , 8A ON QUESTIONNAIRE IN APPENDIX.)

SBI's Students Chi-Square

Q1(a) PURCHASE STOCK 19 78 (73%) (70%) *NOT PURCHASE STOCK 7 34 (27%) (30%) p - 1.0

Q2(a) SUPPLEMENT INCOME 15 65 (54%) (58%) *NOT SUPPLEMENT INCOME 13 47 (46%) (42%) P - .82

Q3(a)*CHOOSE GRIMES 12 41 (QUALIFIED) (43%) (37%) CHOOSE LEONARD 16 70 (CONTACTS) (57%) (63%) P - .695

Q4(a) DISCHARGE OLDER 14 73 (64%) (69%) *DISCHARGE YOUNGER 8 35 (36%) (32%) p - 1.0

Q5(a) SHUTDOWN SECRET 8 71 (29%) (65%) *NOTIFY EMPLOYEES 20 39 (71%) (35%) p - .001

Q6(a) DISTRIBUTE IN CANADA 25 105 (93%) (95%) *NOT DIST. IN CANADA 2 6 (7%) (5%) p - 1.0

Q7(a) PAY SUBSTANDARD WAGES 25 94 (89%) (86%) *NOT PAY SUBST. WAGES 3 15 (11%) (14%) P - .936

Q8(a) SEND GIFTS 25 90 (96%) (81%) *NOT SEND GIFTS 1 21

Ethical choice (4%) (19%) p - .115

TABLE 3 RESPONSES (PERCENTAGES) OF SBI'S AND STUDENTS TO WHAT THEY THEMSELVES (RESPONDENTS) WOULD DO IN EACH ETHICAL DILEMMA, (PLEASE SEE QUESTION 1B, 2B, ..., 8B ON QUESTIONNAIRE IN APPENDIX,)

SBI's Students chi-square

Q1(b) PURCHASE STOCK 13 40 (50%) (36%) *HOT PURCHASE STOCK 33 72 (50%) (64%) P - .2604 Q2(b) SUPPLEMENT INCOME 0 19 (0%) (17%) *NOT SUPPLEMENT INCOME 28 93 (100%) (83%) P - .0418 Q3(b) CHOOSE LEONARD 3 20 (CONTACTS) (11%) (18%) *CHOOSE GRIMES 25 91 (QUALIFIED) (89%) (82%) p - .519 Q4(b) DISCHARGE OLDER 9 39 (41%) (36%) *DISCHARGE YOUNGER 13 69 (59%) (64%) p - .855 Q5(b) SHUTDOWN SECRET 1 11 (4%) (10%)

*NOTIFY EMPLOYEES 27 99 (96%) (90%) P - .497 Q6(b) DISTRIBUTE IN CANADA 22 91 (82%) (82%) *NOT DIST. IN CANADA 5 20 (18%) (18%) p - 1.0 Q7(b) PAY.SUBSTANDARD WAGES 7 31 (25%) (28%) *NOT PAY SUBST. WAGES 21 78 (75%) (72%) P - .846 Q8(b) SEND GIFTS 14 75 (54%) (68%)

*NOT SEND GIFTS 12 36 (46%) (32%) P - .244

Ethical Choice

TABLE 4 OF THOSE WHO THOUGHT PERSON IN SCENARIO WOULD DO THE LESS ETHICAL ACTION, WHAT WOULD RESPONDENT HIM/HERSELF DO'.>

SBI's Students Chi-Square

Q1(b) PURCHASE STOCK 12 38 (63%) (49%) *NOT PURCHASE STOCK 7 40 (37%) (51%) P - .382 Q2(b) SUPPLEMENT INCOME 0 16

(0%) (25%) *NOT SUPPLEMENT INCOME 15 49 (100%) (75%) P - .073 Q3(b) CHOOSE LEONARD 3 19 (CONTACTS) (19%) (27%) *CHOOSE GRIMES 13 51 (QUALIFIED) (81%) (73%) p - 1.0 Q4(b) DISCHARGE OLDER 9 36 (64%) (49%) *DISCHARGE YOUNGER 5 37 (36%) (51%) P - .462 QS (b) SHUTDOWN SECRET 1 11 (13%) (15%) *NOTIFY EMPLOYEES 7 60 (97%) (85%) p - 1.0 Q6(b) DISTRIBUTE IN CANADA 22 90 (88%) (86%) *NOT DIST. IN CANADA 3 15 (12%) (14%) p - 1.0 Q7(b) PAY SUBSTANDARD WAGES 7 27 (29%) (29%) *NOT PAY SUBST. WAGES 15 67 (72%) (71%) p - 1.0 Q8(b) SEND GIFTS 14 69 (56%) (77%) *NOT SEND GIFTS 11 21 (44%) (23%) P - .0738 Ethical Choice

TABLE 5 RESPONSES OF SBI'S AND STUDENTS TO PREFERRED CO-WORKER. (QUESTION #15 ON QUESTIONNAIRE, APPENDIX,)

