

## **TABLE OF CONTENTS SBIDA 1989**

- 1. Drug Testing of Employees of Small Business**
  - Edward A. Ward, University of Michigan
- 2. The Role of the SBI in Restoring the US Manufacturing Base--How We Can Help Develop World Class Manufacturers**
  - Michael D. Ames, California State University, Fullerton
- 3. Small Business Owners: Are You Guilty of Sexual Harassment?**
  - Delaney J. Kirk, Northwest Missouri State University
  - John Baker, Northwest Missouri State
- 4. An Investigation of the Differing Responses of Large and Small Business to AIDS-Related Workplace Issues**
  - Geralyn McClure Franklin, Stephen F. Austin University
  - Alicia Briney Gresham, Stephen F. Austin University
  - Gwen F. Fontenot, University of Northern Colorado
- 5. Developing A Successful Export Strategy Within A Small- or Medium-Sized Business**
  - John A. Adams, Jr., Texas A & M University
- 6. Strategic Management Course and Entrepreneurship Course: Can They Inform Each Other?**
  - Sol Ahiaarah, University of Pittsburgh at Johnstown
- 7. Dislocation and Entrepreneurial Success: A Follow Up Study**

- Robert J. Barbato, Rochester Institute of Technology
- Matthew Sonfield, Hofstra University
- Jeffrey S. Bracker, Biosurge, Inc.

**8. The Expatriate Small Business As A Multinational Enterprise**

- David R. Befus, Westmont College

**9. Improving the SBI Curriculum**

- Susan P. Berry, Marietta College

**10. Women-Owned Businesses 1972-1982; A View of the Statistics**

- Kathleen C. Brannen, Creighton University

**11. The Most Pressing Problems of Small Business: Some Observations Based on Two Sample Surveys**

- Jafor Chowdhury, University of Scranton
- David Adams, University of Scranton

**12. Entrepreneurship in a Global Economy: Finding Focus and and Form in the Midst of Ferment**

- William J. Gleeson, Marquette University

**13. Technology Transfers To The Third World: Problem and Opportunities for Small Business**

- C. M. Jonnard, Fairleigh Dickinson University
- Hesam A. Quazi, Fairleigh Dickinson University

**14. Business Incubators in Ohio: Identifying Elements for Success**

- Joseph Latona, The University of Akron
- Mike D. LeHere, Midwest Business Development Group

**15. An American Business Challenge: The World Market**

- Phillip R. Marcus, V.P., Metro Four Consultants

**16. Art and Economic Development: Creating A Global Market for Tourism**

- Peter J. Markou, North Adams State College

**17. Credit Card Pricing and Small Business**

- S.K. Moak, Virginia State University
- J. L. Toles, Virginia State University
- M. H. Camilletti, Virginia State University

**18. Consulting Opportunities to Develop Small Business Owners' Receptivity to Market Research**

- Alfred Pelham, University of Northern Iowa

**19. Perception of Customers' Buying Behaviour by Owner-Managers During the Start-up Process**

- S. J. Pettitt, National Institute for Higher Education, Limerick, Ireland
- G. Kirkwood, Teeside Polytechnic, Cleveland, UK
- R. Macmillan, Teeside Polytechnic, Cleveland, UK

**20. An integrated Spreadsheet Approach to the Evaluation of Retail Consumer Credit Plans**

- Ronald S. Rubin, University of Central Florida

**21. Demographics and Motives of Women-Owned Businesses**

- Homer L. Saunders, University of Central Arkansas
- Don B. Bradley III, University of Central Arkansas

**22. An Analytical Model for SBI Consultants**

- Roger D. Scow, Southwest Texas State University

### **23. Entrepreneur Characteristics of Successful Inter-City Black Small Business**

#### **Owners**

- Joseph F. Singer, University of Missouri, Kansas City
- M. Joseph Nosiri, University of Missouri, Kansas City

### **24. A Preliminary Analysis of Long Island's Largest Privately-Owned Firms**

- Matthew C. Sonfield, Hofstra University
- Russell M. Moore, Hofstra University

### **25. Another Window: The Reemployment Demonstration Initiative**

- John Trinkaus, Baruch College
- Frederick Greene, Manhattan College

### **26. Project Management Software for Small Business Manufacturers**

- James W. Vigen, California State University, Bakersfield
- Howard F. Rudd, College of Charleston
- Brian McNamara, California State University, Bakersfield
- Martin K. Marsh, California State University, Bakersfield

### **27. Academic Views on Small Business Consulting: Can We Use Them?**

- William A. Ward, Susquehanna University
- Eugene G. Gomolka, University of Dayton

### **28. How Specialty Retailers Can Use Market Segmentation Techniques to**

#### **Increase Sales: The Case of the Recognition Retailer**

- Art Weinstein, Florida International University, University

**29. Franchising in Perspective: An Examination of Canadian  
Franchisee Behavior**

- S. Withane, University of Windsor

# DRUG TESTING OF EMPLOYEES OF SMALL BUSINESSES

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## ABSTRACT

The estimated costs of substance abuse in the U.S. workforce has resulted in drug testing programs in the private sector. These programs are often based on error-ridden urinalyses, unjustifiable interpretations of the test results, and are subject to legal challenges. This paper advocates an avoidance of drug testing programs.

## INTRODUCTION

### Costs and Extent of Substance Abuse

Authorities estimate from 10 percent to 23 percent of American workers use dangerous drugs while on the job (6), and of those employees using illegal drugs productivity declines about 30 percent (3). The cost to business of alcoholism as a subset of substance abuse is unknown (17), but estimates range as high as \$117 billion (6). Estimates of the costs of substance abuse due to lost productivity and medical costs in the U.S. range from \$33 billion (4) to nearly \$100 billion each year (11). These financial figures do not take into account the 10 million injuries each year attributable to substance abuse (6). This data indicates why preemployment screening, "for cause" drug tests, and random drug checks are increasingly common in private industries (3). Among large companies, half are subjecting workers to drug testing (5). Among small businesses, the extent of drug testing is unknown.

Given the extent and costs of substance abuse, this paper reviews the legal aspects of drug testing, validity issues, and the accuracy of the most used drug tests. Due to the limited legal and financial resources of small businesses, this paper is intended to make the small business owner aware of both the extent of legal issues and the specious allure of inexpensive drug tests.

### Legal Aspects of Drug Testing

Any drug testing program must weigh the legal risks against the benefits and fall within the directives of the United States Constitution (18). Small business owners need to be aware court rulings have begun to extend the guarantees against unreasonable search and seizure as well as the right to avoid

self-incrimination to private sector employers (1). Specifically, courts have ruled against businesses which conduct random drug testing (11). If the small business has a union, the owner needs to be aware that the National Labor Relations Board considers drug testing to be a work condition and therefore subject to bargaining (10).

In-addition to the Constitution, legislation prohibiting discrimination on the basis of demographics could create disparate impact if the testing is not equally applied across demographic categories (8). Even if equally applied, a physiological confound could arise in that urine tests may be racially biased: "Test results may be affected by blacks' higher concentration of the pigment melanin, which has an ion identical to THC, the active ingredient in marijuana" (3, p. 10). Also, with the increased erosion of the termination-at-will doctrine, small business owners need to be aware of key cases now in courts in which (a) an employee refused to take a random drug test due to her not wanting the company to know of her pregnancy, (b) an employee refusing to attend rehabilitation sessions and submit to future testing due to the employee's claim the test results were in error (a confirmatory test indicated the employee was not a drug user), and (c) damages are being sought due to drug test results being negligently used or disclosed (1).

In regard to alcoholism, the Wall Street Journal reported the ruling of the New Jersey Supreme Court which stated alcoholism is a handicap, thus an alcoholic is protected under the state's antidiscrimination law: "An employee who can handle work thus can't be fired simply for being an alcoholic..." (9, p. 29). Other state courts in Iowa, Minnesota, Ohio, and Wisconsin have made similar rulings (7).

To further compound the difficulties of a drug testing program, court decisions and arbitrator rulings indicate a drug testing program is on stronger legal grounds if it is limited to job applicants, not current employees (11). The testing of job applicants is viewed as an administrative search, defined as: "Administrative searches are carried out primarily to

deter crime, not to prosecute someone for an illegal activity" (6, p. 19).

In addition, private sector employers need to know their own state and local laws regarding a statutory right to privacy (2). At the state level, the states of Iowa, Minnesota, Montana, Vermont, and Connecticut have banned random urinalysis (5). At the local level, San Francisco has banned drug tests except under conditions designed to protect employee rights.

In regard to the assumed right of small business owners to monitor off-duty drug use among their employees, (5) noted arbitrators have ruled only behavior which has an adverse effect on the business may be controlled: "The effect cannot be speculative...The impairment must be demonstrable" (p. 28).

A final point in regard to legal aspects of drug testing via urinalysis was made by (4), in listing the minimum steps needed for a legally defensible testing program. The steps include (a) a witness to the urine collection, (b) documentation of a chain-of-custody of the samples, (c) records of training of personnel and monitoring of equipment, (d) accreditation of the program by appropriate agencies, (e) adequate reporting procedures, and (f) storage of all specimens. These steps can place a considerable burden on the small business owner, even if she or he is responsible for only the first two steps.

The legalities may be summarized for the small business owner in the following manner: as the extensive protection long granted to public sector employees becomes the norm for private sector employees, the small business owner needs to be aware of relevant local, state, and federal rulings in the areas of probable cause, termination-at-will, antidiscrimination statutes, and privacy provisions.

#### Detection Tests: Error Rates and Associated Costs

A cogent point in regard to error rates and associated costs of detection tests was made by (5): "These tests vary widely in cost and reliability, the least reliable being the least expensive-and the most widely used" (p. 24). Support for avoiding the use of drug testing may be seen in the high error rate of urinalyses; error rates as high as 50 percent to 66 percent have been reported in field studies of commonly used broad-spectrum tests (6, 7, 12, 13). Also, false positives, in which a non-drug user is falsely identified as a drug user, can occur with one of the most commonly used tests (EMIT) by an employee who ate poppy seeds, ingested ibuprofen, used the prescription antibiotic amoxicillin, or ingested aspirin or codeine (8, 10). In addition, small business owners need to realize an employee is not breaking the law by being under the influence of an illegally obtained drug: "It is perfectly legal to be under the influence of controlled substances, even those illegally obtained" (7, p. 15).

A paramount point in regard to the futility of drug testing is the realization that a positive result of a drug test does not mean the worker was impaired on the job (3, 7, 12, 13). Therefore, the small business owner would not be able to state the employee was a threat to the safety of others as the result of a positive drug test.

The most used screening drug test is called EMIT; a recent field study by Northwestern University found that 25 percent of all positive EMIT test results were false positives (3). If EMIT is followed by a confirmatory test, the accuracy rate is 99.2 percent (16). However, due to the cost of the confirmatory test, the tendency of small business owners may be to omit the expensive confirmatory tests. In a comment pertinent to small business owners, (5) noted: "To smaller, less affluent employers,

the temptation is to treat unconfirmed... results as indisputable truth" (p. 26). The cost of drug testing even without a confirmatory test may be prohibitive for a small business. For a small business of 50 employees who are tested twice a year, annual costs can exceed \$4,000 (12). This does not take into account the costly confirmation tests; these are necessary as courts will reinstate with back pay an employee who was dismissed for testing positive on an initial test unless a confirmatory test is conducted (7). If the test is challenged, testimony regarding the test will cost from under \$1000 to over \$6000; these figures do not include legal fees but only costs relevant to the testing laboratory (4).

In addition to explicit costs, the most commonly used urine tests cannot distinguish between certain prescription medications and illegal drugs (3, 6, 10). In a study published in the April, 1985 issue of *The Journal of the American Medical Association*, researchers surreptitiously added illegal drugs to urine samples and sent them to laboratories for testing. The false positive rates at the labs ran as high as 66 percent (6). In a similar study conducted by the New Jersey Department of Corrections, immunoassay tests generated false positives in 25 percent of the samples (5). In summary,

(10) wrote: "Even the best drug screening tests have a significant false positive rate" (p. 8).

Even when the tests are accurate, three points need to be emphasized. First, a drug detection test does not show when or how much of a drug has been taken by the person, nor does the presence of a metabolite indicate the drug is still having an effect (6). An explicit summary of this point was written by (3): "Drug tests do not directly measure the level of drugs in a person's system. Instead, they measure the enzymes into which the drugs metabolize " (p. 11). Second, a urine test cannot measure impairment of an employee or applicant at the time it is administered (6, 12, 13). Support for this thesis comes from the Council on Scientific Affairs of the American Medical Association: "The results do not give any indication of the pattern of drug use... or of whether an individual is impaired physically or mentally by the use of the drug" (14, p. 3111). Third, the legal requirement of chain of custody " ... refers to the ability to trace a sample from the time it is provided by the employee or job applicant through all the steps in the testing and analysis process" (12, p. 202). This legal requirement is viewed by many employees as a costly and humiliating requirement. In addition to mental duress, (15) notes a witness is necessary and must be properly trained since coercion by a witness can lead to charges of assault and battery, false imprisonment, and intentional infliction of emotional distress.

In summary, the most often used drug detection tests have high error rates, are expensive to confirm, may confuse legally ingested substances with illegal drugs, do not indicate on-the-job impairment, and require chain of custody with its

concomitant embarrassment for the employee.

### Suggested Approaches

The legal, financial, and psychological arguments against testing for substance abuse are (1) invasion of privacy, (2) high error rates, (3) a failure to measure job impairment, (4) negative social effects via ignoring alcohol, (5) high costs per sample, particularly for confirmatory testings, and (6) a fostering of social control and poor worker/management relations. Due to these problems, alternatives to drug testing are offered. First, management and workers training in observational skills pertinent to drug abuse should be mandatory (12). As an outgrowth of such training, supervisors must document behaviors and discuss only decreased job performance and consequences of continued poor performance (12). This training and responsibility will serve to avoid the "conspiracy of silence" often associated with employee substance abuse. Second, alcohol and drug use should be treated equally in the workplace (13). The importance of this point was forcefully made by (13): "Alcohol is far more damaging and far more common than drugs in the workplace..." (p. 26). Third, safety standards need to be enforced by supervisors so as to have unsafe worker behaviors indicative of substance abuse become apparent as soon as possible. Finally, forego paying for alcohol at office parties and contribute to a local drug/alcohol rehabilitation center.

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# THE ROLE OF THE SBI IN RESTORING THE US MANUFACTURING BASE--HOW WE CAN HELP DEVELOP WORLD CLASS MANUFACTURERS.

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## ABSTRACT

One of the sessions during the 1988 SBIDA conference focused on the role of the SBI in restoring the US Manufacturing Base. The position paper for the session, authored by Donald Clause, observed that "SBI directors are in a unique position to take a lead role in assisting our small manufacturers to ensure their survival as they automate for the 21st Century."(1, pp. 79-82) The present article agrees with this observation and explains how nontechnical business school students and faculty can help small manufacturers make major advances in their quest for manufacturing excellence.

## INTRODUCTION

Restoration of the US Manufacturing base is a multidimensional challenge. Competitiveness is based on a combination of technological breakthroughs, process capability, employee expertise, and management know how. All of these factors must be fine tuned to provide customers with quality products. Attaining profits from an aggressive price structure requires all company activities to be carefully synchronized to minimize waste and avoid excess.

While the typical SBI counseling team may not have the expertise necessary to directly critique a company's technology and process capability, it can assist the owner and company personnel in establishing goals and analytical procedures to do so. Important productivity improvement lessons have been learned by major companies striving for world class excellence over the last decade. Fortunately, many of the lessons are simple in concept. To a large extent, the SBI team's role can be to create a vision in the owner's mind of how this new thinking applies to his/her small business. Once owners become aware of the new ways of thinking about the management of manufacturing, they have an opportunity to commit to the development of a blueprint for improvement of their companies.

What are the productivity improvement lessons that have caused such a momentous change in the management of manufacturing in several parts of the world during the last decade? Which of these lessons are most important for the small manufacturer? How can SBI counseling teams efficiently gain an overall grasp of these lessons? How does one best counsel the business owner concerning the broad scope of manufacturing change the lessons imply? The purpose of this paper is to explore these questions.

First, the Paper presents an overview of the lessons. Next it explains the value of the lessons to the small manufacturer. Relative value depends on the nature of the manufacturing process. This dependency is explained.(Please note that these sections have been deleted from the published version due space limitations set for final submittals to the SBIDA Proceedings. If you would like a copy of these sections and cannot attend the session, please write on your letterhead to: Michael D. Ames, Ph. D. Management Department California State University Fullerton, California 92634 The article then presents a MANUFACTURING EXCELLENCE CHECKLIST which student teams may use to discover improvement opportunities within client operations. Next the article recommends a MANUFACTURING EXCELLENCE RESOURCE LIBRARY, made up of eight influential books, which can be purchased for under \$200.00. The books in this library explain how to deal with the items on the checklist. Students and clients can study these materials together to design appropriate improvements for the company.

## LESSONS OF MANUFACTURING EXCELLENCE

Several buzzwords have been popularized in manufacturing circles recently which reflect the changes occurring in the management of manufacturing. They describe productivity improvement processes which incorporate many of the lessons described in this section: zero defects, total quality control, quality is free, quality circles, continual and rapid improvement, just in time, group technology, Kanban, visibility, robots, flexibility in manufacturing, supplier development, suppliers as partners in profit, Japanese manufacturing techniques, and the philosophy of value added manufacturing. Good books have been written about many of these topics.(Some of the best are included the

recommended library at the end of this article.)

The concepts involved are not new, nor are they dependent on technology (although they may be applied differently with technical advances) (see, for example, 4 and 10). As Robert W. Hall points out, "the novelty of thinking is to combine the best and simplest practices one can find into an elegant whole for a given application." (5, p.22). In short it is a package deal. Best results are obtained when the SBI client realizes that basic, fundamental improvement is required in all aspects of manufacturing. It is a mistake to focus narrowly on a particular technology or technique as a way to attain manufacturing excellence. Rather, the SBI client needs to understand and accept that a number of broad and ambitious goals are to be attacked as simply an elegantly as possible. These goals include: Eliminate waste; reduce lead times for customers, materials, tooling and engineering changes, and new product introduction; increase quality; reduce costs; develop people (increase their skills, morale and productivity); and improve continuously. (5, Ibid.) The underlying philosophy is to

constantly strive for an ideal production system.

1. Produce products the customers want. 2. Produce products only at the rate customers want them. 3. Produce with perfect quality. 4. Produce instantly--zero unnecessary lead time. 5. Produce with no waste of labor, material, or equipment--every move with a purpose so there is zero idle inventory. 6. Produce by methods which allow for the development of people." (6, p.2)

Basic to the counseling approach is an emphasis on employee involvement as opposed to having specialized staff, the SBI counseling team, or the owner impose solutions. The assumptions about the work force are both optimistic and demanding.

Smaller operations do have an edge concerning certain of the lessons. This edge can be exploited successfully if: (1) the small business owner is determined to change the profile of the organization to take advantage of the lessons of world class manufacturing, (2) is willing to educate him/her self and all the employees in a common language of continuous improvement, in each person's role in the improvement process and in the special knowledge available to guide creation of a world class operation, and (3) is willing to implement the twelve lessons, continually guiding the improvement process towards greater manufacturing excellence. Determination, education and implementation. (3, P.P. 9-10) The owner must establish a company culture conducive to the application of the 12 lessons.

Many barriers stand in the way when the SBI counseling team tries to get this message across. For example, the owner's desire for independence (probably the reason the business was started in the first place) conflicts with the high degree of employee involvement required. The owner's investment and fear of failure creates nervousness whenever machines and workers are not running constantly--even in the face of inventory pile-up. Taking time out for training seems unaffordable--impractical. The constant scurrying for new business and cash flow creates an emphasis on production volume rather than total quality (zero defects). Even the owners' prior training can be a problem if they learned their trade in a traditional manufacturing environment, or worse yet do not have a manufacturing background.

Where then should the team start? Most smaller shops have one process flow that is the heart of the operation. The team should start by documenting how every step of this key process is being performed. They will find traditional process charts and flow diagrams, in particular, to be simple, yet effective tools for studying and improving a complex process flow. These tools aid in effectively locating work areas, establishing the best sequence of operations, eliminating unnecessary work, pointing out idle times and delays, establishing a better layout for an effective flow of material, suggesting means of eliminating

ill-directed effort, reducing the number of processing steps, making the remaining steps as economical as possible, reducing materials handling and decreasing the distance material is moved. (4, pp. 402-403) Preliminary analysis of the process chart and flow diagram, using a checklist such as that presented in the next section, will suggest opportunities for improvement.

The 12 lessons focus on inventory and quality. Once the team points out the true costs of carrying inventory and of not doing work right the first time, the owner will come to realize the need for commitment to improvement. The trick is to get the owner committed to improvement without having to reveal that the owner has been wrong all along.(2, p.5) The issue is, of course, survival in a competitive world. Pointing out what world class manufacturers expect of their suppliers helps show the path to opportunity as well as the threat implicit in business as usual. (See 11, pp.170-71)

Once the commitment to improvement is obtained, the team must work with the owner and employees to train them how to analyze the process chart and flow diagram in light of the 12 lessons. Have them review and question each step and devise better method. Show them how to document suggested improvements by creating their own process charts, flow diagrams, work standards, and process control charts for the improved method. Make sure they test the new method to assure its effectiveness and that they set up visible ways to remind themselves to consistently apply the improvements as the new standard. In this manner, by the time the final counseling report is written, the owner and employees will be involved in an ongoing process of improvement. In large organizations completing the first cycle of improvement can take years. In a small business it is possible to make significant progress in two to three months.

## A CHECKLIST AND RESOURCE LIBRARY FOR COUNSELORS

The check-list presented in Exhibit I can be used to evaluate small manufacturing clients to determine where improvement opportunities exist. This checklist can be used in conjunction with the resource library presented in Exhibit 2 to evaluate the cost savings to be gained from improvement and to work with the client to develop understanding of what needs to be done. As noted in the introduction, the resource library costs under \$200.00. The books are listed in priority rather than alphabetical order as a guide for libraries and clients with limited budgets. Every effort should be made to acquire and utilize the first five.

## CONCLUSION

This article has reviewed twelve lessons refined over the last decade by world class manufacturers. It has explained the value of these twelve lessons for small manufacturers. (Please note that these two sections have been deleted due to space

restrictions. Copies may be obtained by following the instructions given in the introduction.) It also presented a counseling checklist and enumerated an affordable resource library which can be used by SBI counseling teams and clients to seek productivity improvements based on the twelve lessons. The SBI can indeed assist in efforts to restore the US manufacturing base by passing on the lessons of world class manufacturing to students and clients.

### Exhibit 1: Manufacturing Excellence Checklist

Instructions: Many of the following items will be observable as you tour the client's workshop and storage areas without you having to ask the client a lot of questions. Others deal with activities normally done off site and may be overlooked if you do not ask about their existence.

#### I. BASIC WORKPLACE ORGANIZATION (5, Chapter 4)

1. Is the workplace cluttered? With work-in-process inventory (materials, parts and partially finished goods) awaiting movement? With excess ("backup") equipment? With tooling? What is it? When will it be used again? With gauges? Are the gauges accurate--calibrated properly? With supplies? With personal effects? With rubbish? With material on quality hold (kept on the floor pending a decision to scrap, rework or use in substandard condition)? Are walkways and islesways clear of materials, tote boxes, parts and rubbish? Are isles too narrow to permit free movement? Key question: Do workers and supervisors consider the schedule of work to be stable or do they feel they need some of the above items to compensate for instability? 2. Does everything have a location? Is there a place for everything? Is this place standard (i.e. the same for each similar workstation)? Is this place fixed? Is this place handy for use? Do workers have a say about where to set standard locations? Is the location pattern visible (i.e. is it obvious when something is not where it should be?) 3. Is the workplace clean? (this includes receiving areas, storerooms, and shipping areas) Is the workplace clean enough to avoid quality problems? Is the workplace clean enough to avoid maintenance problems? Is the workplace clean enough to avoid health problems? Is the workplace clean enough to promote location pattern visibility? Do workers clean their own equipment? Are workers responsible for cleaning and maintaining their

own work areas? 4. Is the workplace disciplined? Is everyone following rules established concerning the above? Are those not following the rules observed and corrected? By whom? Do supervisors act like coaches or drill instructors? 5. Is visibility practiced? Are daily schedules posted? Is the status of completion to the current day's schedule posted? Are signal lights or other signals used on the shopfloor to let those responsible know when: a setup change is needed? a tool change is needed? a quality check is needed? Can sensors on machines trigger signals? Do workers/supervisors take immediate action when signals occur? Can a worker signal a stop to the workflow if a quality problem occurs? Are

various charts and goal statements posted in work areas? Are the charts current? (Not yellow with age) Are they kept up to date by the workers? Do the workers know why the charts are important? Do the workers know how to keep the charts up to date? Is inventory visible? Are all packages, pallets, tote boxes, and storage locations clearly labeled as to content and destination? Is there a specific spot for each part number? Is there a visible limit set as to how much can be put in this spot? Does production of the part cease when this limit is reached? Is work-in-process displayed in specific, visible locations until it is picked up for the next process? Does visibility extend beyond the shop floor (do work areas in the office maintain visible displays of current status of paperwork and of problems)? Is it obvious when a worker has nothing to do?

## II. QUALITY (3, Chapter 1 and 9)

1. Does the outgoing product conform exactly with published, announced or agreed-upon requirements? (Exact conformance defines quality) Are there material review decisions? Are some outgoing products "off-specs"? Is time being spent documenting non-conformance to insure that it does not interfere with the form, fit, or function of the product? Do customers return products? If so have the reasons why been studied? Are items being scrapped before they are shipped? Are items being reworked before they are shipped? Do workers do their own inspection?

Do workers do their own rework? Do workers chart their own quality performance at their work station? Are workers trained in quality control? Do workers have necessary gauges and equipment convenient to their work station to check the quality of their work? Do workers check quality frequently? Does the plant rely on inspectors rather than workers to check quality? Does the company have a field service or dealer network skilled in rework? 2. Is quality defined in terms of percent defective? (i.e. "outgoing quality level of x% defective") 3. Does management know the cost of nonconformance? Does management know the total of all the expenses involved in doing things wrong? (The cost of quality is zero, doing nonconforming things is what costs money) What does it cost to correct salesperson's orders? What does it cost to correct procedures incorrectly drawn up to implement orders? What does it cost to correct the product in process? What does it cost to do work over? What does it cost to handle returns? What does it cost to pay warranty claims? Does management know if its cost of nonconformance is improving? Does management know which products, services or departments contribute most to the cost of nonconformance (the most lucrative cost correction opportunities)? KEY POINT: The cost of nonconformance is the cost of everything that would not have to be done if everything were done right the first time.

## III. INVENTORY, LEADTIMES, SET UP TIMES, AND MATERIALS HANDLING (6, p.311)

1. Does the company keep track of its inventory turns? For parts and components? For finished goods? 2. Are the company's inventory turn ratios improving? 3. Does the company use stockrooms for work-in-process? Does the storage aid in the production process (such as aging tobacco or wine)? If not can it be eliminated? 4. Does work-in-process back up before certain bottleneck operations thereby making storage necessary? If so can the bottlenecks be eliminated? 5. Does the company have a system for disciplined counts and timing of work-in-process inventory movement on the shop floor to reduce or eliminate storage time? 6. Are parts/products stored in unit form corresponding to that in which they will be moved to the next step? 7. Are parts and components moved about in small, standard containers? 8. Are fabricated parts made lot-to-lot? (i.e. in the amount needed for the present job?) 9. Does the shop tend to run large lots of its products once

every several weeks, or does it make a little of each of its products each day? 10. Do workers practice setting up their machines? 11. Have machines been modified to accept materials and heavy dies at the level required by the worker? 12. Are workers removing scrap manually? Why is there scrap? 13. Is time set aside each day for preventive maintenance? 14. Are workers cross-trained? Horizontally? Vertically? 15. Is the layout of the shop floor compact? Are production areas and storerooms located far apart? Do materials and work-in-process move along lengthy, convoluted paths? Does work flow quickly, piece-by-piece, one work station to the next? Is the total flow distance long or short? Are the workers close enough to each other to see each other work and comment on it? (Immediate feedback on performance) 16. Has Management ever created and evaluated a process chart or flow diagram to set the shortest routes through the shop? Have the workers? 17. Is there any ongoing effort to study the work for opportunities to eliminate, simplify, resequence or combine steps to improve productivity? 18. Is the equipment small and moveable? 19. Are storage areas large and/or elaborate? What is the percentage of storage space to work space? (Extra space set aside on the floor to allow for occasional work-in-process or material-on quality-hold build-ups count as storage space) 20. Is materials handling equipment used to expedite moves of large lots or is it used to move heavy pieces or kits for single products? 21. Are materials piled in the yard or on the receiving platform awaiting movement? 22. Are materials

moved more than once in receiving? 23. Are materials handling employees standing around waiting for "big" jobs? 24. Are delicate parts damaged in transit? 25. Do vehicles picking up products from the plant have to wait to be loaded? 26. Is vehicle loading and unloading timed and practiced?

## Exhibit II: Manufacturing Excellence Resource Library

- (1) Hall, Robert W. *Attaining Manufacturing Excellence* (Homewood, Illinois: Dow Jones-Irwin) 1987. \$30
- (2) Schonberger, Richard J. - *World Class Manufacturing: The Lessons of Simplicity Applied* (New York: The Free Press) 1986. \$25
- (3) Crosby, Philip P. *Quality Without Tears: The Art of Hassle Free Management* (New York: Mentor) 1984. \$9
- (4) Japanese Management Association (ed.) *Kanban: Just-In-Time at Toyota* (Cambridge MA.: Productivity Press) 1985. \$30
- (5) Ishikawa, Kaoru. *Guide to Quality Control* (Tokyo: Asian Productivity Organization) 1982. \$25
- (6) Schonberger, Richard J. *Japanese Manufacturing Techniques: Nine Hidden Lessons in Simplicity* (New York: The Free Press) 1982. \$25
- (7) Crosby, Philip P. *Quality Is Free* (New York: Mentor) 1979. \$4
- (8) Hall, Robert W. with The American Production and Inventory Control Society. *Zero Inventories* (Homewood, Illinois: Dow Jones-Irwin) 1983. \$30

It is recommended that a few, more traditional operations management texts be included in the library which cover the basics of process charts and flow diagrams, methods analysis (work simplification), value analysis, and work measurement.

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- (6) Hall, Robert W. with The American Production and Inventory Control Society. *Zero Inventories* (Homewood, Illinois: Dow Jones-Irwin) 1983.
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- (8) Ishikawa, Kaoru. *Guide to Quality Control* (Tokyo: Asian Productivity Organization) 1982.
- (9) Japanese Management Association (ed.) *Kanban: Just-In-Time at Toyota* (Cambridge MA.: Productivity Press) 1985.
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- (11) Schonberger, Richard J. Japanese Manufacturing Techniques: Nine Hidden Lessons in Simplicity (New York: The Free Press) 1982.
- (12) Schonberger, Richard J. World Class Manufacturing: The Lessons of Simplicity Applied (New York: The Free Press) 1986.
- (13) Shingo, Shigeo. Non-Stock Production: The Shingo System for Continuous Improvement (Cambridge, MA.: Productivity Press) 1988.
- (14) Shingo, Shigeo. Zero Quality Control: Source Inspection and the Poka-Yoke System (Cambridge, MA.: Productivity Press) 1986.
- (15) Taguchi, Genichi. Introduction to Quality Engineering (Tokyo: Asian Productivity Organization) 1986. November 25, 1988 Manufacturing Excellence

# SMALL BUSINESS OWNERS: ARE YOU GUILTY OF SEXUAL HARASSMENT?

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## ABSTRACT

Several situations involving sexual harassment claims are presented. After a review of the relevant court cases, including the 1986 Supreme Court decision *Leritor Savings Bank v. Vinson*, these situations are again examined in light of the decisions, made by the legal system. Proactive methods to help prevent sexual harassment in all businesses are presented, with special emphasis given to the concerns of small businesses.

## INTRODUCTION

Sexual Harassment? Not here! Not in my business! Why I wouldn't tolerate that sort of thing for a minute. It can't happen here!

A subjectively honest response one would expect to hear from any small business person. After all, in a world in which interest rates, tax policies, foreign competition, and a host of other problems are all beyond individual control, small business owners take particular pride in their employee relationships. "We are like a family here" is the type of response one often gets from a small business owner.

As unfortunately has been the case in numerous other areas (drugs, crime, employee theft, etc.), it can happen here. Small businesses can potentially be held liable for sexual harassment. The problem can exist in the most "innocent" of small business settings.

This paper will look at how the scope of sexual harassment has changed and developed over the years by examining how the legal system has approached the issue of sexual harassment. A course of action will then be presented for small business owners to help them address this issue.

**SITUATION:** A woman in Texas quits her job with a small company after only two days of employment claiming she has been sexually harassed in the workplace. Could this be possible?

**SITUATION:** A bank employee voluntarily has sexual relations with her boss for two years. After taking sick leave for two months, the employee is fired for excessive use of that leave. The employee sues the company for sexual harassment. Does she have a case?

**SITUATION:** A employee claims she was fired because she refused to have sexual relations with her supervisor. The supervisor denies the accusation and the employee admits that she was having an affair with a co-worker during the same period of time. Was there sexual harassment here?

## WHAT IS THIS THING CALLED SEXUAL HARASSMENT?

Ever since the Supreme Court ruled for the first time on sexual harassment in the *Meritor Savings Bank, FSB v. Vinson* (1) decision on June 19, 1986, employers, employees, the courts, and the press have attempted to determine the effect of this case on the workplace. Before this landmark decision, the courts had recognized only "quid pro quo" sexual harassment in which economic consequences were suffered--loss of a promotion, raise, or the job itself--if sexual advances were refused. However, now "hostile environment" is also considered sexual harassment and is thus a type of disparate treatment actionable under Title VII of the Civil Rights Act of 1964. The *Meritor* case represented a strict interpretation of the EEOC Guidelines which defined hostile environment as conduct which "has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive work environment." (2) The problem is in defining an offensive environment. Also, although many small business owners believe their companies are small enough that this problem does not exist, this is not necessarily true. Research



by Dolecheck and Dolecheck (3) shows that sexual harassment does exist even in small businesses. In addition, a number of recent court cases involve small business owners. However, 64 percent of small businesses surveyed did not have a policy dealing with sexual harassment. (4) Only by recognizing what behaviors could constitute sexual harassment and being aware that it can happen even in the smallest of companies can small business owners take steps to prevent this problem.

## REVIEW OF COURT CASES BEFORE MERITOR

Up until the 1970's very few sexual harassment cases were filed. In those cases decided in the mid-1970's the courts first decided that sexual harassment was not a violation of Title VII because "sexual harassment is a matter of personal proclivity, peculiarity, or mannerism and not a company policy to deprive women of employment opportunities." (5) For example, in *Corne v. Bausch & Lomb*, (6) two women alleged that they had to quit their jobs because of their supervisor's physical and verbal sexual advances. Because the supervisor's overtures were directed at the plaintiffs as well as other female employees, they stated his actions discriminated on a condition of employment based on sex. This would be in direct violation of Title VII of the Civil Rights Act of 1964. However, the court ruled that since "there was no employer policy served by the supervisor's alleged conduct; no benefit to the employer was involved; and the supervisors alleged conduct had no relationship to the nature of employment" then the employer could not be held liable. (7)

Another case, *Williams v. Saxbe*, (8) however, did result in the decision by the courts that sexual harassment was a violation of Title VII. In this case, Diane Williams suffered retaliatory action because she refused the sexual advances of her supervisor. At the hearing the examiner inferred that Williams was "discriminated against because of sex in the acts of her immediate supervisor in intimidating, harassing, threatening, and eventually terminating her." (9)

In the case, *Barnes v. Costle*, (10) the U.S. Court of Appeals overruled the decision of the lower court which stated that the employee was not a victim of sex discrimination. The appeals court determined that the supervisor made sexual advances to the employee "because of her womanhood." In fact, the court specifically noted that the supervisor had not made advances toward the male employees in the company. Thus, it was found that the discrimination was based on sex and that it resulted in the denial of the female employee's promotion. That same year (1977), the *Tomkins v. Public Service Electric & Gas Co.* (11) case was also appealed, resulting in a decision at "sexual harassment is sex discrimination on the quid pro quo theory." (12) In addition, the court also ruled that the employer was liable in cases where actual or constructive knowledge of sexual harassment was known and the employer did not take prompt, appropriate action to remedy the situation. This issue of employer liability would be one of interest for the courts for some time to come. In *Munford v. James T. Barnes & Co.*, (13) it was decided that an employer was liable only if the employer failed to follow through on an investigation of a sexual harassment claim. However, in *Miller v. Bank of America* (14) in 1979, the court found that the employer could be held liable under the common law doctrine of respondeat superior. Essentially, this vicarious liability means that employers are ultimately responsible for the actions of their supervisors or agents. The Bank of America alleged that since it had a policy explicitly forbidding sexual harassment, it should not be held accountable. However, the court decided that the existence of a formal company policy did not "exonerate the employer when a supervisor harasses an employee in violation of that policy." (15)

The court also found the employer liable in *Heelan v. Johns-Manville Corporation* (16) in which Mary Heelan claimed she was fired because she refused to have sexual relations with her supervisor. This court decision was made despite the fact that the supervisor denied he made the advances and despite the fact that she was having an affair with a co-worker during the same period of time.

Thus, prior to 1980 when the EEOC passed its Guidelines on Discrimination Because of Sex, (17) the courts were finding sexual harassment to be a violation of Title VII but generally they required actual or constructive knowledge in order to hold the employer liable. In 1981 in *Bundy v. Jackson* (18) the District of Columbia Circuit Court of Appeals reversed a prior decision and established that neither resistance to sexual harassment advances, nor proof of deprivation of economic or employment benefits was necessary for a woman to sue her employer for sexual harassment under Title VII." (19) Thus, an employer that created an offensive working environment, regardless of economic consequences, could be sued under the concept of offensive working conditions outlined by the EEOC Guidelines. Another case, *Henson v. City of Dundee*, (20) in 1982 agreed with this concept but stated that the offensive environment required some notice by the plaintiff to the employer before the employer could be held responsible.

In 1984 in *Katz v. Dole*, (21) the Fourth Circuit Court of Appeals agreed with the *Bundy* and *Henson* cases that a

hostile, offensive working environment was sexual harassment. In addition, the court stated that the employer must have some knowledge of the situation but did not take any action in order for the plaintiff to have a case. However, in *Horn v. Duke*

*Homes* (22) in 1985, the court tried to establish that an employer was liable regardless of prior knowledge by stating that an employer by delegating authority to a supervisor was ultimately responsible for the supervisor's actions. The issue of strict liability was still being debated when the Supreme Court announced its landmark decision in 1986.

## THE MERITOR CASE

On June 19, 1986, the Supreme Court ruled for the first time on sexual harassment in the *Meritor Savings Bank, FSB v. Vinson* (23) case. By so doing, the High Court agreed with the U.S. Court of Appeals that sexual harassment was not limited to those involving economic consequences. In fact, the Supreme Court strongly concurred with the Eleventh Circuit Court of Appeals statement in *Henson v. Dundee* that "sexual harassment which creates a hostile or offensive environment for members of one sex is every bit the arbitrary barrier to sexual equality at the workplace that racial harassment is to racial equality. Surely, a requirement that a man or woman run a gauntlet of sexual abuse in return for the privilege of being allowed to work and make a living can be as demeaning and disconcerting as the harshest of racial epithets." (24) In addition, the High Court stated that whether or not the employee voluntarily participates in the sexual advances of a supervisor does not preclude that employee from filing a claim of sexual harassment. What is at issue is not that the employee gave in to the sexual demands of her or his supervisor, but whether or not those demands were "welcome."

The issue of employer liability is still unsettled. The Supreme Court has stated that the mere existence of a formal policy and procedures for reporting sexual harassment does not automatically protect that employer from liability. However, at the same time it held that the Court of Appeals "erred in concluding that employers are always automatically liable for sexual harassment by their supervisors." (25) The Supreme Court did suggest that the EEOC should be consulted for guidance in this area. In addition, four of the judges, Marshall, Brennan, Stevens, and Blackmun, disagreed with the majority stating that just as the employer is responsible for any discriminatory acts of its supervisors, so should it be liable for all acts of sexual harassment.

## MESSAGE TO SMALL BUSINESSES

Since the *Meritor* decision, the courts have relied on four factors in establishing whether or not a hostile environment exists. These include the nature of the unwelcome sexual harassment, the frequency of the harassing acts or behaviors, the length of time over which the harassing acts or behaviors take place, and the context in which the harassing behaviors occurred. However, all of these criteria do not necessarily have to be present in establishing a sexual harassment claim.

RESULT: In *Ross V. Double Diamond* (26) in 1987, the plaintiff had only worked for two days before filing a sexual harassment suit. The court ruled that the conduct of her supervisor was so pervasive as to create an offensive environment even in such a short time and thus this small company

was found guilty.

RESULT: In *Meritor Savings Bank v. Vinson* (27) in 1986, the plaintiff had willingly had sexual relations with her boss for two years. However, the court ruled that since the supervisor's advances were "unwelcomed," the company was held liable for sexual harassment.

RESULT: In *Heelan V. Johns-Manville Corporation*, (28) Mary Heelan claimed she was fired because she refused the sexual advances of her supervisor. The employer was found liable even though the supervisor denied the allegations and even though Mary was having an affair with a co-worker during the same period of time.

## WHAT CAN I DO?

The message is clear that even in as short a time as two days or with less overt behavior over a longer period of time that sexual harassment can and does occur. The trend is towards liability regardless of the source of the harassment if

the employer does not take reasonable steps to prevent it from occurring or to stop it if it is occurring. Even in the smallest of businesses, if there are people working together, there is the potential for problems.