SBI's STUDENTS TOTAL

PREFER WHITE 8 45 53 ("FLEXIBLE) (29%) (43%)

PREFER EASTON 20 61 81 ("NON-COMPROMISING") (71%) (57%)

28 106 134

P - .23

TABLE 6 MEAN RESPONSES OF SBI'S AND STUDENTS TO IMPROVEMENT OF BUSINESS ETHICS CHOICES. (PLEASE SEE QUESTION #16 ON QUESTIONNAIRE, APPENDIX,)

SBI,'& STUDENTS T-VALUE* P (2-TAIL)

DEVELOP PRINCIPLES OF 1.41 1.64 1.44 .156 BUSINESS ETHICS

ETHICS COURSES IN 1.26 1.22 -.25 .802 BUSINESS SCHOOLS

INDUSTRY CODES OF ETHICS 1.88 1.92 .19 .850

LEGISLATE STRONGER 2.96 2.83 -.53 .598 REGULATION

RELIGIOUS LEADERS MORE 2.96 3.30 1.39 .177 ACTIVE IN BUSINESS

1 - APPROVE 2 - SOMEWHAT APPROVE 3 - SOMEWHAT DISAPPROVE 4 - DISAPPROVE

SEPARATE VARIANCE ESTIMATES

ORGANIZATIONAL STRUCTURE AND OPERATIONAL BEHAVIOR OF SMALL BUSINESS INSTITUTE PROGRAMS

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ABSTRACT

The importance of small businesses as an integral part of our economy dictates that continuous efforts be undertaken to assess these organizations in their ever changing environments.

The role of the Small Business Institute program is one of the most effective vehicles for management assistance based on the results of a variety of past research efforts. Therefore, a better understanding of the Small Business Institute programs will provide added insight for their development and continued contribution to the success of the small business sector in the U.S. economy.

This study is based on a survey mailed to all Small Business Institute Directors. The study examined the reasons small businesses request counseling, as well as the role of other information sources such as SCORE, SBDC, and advisory committees. The role of the SBI Director, course pedagogy, budget control, and number of cases were also assessed. The demographics of the institution, as well as the director were also examined.

INTRODUCTION

The continued emphasis on small business as a major component of our economy and, in particular, as one viable element in national and regional economic growth and development suggests continual attention. In many areas of the country where economic conditions have reflected a downturn, it has been consistently recognized that the future prospects for economic growth can be enhanced by the role of small business. Small businesses are an integral, indeed a major economic institution in the economy of the United States. Estimates as high as 60 percent have been made concerning the nation's work force which is employed in the small business sector. Small businesses account for approximately 40 percent of the country's Gross National Product (11). Consistently, economic development studies recommend that small businesses are areas where growth, innovation and expansion provide a real opportunity for responding to ever changing environments (9).

Unfortunately, the failure rate for small business within the first year approximates one-half while estimates run as high as 80 percent within the first three to five years (1). The obvious question is how to protect against the economic and social costs associated with these conditions which is most often a result of poor management. The role of the Small Business Institute (SBI) program is one of the most effective vehicles for small business assistance based on the conclusions of a variety of past studies. These programs help to improve operations and/or reduce the rates of failure with subsequent effective utilization of their limited resources (12;10;8;3). Although a constant effort has been made through research and analysis in both education and government, many issues remain unresolved regarding the present and potential role of small business (13;6;14;7;5;2;4).

The need remains for a better understanding of the SBI program as an effective tool in assisting small businesses to continue their contributions to the economy and at the same time to fulfill their role as the foundation for all business, since all businesses were once small.

PURPOSE

The purpose of the research is to examine the SBI program and obtain a more comprehensive appreciation of their activities and to establish a contemporary posture of these programs. Additionally, this research will provide a clearer definition of the role of SBI programs and examine methods to improve their contributions to small business by assisting owner/managers in a more efficient allocation of their human and financial resources. In order to meet these objectives, specific research questions are as follows:

1. What are the major reasons small businesses requested counseling in 1989-90?

2. What supporting services are offered through SBI programs?
3. What percent of SBI's are affiliated with SBDC'S?
4. What is the nature of the SBI course and student's grade?
5. What proportion of cases are completed per year and what proportion of those are not funded?
6. What is the normal teaching load for the SBI Director, and does the individual have a reduced teaching load?
7. Which university office controls the budget for the SBI program?
8. What sources other than SBI Directors are used for advisory assistance?
9. Do SBI programs have advisory committees, and what is the nature of such committees?
10. What are the characteristics of the SBI institution as well as the director?

METHODOLOGY

A complete universe data base was used which comprised all SBI directors. This data base was derived from the 1990 official roster of membership of Small Business Institute Directors' Association (SBIDA). The universe of 516 was reduced to 501, since some programs were found to no longer be in existence. This study is based on a survey mailed to 501 directors on August 24, 1990.

After a follow-up mailing, a total of 300 completed questionnaires were returned which resulted in a response rate of 60 percent.