The first thing a small business person must do is familiarize themselves with the evolving concept of sexual harassment. Now that the courts are accepting the premise that hostile environment is a type of disparate treatment, employers and employees alike must be sensitized as to what behaviors could constitute sexual harassment. Confounding this problem is the difference in perception of sexual harassment between men and women. In a study by one of the authors, 46 percent of the men surveyed believed that women would be flattered by sexual harassment. However, only five percent of the women stated that they were flattered. The majority said that they were angry, embarrassed, and intimidated. In addition, 70 percent of the women who stated that they had been sexually harassed in the workplace said that their work habits and behavior had been altered by the harassment. Numerous women also mentioned lowered morale and productivity as a result, and one woman went on to say she "felt helpless and frustrated-it affected my whole life." The consensus of many was that in the future, they would be much more likely to take action and report the harassment.

The overall goal for employers is more than just to win a potential lawsuit or for that matter to prevent the lawsuit from being filed; it is to provide a workplace that is fulfilling to employees and therefore is productive and profitable to the owners. The analogy of the small business owner as a coach used by Siropolis in his textbook entitled Small Business Management is a good model for the role needed here. The coach sets out the rules and sees that they are followed. A coach leads by example. The coach may delegate different responsibilities to others but the responsibility and final decisions are the coach's. The coach understands the game and knows the players. The image thus is of a family just like many small businesses think of themselves as a family. While it may be a family, there have to be rules and these rules have to be known, understood, and followed. If they are not followed, there must be

appropriate discipline taken.

How do we mesh this idea of an extended family with the harsh realities of the law? A combination of steps is required:

First, a formal policy that defines and forbids any type of sexual harassment must be adopted and made known to the employees.

Second, an open door policy that allows grievances to be made to the owner or to someone in management other than the person who is the subject of the grievance must be followed with a genuine concern shown to the employee presenting the grievance.

Third, all such grievances or complaints should be promptly and thoroughly investigated.

Lastly, if the complaint or grievance is valid, appropriate punishment must follow and should be explicitly tied to the harassment.

A small business owner cannot stand watch over all the employees every working minute of every day. Therefore leadership by example, expression of a clear policy creating an awareness of this problem, and specific steps to prevent it from occurring or to stop it if it does are all needed! Then hopefully we can say, "it could have happened here, but it won't!"

As the number of court cases cited exceeds the page limit allowed, references will be available upon request.

# AN INVESTIGATION OF THE DIFFERING RESPONSES OF LARGE AND SMALL BUSINESSES TO AIDS-RELATED WORKPLACE ISSUES

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## ABSTRACT

Acquired Immune Deficiency Syndrome (AIDS) is one of the most serious issues facing organizations today. Many organizations that have yet to deal with an AIDS-afflicted employee have chosen to ignore the threat, while others have taken a pro-active stance. The purpose of this paper is to examine the ways in which large and small businesses are confronting the AIDS issue. The results of a survey will be presented, and a strategy for small businesses to use in developing an AIDS policy and education program will also be discussed.

## INTRODUCTION

Employers are constantly faced with obstacles in the workplace. Some of these obstacles result in opportunities for the business while others threaten the very survival of the organization. Today, employers are confronted with a disease that is recognized as a major health problem in the United States. The disease is AIDS.

AIDS is the name given to a complex of health problems first discovered in the United States in 1981 by Dr. Michael Gottlieb and his colleagues. (1, p. 15) It is believed that AIDS is caused by a Human Immunodeficiency Virus (HIV) which renders the human immune system incapable of resisting infection. (4, p. 5) The virus damages the body's natural immunity to fight off disease and can also infect cells in the brain. Individuals afflicted with AIDS develop unusual, life-threatening diseases that are normally not a threat to healthy persons.

The AIDS virus is predominantly spread through sexual contact and the sharing of contaminated needles and syringes among illegal intravenous drug users. In a few cases, the virus has been spread through blood transfusions and through blood products used in treating patients with hemophilia and other blood clotting disorders. Due to the introduction of screening mechanisms, the chances of contracting the virus through the blood supply are extremely minute today.

Since the virus does not survive well outside the body, AIDS is not spread by casual, nonsexual contact.(5, p.11) This means that you cannot catch AIDS from a sneeze, a cough, a handshake, or a hug. Likewise, objects in the workplace, like public toilets, typewriters, computer keyboards, pens, pencils, papers, and chairs, do not transmit the virus.

The United States Centers for Disease Control (CDC) estimate that the AIDS epidemic has drained more than \$4.1 billion from the American economy. The annual cost of AIDS in the United States will be \$66.4 billion by 1991 according to the CDC. This figure is based on the projection that 270,000 cases of AIDS will have been diagnosed by 1991 and 179,000 deaths will have occurred. This \$66.4 billion figure represents about \$20 billion in health care and research costs and \$46.6 billion in indirect costs due to lost productivity and premature deaths of workers. (9, p. 37)

Since experts believe that every company in the United States will have an AIDS-related problem at some point in time, it is easy to see why AIDS has been predicted to be the number one problem facing American businesses. Primarily, problems arise because employers and employees are uninformed about the disease and unprepared to deal with the situation. Employers that ignore the issues surrounding an AIDS-afflicted employee in the workplace are subjecting their organization to financial and legal risks that could devastate the organization, not to mention the goodwill loss that could occur as a result of a highly publicized lawsuit.

Much of the controversy about AIDS arises from the fact that while most people are aware of the disease, few really know its causes, how it is transmitted, and how communicable it is. Thus, some employers feel that it is in their best interest, as well as that of their employees, to develop AIDS policies and to educate themselves and their entire

workforces. But, how many organizations have taken these initiatives?

The American Management Association surveyed readers of its journal, *Personnel*, and 400 other human resource managers in the United States to determine what companies were doing about AIDS in training to how large and small businesses are handling the AIDS crisis. Since a case of AIDS in the workplace may have a devastating financial effect on a small business, a ten-point AIDS strategy for small businesses will also be discussed.

## SAMPLE METHODOLOGY

The sample for the study was drawn from the membership of the Houston Personnel Association (HPA). HPA was selected as the sampling frame because they endorsed the survey, indicating that AIDS is a problem in the Houston area. Since AIDS is recognized as a problem, businesses would be actively pursuing a solution and, consequently, more willing to provide information to the researchers.

HPA is an organization of personnel generalists and specialists representing 381 companies in the Houston area. As of November 1987, 39 percent of the member companies had less than 500 employees while 59 percent had more than 500 employees (two percent did not respond). Member companies represented a diversity of industries within the Houston area.

Questionnaires were mailed to one representative from each of the 381 companies. The questionnaire was composed of four distinct parts: 1) a description of the organization's AIDS policy if such a policy existed; 2) the structure of the AIDS education program if such a program existed; 3) methods of handling AIDS-related problems in the workplace; and 4) demographic information.

The response rate from the mailing was 36 percent (137 responses). Sixty respondents (43.8 percent) represented small businesses (less than 500 employees), while 77 (56.2 percent) represented large businesses (more than 500 employees). Within the group of small businesses, 39 (28 percent of total respondents) have less than 250 employees, and 21 (15 percent) have between 251 and 500 employees. Of the large businesses responding, 25 (32.5 percent) have between 501 and 1,000 employees, seven (9 percent) have between 1,001 and 1,500 employees, 18 (23.4 percent) have between 1,501 and 2,500 employees, and 27 (35.1 percent) have more than 2,500 employees. The responding companies represent a diversity of types of businesses: 69 service organizations, 50 manufacturers, nine retailers, six wholesalers, and three government organizations.

## Research Findings

The responses of the group were tabulated and analyzed in order to compare the steps being taken by large and small businesses in dealing with AIDS in the workplace. Twenty-six (33.8 percent) of the large businesses reported having a written policy covering employees with AIDS. However, only ten (16.7 percent) of the responding small businesses reported having an AIDS policy.

A Chi-square test of independence was conducted to determine if there is an association between the size of the business and whether or not the organization has a written AIDS policy. The resulting Chi-square statistic was 5.09 which is significant at the .10 level ( $p$  value = .0785). Therefore, there is evidence to support an association between size and the presence of a written AIDS policy. Large businesses appear to be responding with written policies more than small businesses.

Twenty-seven large businesses (35.1 percent) reported that they had an AIDS education program. Of the remaining 50 businesses having no such program, 12 (24 percent) had plans to implement a program in the future. On the other side, seven small businesses (11.7 percent) had an AIDS education program. Fourteen (26.4 percent) of the remaining small businesses indicated that they had plans to implement such a program in the future. The steps that have been

taken or are being taken to inform employees of AIDS by both large and small businesses in the sample are shown in Table 1.

## TABLE 1 TYPES OF AIDS EDUCATION PROGRAMS

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Small Large Businesses Businesses Education Program Number % Number% \* Brochures2135.03849.4 \* Training  
Films711.71823.4 Question/Answer Sessions610.01418.2 Outside Consultants58.367.8 \* Seminars46.71418.2 \*  
Company Publications23.31620.8 Other46.71013.0

\* Chi-square significant at the .10 level \*\* Percentages do not add to 100 since businesses could indicate the use of more than one education program.

Once again, a Chi-square test of independence was conducted to determine if there is an association between the size of the business and whether or not the organization has an AIDS education program. The Chi-square statistic for this test was 10.307 which is significant at the .10 level ( $p$  value = .0058). Thus, there is evidence to support an association between the size of the business and the implementation of an AIDS education program. Large businesses appear to be educating employees about AIDS more than small businesses.

Chi-square tests were also conducted to assess the association between the size of the organization and the use of the types of education programs in Table 1. The programs which are related to

the size of the organization are denoted with an asterisk in Table 1.

### Implications

It appears that many large businesses are taking proactive approaches in the development of AIDS policies and education programs. Most small businesses, on the other hand, have yet to address the problems and issues involved with AIDS-afflicted employees in the work environment. Since no business is immune from the AIDS epidemic, and one case of AIDS could have a devastating financial effect on a small business, small businesses must protect themselves by developing comprehensive AIDS policies and education programs. The remainder of this paper will focus on a strategy that small employers can utilize in order to avoid an AIDS-related disaster.

### THE TEN-POINT AIDS STRATEGY FOR SMALL BUSINESSES

Any reasonable approach to AIDS in the workplace involves developing a strategy before the first case is diagnosed. The ten-point plan that follows has been developed with small businesses in mind.

**Point #1: FORM A TASK FORCE OF KEY PERSONNEL.** This group will be responsible for developing the company's AIDS policy and guiding the AIDS education program. Such a group should include representatives from the personnel, medical, safety, and labor relations areas if applicable. In small organizations, the task force can be composed of employees who are interested in the issue and who are willing to participate in the project.

Of primary importance to any AIDS program is the support of top management. Therefore, top management must endorse the work of the task force.

**Point #2: RESEARCH THE DISEASE.** Members of the task force should be prepared with the most up-to-date medical, social, and legal information about AIDS. Often, this requires consulting local health officials and lawyers.

**Point #3: REVIEW THE COMPANY BENEFITS PACKAGE.** Check to see that the company's employee health insurance provides broad-spectrum coverage for all catastrophic illnesses. At present, most insurance companies are treating AIDS as they would any other major disease and honoring existing contracts.(11, p. 38) Since there are tremendous costs involved in treating victims of AIDS, this may change in the future.

**Point #4: UNDERSTAND THE ORGANIZATION'S LEGAL RESPONSIBILITIES AND THOSE OF THE EMPLOYEES.** Since victims of AIDS are protected by the

Vocational Rehabilitation Act of 1973(12), as well as many state and local handicap statutes, it is important that they are not discriminated against in terms of employment. Thus, as long as AIDS afflicted employees are able to perform their jobs and do not present a workplace hazard to themselves or to others, they should be given the opportunity to work. In most instances, the employer is required to provide "reasonable accommodation." Under the terms of "reasonable accommodation," the employer must make reasonable modifications to working conditions if such modifications would enable a handicapped employee or potential employee to perform the essential tasks of the job.(3,

The legal requirements for reasonable accommodation extend to relatively inexpensive and minimally disruptive measures. Such accommodations as flextime, job restructuring, transfer to a different position, frequent rest periods, and leave without pay should be considered by employers.(10, p. 77)

If an AIDS-afflicted employee can still adequately perform the duties of his or her job so long as the employer makes accommodations that do not impose an undue financial or administrative burden on the organization, the employee may not be terminated. On the other hand, if the afflicted employee cannot perform the duties of the job, then he or she can be terminated. In a termination case, the employer must be prepared to show that the employee's performance has deteriorated below minimum standards and that "reasonable accommodation" was made for the employee's handicap or would cause undue financial burden. If the employer had documented proof that these requirements have been met, the AIDS afflicted employee can be legally terminated.(3, p. 121)

**Point #5: DEVELOP A WRITTEN AIDS POLICY.** The written AIDS policy should be part of the company policy regarding all catastrophic illnesses. Simply stated, the policy should indicate that AIDS victims will be treated the same as anyone with a life-threatening disease.

The policy should present factual information on AIDS and its transmission. It should state that those with AIDS-related conditions will be viewed as having a handicap, that discrimination will not be tolerated, and that all provisions will be made to reasonably accommodate AIDS-afflicted employees. In addition, the policy should indicate that medical information will remain confidential and that medical care, sick leave, and other benefits will be applied uniformly.(11, p. 37)

**Point #6: TRAIN PERSONNEL WHO ARE TO BECOME AIDS RESOURCE SPECIALISTS OR ENLIST OUTSIDE SPECIALISTS TO PROVIDE EDUCATION PROGRAMS.** Local health officials, representatives of the American Red Cross, and other AIDS service providers are often available to train in-house specialists and/or provide education programs. Since employees tend to trust people they know, it is suggested that small employers utilize in-house specialists whenever possible.

**Point #7: EDUCATE MANAGERIAL/SUPERVISORY EMPLOYEES.** Since managerial and supervisory employees play an important role in every organization, they should be educated first. Employees can then rely on managers and supervisors for guidance and information.

A "For Managers/Supervisors Only AIDS Education Seminar" should focus on the special issues that managerial/supervisory personnel will face when confronted with an employee or employees with AIDS. Typically, such a program should address the medical and social issues as well as the legal issues involved with the disease. In addition, managerial/supervisory employees must be properly prepared to handle confidential information.

**Point #8: INTRODUCE THE TOPIC.** A regular employee communication vehicle, such as the company newsletter or a bulletin board, can be used to familiarize employees with the AIDS issue. Companies may consider sending each employee a letter about the upcoming employee seminar. If this is done, a quick, readable brochure, like the American Red Cross "AIDS: The Facts," should be included.

**Point #9: EDUCATE ALL EMPLOYEES.** A simple, easy to follow program that requires little outside support is recommended for most small employers. If the task force members and/or in-house resource specialists have been properly trained, they can be used to present the education program to the entire workforce. As a general guide, an outline for an education program is provided in Figure 1.

#### FIGURE 1 AIDS SEMINAR OUTLINE

I. Introduction (5-10 minutes) A. Welcome B. Personnel policy C. Introduce videotape

II. Videotape (15-30 minutes depending on video used)

III. Discussion (30 minutes) A. Highlight important facts from the videotape B. Respond to questions from the group

IV. Closing Remarks (5 minutes) A. Distribute AIDS information brochures B. Distribute seminar evaluation forms C. Highlight company and community resources D. Stress education and sharing of information

Begin the AIDS seminar by welcoming employees and thanking them for taking the time to learn the facts about this deadly disease. The company policy regarding AIDS or catastrophic illnesses should then be discussed.

It should be stressed that AIDS is not transmitted by casual contact, particularly the type of contact that occurs in the workplace. In addition, it should be noted that the purpose of the seminar is to inform employees about the disease and to answer their questions.

The use of a videotape is suggested in order to provide the basic facts about AIDS. Employees should be told that the videotape will address the medical social issues related to AIDS and that a discussion will follow the presentation.

There are a variety of videotapes that can be used for an AIDS education seminar. The videotapes that are frequently recommended are identified in Figure 2. For additional information, consult local health officials, the American Red Cross, or other AIDS resource providers.

The videotape should be followed with a brief discussion about the information presented. Then, employees should be encouraged to ask any questions that they may have. Since employees often have medical as well as legal questions about AIDS, it is recommended that local medical and legal experts are in attendance to answer such questions. If this is not possible, in-house specialists can be utilized. Such in-house specialists should consult AIDS(7) and Questions and Answers on AIDS(4) as well as other major publications in order to prepare answers to frequently-asked AIDS questions.

#### FIGURE 2 AIDS VIDEOTAPES -----

"THE AIDS MOVIE" (26 minutes)

Features David Brumback, AIDS Educator, speaking on the importance of awareness and prevention of AIDS. Available from: New Day Films 22 Riverview Drive Wayne, New Jersey 07470 (201) 633-0212

"AN EPIDEMIC OF FEAR" (15 minutes)

Uses real-life situations to educate managers and employers about AIDS. Includes interview material. Available from: San Francisco AIDS Foundation 333 Valencia Street Fourth Floor San Francisco, CA 94103 (415) 864-4376

"BEYOND FEAR" (in three 20 minutes segments)

Contains three segments: The Virus, The Individual, and The Community. Segments can be shown independently or together. Available from: American Talking Pictures 5000 Park Street N. St. Petersburg, FL 33709 or Local American Red Cross Chap. (800) 237-4599 -----

At the conclusion of the program, general information brochures and a seminar evaluation form should be distributed to all employees. A list of suggested brochures can be found in Figure 3. In-house resource specialists should be introduced, and employees should be told that the company will provide them with additional information. Local community resources should also be discussed. Finally, the importance of AIDS education should be stressed again. Ask employees to take the information they have learned and share it with their family and friends.

#### FIGURE 3 AIDS BROCHURES

BROCHURES AVAILABLE FROM THE AMERICAN RED CROSS:

AIDS and Your Job--Are There Risks? AIDS, Sex and You AIDS: The Facts

BROCHURES AVAILABLE FROM THE SAN FRANCISCO AIDS FOUNDATION:



Point #10: KEEP EMPLOYEES INFORMED ABOUT THE DISEASE. Since information about AIDS appears to change almost daily, it is imperative that the organization stay current on developments. New information should be disseminated to employees as it becomes available since continual education is the best weapon for combating fears of employees.

## CONCLUDING REMARKS

Although many small employers may feel that the development of an organizational AIDS policy and education program is difficult, it is certainly not impossible. Organizations, both large and small, must make every effort to act responsibly and in a timely fashion in order to deal with the controversy surrounding AIDS in the workplace. With active policy design coupled with intelligent, reasoned application of those policies and organization-wide education programs, organizations will be well equipped to handle the AIDS dilemma.

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# DEVELOPING A SUCCESSFUL EXPORT STRATEGY WITHIN A SMALL OR MEDIUM-SIZED BUSINESS

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## ABSTRACT

The tremendous geo-industrial shift worldwide, now more than ever before offers unlimited opportunity to those small and medium-sized companies desiring to export. Given the world demand for more U.S. products and the relative decline of the dollar vis-a-vis most major currencies, now is the time to develop market strategies aimed at foreign markets. Such marketing strategies offer substantial returns when well planned and executed.

## INTRODUCTION

The challenge and benefits of export sales to the small and medium-sized businesses is formidable. Market entry and the development of a viable export strategy is paramount when opening new foreign markets. There are those who would not think twice about shipping to Walla Walla, Washington on open account yet would hesitate to deal with a firm in Panama, Brazil, or Mexico. Among small and medium-sized business in the United States there exists a "fear barrier" that has hamstrung them from venturing into foreign trade. There is a perception that items such as documentation, export financing, government regulation, language differences, and foreign laws are much too costly to contend with or handle. While these items are important to successful export marketing, they should not present unsurmountable barriers. Given the dramatic fall of the dollar vis-a-vis many foreign currencies, the opportunity to export is tremendous. An expanded range of American goods and services are now both price competitive and in significant demand worldwide.<sup>1</sup>

## FOREIGN DEMAND

To meet the foreign demand for American made products, the emphasis has shifted to small and medium-sized businesses that heretofore have not fully considered the benefits of widening their territories to include international markets. In a survey of over 1,500 Texas businesses in operation more than ten years and with average annual sales of about \$10 million, the Center for International Business Studies (CIBS) at Texas A&M University determined that of those businesses not currently involved in

international trade, 35% indicated they felt their products or services were exportable.<sup>2</sup> In response to the perceived barriers to export sales, 56% indicated that the combination of government regulations, difficulties in securing financing, lack of timely information and concern over unforeseen expenses were the main reasons not to export. Even though there is a direct connection between domestic job creation retention and exports, only 13% indicated contact with the U.S. Department of Commerce for the expressed purpose of fostering international business.<sup>3</sup>

Furthermore, in early 1988 CIBS identified a wide range of U.S. exportable products and services that are in great worldwide demand. These products include medical equipment and services, specialty oil field parts and machine tooling, electronic components, spare parts of all kinds, specialty chemicals and technical services to name just a few. Nationwide there has been a subtle shift to export items that previously were considered to be of low priority outside the domestic U.S. market. More importantly there has been a rebirth among trade organizations nationwide to foster the associative concept toward promoting exports among the small and medium-sized U.S. company. Small Business Administration officials estimate that at least 30,000 small companies have export potential but are not in the foreign market!

The key to the above list of exports is that to a large extent these products are produced and distributed not by huge multinational firms; but by small suppliers nationwide, many of which are simply unaware or reluctant to become involved in international opportunities. Thus, the barrier to exporting is not one of pure "fear" but more a lack of an effective export strategy emphasizing long term market penetration, product placement, competitive pricing and establishment of agents or distributors.<sup>5</sup>

One world market in which many U.S. firms have been reluctant to enter is Latin America. Given the pressure during the past decade on Mexico, South and Central America to reduce their foreign bank debt, the region has been forced to

curtail imports. Thus, the debt service coupled with the rising protective tariff barriers and hyperinflation has made Latin America a challenge to penetrate. 6

Correspondingly, the resulting impact on the U.S. trade deficit has been alarming. While a great deal of export-import attention is directed toward the Pacific Rim and European nations, few realize that the total value of U.S. exports to Latin America fell by over \$8 billion between 1980 and 1985. During the same five year period U.S. imports from Latin America increased by 23%, causing a trade imbalance that dramatically shifted from a positive \$1.3 billion in 1980 to a regional deficit of over \$15 billion by 1985.

Nevertheless, significant opportunity exists to make Latin America a viable export market for U.S. products. In many cases the smaller company, with the ability to react quickly to market demands, is best suited for such end roads. The following is a good example.

The need for an overall export sales strategy to penetrate new markets is demonstrated by The Meiller Company's approach to market penetration in Latin America. While each country in the region has its own peculiar makeup, Meiller found that a basic export strategy is applicable in each country. In the case of the company's specialty medical products, the strategic planning process amounts to four key steps:

1) Identify demand. 2) Identify available market information. 3) Identify existing distribution infrastructure. 4) Insure continued product enhancement and service.

U.S. TRADE WITH LATIN AMERICA Figures in billions

	1980	1981	1982	1983	1984	1985
U.S. Exports	\$38.8	\$42.8	\$33.2	\$25.6	\$29.8	\$30.8
U.S. Imports	\$37.5	\$39.1	\$38.6	\$42.8	\$48.4	\$46.1
Trade Balance	1.3	3.7	-5.4	-17.2	-18.6	-15.3

Source: Survey of Current Business, June 1986, pp. 48 and 50.

IDENTIFYING DEMAND In many cases, Meiller was better able to identify markers for its products in foreign countries than in the domestic U.S. market. One key reason is that there is less competition. Each time the company enters a new country or region it is like "pioneering" a new product. In the case of Latin America, the company obtains a basic overall feel for the market by tracking country updates and trade leads provided by the U.S. and Foreign Commerce Service (US & FCS). These industry and product data reports include Export Statistics Profiles (ESP), Foreign Trade Report - FT 410, International Market Research (IMR) and Country Market Surveys (CMS). Additional information was obtained through contacts with local foreign consulates and foreign trade offices in the U.S., through the use of Commerce-sponsored catalog trade shows, and by direct contact with the commercial section of the U.S. Embassy in a specific country. Contrary to popular belief, and based on experience while participating in U.S. Commerce Department sponsored trade missions in Venezuela, Brazil, and Argentina, there came to light a tremendous network

of assistance currently in existence--but virtually unknown to most small and medium-sized businesses. 8

Meiller found product demand in the various Latin American countries not significantly different from U.S. or European markets. There is, however, no firm model for comparison. Furthermore, Meiller quickly realized that exporters should not rely on any preconceived notions based solely on the "way we do business" back home. Over-eagerness and short-sightedness have soured more export deals than have foreign exchange problems or hassles with documentation!

In the case of Latin America, there is a general pattern that will assist in determining demand and then in opening new markets. Care was taken not to equate Mexico, for example, with Panama or Argentina. And more importantly, do not make the mistake of trying to use Spanish in Brazil because it "sounds like" Portuguese! Meiller's sales literature is in the official language of the country and has proven very useful in identifying new customers. 9

## TIMELY MARKET INFORMATION

In determining demand and the possibility of establishing a new market, the exporter worked to secure an ongoing source of timely information. The generalization that change evolves slowly in Latin America has caused many firms to be left behind just as they are about to introduce a new item or to broaden their market share. In many cases, products need to be adjusted to the particular market by changing packaging or labeling something that a reliable source of information and awareness of cultural considerations would dictate early on.

Timely information is often difficult to obtain in any market, including the domestic market. However, information is

available by industry and country that identifies key business opportunity indicators. Again, country survey updates, commercial counsel contacts, data from freight forwarders and trade associations, reliance on foreign agents and distributors as well as periodic in country visits are usually more than adequate. A good "hands on" export banker can also provide timely information and advice. Most importantly, the customers themselves can provide invaluable tips and insights. Thus, the exporter must work to promote and market the product from the customer's perspective. A few minor changes can turn a struggling product into a best seller. 10

## DISTRIBUTION INFRASTRUCTURE

In Meiller's foreign marketing ventures, product distribution and the identification of an agent to represent the firm has been of paramount concern. If you do not actually have your own in-country office, the link between your product and the buyer is your foreign agent. This agent can come in many forms: sole distributor, import/export agent, trading company or, in some cases, even your buyer. Due to the more involved governmental procedures in many Latin American countries, it is a must to have an agent who can deal competently with government officials, customs officials, clients, and secondary distributors. This distribution infrastructure varies from country to country, with different degrees of emphasis on the above key components.

Within reason, agents should be given leeway to use product logos, product names, and advertising information. An agent's main concern in Latin America is to develop credibility with the products he represents and sells. Most agents handle more than one product from a particular industry and some sell a large cross section of products that may or may not be related."

The key, of course, is whether or not the agent has the information and knowledge to properly assist you in placing your products in the flow of commerce. Of the many approaches Meiller has employed to ensure that an agent is competent, the best approach is to call on numerous buyers of the firm's product with the agent. Such direct contact helps establish a feel for the market as well as giving cross cultural credibility to the agent and the products.

## PRODUCT ENHANCEMENT AND SERVICE

The last leg of an export strategy is not to forget about the product or the agent once the distribution contract is obtained. Many times this is more difficult and more time consuming than initially opening the market. An ongoing dialogue with the agent is important to ensure that your absence does not sour the initial groundwork. Meet with the agent/distributor as often as possible and attempt to avoid surprises, for example, altering the pricing structure without ample notice or introducing too many new products or product modifications at one time. 12

Forward all new sales leads in the agent's territory to the agent as quickly as possible. This procedure is important in maintaining the integrity of the agency relationship because once the product enters the market some customers will try to circumvent the agent and buy direct. At least initially, this sends a tremendous signal regarding your agent's authority and responsibilities regarding your product line. Meiller requests that they be immediately notified of any new competition or

misrepresentation of their products. These items create an atmosphere of ongoing trust. The agent is more than just a mere company "rep"; he should be viewed as an integral part of the overall export effort.

While implementing the above export strategy in Latin America, there are few additional factors to consider. Make sure all forms and terms of payment are clear to both parties. The use of irrevocable letters of credit and the request that all payments be in U.S. currency is normal and expected. Do not assume anything. Do not attempt to negotiate on the same day you travel. Arrive a day early, allow time for delays, and do not allow yourself to be rushed during negotiations. The American quick-fix-hard-sell does not work, even with agents or customers who are well-versed in doing business with American businesses.

If you are not fluent in the language, use an interpreter. The extra expense is worth avoiding confusion or misunderstanding that could be expensive and time consuming to repair.

## CONCLUSION

The development of a well-planned and implemented export strategy is fundamental to a profitable international venture. The strategic planning process involves determining the target market, recognizing internal and external expertise, establishing the appropriate marketing tactics and determining the extent of international commitment within the company. A successful long-term program involves the constant evaluation and reevaluation of the firm's export strategy. The return could be tremendous.

For those small and medium-sized firms not in international business within the next decade they can be assured to miss or lose as much as 25-30% of their potential gross sales. Given the relative value of today's dollar to many foreign currencies, now is the time to evaluate international markets, establish an export strategy and generate product identity in targeted foreign markets.

Remember, however, that foreign sales and market penetration is a long-term process. Today's investment in exporting could provide tomorrow's expanded market share and profits.

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primarily by exporting more than it imports. The U.S. trade deficit with Latin America is debt collection; our trade deficit with Japan and Europe is debt incurrence. Thus north-south trade requires a debt solution or debt "forgiveness". A debt solution such as debt-for-equity swaps or forgiveness.

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# STRATEGIC MANAGEMENT AND ENTREPRENEURSHIP COURSES AT THE UNDERGRADUATE LEVEL: CAN ONE INFORM THE OTHER?

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## ABSTRACT

This paper examines the teaching practices in the strategic management or business policy and the entrepreneurship/small business courses based on a survey of undergraduate programs accredited by the American Assembly of Collegiate Schools of Business. The conclusion is that although the two courses seem to share common attributes in such respects as how they are taught and who teaches them, and their concern with the total enterprise, they differ in one important respect: the one is widely adopted; the other is not. The paper suggests how to increase the latter's adoption rate by learning from the former.

## INTRODUCTION

Although a long list of outstanding strategic management scholars also teach an entrepreneurship or small business course(1), the literature appears to be silent on how some knowledge of the one can be usefully transferred to promote the other. Historically, the strategic management/business policy (2) (SM/BP) course has enjoyed greater acceptance than the one in entrepreneurship or small business (3) (E/SB). Based on a survey of AACSB member schools' core curricula in 1967, Chen and Zale (1), reported that 31 of the 94 schools in their sample offered the SM/BP course. For the same year, Vesper (7), reports that only eight schools in the U.S. offered a course in entrepreneurship. According to him, "Entrepreneurship has been not only the original source of nearly all U.S. industry, but it continues to account for a major share of the country's innovations. Small business serves not only as the source of companies that grow into large businesses, but also as a major employment and economic productivity sector in its own right" (8). If entrepreneurship/small business is this important, then the E/SB course ought to enjoy as widespread emphasis as the SM/BP course in the undergraduate business curriculum, after all, according to Ronstadt (6), "prior research and analysis by others indicates that entrepreneurship can be taught." What is going on with these two courses presently? If SM/BP is still faring better, could it possibly inform E/SB on how to gain comparable acceptance in the business curriculum?

## PURPOSE AND JUSTIFICATION

The purpose of this paper is to examine the teaching practices in the SM/BP., and the "standard" E/SB, courses, at the undergraduate programs accredited by the American Assembly of Collegiate Schools of Business (AACSB). It will be of primary interest to see if there are lessons that those who like to promote one (the E/SB course), can learn from the other. Elements of teaching practices which will be looked at include: (a) the pervasiveness of each course (i.e., how widely adopted each is); and (b) course teacher/teaching characteristics (i.e., teachers' specialization, status, and department, and commonly used teaching methods). Also, some perspectives on the future of the courses will be examined. If no instructive lessons can be identified from the examination, at least, the current practices would have been described for interested parties.

This exercise is justified on the premise that these two courses can be validly compared: both are similarly concerned with the whole (as opposed to a functional component) of the business enterprise, albeit from different perspectives.<sup>4</sup> Also, both are uniquely related in a business curriculum: the "standard" entrepreneurship course seeks to teach how to start a business, whereas the strategic management course seeks to teach how to survive in it. In either course, skills required to deal with the problems or opportunities of the total business entity have to be emphasized. Despite their commonalities and, in some respects, overlap (7), each is sufficiently unique and important that both should be equally needed in the business curriculum. But, as noted earlier, SM/BP has, in the past enjoyed wider acceptance, and, therefore, greater success in the (accredited) business programs. If it still enjoys a much greater acceptance in the business curriculum today, then, there must be "success" lessons that it can provide to the entrepreneurship course.

## APPROACH

In order to carry out the purpose stated above, a survey of the SM/BP and of the E/SB courses offered by AACSB-accredited undergraduate schools was done. AACSB-accredited schools were selected because they have met stringent, peer-reviewed, standards of excellence, and can be viewed as providing what is ideal in undergraduate business education. The undergraduate schools were selected because it was believed that this is the level at which most conventional students who would become entrepreneurs stop.

A questionnaire designed to elicit information on the three broad areas identified above (that is, the areas of pervasiveness, characteristics, and future, of the courses) was mailed to all the deans of the 231 schools accredited by the AACSB at the

undergraduate level as of July, 1987. Each dean was asked to route the questionnaire to the faculty member who taught the entrepreneurship or small business course. One hundred and six of the 231 questionnaires were returned, for a response rate of, approximately, 46 percent. Five of the returned questionnaires were, for the most part, unusable, and 34 respondents said that they do not offer any course in entrepreneurship/small business. The examination of the teaching practices will thus be based on the responses of 105 schools, for SM/BP, and 67 schools for E/SB.

### PERVASIVENESS OF EACH COURSE

The adoption rate of each course is analyzed on table 1, below.

Almost invariably, the responding schools offer an integrating, SM/BP course, whereas only an average of 63 percent offer the E/SB course. Although the E/SD course has come a long way from 1967 when eight schools were known to offer it in the U.S., it is still not nearly as widely adopted as the SM/BP.

TABLE 1

#### SM/BP AND E/SB COURSES IN AACSB-ACCREDITED UNDERGRAD. PROGRAMS: COMPARISON OF ADOPTION RATES IN RESPONDENT SCHOOLS

Number of AACSB- Accredited, Undergrad. Number Percent of Respondents Schools\* of Offering Course On  
Region July 1987 Responses SM/BP E/SB

Northeast	229	100.00	56.00	Middle Atlantic	208	100.00	63.00	Southeast	501	100.00	63.00	Southwest	301	3100.00	46.00	
Mid-West	592	9100.00	66.00	West	482	796.30	70.00	Canada	2	1	100.00	100.00	Totals	231	10699.00	63.00

\*Compiled from "Members of the Accreditation Council (Accredited Schools) of the AACSB, 1986-87" -----  
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Can SM/BP inform E/SB on how to gain comparable acceptance? Perhaps. But E/SB would have to understand what have critically contributed to SM/BP's success. Two of them stand out: (a) advocacy by influential scholars [notably, Gordon and Howell (4); and Pierson et al., (5)] who championed the case for making SM/BP mandatory in the business curriculum; and (b) the decision by the AACSB, in 1969, to include provision IV(e)5 in its statement of curriculum standards and guidelines for accreditation. Although Eldredge and Galloway (3), have pointed out that provision IV(e) "does not require that an AACSB accredited school teach a business policy course," the provision is, nevertheless, generally believed to have provided a critical impetus for the widespread adoption of SM/BP.

In order for the E/SB course to gain an adoption rate comparable to SM/BP's, (a) there will have to be a convincing advocacy for it, [possibly from the prominent scholars who teach it as well as SM/BP] not hesitation and self-doubt that Dooley (2), expresses; (b) the AACSB must require that it be taught in its member schools; or member schools must allow that it serve as a complement, an alternative or substitute to SM/BP - that it qualify as a capstone course.

### TEACHER/TEACHING CHARACTERISTICS

How can one describe the typical teacher of each course? What can be learned from such description? The teacher characteristics are described in detail on table 2, below. In most of the responding schools, the two courses are taught by the same types of teachers - senior faculty whose teaching experience ranges from 5-10 years; from the management



or marketing departments. In some cases, the same teachers who specialized in strategic management are teaching the SM/BP as well as the E/SB courses, however, teachers with specialization in entrepreneurship do not teach the SM/BP course.

Perhaps, because similar teachers are teaching both courses, there seems to be a significant relationship between the methods used to teach them (see table 3, below). Can SM/BP inform E/SB in the area of teaching? Hardly.

However, proponents of E/SB may want to push for an entrepreneurship department that is separate from the management and marketing. It is not realistic to expect the management or marketing department chairperson to champion the cause of the entrepreneurship course.

----- TABLE 2 TEACHER CHARACTERISTICS  
(Multiple Responses Possible in Each Case)

Specialization Status Department

Response % Response % Response % SM/BP E/SB SM/BP E/SB SM/BP E/SD

Entrepreneurship - 46.67 Full Prof. 34.13 30.40 Mgmt. 74.59 65.00 SM/BP 84.78 18.67 Assoc. Prof. 27.96 30.40  
Mktg. 14.75 17.50 Asst. Prof. 29.38 19.60 Finance & Acctg. 6.67 6.25 Other 15.60 34.87 Other 8.53 19.60 Other 3.99  
11.25

N= 151 75 N= 211 102 N= 122 8

-----  
TABLE 3 METHODS OF TEACHING (Multiple responses possible Per Respondent)

Response % and Rank ----- | SM/BP | E/SB | | % | Rank | % | Rank |  
Combination of lectures & cases | 60.63 | 1 | 52.53 | 1 | Use of simulation & mgmt. games | 23.75 | 2 | 2.02 | 5 | Special  
Projects incl. live | | | | cases formulation | 9.38 | 3 | 18.18 | 2 | Oral and written presentations, | | | | guest lectures | 2.51 |  
4 | 10.10 | 3 | Business Plan preparation | 0.62 | 6 | 10.10 | 3 | Use of films and video | 0.62 | 6 | 1.01 | 6 | Other | 2.49 | 5 |  
6.06 | 4 | | | | | N = | 160 | 99 | | rs = | 0.625 | | | -----

TABLE 4 FUTURE CHANGES RESPONDENTS ANTICIPATE IN THE COURSES' CONTENT AND TEACHING APPROACHES (Multiple responses possible)

Response % and Rank ----- | SM/BP | E/SB | | % | Rank | % | Rank |  
Focus on strategy formation | | | | and implementation and | | | | integration of SM and entrep. | 18.8 | 1 | 9.52 | 4 |  
Increased international consid- | | | | eration | 17.42 | 2 | 11.90 | 3 | More computer use for various | | | | purposes | 13.64 |  
3 | 23.81 | 1 | More use of various types of | | | | cases | 11.36 | 4 | 16.67 | 2 | More use of various types of | | | | speakers  
and projects | .76 | 5 | 2.38 | 5 | | | | | n = | 81 | 27 | | rs = | 0.10 | | | | | | Unmatched responses | 38.64% | 35.72% |  
Overall N = | 132 | 42 | | -----

FUTURE OUTLOOK

The comparative future outlooks of the respondents in SM/BP and E/SB is shown on table 4 above. Although many of the expectations match, it can be seen that the respondents in the two subject areas have assigned different rankings to the different variables. For instance, whereas the top priority for the SM/BP group is to focus on strategy formulation and implementation and the integration of strategic management and entrepreneurship, the highest priority item for the E/SB group is to focus on the applications of the computer for various purposes. Can SM/BP inform E/SB with respect to the future? Yes, E/SB can learn how to gain wider acceptance from the past of SM/BP. On the other hand, can E/SB inform SM/BP? The respondents from SM/BP have answered this question in their top choice of anticipated future changes in table 4 above.

CONCLUSION

Although SM/BP and E/SB seem to share common attributes in such respects as how they are taught and who teaches them, and their concern with the total enterprise (and therefore their respective capacities to serve as integrating courses in the business curriculum), it is seen that they differ in one important respect: the one is widely adopted; the other is not. Because of the role of entrepreneurship in the economy, E/SB deserves greater acceptance than it has received hitherto. One way to accomplish this end is to adopt the same tactics that have worked in securing the widespread acceptance of SM/BP in AACSB-accredited undergraduate programs.

## NOTES

1. For example, each of these authors of a major book on strategic management, had his Entrepreneurship or Small Business course description published in Karl Vesper's compendium entitled, *Entrepreneurship Education 1985*: James B. Quinn, LaRue T. Hosmer, Charles Hofer, Robert T. Justis and Thomas Wheelen.
2. Strategic management is the latest name given to the business policy course that was originally conceived at the Harvard Business School in 1911 (see, D.E. Schendel and C.W. Hofer, editors, *Strategic Management: A New View of Business Policy and Planning*, (Boston, Mass.: Little, Brown & Co., 1979).
3. Although education for entrepreneurship and education for small business are not necessarily the same, the two terms are, nevertheless, used interchangeably in American universities. Thus, it is almost impossible to study one without considering the other. (See G.H. Rice, "Education for Entrepreneurship in American Business Schools," in *Management Education and Development*, (Spring, 1985), pp. 48-53.
4. That is, strategic management/business policy course looks at the total business enterprise from a top management perspective, whereas the entrepreneurship/small business course looks at the total business enterprise from the entrepreneur's perspective.
5. See *Accreditation Council Policies, Procedures, and Standards*, (St. Louis, Mo.: AACSB, 1987), p.29.