The research was undertaken to develop a current profile of SBI programs and to establish a foundation for analysis and subsequent measurement. Data for this paper was requested from all SBI's in the United States. Figure 1 is a map which shows the ten U. S. regions according to the Small Business Administration's designation. The following two sections provide a summary of computations from the results of the study.

ORGANIZATIONAL STRUCTURE OF SMALL BUSINESS INSTITUTES

The following section describes aspects relating to the organizational structure of SBI's such as demographics of SBI institutions and directors. Also, geographic location, size of the institutions, and relationship with the Small Business Development Center (SBDC) are examined.

Demographics of SBI's

Table I illustrates the approximate number, 501, of SBI programs in the United States segmented by SBA region. For instance, the largest number, 98, or 20% of the total 501, are located in Region 5. Also, 68 out of the 300 responses were from this region which accounted for 69% of the SBI's in that region. The region having the lowest return was Region 1 with only 28% of the directors responding.

Geographical Location

Figure 2 shows a breakdown of the SBI directors responding to the study according to the geographic location of their institutions. For instance, 32% of the responding SBI's were located in the Midwest United States.

Size of Academic Organization

Over 60% of the institutions responding were colleges and universities with enrollments of less than 10,000 students. In fact, approximately 40% were institutions with less than 5,000 students as observed from Figure 3.

Demographics of Directors

Some 97% of the SBI directors held advanced degrees and had served in the director's position for a number of years. For instance, some 57% held the doctorate, and only 36% had served 4 years or less. The majority of the SBI Directors responding, 86%, were male, while female directors accounted for 14%. The majority of the directors' academic specialization was in the field of management which accounted for almost one-half of the total respondents.

The directors reported numerous types of business and professional experience. As may be noted in Table 2, consulting experience was mentioned most often by approximately one-half of the responding directors, while sales, retailing, and production followed with smaller proportions.

Relationship SBDC

The organizational structure for assisting small businesses appears to reflect a traditional pattern of continuity. That is, the survey responses clearly indicate over 80% of the SBI programs have direct access to SBDC. Based on 59% of the responses, the location of the SBDC is housed in the same location as the SBI program as depicted in Figure 4.

OPERATIONAL BEHAVIOR

This section describes certain areas of operational behavioral associated with the SBI program such as the nature of counseling, supporting services, and case load. Also, teaching responsibility, budgetary authority, and sources of management assistance are analyzed.

Nature of Counsel

The major area of requested counseling was in the functional area of marketing; i.e., sales, advertising and general marketing.

Following marketing were marketing research, start-up advice, accounting, and financing as major reasons as observed in Table 3. Few respondent reported requests for assistance concerning legal issues.

Supporting Services

Observable from Figure 5, Small Business Institute programs also offer supporting services in addition to their primary role of management assistance. It is noteworthy that over 21% of the respondents indicated they had offered seminars; additionally, another 11% of the directors had held conferences. Further, 10% of the respondents offered other supporting services, such as individual counseling and research.

The Nature of the Course

A significant number, 82%, of the responding directors reported that the SBI program was offered through an elective course, rather than a course which was required. Only one fourth of the respondents stated that the SBI programs were a part of a required course. The course mentioned most often was the capstone business course entitled, Business Policy/Strategy. Figure 6 clearly conveys the importance of the counseling project as a partial requirement for the course. Over half of the directors indicated that the SBI consulting project encompasses more than 75% of the grade.

Funded and Non-Funded Cases

The largest number of cases completed during the academic year, 1989-90, as reported by 72% of the directors was within the range of 1-9. The median number of cases was computed to be 12. Only 11 percent of the institutions completed 30 cases or more in this period as shown by Figure 7.

More than half, 54%, of the directors reported that they completed more cases than the Small Business Administration funded in 1989. The median number per institution of non-funded cases for this period was 4. Therefore, through extrapolation, a figure in the vicinity of 2,000 cases a year are the directors counted the project three fourths of the course grade.

The average number of cases completed per SBI program during the academic year, 1989-90, was 12. Over 72% of the directors completed a range of 1-9 cases. Over one half of the directors completed more cases than were funded by the SBA; the average number of unfunded cases was 4. The majority of the directors, 74%, were fulfilling the role of the SBI director in addition to, a full teaching load at their respective institutions. Only 34% were permitted a reduced teaching assignment, which was typically three semester hours. The budgetary authority for the SBI program was at the director's level in 52% of the responding institutions.

In addition to the director, the faculty of each institution were relied upon as a major information resource for small business client management assistance. Also, 32% of the directors utilized the experience of SCORE personnel.

Over 80% of the directors did not have an advisory committee. This situation may be an avenue to pursue as a means of obtaining additional management assistance with a minimal cost of providing service to the small businesses.

The survey findings reveal that businesses requested many types of counseling. it would appear directors should continue to seek outside resources for this additional assistance. Since directors reported they possessed a variety of business and professional experience, it would suggest that overall the SBI's are furnishing valuable management assistance to their communities at low cost.

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