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- (3) Eldredge, D.L., and R.F. Galloway, "Study of the Undergraduate Business Policy at AACSB-Accredited Universities," in *Strategic Management Journal*, Vol. 4.
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# DISLOCATION AND ENTREPRENEURIAL SUCCESS: A FOLLOW UP STUDY

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## ABSTRACT

Dislocated budding entrepreneurs are individuals who seek to start their own business upon losing their job due to a plant closing or layoff. It was previously concluded that dislocated budding entrepreneurs resemble small business owners more than traditional entrepreneurs. It was predicted that they would be expected to follow entrepreneurial paths that lead to self employment rather than traditional entrepreneurship. This study reports the progress one year later of twenty-nine budding dislocated entrepreneurs. In general entrepreneurial success is rarely achieved. Implications for researchers and practitioners are offered.

## INTRODUCTION

Although numerous types of entrepreneurs and/or small business owners have been identified in the literature (e.g. Carland, Hoy, Boulton & Carland, 1984; Cooper, 1979; Hosmer, 1977; Liles, 1974; Smith, 1967; and Vesper, 1979), only a few researchers have focused on displaced entrepreneurs (Barbato & Bracker, 1988; Shapero, 1975; Collins & Moore, 1970). The dislocated budding entrepreneur is an individual who, through the loss of employment due to a business closing, plant closing or layoff, endeavors to start his or her own business. Past studies have shown that displaced budding entrepreneurs have not resembled high growth entrepreneurs; but rather, have a psychological profile more similar to small business owners or self employed individuals (Barbato & Bracker, 1988).

## REVIEW OF PREVIOUS RESEARCH

In order to understand budding dislocated entrepreneurs Barbato and Bracker (1988) administered the Miner Sentence Completion Scale - Form T (Smith and Miner, 1984). This scale is grounded in McClelland's need for achievement model (1961), and has been used to understand the psychological characteristics of entrepreneurs (Smith and Miner, 1984).

## MSCS-T

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

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

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

1. Achievement Orientation. A desire to achieve through one's own efforts.

2. Personal Risk. A desire to take moderate risks.
3. Feedback. A desire for some clear index of the level of performance.
4. Personal Innovation. A desire to introduce novel, or creative, or innovative solutions.
5. Planning. A desire to think about the future and anticipate future possibilities.

Miner proposed that individuals with the appropriate match of role characteristics and motivational patterns would be more successful as entrepreneurs. These arguments support those suggested by Wainer and Rubin (1968). These authors conducted a study of the relationship between individual (owner) motivation and firm performance. They found that both high nAch and moderate need for power were associated with high levels of firm performance. However, a recent study by Begley and Boyd (1986) indicates that there is little relationship the psychological attribute of relatively experienced entrepreneurs and financial

performance. They did find that founders of small firms have a higher need for achievement, higher risk-taking propensity, and a greater tolerance for ambiguity than non-founders.

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

## THE PRESENT STUDY

Thirty-six recently dislocated workers who planned to reenter the workforce through the entrepreneurial process were studied. Each of the subjects was a certified dislocated worker from New York State. These workers had participated in ten week long workshops, conducted at two Northeastern Universities, designed to provide skills and knowledge which would help them become successful entrepreneurs. The focus of the workshops was the development of a business plan that would then be used to obtain funding from a traditional lending source. Follow up interviews were conducted one year after these dislocated budding entrepreneurs finished the training program. Twenty-nine participants were able to be contacted.

### Demographics

The participants in the study were not unusual in their demographic makeup. Slightly more than half were male, approximately 25% were minority (all but one of these were black), and about half were married. The ages ranged from early twenties to late sixties, but most of the participants were between the ages of 40 and 59. All of the participants had completed high school, and about one-third had received at least a bachelors degree or higher.

## RESULTS

Table 1 summarizes the results of the present study. Scores for the displaced entrepreneurs have been compared to the findings from previous research (Smith, et. al., 1987). In the previous study, entrepreneurs with fast growth firms were distinguished from those with slow growth firms using measures such as growth in number of employees and growth in sales.

### MEAN SCORES FOR MINER SENTENCE COMPLETION SCALE

Entrepreneurs with	Displaced	fast growth	slow growth		n = 36	n = 59	n = 59		Achievement Orientation	-
0.31	3.10	0.19	Personal Risk	-0.14	1.56	0.03	Feedback	-0.06	0.44	-1.53
1.78	Planning	-0.17	1.86	0.44	Total	0.69	10.95	0.92	-----	

These data clearly suggest that this sample of dislocated budding entrepreneurs is very different from other groups of successful entrepreneurs that have been studied (Smith, Bracker, Miner, 1987). In every dimension the scores of the budding dislocated entrepreneurs were lower than the successful entrepreneurs, and in four out of five dimensions the

scores were actually lower than the scores of less successful entrepreneurs studied by Smith, Bracker and Miner (1987).

## FOLLOW UP RESULTS

Of those twenty-nine budding dislocated entrepreneurs, who participated in the follow-up survey one year later, eight individuals (28%) indicated that they had started their own business. However, in almost every case the business fell into categories such as self-employed or part time self-employed, and, in fact, all were home-based. None had sought or received any outside funding, and only half ever finished writing a business plan. Sixty-three percent of these eight reported that they were working for someone else, and, except for one seasonal business which hired one employee during the summer, none of the dislocated entrepreneurs had any employees. When sales data were reported, it became clear that none of the dislocated entrepreneurs were able to successfully replace their lost income through entrepreneurship. Of those twenty-one who did not open their own business, 19% had sought outside funding, 10% had obtained a DBA, and 3% (one person) had completed a business plan. Of those who had not yet started a business 67% reported that they were working for someone else, although 48% indicated that they planned to own their own business in the near future.

## CONCLUSION

This preliminary analysis of dislocated entrepreneurs indicates that the majority of such persons tend to have a significantly lower likelihood for entrepreneurial success than the average person. Furthermore, the fact that these measurements of entrepreneurial propensity were taken at the end of these programs shows that such programs may be unlikely to instill such a propensity in persons presently lacking it. This is consistent with the literature on the subject, which generally concludes that entrepreneurial propensity is a function of certain requisite personality traits and/or childhood environmental factors. Successful entrepreneurs seem to fit specific personality profiles; they tend to be tolerant of ambiguous situations, prefer autonomy, resist conformity, enjoy risk-taking, be goal-motivated, and be concerned with self-esteem. (Carland, et. al., 1984; Brockhaus, 1982; Olson and Bosserman, 1984; Sexton and Bowman, 1985). Furthermore, studies show that the typical successful entrepreneur was raised in a family environment in which privately-owned business and/or entrepreneurial activity was looked upon very favorably and was a frequent topic of conversation (Olson, 1987). A positive attitude and motivation toward entrepreneurial success is thus often developed in the early and formative years of one's life.

It was previously concluded that the potential entrepreneurs in this study have behavioral orientations that differ from successful founder entrepreneurs studied in prior research (Barbato and Bracker, 1988). At that time it was felt that alternative forms of entrepreneurship might be more advantageous for these individuals, such as: self employment, part-time self employment or a home-based business. This follow-up study provides support for that hypothesis and also adds credibility to the predictive ability of the MSCS-T instrument.

If this is a valid conclusion, then we must question the value of "How To Start Your Own Business" programs and other similar programs aimed at assisting dislocated workers in moving from hierarchical employment situations to entrepreneurial endeavors and success. Do such programs represent the most effective and efficient use of funds to assist these people? How might the same amount of funds be used in some other manner to serve the needs of these dislocated clients?

One alternative to attempting to instill entrepreneurial propensity would be to differentiate between "entrepreneurship" and "small business" and "self-employment." If we accept the proposal that entrepreneurial skills do not lend themselves to training programs, then perhaps we should focus on training dislocated people to acquire nonentrepreneurial skills that will enable them to start or acquire non-entrepreneurial small businesses. Such elementary business skills as basic bookkeeping, simple marketing techniques, and small scale

personnel management procedures can be effectively taught and would be of value to the new owner of a "routine" small business, be it a small grocery store, dry cleaning establishment, or auto repair shop. For the dislocated employee who simply wishes to become self-employed, with no employees, and perhaps working out of his or her own house, such training might be even more basic and rudimentary. The acquisition of these skills for small business ownership or self-employment does not require a high level of achievement motivation or entrepreneurial propensity and such a proposed training program would recognize this and be designed accordingly.

A second alternative that might assist these dislocated workers would not involve training at all. Instead, the same

amount of funds might be used as short-term loans to those who wish to start or acquire a franchised business operation. Such franchise opportunities often provide operational procedures and techniques training by the franchisor, so a separate externally-sponsored training program for the franchisee would not be necessary. On the other hand, entry into a franchised business generally requires more start-up capital than nonfranchised business start-ups, and thus this might be the most effective use of funds to assist these dislocated clients. Start-up loans for non-franchise business start-ups may also be a valid alternative use of funds to training programs in basic business skills, but here the argument is less strong and more in need of further study.

Clearly, at this point in our analysis, it is too soon to reach solid conclusions. Rather, it is appropriate to say that this preliminary study forces us to question the public policy of utilizing funds with the goal of developing entrepreneurial propensity, and to consider and study alternative uses of such funds to assist the dislocated worker who wishes to enter small business. In a nutshell, entrepreneurship is not the panacea for dislocated workers. It must be noted, though, that a homogeneous sample of, for example, dislocated engineers, might produce a greater crop of potentially successful entrepreneurs.

The results of this study indicated that the 36 dislocated workers displayed characteristics more commonly associated with small business owners than traditional entrepreneurs. While these results raise doubts about the entrepreneurial characteristics of dislocated workers only, more time will tell if these individuals realize entrepreneurial pursuits.

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# THE EXPATRIATE SMALL BUSINESS AS A MULTINATIONAL ENTERPRISE

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## ABSTRACT

This study is focused on the foreign-owned small business operating in developing countries, comparing the knowledge obtained from a field study of these expatriate companies in one developing country to the literature on the multinational company operating in a similar environment. Since small business expatriate investors have been studied very little, the study addresses first how large business expatriate investors--the multinational enterprises (MNEs)--have fared in their process of investing and operating in the developing countries.

**INTRODUCTION:** There are numerous claims in the emerging literature on expatriate enterprise to the effect that entrepreneurial expatriate investors can and should be promoted as an alternative to MNEs, in part because of their investment and ownership patterns.(1) Whether or not such claims are true, the evaluation of such claims requires that data on the investment and operation of expatriate small business investors should be compared to the activities of large firms in the Third World.

The following review of MNEs that operate in the developing countries is focused on two categories of information: 1) how such multinationals make the decision to invest in a developing country, 2) the nature of activity and management in which the multinationals involve themselves once they have invested. It focuses on why MNEs enter a country and what they do in that country.

**The MNE Investment Decision:** Two separate areas of literature related to MNE investment decision-making in Third World countries can be identified: there is the literature on various theories regarding how MNE investment decisions are made, and then there are research surveys reporting on how various MNEs have made their decisions to invest in LDCs. The literature on theories will be dealt with first, followed by a discussion of findings on actual investment decisions.

Three basic theories of direct foreign investment have been developed, with multiple variations, to explain the behavior of companies going overseas. Furthermore, the decision to invest overseas in developing countries has been found to be no different from decisions to invest in developed countries.(2) Foreign direct investment decisions will therefore be discussed

without making the developing countries a special case.

The first, and classical, economic justification for going overseas is known as the "comparative advantage" theory. The firm crosses borders in search of factors of production (land, labor and capital) that will lower its total overall costs of production.(3)

Another explanation for overseas investment has gained acceptance as research has shown that factor prices related to production inputs and wage rates may actually be minor considerations in the investment decision. Therefore, many variations of a "competitive advantage, theory have been developed. Empirical basis for this theory, related to an "oligopolistic view" of the international firm, was first presented by Hymer (4), and then was further refined by Kindleberger (5), Magee ("Appropriability Theory (6)) and Dunning ("Eclectic Theory"). The oligopolistic view of the international company interprets the activities of that company from the vantage point of overcoming market imperfections through ownership advantages, internal advantages, and location advantages. Information, trading relationships, technology, and management or marketing skills are examples of these types of "internalization" advantages that motivate a company to invest overseas, independent of production factors.

A third theory of international investment behavior is based on the analysis of the life-cycle of company products.(8) A firm may begin by producing in the home country, and only becomes aware of overseas markets through exporting. The basis for going overseas is often related to the fact that, as the product matured, the production processes have become standardized, and buyers have become more price sensitive. Threatened, therefore, with competition from low-cost overseas production for both the export and home markets, said company starts production overseas, possibly in a



developing country where labor costs are low. Rivals and suppliers naturally follow, and investment overseas increases.

Though each presents a somewhat different focus, the three theories reviewed above may be seen as inter-related. Investment in a foreign country has been shown to be directly related to relative production costs, the protection of market share or to overcoming trade barriers, and the life cycle of specific products. The international company also has certain intangible, internal advantages that it can exploit by moving operations overseas; to maintain these advantages it must also maintain ownership and control of the foreign enterprise.

Surprisingly, there is sometimes little connection between international investment and local factor prices, even for firms operating in developing countries.(9) For example, trade barriers and market considerations are the major issues for international firms with investments in South America. (10)

The three basic theories explain why direct foreign investment occurs: the "comparative advantage" theory based on factor prices, a variation of the comparative advantage theory that focuses on the competitive "oligopolistic" internal advantages of the international company, and the "product life-cycle" explanation of how a firm arrives at investing overseas. As was discussed above, these three theories need not be viewed as necessarily mutually exclusive, but rather as inter-related, with a slightly different focus.

MNE Activity in LDCs: Multinational activity in developing countries does demonstrate special characteristics, and can be divided into three distinct categories: 1) the export of natural-resource products, 2) the export of manufactured goods, and 3) the production of goods for the local market.

The first category, which includes those companies most people think of when they hear the term "multinational," requires little explanation. Firms involved in the exploitation and export of natural resources go where the resources are economically available.

The definition of the second and third categories, however, has enabled international business researchers to arrive at some interesting conclusions: For example, Horst has shown that foreign firms will either produce for export or for the domestic market, but not both. (11) These findings were confirmed in other studies by Reuber and Buckley. (12)

The environment of developing countries provides a key to understanding the activity patterns of the MNEs, and why they can be so strictly segregated. Exploitation of raw materials is focused on markets outside of the LDC. Off-shore manufacturing is also focused on export markets, and producers are usually not allowed access to protected local markets. Local manufacturing is focused on the LDC market, and may only exist due to import restrictions.

The evaluation of small business expatriate enterprise begins then with a consideration of the investment and activity patterns found in studies of MNEs, and the related issue of ownership and control. Now will the smaller, entrepreneurial, individually owned and operated companies compare?

Research Description: The purpose of the field research was to investigate the investment behavior of expatriate small business investors in a given developing country to be able to describe how this type of investor decides to invest and to provide information about the nature of such investment. The research design eliminated problems of possibly confounding variables by:

(1) the definition of the population surveyed, which was limited to include only the small business expatriate investor.

(2) the survey of the entire universe of small business expatriate investors in Honduras, rather than a "representative" sample, whether from Honduras or from a number of Central American countries. This factor of the design avoids bias in sample selection and eliminates the need for making inferences about the population, as the total known population is included in the study. Inferences may then be made about similar populations in other countries based on the findings in Honduras, assuming that the Honduran population of expatriate entrepreneurs is a representative sample of this type of international business activity in other developing countries.

(3) the personal interview, which enabled the researcher to be certain of the identity of the person responding to the questions, and to insure that the questions were answered in a responsible manner. All questions were presented verbally in either English or Spanish, depending on the fluency of the respondent, to guarantee that the respondent

understood the issue. Considerable time was spent in clarification of both questions and answers.

The field study relied on personal, on-site interviews for its data, which, by their design, controlled for as many confounding variables as possible. Individuals were included in the survey as expatriate investors only if they met all of the following requirements:

\*\* The individual is, or was originally, a resident alien, i.e., the person was a citizen of, and came from, a foreign country. This definition excluded second generation owners or entrepreneurs. It did not, however, exclude persons who were originally aliens, but have since adopted Honduran citizenship.

\*\* The individual made a personal business investment in Honduras and, at the time of the survey, obtained his or her primary economic support through this commercial venture. This definition eliminated confounding variables that might have been introduced by including "moonlighting" expatriates.

\*\* The individual was, at the time of the survey, directly involved in the management of the company or business. Absentee owners or investors were specifically excluded from the study.

\*\* The individual was identified by Embassies, Chambers of Commerce personnel, or by other companies as an independent business owner and operator--as opposed to managers of traditional subsidiaries of foreign companies. Small business run by extended families (especially small stores and restaurants) were excluded if they were not operating in the "modern sector," i.e., were duly registered with the government as a formal business.

The definition of small business used for this study might be best understood as a subset of companies owned and operated by foreign investors which cannot be categorized as related to the traditional multinational companies, which are typically large (Fortune 500), oriented towards manufacturing, and operating in at least six different countries (Harvard Multinational Enterprise Project, Vernon, 1971).

The subjects in this field study comprised the total known population of expatriate entrepreneurs from foreign countries operating small businesses in Honduras during 1985.

The test instrument utilized in the gathering of data for this research study was a questionnaire designed to elicit information and guide the personal interview with the expatriate entrepreneur; information was obtained entirely through personal interviews, which also generally involved a site visit and a wide-ranging discussion of issues related to business in Honduras.

Field Research Findings: Over a period of approximately eight months in 1985, forty- three small-business foreign investors were interviewed. The interview process resulted in the identification of 37 cases which fully qualified for analysis as expatriate entrepreneurship.

Background of the Expatriate Entrepreneurs: All but one of the respondents surveyed was male. The average age of the expatriates at the time of the interview was 50, and their average period of overseas residence was 24 years. These expatriates had been operating their companies for an average of 16 years. The profile resulting from the study thus suggests that most expatriate entrepreneurs go overseas in their mid-twenties, and decide to invest several years later. Forty- three percent of the expatriate entrepreneurs had held a job overseas prior to investing.

Only five of the 37 persons included in the quantitative data base analysis had grown-up overseas. However, in 49 percent of the cases the respondent's parents had owned their own businesses, most of them (80 percent) in the home country. Fifty- one percent of the entrepreneurs were from upper-income family backgrounds.

The United States and European countries were the countries of origin for the majority (84 percent) of those surveyed, with the United States accounting for 41 percent of the sample. Seven of the Europeans were from Germany. The three Spaniards and the two Dutch investors were all in the restaurant business: perhaps there exists a correlation between country of origin and the type of business of the entrepreneur. Latin American expatriate investors included only one from Nicaragua, one from Cuba, and one from Chile-- excluding, as mentioned above, recent refugee immigrants.

New businesses locating in Honduras due to the Caribbean Basin legislation were a very small part of the population.

Though some of the expatriates surveyed mentioned that they hoped to obtain advantages through the legislation in the future, only one expatriate entrepreneur had invested in Honduras due to the opportunities presented by the CBI.

Over 70 percent of the respondents surveyed had a college degree or equivalent professional education. Most were married and supporting families (81 percent). In over half of these cases (70 percent), family members participated in the daily operations of the business.

### Reasons for Investment Overseas

Only four of those surveyed identified commercial or government contacts as part of their reason for investing overseas. For most (89.2 percent) the decision to go overseas was based entirely on personal interest. Though this personal interest was related to profit potential in most of the cases, 19 percent of those responding to the question concerning motivation indicated that it had nothing to do with financial expectations. Lower costs of raw materials (13.5 percent) and labor (5.4 percent) were identified as factors in the investment decision by but a few respondents; most had a very subjective idea that profits could be made.

Government incentives and guarantees were almost unheard of by the small business expatriate entrepreneur. Four cases of government incentives (tariff reductions, tax holidays, etc.) were identified, but there was only one occurrence of a company that obtained government guarantees, and that was a mining company whose special situation will be described later. It was interesting to note that many of those interviewed laughed at this question, as there existed the widespread perception that such arrangements are designed only for the multinationals.

More than half of those surveyed (54 percent) had not done any type of feasibility study before investing in Honduras. Those who did some type of initial investigation used their own financial and business resources. No cases were identified in which professional consultants were contracted to perform feasibility studies.

Almost half (48.6 percent) of the expatriates who started their own businesses in Honduras had no previous business experience in the field in which they entered. Of those without experience, some mentioned that they simply had the idea that there was a gap in the marketplace in Honduras for goods or services that they could provide. They had seen the provision of these goods or services in their home country, and expected that they could also be provided for a profit in the foreign country environment.

Others were faced with "golden opportunities," like that of the entrepreneur who came to Honduras as a geologist and worked as a laboratory technician. Shortly after television reception by satellite dish became available commercially in the U.S., he realized that in his neighborhood--a densely populated suburb-- he could easily install cables to other houses and sell the television programs received by satellite. The golden opportunity stared him in the face; and he took it.

Though there does not appear to be an identifiable pattern in the way that the expatriates interviewed decided to invest in Honduras, it is interesting to note again that most had lived overseas prior to investing. Some had been working in the country for international companies, and through that experience were able to identify business opportunities they were interested in and could manage. In some cases these expatriates married Hondurans, or were attracted by the Honduran lifestyle. (Specifically mentioned were the slower pace of life, and the opportunity to get involved in enterprises with a relatively small amount of capital.) Others were looking for a better place than their own country in which to live or invest, and happened upon Honduras.

The pattern of the investment decision emerging from the study of expatriate entrepreneurship in Honduras is therefore one in which the foreigners identified business opportunities. These entrepreneurs had gone overseas for a variety of reasons, often unrelated to business. The very fact that they were foreigners allowed them to see the "gaps" in the local marketplace, gave them an advantage related to production technologies, or provided them with special contacts in their home country which facilitated investment or export.

Though limited conclusions can be reached concerning motivating factors for expatriate investment in Honduras, it is clear that home or host government promotion played almost no part in bringing the small business foreign investors to Honduras.

Types of Companies: Survey results do not provide conclusive evidence that expatriate investors are oriented to one

specific commercial area. The principal business activities of the expatriate entrepreneur-owned companies were distributed as depicted in Table 1.

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Table 1

Types of Companies Invested in by Expatriate Entrepreneurs

Initial Entry Percentage Industry # of Businesses of Firms

Service 12 32.4%

Manufacturing 11 29.7%

Distribution 11 29.7%

Agribusiness 3 8.1%

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The low level of investment in agriculture can be explained by the fact that the Honduran government restricts foreign investment in that area, and also heavily controls the prices and sales channels of agricultural production.

Foreign investment is also restricted in Honduras for distributorship, and yet almost a third of those interviewed originally began as sales representatives or distributors. It appears that it is fairly easy to operate as a distributor, even with the local prohibitions regarding Honduran participation. Also, the political visibility of a foreigner is much greater in the agricultural sector (for example, in the management of a farm) than in a sales office, which therefore entails less risk.

The above table is based on the identification of the principle, original business activity of the expatriate entrepreneur. However, about one-fourth of those surveyed indicated that they were involved in more than one type of business. These were listed in the survey instrument, and the respondent was asked to describe how the additional businesses developed.

Some cases of multiple business involvement followed the vertical and product life cycle expansion patterns of corporate investment. For example, one business was started initially as a dry goods export business, operating out of New Orleans. When a Honduran client defaulted on the payment for a large shipment, the entrepreneur decided to confiscate the goods and begin his own business in Honduras. Sale of dry goods then evolved into a grocery store. Later still, the individual decided to lower his prices by repacking bulk products, beginning with olives and capers from Spain. He then started to produce his own meat and frozen goods. Soon his market was no longer just his own supermarket, for as he expanded he began to supply other local

foodstores. Next, a factory was organized to produce tabasco sauce, mustard, and other grocery products for the local market.

This entrepreneur's current plan, at the time the survey was in progress, and in which his son was a major participant, was to also seek export markets. Therefore, this investment, following the pattern of many international companies, had essentially come full circle: from exporting from the U.S., to importing into Honduras, to exporting to the U.S.

Similar patterns of expansion were evident in three other businesses. After an initial investment in a pharmacy, one entrepreneur organized, with the participation of a son who had been trained for that specific purpose, a factory to produce basic health products. A familiarity with the markets for health products provided the incentive to begin industrial production, and now the pharmacy has become a very small part of the family business.

In a second example, an investment in the egg business (layers) evolved first into a full-scale chicken business (layers,

breeders, and broilers), and later developed into a fully integrated company that produces and processes grains as well as operates restaurants.

In a third case, sales of computers led one entrepreneur into an international service business, in which he provided processing and programming for a variety of clients.

There were also other cases of multi-business involvement that did not exhibit common expansion patterns. Rather, the acquisition or development of a new business appeared to be based on the simple desire to exploit new opportunities (see Table 2).

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Table 2

Business Expansion Patterns of Honduran Expatriate Entrepreneur

Original Business Business Expansion

Hardware Distributor ..... Sawmill Video Tape Rental ..... Cigar Exports Chemical Laboratory ..... Cable  
Television Restaurant ..... Sausage Factory Match Factory ..... Road Construction Restaurant ..... Cigar Exports  
Turpentine Factory ..... Soda Flavor Factory Restaurant ..... Auto Parts Distributor

The businesses depicted in Table 2 were cases in which the new enterprise did not follow vertical or horizontal integration schemes, but rather was simply the result of new opportunities. The example of cigar exports as a new business was particularly interesting, as two entrepreneurs appear to have identified the same opportunity at the same time.

The businesses that did not evidence expansion tendencies, either through integration schemes or new opportunities, seemed to fall into one of two categories: those characterized by internal growth and those whose owners were satisfied with the status quo.

An example of those businesses which were expanding internally, and therefore did not need new projects to promote growth, is that of a furniture factory which doubled its export production capacity since start-up in 1980. The managers said they had not had time to even think about other enterprises. Therefore this company, and others like it, were not diversifying because the entrepreneurs had businesses in which growth was possible.

The majority of the entrepreneurs not involved in diversification schemes were not involved in internal expansion either. They appeared to be happy with what they already had. As the owner of an automobile repair shop said, "I could do twice or three times the amount of business I do now, but why do I want more problems?"

The literature on international businesses suggests that foreign investment can be classified based on the market orientation of international companies. Results from this research, as portrayed in Table 3, indicated that most expatriate investment is targeted at the local market.

The businesses targeted exclusively at export markets were selling furniture, luxury boats, precious metals, and fish. Most of the businesses, however, were targeted primarily at local markets. The only company that obtained its revenues through servicing international firms was a chemical analysis firm with clients in the mining business throughout Latin America.

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Table 3

Market orientation of Expatriate Businesses in Honduras

Percentage Market Orientation # of Businesses of firms

All local markets 29 78.4% All export markets 4 10.8%

Both local and export 3 8.1%

Servicing int. companies 1 2.7%

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Though many of those interviewed expressed interest in the export market, especially in light of the Caribbean Basin Initiative provisions, only one company cited those provisions as its major incentive for involvement in the export market, and one other company was preparing to export and take advantage of that legislation within the year.

One of the reasons for the lack of exporters in the expatriate entrepreneur population is that the Honduran government has taken over the export and internal marketing of the country's major raw materials. For instance, expatriates that started lumber, coffee, and food production business were, at the time of the survey, selling all of their production at fixed prices to the government agencies, which were organized in the mid-1970s. The purpose of the semi-autonomous government marketing agencies was to control production and prices, and generate income for the government.

However, these agencies have had a questionable track record with regard to such objectives, and are considered to be a barrier to both local and foreign investment in Honduras. One of the entrepreneurs interviewed was planning to leave Honduras in 1986 if the lumber marketing agency, COHDEFOR, did not allow him more freedom in his lumber business. He maintained that if the government continued to control the industry, his business would go bankrupt.

Company Ownership: During the interviews with the expatriate entrepreneurs, the question concerning ownership of the business was presented with the explanation that the response should be based on the ownership equation when the company was initially established in Honduras. Results are presented in Table 4.

The UNCTAD study mentioned previously suggested that the small business expatriate company would be open to local participation and be willing to take a minority investment position (p.61). Contrary to the findings and the hypothesis presented in the UNCTAD study, however, the entrepreneurs surveyed in this study did not appear to be interested in joint venture partnership with host country nationals.

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Table 4

#### Ownership of Small Businesses in Honduras

Percentage Ownership Definition # of Businesses of Firms

Personal-all stock held by expatriates in Honduras 29 78.4%

Personal- with some stock also held by family overseas 2 5.4%

Expatriate controlled joint venture (>50% stock) with other partners from overseas 3 8.1%

50/50 joint venture between expatriate partners 2 5.4%

Minority joint venture with local partners (<50% stock) 1 2.7%

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A related finding that is consistent with the data on ownership is that expatriate entrepreneurs generally used personal funds for the initiation of their companies overseas. The sources of these funds included personal savings, monies of other family members, and funds generated from other closely-held companies. Only one case was identified in which a local government agency contributed capital to the business start-up. It is interesting to note that, due to problems

with government participation in the company operations, this same business was later reorganized to exclude government participation.

The case of this particular company illustrates the diversity of problems faced by the expatriate investing overseas. From a textbook perspective, the investor did everything correctly. He had clearly defined objectives for going overseas: the location of quality lumber and the supply of low-cost labor. A feasibility study was performed to identify the best country for the location of the factory. Negotiations were made with the Honduran government to obtain tariff reductions and tax exemptions. Through the government industrial promotion agency, CONADI, 51 percent of the financing became available. This financing also allowed the government to obtain 51 percent ownership of the company.

But the investor was plagued by problems that started with the initial installation of the project. Promises of government assistance with customs did not prove reliable. Management disagreements surfaced. Labor relations deteriorated. The expatriates involved in the management reported their strong belief that many of the problems were the result of their resistance to "pay off" key people in the public sector. It is not surprising that these managers communicated a very negative view of the ethical standards of the government. After three years of struggling in this environment, the expatriate investors attempted to buy-out the government portion of the investment to obtain control of the management. However, their offer was not accepted. The problems became so great that they finally walked away from the original project and started a new company.

Not all expatriate investors have had such a negative experience, however. After the initial investment, some of the entrepreneurs accepted minority participation of other stockholders. The need for additional funds was the unanimous reason. (Loans for new commercial ventures are very hard to obtain in Honduras.) However, the minority partners must be considered a special group and do not exhibit a genuine joint venture approach to doing business overseas. In every case but one, they were family or close friends of the entrepreneur. (The one case of a commercial, non-family joint venture partner was also special, because the partner was a German firm and the entrepreneur was for many years that firm's sales representative in Honduras.)

Minority participation with local partners was not viewed as realistic by any of the respondents. The legal framework of the "Sociedad Anonima" (anonymous society) in Honduras was perceived as providing no protection to minority shareholders; they would be "at the mercy of the majority shareholders and have no rights." As one businessman explained, "in Honduras, you have to own all of the business or be in a group where you agree."

Legal issues prohibiting and controlling foreign investment generally did not play a role in the ownership equation. Local ownership requirements were met by informal, but honored relationships with Honduran friends or by putting the business in

the name of one's children. (In Honduras, children born to expatriates may hold dual citizenship until they are 18 years old, and a minor can legally exercise ownership rights.)

There was one case, however, in which legal issues were so important in the investment equation that the expatriates requested and obtained a change in Honduran law before committing themselves to a mining project. The change in the law allowed the investors control of the business, and also provided them with tariff and tax incentives. The fact that this was done is indicative of the desire of the Honduran government to promote investment in the country. It should be noted, however, that this case represented the largest investment encountered in the study (four million U.S. dollars); it is unlikely that most of those interviewed would have received such government attention.

The issue of who controlled the company was extremely important to the expatriate investors. Comments related to this issue demonstrated not only the problems with minority ownership, but also a general mistrust of possible partnership arrangements.

**Small-Business Foreign Investment:** The single unifying characteristic of the expatriate entrepreneur evident in the study was that he had some noncommercial reason for wanting to be in the host country. Other than a few cases of international migration due to political reasons, expatriate entrepreneurs surveyed indicated a special desire to live and work overseas. They obtained this desire through an initial experience living overseas as children, through the Armed Forces, through service agencies, or simply by traveling. It can be concluded that expatriate entrepreneurs have a pioneer or explorer mentality specifically related to overseas living and cross-cultural interests.

Though the desire to start a business was generally not the principle motivating factor behind their going overseas, these expatriates saw market gaps and opportunities that led them to start businesses instead of becoming involved in other activities to support themselves while overseas.

Expatriate entrepreneurs were generally involved in service, manufacturing, or distribution businesses that focused on local markets. There was no perceptible pattern in terms of size of the investment or profitability, but it was interesting to note that most expatriates were satisfied with the net income generated by their companies.

Contrary to expectations from the literature, this study demonstrates that small business foreign investors were not likely to accept local participation as part of the business ownership equation. Control over management and daily operations were considered very important by all of those surveyed; local ownership participation was minimal.

The data on expatriate entrepreneur markets further define certain limitations of the development potential of the small expatriate company. Since most of the companies were oriented to local markets, they were greatly affected by the size and growth of those markets. The expatriate companies surveyed in Honduras were weathering the economic storms along with the local companies, but did not appear to have the capacity to help the country to overcome its structural economic problems. For example, though the country was in need of foreign exchange, expatriate companies were doing very little to promote exports or replace imports.

**CONCLUSIONS:** The results of this study indicate that the behavior of the expatriate entrepreneur is very different from the international company in most respects. The expatriate investor generally had no prior connection with the country before investing, and was not usually motivated by local or international market conditions. Local political considerations, though important, were less decisive factors for the expatriate investor than for the MNE. The expatriate investor had generally done no market research, and had not applied for special government incentives or protection. Furthermore, the small expatriate-owned companies demonstrated a very low political visibility, and evidenced harmonious relationships with the host government.

The expatriates surveyed exhibited an ability to identify "gaps" and opportunities in the local marketplace based on special knowledge they had with regard to production, quality control, or markets. This ability to identify and exploit opportunities resembles in some ways the "internalization" advantages that provide some of the competitive basis for large companies going overseas.

The results of this research therefore indicate that the expatriate investor is a distinctive international business phenomenon. The expatriate enterprise requires a separate type of analysis from the multinational company.

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# IMPROVING THE SBI CURRICULUM

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## ABSTRACT

The Small Business Institute Program has been a valuable component within Marietta College's Department of Economics, Management, and Accounting for over eleven years. This paper discusses several additions and enhancements made to the course over the past two years to maintain the high standards of a collegiate capstone course and to improve the educational opportunities for our undergraduate students. The methods discussed in this paper can serve as a model for other institutions of higher education wishing to improve the quality of their SBI programs.

## INTRODUCTION

The Small Business Institute Program at Marietta College was developed over eleven years ago within the Department of Economics, Management and Accounting. Throughout the years, 181 cases have been conducted by 559 students divided into consulting teams. The Marietta College Program is funded through the Small Business Administration operating out of its regional offices in Columbus, Ohio, and Clarksburg, West Virginia.

Following is a discussion of several course additions and enhancements made during the past two years by the faculty advisors to maintain the high standards and expectations of a collegiate capstone course.

### Addition of the "Entrepreneurial Mentor" Aspect

The "Entrepreneurial Mentor" aspect of the course was added two years ago for two reasons -- one, political, and one, academic. Politically, President Reagan had threatened to abolish the Small Business Administration during his second term in office. The absence of the Small Business Administration meant no federal funding for the Small Business Institute Program. Marietta College deemed the program worthwhile and wanted to maintain its listing in the course catalog, with or without federal funding. It was decided to recruit larger, more successful companies into the program. Successful business managers and owners were recruited by the SBI Director for program participation to help the department educate its business students in "real world," problem solving skills. Entrepreneurial mentors were also honored at the end of the semester with a photograph in the

departmental display case and a ceremonial dinner with the SBI students and college officials.

The addition of somewhat larger, more successful companies into the program also made sense academically. Historically, many of our previous SBI cases had tended to be what we affectionately called "basket" cases or "casket" cases. Matching a group of three students with limited work experience and a small business, owner with several managerial problems could sometimes have quite disastrous consequences. The addition of the Entrepreneurial Program also indicated a change in the basic philosophy of the course. In the traditional SBI program, the goal of the students was to provide managerial and consulting assistance to a struggling business owner. In the Entrepreneurial Program, the business owner also serves as a teacher and role model for the students, thus reinforcing and strengthening the feedback loop so critical for learning. The inclusion of businesses with much better prospects for success has strengthened our service outreach and expanded the educational opportunities for field experiences for our undergraduate students. The entrepreneurial mentor aspect of the course has been a successful component since its inception in 1986.

### Promotional Information Sheets

A common problem for an SBI Director is dissemination of information, or, more frequently, a lack of information to disseminate. An SBI Director will find himself or herself repeating the same promotional "speech" over and over to various small business owners. A three-page promotional "sell-sheet" was developed to consolidate all necessary information and to discuss the advantages of program involvement to the students and to the companies involved.

### Flowcharting

To organize and monitor the various activities of the program, the SBI Director devised a flowchart based on a semester timetable for tracking and recording reporting functions, individual team meetings, team training sessions, written report deadlines, oral presentations, etc. The flowchart consolidates all pertinent information into one document, thus saving administrative time, space, and money.

### Confidential Team Member Evaluation Forms

A confidential team member evaluation form was also devised to be used by the SBI instructor as an additional evaluation tool. Each consulting team member evaluates the performance of the other members of his or her team on a five-point rating scale of Excellent (A), Good (B), Average (C), Below Average (D), or Poor (F). Students are judged in seven areas of behavior throughout the semester:

1. Attendance, participation, and contribution in private team meetings.
2. Attendance, participation, and contribution in faculty-SCORE advisor meetings.
3. Attendance, participation, and contribution in client meetings.
4. Contribution to written report.
5. Contribution to oral presentation.
6. Ability to conduct and carry out assigned duties and responsibilities.
7. Quality of work performed. A second page of the evaluation form provides space for additional comments and/or explanations in which students discuss their feelings, opinions, and the letter grades they would assign their team members if they were the course instructor. A percentage of the student's final course grade is derived from this confidential evaluation which serves as a reminder to students that not all team members are guaranteed identical grades.

### McDonough Center for Leadership and Business Involvement

In 1986, Marietta College received a donation of 5.5 million dollars from Alma McDonough, widow of the late Parkersburg, West Virginia, industrialist Bernard P. McDonough. The donation was earmarked for the specific purpose of constructing a building and establishing a program entitled The Bernard P. McDonough Center for Leadership and Business at Marietta College. A significant component of the leadership program is the undergraduate curriculum. The infusion of the McDonough funds has allowed for several new courses in "leadership" to be developed at the undergraduate level and for several existing courses to be "enhanced" in various ways. Courses enhanced by the McDonough leadership designation must have several essential qualities -- they must have a significant experiential or applied component, involvement of students and faculty across all disciplines, and a broad rather than narrow interpretation of leadership.

The SBI course at Marietta College (listed as Management 451 - SBI/Entrepreneurial Mentors) became a McDonough leadership course in the 1988 Spring Semester. Enhancements and upgrades in the course curriculum have included:

1. Interpersonal Relations - A two-hour short course on interpersonal relations was developed and presented by the Director of the Marietta College Counseling Center. The course

focuses specifically on the concepts of transactional analysis and is presented to the students on the third class meeting. Exposing the students to the theories of adult, parent, and child relationships before initially meeting with their assigned business owner clients prepares them to be more conscious of the positive rewards of "good" interpersonal relationships as well as the negative effects of "bad" interpersonal relationships.

2. Interviewing Techniques - The fourth class meeting of the enhanced SBI course is devoted entirely to the topic of successful interviewing techniques. This segment is presented by a Speech professor from the Department of Speech, Music, and Theater. Again, exposing the students to various methods of interviewing techniques prior to initial client contact prepares them for more positive client/student relations.

3. Individual Team Training Meetings- Toward the end of the semester, two student team training meetings are scheduled -- one with a faculty member from the English Department and one with the same faculty member from the Department of Speech, Music, and Theater who conducted the previous session on interviewing techniques. The purpose of the individual team training meetings is to improve the students' performance in the critical areas of written and oral communication skills.

Before the final written consulting report is due to the course instructor, the student team must meet with the assigned English professor for a review and critique of the written report. Any necessary changes, additions, or corrections with regard to writing style and composition are made following this meeting. After the report is submitted to the SBI instructor, it undergoes a second review and critique focusing on the case analysis and is again returned to the student team for corrections and revisions. This dual review process of the English professor examining writing styles and the SBI instructor focusing on the case analysis and content assures that the written consulting reports are of the highest quality prior to submission to the Small Business Administration.

Prior to the McDonough course designation, each student team was allotted one class period for the oral presentation of their final case analysis. Some oral presentations merely involved three students remaining seated in front of the classroom reading from the written consulting report. The additional requirement of individual team coaching by the Speech professor has had a remarkable effect on the quality of the oral presentations. Team oral presentations have improved dramatically, with students utilizing visual aids, index cards, and body movement around the classroom when conducting their individual presentations.

4. Required Readings on Leadership- Another course enhancement under the McDonough designation has been the addition of required readings on library reserve. All students are required to answer

seven questions from six articles from various issues of the Harvard Business Review. The theme throughout the series of articles is the examination of leadership skills within a small business context.

5. Entrepreneurial Speaking Engagements- The final improvement made in the SBI course curriculum was the addition of a final class presentation by a prominent business leader in the local community. Last semester, a successful local entrepreneur and a former president of a large chemical corporation presented a lively discussion on "entrepreneurism" versus "intrapreneurism". The students again benefitted from the "real-life" or "real-world" experiences of the two presenters, both of whom had at least thirty years of experience in the business world. This component of the course proved to be extremely motivating and inspiring for the students involved.

The five course upgrades under the auspices of the McDonough Leadership and Business program -- short courses on interpersonal relations and interviewing techniques, individual team training meetings in written and oral communications, required readings, and entrepreneurial speaking engagements -- have been beneficial to both faculty and students, vis-a-vis increased faculty involvement from three disciplines and improved student performance in written and verbal skill areas. The entrepreneurial speaking engagements serve a dual purpose -- motivating and inspiring students and strengthening the college's relationship with the business community.

## Conclusion

The hands-on Small Business Institute Program has been a valuable component of the undergraduate management program at Marietta College for over eleven years. Over the past two years, several changes and additions to the course -- the Entrepreneurial Mentor Program, promotional information sheets, flowcharting, confidential team member evaluation forms, and involvement with the McDonough Center for Leadership and Business -- have served to improve the quality of the educational program for our undergraduate business students.

Several conclusive implications for SBI curriculum development have resulted from the course enhancements. The entrepreneurial mentors and outside speakers serve as positive role models for the students. The interdisciplinary nature of the team training sessions and additional critiquing of the written reports and oral presentations resulted in dramatically improved final consulting reports and oral presentations. Answering questions to required readings allowed the students to apply theory to practice, since the answers addressed the behaviors of clients and entrepreneurial mentors as they related to the theoretical topics of the articles. And finally, an examination of student course evaluation summaries before and after upgrades and enhancements revealed several perceived improvements.

On a

rating scale of 1-4, the course level of difficulty increased from 2.5 to 2.9. Obviously, the workload of the course increased rather dramatically, from 2.38 before upgrades to 3.21 following the additions. The course administration was perceived as more organized, with pre- and post-ratings of 2.29 and 2.93, respectively. Lastly, the instructor rating improved slightly, from 3.29 to 3.50 following the course extensions. In summary, the significance of the course improvements is obvious, both from the instructor's qualitative and subjective perspective and from an examination of the quantifiable student course evaluation forms completed end of each semester.

The enhancements and improvements made to the SBI program at Marietta College can serve as a model for other colleges and universities involved in the Small Business Institute program throughout the country.

# WOMEN-OWNED BUSINESSES 1972-1982: A VIEW OF THE STATISTICS

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## INTRODUCTION

The purpose of this article is to look at some of the data on women-owned businesses (WOB) to get a perspective on the current status of women business ownership. By now, even the general public has some awareness of the growth of WOB. The perception remains, however, that women are mainly interested in boutiques and other female-oriented retail firms, and that most of these are not very profitable. Implied in these perceptions is the notion that women may be going into business, but they are not "real" entrepreneurs. Do the statistics indicate that the increase in women-owned businesses has been accompanied by an increase in entrepreneurial behavior by women?

This paper began as a simple update of an article by Pat L. Burr (1) of the SBA on the female entrepreneur based on 1972 Department of Census data--the first year that a survey of women-owned businesses was incorporated into the economic census. Reports of this survey are published as "Women-Owned Businesses, 1972, 1977, 1982, etc. (2,3,4). The article provided the idea for the following hypothesis: If relative receipts are growing at a faster rate than the relative increase in the number of women-owned firms, this would constitute a measure of entrepreneurship. In other words, receipts are one measure of relative market share, and an increase in market share is a measure of entrepreneurial activity.

As it turned out, the task of gathering and interpreting the statistics became an education in itself, and because of space constraints became the focus of this paper with two goals:

1) to avoid any duplication of effort by the audience/reader, 2) to provide information for a perspective on WOB.

## A LOOK AT THE TABLES

Tables are provided which show the number of firms and receipts for WOB for the years 1972, 1977, and 1982--based on the available data which is gathered from the economic census taken every five years (data for 1987 is expected in early 1989).

A cursory examination of the data seemed to show an enormous increase in total receipts for all U.S. firms--from 2 to 633 to 967 + O's. A closer examination revealed that receipts were

decreasing--from 2 trillion to 633 billion. The explanation: the base was changed in 1977 to exclude 1120 corporation data, although table headings continued to refer to "all United States firms."

The data for 1972 are shown in Table 1 and 2. The most significant statistic is the meagerness of the receipts for WOB, 0.3%. The figures led to the article by Pat Burr addressing the economic-societal issues of imbalance for WOB. The 1972 data prompted other action:

The president, recognizing the vital and increasing role women business owners play in the American economy as well as the obstacles to their becoming entrepreneurs, established the Task Force on Women Business Owners (5, p. 3).

The body of this report notes that available statistics showed that about two percent of the total receipts generated by small businesses in 1972, came from businesses owned by women. Exhibits in the report, however, contain the same data as Tables 1 and 2 with receipts for WOB at 0.3%.

Partnerships and small corporations were significantly under covered in 1972 due to processing errors. The 1977 report on WOB includes a comparison of revised 1972 estimates and comparable 1977 data.

When 1972 data is revised then percentage of firms owned by women increases from 4.6 to 5.6%, and the proportion of receipts increases from 0.3 to 1.0%.

TABLE 1

## COMPARISON OF NUMBER OF FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1972

Firms (thousands)

Women owned	Percent	Industry division	*All Total	Total of all
All industries, total	8,730	402	4.6	Construction 1,020
	15	1.5	Manufacturing 437	8
	1.8	Transportation and public utilities	**432	7
	1.6	Wholesale trade 560	5	.9
	Retail trade 2,381	133	5.6	Finance, insurance, and real estate
	**1,318	37	2.8	Selected services
	**2,212	151	6.8	Other industries and industries not classified
	*370	45	12.2	

----- \*Based on data from U.S. Internal Revenue Service, Preliminary Report, Statistics of Income, Business Income Tax Returns, 1972 \*\*Excludes Railroads \*\*\*Adjusted to exclude industries out of the scope of Census Bureau's Report Source: U.S. Department of Commerce: Women Owned Businesses, 1972. -----

TABLE 2

## COMPARISON OF RECEIPTS FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1972

Receipts (billions)

Women owned

Women owned	Percent	Industry division	*All Total	Total of all
All industries, total	\$2,381.2	\$8.1	0.3	Construction 146.2
	.5	.3	Manufacturing 875.3	.3
	****.0	Transportation and public utilities	**159.5	.1
	.1	Wholesale trade 349.4	.6	.2
	Retail trade 474.9	4.2	.9	Finance, insurance, and real estate
	***252.8	.5	.2	Selected services
	***95.5	1.5	1.6	Other industries and industries not classified
	***27.6	.4	1.4	

----- \*Based on data from U.S. Internal Revenue Service, Preliminary Report, Statistics of Income, Business Income Tax Returns, 1972 \*\*Excludes Railroads \*\*\*Adjusted to exclude industries out of the scope of Census Bureau's Report \*\*\*\*Less than 0.05 percent Source: U.S. Department of Commerce: Women Owned Business, 1972 -----

The data for 1977 are shown in Table 3 and Table 4. The base of all U.S. firms now excludes corporations other than subchapter S. Women own 702 thousand firms which is 7.1% of the total. Receipts stand at \$41.5 billion--6.6% of total receipts. When all corporations are added to the base, receipts for WOB stand at 0.9% with 4.8% of the firms (6, p. 503). Given the large number of firms that comprise smaller businesses, changing the base alters the relative receipts much more than relative number of firms.

TABLE 3 COMPARISON OF NUMBERS FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1977\*\*

Firms (thousands)	Women owned	Percent	Industry division	All Total	Total of all
All industries, total	\$9,883	702	7.1	Construction 1,107	21
	1.9	Manufacturing 287	19	6.6	Transportation and public utilities
	419	12	2.9	wholesale trade 16	Retail trade 2,600
	212	8.8	Finance, insurance, and real estate	*1,404	66
	4.7	Selected services 3,623	316	8.7	Other industries and industries not classified
	393	40	10.2		

----- (Excludes corporations other than subchapter S corporation) \*Adjusted to exclude industries out of scope of this report. \*\*Based on data from U.S. Internal Revenue Service, Preliminary Report, Statistic of Income, Income Tax Returns and Business Income Tax Returns, 1977 Source: U.S. Department of Commerce: Women Owned Business, 1977 -----

TABLE 4 COMPARISON OF RECEIPTS FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1977\*\*

Receipts (billions)	Women owned	Percent	Industry division	All Total	Total of all
All industries, total	*\$633.1	\$41.5	6.6	Construction 72.6	2.9
	4.0	Manufacturing 38.5	3.6	9.4	Transportation and public utilities
	22.8	1.3	5.7	Wholesale trade 7.0	Retail trade 291.4
	16.4	8.0	Finance, insurance, and real estate	*66.6	2.1

3.2 Selected services 120.1 7.1 5.9 Other industries and industries not classified 21.2 1.2 5.7 -----  
 ----- (Excludes corporations other than subchapter S corporation) \*Adjusted to exclude  
 industries out of scope of this report. \*\*Based on data from U.S. Internal Revenue Service, Preliminary Report,  
 Statistic of Income, Income Tax Returns and Business Income Tax Returns, 1977 Source: U.S. Department of  
 Commerce: Women Owned Business, 1977 -----

One change in the 1977 survey is the addition of annual payroll data. Another is the additional coverage of certain services industries: SIC coverage has been expanded to include industry groups 801, offices of physicians, 802 offices of dentists; 803, offices of osteopathic physicians; 804, offices of other health practitioners; 808, outpatient care facilities; major group 81, legal services; and 899, services, not elsewhere classified.

Gender identification from Social Security records has been matched with IRA data to identify ownership. These are the criteria for classification:

A firm was considered to be women-owned if the sole owner or at least half of the partners were women; a corporation was classified as women-owned if 50 percent or more of the shares were owned by women (3, p. 4)

Moving on to the 1982 edition of Women-Owned Business, one can find further efforts to uncover all possible businesses that qualify as a women-owned:

In 1982 joint returns of form 1040, Schedule C were matched against an SE (self employed) filed provided by the SSA to identify women-owned business.... In 1977 the first person listed on the form was assumed to be the owner. Since the majority of joint returns list the husband first, this incorporated a serious downward bias into the 1977 data. In 1982, there were 1,794,000 businesses identified as women-owned due to the SE file processing. These businesses would not have been included as women-owned if the 1977 methodology had been used. As a result, growth figures from 1977 to 1982 will appear considerably larger than they are in fact (4, p. v).

The Department of Commerce estimated that the underreporting of firms for 1977 at roughly 1 million firms (per telephone conversation 9-23-88). Further difficulties in the comparability of 1977 and 1982 data include:

- a) Beginning with 1982, each unique Schedule C (1040) is counted as a separate firm. This change makes WOB data more comparable to the IRS publication series, Statistics of Income.
- b) There were proportionately far more businesses classified in miscellaneous categories for 1982 than for 1977. Steps are being taken by the Bureau of the Census and IRS to prevent this problem in the future (4, p. v).

Data for 1982 is presented in Table 5 and Table 6. The proportion of WOB firms increases to 23.5% with a total of 2,884,450. Receipts stand at 10.2% with a volume of \$98.3 billion. When all corporations are added to the base, WOB accounts for 20% of the total firms with 1.27% of the total receipts.

TABLE 5 COMPARISON OF NUMBER FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1982

\*\*Firms (thousands)

Women	*Industry division	**Total Owned	Percent	-----	All																			
12,060	2,884	23.9	Construction	1,325	62	4.7	Manufacturing	314	50	15.8	Transportation and public utilities	500	41	8.1	Wholesale trade	34	Retail trade	2,866	728	26.6	Finance, insurance, and real estate	1,703	264	15.5
4,724	1,402	29.7	Other industries and industries not classified	628	305	48.6	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	

----- \*For comparability purposes, this table excludes women-owned firms filing form 1120 tax returns (corporations other than subchapter S small business corporations). \*\*Includes only individual proprietorships, partnerships, and subchapter S small business corporations. \*\*\*Based on data from U.S. Internal Revenue Service, Statistics of Income Bulletin, Volume 4, Number 1, Sole Proprietorship Returns and Partnership Returns: 1982, and Corporation Income Tax Returns, 1982. Source: U.S. Department of Commerce: Women Owned Businesses, 1982. ----



TABLE 6 COMPARISON OF RECEIPTS FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1982

\*\*Receipts (billions)

Women *Industry division	**Total Owned Percent	-----	All
industries, total	\$967.4	\$98.3	10.2
Construction	92.3	4.6	4.9
Manufacturing	58.4	5.3	9.1
Transportation and public utilities	39.4	3.2	8.2
Wholesale trade	9.2	384.7	35.9
Retail trade	11.7	117.1	6.4
Finance, insurance, and real estate	117.1	6.4	5.4
Selected services	214.0	26.3	12.3
Other industries and industries not classified	61.5	7.5	12.2

----- \*For comparability purposes, this table excludes women-owned firms filing form 1120 tax returns (corporations other than subchapter S small business corporations). \*\*Includes only individual proprietorships, partnerships, and subchapter S small business corporations. \*\*\*Based on data from U.S. Internal Revenue Service, Statistics of Income Bulletin, Volume 4, Number 1, Sole Proprietorship Returns and Partnership Returns: 1982, and Corporation Income Tax Returns, 1982. Source: U.S. Department of Commerce: Women Owned Businesses, 1982. ----

INTERPRETATION OF THE DATA

The percentage change in the number of firms and the receipts for firms owned by women was computed for two periods (table not included): (1) from 1972 to 1977 (from the revised 1972 and the adjusted 1977 data which was reported in the 1977 survey), and (2) from 1977 to 1982. For all industries, the number of firms increased 30% from 1972 to 1977, and 311% from 1977 to 1982. Receipts for all industries increased 72.3% from 1972 to 1977, and 137% from 1977 to 1982. The 1982 figures are compared to an inadequate 1977 base; nevertheless, the significant observation is that the growth in receipts does not keep pace with firm growth.

In addition, the percentage increase from 1977 to 1982 in the proportion of firms and receipts for firms owned by women relative to all U.S. firms was computed. This calculation

eliminates the issue of not comparing constant dollars. Since the base is industry categories, it also captures the movement in the industry base (table of industry breakdown not included). In 1982 WOB constituted 23.9% of all U.S. firms, an (overstated) increase of 236.6%. Receipts, however, stood at only 10.2%, an increase of 54.5%. Again, the important observation is that numerical firm growth outpaces growth in receipts.

While the fine print says that the data are not comparable, they nonetheless are used for comparison purposes by various parties. The data do provide a perspective (and it is a perspective we are looking for):

- a) to observe an implied strategy in the way statistics are \*categorized, and
- b) to move us historically to the current figures.

Table 7 is a comparison of the relative proportion of firms by industry division to total WOB for 1972, 1977, and 1982. This table reveals a pattern of business formation in which the present imitates the past. From this table it is possible to conclude that while relative changes in the data from 1977 to 1982 are overstated, the figures are in a fairly accurate proportion when comparing one industry to another within a given year.

TABLE 7

COMPARISON OF THE RELATIVE PROPORTION OF FIRMS BY INDUSTRY TO TOTAL WOMEN OWNED FIRMS FOR 1972, 1977, AND 1982

Industry division	1972	1977	1982	-----	All industries, total
	100.0%	100.5%	100.0%		100.0%
Construction	3.7	3.0	2.1		
Manufacturing	1.9	2.7	1.7		
Transportation and public utilities	1.7	1.7	1.4		
Wholesale trade	1.2	2.3	1.1		
Retail trade	33.1	30.2	25.2		
Finance, insurance, and real estate	9.2	9.4	9.2		
Selected services	37.6	45.0	48.6		
Other industries and industries not classified	11.2	5.7	10.6		

-----

Table 8 gives the percentage change from 1977 to 1982 in the number of firms, employees, and receipts for firms owned by women for the larger employment categories and the subsection of the larger retail trade employment categories. This data is important for several reasons. To begin with, the data understatement in 1977 was from the self-employed category of Schedule C, 1040; and, it is reasonable to assume, these firms would be assigned to the employment category, "with no paid employees". Reasonable comparisons should, therefore, be possible within the "with paid employees" category. An examination of the growth rates within these two categories lends support to this assumption.

TABLE 8 PERCENTAGE CHANGE FROM 1977 TO 1982 IN THE NUMBER OF FIRMS, EMPLOYEES, AND RECEIPTS FOR FIRMS OWNED BY WOMEN FOR SELECTED EMPLOYMENT SIZE AND INDUSTRY DIVISION

Percent Change from 1977	Industry Division	-----	and Employment Size	Firms	Emps.	Receipts	-----
----- All industries 310.9 51.4 136.9							
With no paid emps. 381.6 -0- 422.2 With paid emps. 85.8 51.4 85.7							
20-49 25.8 25.5 44.1 50-99 18.8 17.9 51.5 100 or more 52.9 72.3 156.1							
Retail trade: 20-49 36.9 37.7 50.4 50-99 31.5 29.2 43.1 100 or more 47.9 79.9 221.3 -----							
-----							

The three largest employment categories are: 20-49 employees, 50-99 employees, and 100 employees and over. When the employment data for the three largest categories is examined, we do find a pattern of growth that indicates entrepreneurial activity. For all three categories within the total industry statistics, the growth rate of receipts is outpacing the increase in number of firms. The greatest growth is occurring in the largest firms with a growth in receipts of 156.1%, and a 72.3% increase in employees. The number of firms increased 52.9%.

The retail trade industry was selected for examination because it is the industry with the greatest number of employees and the largest receipts for WOB. In the three largest employment categories the percentage increased in receipts is outpacing the movement of firms into these categories. Firms with 100 or more employees had a growth rate in employees of 79.9%, with a 221.3% increase in receipts on an increase base of firms of 47.9%.

## DISCUSSION

This brief examination of some of the data on women-owned businesses reveals some of the complexity in tracking the enormous changes that are occurring in WOB.

While some support was found for the working hypothesis in the growth rates of more established WOB, the significance of all the industry segments should not be overlooked. In particular, the firms with no paid employees, managed to contribute 33.5% of the total receipts. Finding an opportunity in the environment for a business with such limited resources should be termed entrepreneurial activity.

Further overall evidence of entrepreneurial activity is the growth in annual payroll to \$11,198,450--an increase of 82.2%. This increase is in spite of the fact that 89% of all women-owned businesses have no paid employees. The projected significance in terms of power, growth potential, and implied contribution to job creation of WOB, thus, needs to be kept in perspective. In the final analysis, therefore, satisfaction with the tremendous numerical growth of WOB is tempered by the paucity of receipts and the significant number of firms without paid employees.

Many articles in the popular press paint a rosy picture of the female entrepreneur. The statistics on WOB help to reveal a more accurate state of affairs.

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Space allowed these tables to be included as an appendix.

APPENDIX

TABLE 1A

COMPARISON OF NUMBER OF FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1972 AND REVISED 1972

Firms (thousands) ----- Women owned 1972 Revised 1972

% Industry division	All	Total of all	Total of all	-----	All
industries, total	8,730	402	4.6	486	5.6
Construction	1,020	15	1.5	21	2.1
Manufacturing	437	8	1.8	14	3.2
Transportation and public utilities	432	7	1.6	10	2.3
Wholesale trade	560	5	.9		
Retail trade	2,381	133	5.6	182	6.2
Finance, insurance, and real estate	1,318	37	2.8	45	3.4
Selected services	2,212	151	6.8	163	7.4
Other industries and industries not classified	370	45	12.2	50	13.5

TABLE 2A

COMPARISON OF RECEIPTS FOR FIRMS OWNED BY WOMEN TO ALL U.S. FIRMS FOR THE YEAR 1972 AND REVISED 1972

Receipts (billions)	Women owned 1972	Revised 1972	% Industry division	All	Total of all	Total of all	-----
All industries, total	\$2,381.2	\$8.1	0.3	\$23.5	1.0		
Construction	146.2	.5	.3	2.3			
Manufacturing	875.3	.3	.0	2.0	.2		
Transportation and public utilities	159.5	.1	.1	.6	.3		
Wholesale trade	349.4	.6	.2				
Retail trade	474.9	4.2	.9	14.4	1.7		
Finance, insurance, and real estate	252.8	.5	.2	.9	.4		
Selected services	95.5	1.5	1.6	2.5			
Other industries and industries not classified	27.6	.4	1.4	.6	2.2		

TABLE 7A

PERCENTAGE CHANGE IN THE NUMBER OF FIRMS AND RECEIPTS FOR FIRMS OWNED BY WOMEN FROM (REVISED) 1972 TO (ADJUSTED) 1977 AND FROM 1977 TO 1982

Percentage change	-----	(R) 1972 to (A) 1977	1977 to 1982	Industry division	**Firms	**Receipts			
*Firms *Receipts	-----	All industries, total	30.0	72.3	310.8	136.9			
Construction	.9	26.8	195.2	58.6	Manufacturing	35.0	77.7	163.2	47.2
Transportation and public utilities	19.3	103.8	241.7	146.2	Wholesale and retail trades	24.9	61.8	234.2	92.7
Finance, insurance, and real estates	47.1	118.7	300.0	204.8	Selected services	50.5	138.0	343.7	270.4
Other industries and industries not classified	-20.5	96.3	662.5	525.0	----				

TABLE 8A

PERCENTAGE INCREASE FROM 1977 TO 1982 IN THE PROPORTION OF FIRMS AND RECEIPTS FOR  
 FIRMS OWNED BY WOMEN RELATIVE TO ALL U.S. FIRMS

Firms Receipts ----- \*% \*% % of all Change % of all Change Industry division in 1982  
 from '77 in 1982 from '77 \_\_\_\_\_

All industries, total	23.9	236.6	10.2	54.5	Construction	4.7	147.4	4.9	22.5	Manufacturing	15.8	139.4	9.1	-3.2
Transportation and public utilities	8.1	179.3	8.2	43.9	Wholesale and retail trade	26.6	202.3	11.7	46.2	Finance, insurance, and real estate	15.5	229.8	5.4	68.8
Selected services	29.7	241.4	12.3	108.5	Other industries and industries not classified	48.6	376.5	12.2	114.0	-----				

\*The % change is overstated. Altered file processing for the 1982 survey resulted in the addition of 1,794,000 firms in a self-employed category not counted in 1977. It is presented only to give some perspective on the direction of change in the data as published, and to show the relative pattern of business formation within the industrial divisions.

\*\*Source: Women-Owned Businesses, 1977 (3, p. 5).

# THE MOST PRESSING PROBLEMS OF SMALL BUSINESSES: SOME OBSERVATIONS BASED ON TWO SAMPLE SURVEYS

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## ABSTRACT

The purpose of this paper is to identify the major sources of small business problems. It accomplished this objective by classifying on a systematic basis a large number of problems that were identified as a part of two mailed questionnaire surveys. First, the problems were categorized based on their external versus internal source of origin. And then, the internal problems were further analyzed by assessing the relative importance of four business functions and six policy areas.

## INTRODUCTION

Small businesses play a vital role in the U. S. economy by contributing to the gross national product, employment of workforce, job creation, and product and process innovation. However, the risk of failure (e.g., bankruptcy) is always an ominous threat to these businesses. Even conservative estimates of the small business's mortality rate range between 45 and 70 percent. In fact it has been repeatedly found that in the first two to three years of their establishment at least half the businesses fail owing to various problems. The main purpose of this paper is twofold: first, to gain an understanding of the most pressing problems that are encountered by the small businesses. Second, to trace the problems to their external versus internal source of origin.

## THE SOURCES OF SMALL BUSINESS PROBLEMS

In general, small businesses face a wide range of problems that affect their stability and economic performance. A study by Franklin and Goodwin (1) evaluated the relative importance of forty-six problems and suggested that these problems can be attributed to three major sources: 1) external, 2) internal, and 3) financial. External problems, according to this view, represent the problems that are usually beyond the direct control of management. Internal problems

represent those items that management deals with on a day to day basis and over which the management has some degree of control. Financial problems, however, represent a combination of internal financial factors and external capital markets (1; 7) . Another study by Khan and Roacha (2) classified the managerial problems of small businesses into four categories: 1) marketing, 2) accounting, 3) inventory control, and 4) cash flow management. They implied that the major problems of small businesses have their origin within the business functions.

The classification scheme adopted in this article combines the above two approaches and, at the same time, presents the classification in somewhat greater detail. First, all the small business problems are classified two main groups: external and internal. And then, the external and internal problems are further classified into categories representing the sources of problems.

## DATA

The data, on which this article is based, came from two sample surveys conducted during 1985 in the Scranton (Pennsylvania) and Binghamton (New York) areas. The data was collected using mailed questionnaire surveys. The identical questionnaire format and data collection technique was used in both surveys. The Scranton and Binghamton responses consist of 111 (response rate of 15%) and 54 (response rate of 12%) firms respectively.

The questionnaire asked the respondent to indicate what they considered to be the three most pressing problems facing their business. Excluding the missing (non-response and unusable) cases the two surveys yielded a total of 338 problem statements (some firms mentioned less than three problems). The surveys also included ordinal data involving the ranking of four functional areas, and the ranking of six policy areas.

## SAMPLE CHARACTERISTICS

In terms of a number of background characteristics the two samples represent a high degree of similarity. For instance, a large majority of the units (almost 70%) were located in either an industrial or a business district; about 80 percent of the units represent owners' primary source of income; and owners devote full-time attention in over 90 percent of the firms. In addition, the size of an average firm was about fifteen full-time employees with 50 percent of the firms having less than six employees. The sample from both sites was small businesses as defined by Small Business Administration (SBA) guidelines.

## SOURCES OF EXTERNAL PROBLEMS

The external problems can be attributed to four major sources: 1) economy (general economic forces), 2) legal/government, 3) industry or business activity, and 4) factor cost (price of factors of production). Problems that are related to the economic forces include macro-economic variables such as recession, inflation, interest rate, and business attitude and climate. Most of the problem arising from legal/government sources include regulations instituted by federal, state, and local governments, deregulation, cost and restrictiveness of the regulatory constraints, changing regulatory climate, and regulations by Internal Revenue Service (IRS). A smaller percentage (4.5%) of the reported small business problems are due to certain uncontrollable industry (business activity) related conditions that somewhat uniformly affect all firms in an area or region. Five specific of these problem that were identified by the surveys were a) seasonal nature of the demand b) shrinking customer-base or demand, c) overcapacity in the industry, d) oversaturation of the area/region with like business units, and e) changing or unpredictable nature of the market environment as a whole. The cost factors relate to the price of factors of production (land, labor, and capital) and several other major cost items such as transportation, utility, insurance, tax, and employee benefits and social programs that are also largely uncontrollable on the part of small business because they are rooted in the external environment.

## SOURCES OF INTERNAL PROBLEMS

The internal problems were classified first into three subcategories: 1) problems specific to the business functions, 2) problems related to back ground and characteristics of the owner/manager, and 3) problems involving the business objectives and performance criteria. Second, internal problems belonging to the functional areas were further classified into four categories: a) operations/production, b) sales and marketing, c) finance, and d) personnel.

The classification of the problem statements according to the above scheme shows that more than 70 percent of the problems originated from the internal sources. Thus, the internal

problems were mentioned almost three times more frequently than the external ones. However, since the surveys did not assess the relative role of the internal versus external problems, the result should not be interpreted to imply that collectively the external problems are relatively less important than the internal ones.

### Sources of Problems in the Functional Areas

Slightly over 26 percent of the problems relate to the sales and marketing area originating from the six major sources: sales planning, sales promotion, customer service, delivery, order fulfilling, and demand creation. The problems relating to the finance area appear to stem from the following major sources: cash flow, accounts receivable (including credit policy), working/operating capital, long-term capital funds, financial control, and cost containment or control. The operations/production management problems are mainly concerned with location, space and physical facilities, repairs and maintenance, inventory management, quality control, job scheduling, mechanization or automation, and computerization (e.g., delays, breakdowns). A total of 53 (15.9 percent) problems were mentioned that relate to the personnel area. These problems can be traced to the following sources: availability of qualified (skilled, competent, and experienced) people, employee turnover, employee loyalty and commitment, employee motivation, availability of part-time and/or temporary help, and employee training.

### Problems relating to the owner/manager

These problems are concerned with the background, and qualifications of the owner/ manager. The five problems that were mentioned in this area relate to three issues: poor time management, inadequate sales expertise, and lack of adequate training and experience in the operation of the business.

## RELATIVE IMPORTANCE OF CRITICAL BUSINESS FUNCTIONS

The relative importance of the business functions are assessed by averaging the ranks assigned to each function by the respondents. Table 1.1 presents the ranking of the functions for both Scranton and Binghamton samples. The rank order emerging from the study is exactly identical for both samples. Based on average rank in importance, sale and marketing emerged as the most critical function followed by finance and operations. The personnel function ranked a distant fourth in both samples. The table shows the percentage of firms that ranked each function as number one and number two.

The relative importance of the functions is a crucial issue. Based on the number of problems mentioned it would have appeared that finance and personnel are almost equally important as a source of problems, and that operations/production was the least important one. However, only 21.7 percent of the firms ranked personnel as number one or number two in importance while the corresponding percentage for the finance was 60.1 percent. The implication is that small businesses generally face a wide array of problems that relate to the personnel function. As a distinct function, however, it is considered by the owners/managers as less crucial for the overall success of the business units. Even though an individual personnel problem may be vitally important, as a collection these problems do not add up to be as critical as those that are faced in other functional areas such as sales and marketing, finance, and operations.

----- TABLE 1. 1

### RANKING OF CRITICAL BUSINESS FUNCTIONS BY SCRANTON AND BINGHAMTON SAMPLES

Business A v e r a g e o f R a n k s Functions Scrant Bing Total Sample % of Firms\* (n=111) (n=54) (N=165)

Sales and Marketing 1.641.721.6783.0 Finance 2.282.202.2560.1 Operations/Prod. 2.382.622.4548.8  
Personnel 3.223.303.2521.7

\*Percentage of firms that ranked the function as number 1 or number 2 in importance. -----  
-----

### RELATIVE IMPORTANCE OF SOME CRITICAL POLICY AREAS

Table 1.2 presents the rank in importance of six major policy areas. The rank in importance of the areas based on average of ranks are as follows: Customer service, quality control, scheduling, inventory control, lay-out of operations, and maintenance. Once again, the rankings are identical across the two samples. Customer service is by far the most critical policy area. This finding is consistent with the earlier ranking of functional areas where sales emerged as the most important function. The remaining policy areas relate to the production/operations function. Based on both percentage of firms that ranked the function as number one or two or three and average of the ranks, the relatively more important policy areas are quality control, scheduling, and inventory control, in that order.

-----  
TABLE 1.2

### RANK IN IMPORTANCE ASSIGNED TO THE KEY POLICY AREAS BY THE SCRANTON AND BINGHAMTON SAMPLES

Average of Ranks Policy Scrant Bing Combined % of Firms@ Areas (n=111) (n=54) (n=165)

Customer Service 1.681.521.6391.1 Quality Control 2.922.982.9468.7 Scheduling 3.203.483.2956.7 Inventory Control  
3.673.553.6349.3 Lay-out of Operations 4.373.944.2326.9 Maintenance 4.424.884.5821.6

@ Percentage of firms who ranked the function as number 1 or number 2 or number 3 in importance. -----  
-----

## SUMMARY AND COMMENTS

The general conclusion emerging from this paper is that the numerous problem that small business face can be traced to a relatively small number of common sources. It is also true that not all sources of problems are equally important. A useful insight can be derived from the study of the internal problems by looking first at the relative salience of the functional areas where they originate. From the findings reported in this article, it is evident that small business operators attribute a far greater percentage of their most pressing problems to certain internal sources, particularly to the functional areas. Among the functional areas sales and marketing emerged as the most critical function. This finding is quite consistent with research evidence recently presented by Pelham and Clayson (3). Within the sales and marketing area the most frequently mentioned source of problems is the competition. Most external problems are attributed to sources such as government (federal, state, and local), macro-economic factors, factor cost, and industry or market forces. Based on results presented here it should not be construed that the major sources of problems are more internal than external. In fact, the data base does not allow an assessment of the relative importance of the external versus internal problems. However, based on results presented here the authors would agree with Franklin and Goodwin (1) when they suggest, "Perhaps a large part of a small business' problems lies in the failure to carefully study and change internal management, marketing, and financial expertise, strategy and implementation" (p. 10).

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# ENTREPRENEURSHIP IN A GLOBAL ECONOMY: FINDING FOCUS AND FORM IN THE MIDST OF FERMENT

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## ABSTRACT

This paper challenges the idea that exporting is beneficial for the entrepreneurial firm [EF]. It points out the dangers of neglecting the solid base of the home market in pursuit of fragmented global markets. It emphasizes diminishing returns on investment and diffusion of the entrepreneur's time and attention. A set of prescriptive solutions are proposed to overcome some of the problems. Eight research propositions relating to success and profitability in global trading are developed.

## PURPOSE

### The Issues

This paper addresses the issue of the pressure on the EF to increase its marketing in foreign markets. The EF is exhorted to broaden its business globally. Much of this encouragement comes not so much from an inherent desire to improve the profitability of the individual firm as from a public policy perspective that holds that more US exports are desirable as a means of reducing the large US adverse trade balance of payments. The larger firms have in many cases internationalized their operations. Where formerly they exported, they now have international subsidiaries. Many of these subsidiaries have both marketing and production facilities in their overseas national markets. Implicit in this process is the assumption that what is possible by, and good for, the Fortune 500 companies is equally appropriate and beneficial for smaller firms. It is with this presumption that global marketing is in the best interests of the small firm that this paper takes issue.

### Definition of an Entrepreneurial Firm

Our definition of an Entrepreneurial Firm requires the firm to have five specific attributes in order to be classed as 'entrepreneurial'.

- A) Owner-managed B) Closely-held (effectively controlled by the entrepreneur, the management team or the family)
- C) Under 100 employees (or less than \$25 million in sales) D) High growth rate (at least double the industry standard)
- E) Innovative product, process or method of doing business for that industry

## GLOBAL TRADING PROBLEMS FOR THE ENTREPRENEURIAL FIRM

### Niche Markets

Niche markets are in vogue in the US entrepreneurial scene in the 1980s. This because true niche markets are competition-free. Their size is so small that they can profitably sustain only one supplying company. However, there is a down side. Niche markets are constricted in size and usually in a no-growth or slow-growth mode.

Although the niche is, by definition, too small for more than one firm to survive profitably, not every company realizes that fact. The mere fact that the EF is seen to be succeeding is enough to lead competitors into entering the same niche. Too often the company following the EF chooses a strategy of price competition forcing the EF to respond by reducing its prices. The result is that a market situation that is profitable for one firm becomes unprofitable if two or more compete for it. Thus, the secure base from which global trading might be launched can itself erode rapidly if the EF is following the strategy of being a niche company.

### Proposition #1

The success of the Entrepreneurial Firm's global trading activities will be directly proportional to the success it enjoys

in its home market.

### Orientation of the Entrepreneur

Entrepreneurs are oriented towards opportunities, recognizing them before others do and seizing them quickly. The EF may see enough opportunities in its home market in the US to more than occupy all of the available management time, capital and resources. Calls to undertake global trading may be a high-risk distraction from the more important issue of becoming a market leader in its home market. However desirable it may be from the perspective of the nation's balance of payments, such considerations of public policy may not be appropriate for the smaller firm.

### Return on Investment

The return on investment from global trading may be too low to interest the EF. Because of the increasing marginal cost of moving into smaller and more distant markets, the overall return on invested capital is likely to fall progressively, the further the EF moves in global expansion. The exception to this would be if the EF were to realize a much higher price and profit margin in foreign market compared to its price and margin in the US. The further the EF moves along the continuum towards a unique product and away from a commodity item the more it should be able to command monopoly-like prices and profits.

### Proposition #2

The further the Entrepreneurial Firm extends its global trading activities, the lower becomes its Return on Capital Invested unless it can command quasi-monopoly profits due to the innovativeness of its product.

Even more important may be the decrease in the return on the investment of time the entrepreneurs make in global activities. Even with 80 to 100 hour work weeks their time is limited. The marginal return per day or week spent in the US may be much greater than the marginal return on the same time spent in smaller markets in distant places.

### Proposition #3

The further the Entrepreneurial Firm extends its global trading efforts the more diluted is the entrepreneur's attention to the entire business and the less effective becomes his/her performance as well as the performance of the Entrepreneurial Firm.

### Innovative High Tech Products

In launching new products two key factors are the speed with which market intelligence travels around the world and the continuously shortening product and market life cycles. Global success requires proprietary features.

### Proposition #4

The more the Entrepreneurial Firm uses innovative technology the more likely it is to succeed in global trading.

## THE CHANGING NATURE OF BUSINESS

The shortening life cycle means that the concept of Windows of Opportunity is increasingly important. For most products and

certainly for high tech products the Window of Opportunity determines life or death, profit or loss. The more high tech the innovation the longer and more costly is the development time. These trends become more pronounced over time. It is more important than ever that the Window (market) is large enough and open (growing and relatively competition free) long enough for the initial investment to be recovered and a proper return on assets used obtained. To do this in one market may or may not be possible. Global marketing is the course of action more likely to be effective.

### Proposition #5

Because of the shortening product life cycle, the Entrepreneurial Firm has to achieve rapid development of global markets in order to profit from their innovation; the longer the rollout the less will be the total profit made from the innovation and the smaller will be its global market share.

### Information Overload

The growth of computers, far from producing the "paperless office" has buried management under a mass of printouts and electronic files. On-line data bases have meant that even more information is available and one ignores it at the risk of being at a competitive disadvantage. There are more sources from which information may be obtained and keeping up to date with technology involves a worldwide scan since developments are taking place in many countries simultaneously. With a large, diversified staff this task can be distributed but in the EF there is usually only one person or, at best, a small team who must carry out this function as well as their many other corporate functions. Add the information needs of global operations to the same team and overload can become a significant problem.

### Proposition #6

For the Entrepreneurial Firm with one-person management or a small management team, information over load may be the most critical limiting factor relating to the profitable development of the firm; in global trading, significant overload will increase geometrically with the increase in the number of markets in operation and will result in diminished performance overall.

### Management Style in the 1990s

The charismatic leader will become more important to the start and successful growth of new firms. Such an influence may become less effective the larger the firm and the more time it has had to institutionalize its practices. The leader's role will be

focused on three areas. One is the role of appreciating the as-yet unrecognized opportunity and being prepared to accept risks in pursuit of becoming a market leader rather than a market follower. A second role is that of catalyst, bringing about the assembly of resources and committed individuals who can translate a concept into a finished product or service. Third, the entrepreneur is the cheerleader who converts the team into disciples who buy into his or her vision and whose efforts are encouraged through the good times and reinvigorated through the bad.

In terms of decision-making there will be many changes. Businesses will exist and act in the present rather than act through plans laid for uncertain future events. Speed of action will replace rational decision-making, conventional problem-solving processes and analyses of alternative courses of action. "Ready-fire-aim" is an apt motto. Enactment will be a better paradigm than strategic planning [Weick, 1969].

Shortening product life cycles will lead to new versions of "satisficing" as a decision-making heuristic [March & Simon, 1958]. Decisions will be reached not so much on the amount of information available but on how much time is available in which to act and what actions are possible given the organizations capabilities, resources, positioning and competition.

The personal attributes or skills that will be valuable to individuals attempting to fill these leadership roles would be communication skills, persuasive powers and personal and professional credibility.

### Proposition #7

Leaders of Entrepreneurial Firms successful in global trading will have certain specific attributes as perceived by their employees, namely, communication skills, persuasive power and personal and professional credibility and that these skills will be largely responsible for their firm's success.

## RECOMMENDED COURSES OF ACTION FOR THE ENTREPRENEURIAL FIRM ENGAGING IN GLOBAL TRADING

### Sub-Contracting

Throughout, it has been argued that global trading may be hazardous to the commercial health of the EF. Yet, obviously, foreign market opportunities exist. A strong argument has been made for the rapid rollout of innovative technology products or services. There are courses of action which the EF can take which will assist in reconciling the commercial benefits from global exploitation of market opportunities with the potential losses from neglecting the home market, diffusing resources into

less profitable avenues and fragmenting management time and attention. The main thrust of this prescription is that the EF should avoid global trading on its own. Whatever it does should be done with or through other corporate players in the global trading game.

While the EF will maintain control of its core technology [Thompson, 1967], it will turn to sub-contracting as the preferred method of handling many of the non-recurring and peripheral corporate activities. This will serve the interests of speed of action and also tend to minimize the overhead in the company. The EF accepts a higher direct cost per activity compared to the in-house service function as a trade-off for lower standing overheads and flexibility to cope with changes in the level of activity. Activities that lend themselves to this solution are market research and intelligence-gathering; documentation and shipping; billing, financing and methods of collecting overseas payment.

### Licensing

One of the low cost ways of rapid development of global markets is through licensing. Licensing is granting another firm the right to manufacture or market your product in another country. Usually, the licensee is a company that has access to the appropriate customers or channels of distribution. In that way access to the market can be achieved by using an existing sales and distribution organization. The reputation of the licensee may be an asset if the EF is unknown in the foreign market.

In sum, licensing is a low-risk strategy since the track record of the licensee is open to inspection. It offers rapid entry into markets. It requires a smaller up-front capital investment. It usually requires less top management time. In the long run it offers the EF less control over the foreign market and, even if successful, it may produce less profit for the EF. For the small firm, licensing a major corporation to handle overseas marketing of the product may be the most profitable solution to global development looking at the combined profit from home and foreign markets.

### Strategic Partnerships

Although the idea of a partnership may be foreign to the independent character of an entrepreneur, the speed and cost of technology development is driving even the largest companies to set up global strategic partnerships. Such partnerships cover joint technical research, pooling of research information, cross-licensing of patents, cooperative market research and joint marketing agreements. As a tool in the rapid global commercialization of a new product, the strategic partnership with another, usually larger, company having the distribution channels and market contacts in target markets may be invaluable.

Not all strategic partnerships are successful. However, those that do work serve the partners well. Where the failures occur, enough research exists to identify some of the major causes of failure. Successful partnerships occur when both parties have integrity, full sharing of information and equal commitment.

### Trading Companies

Japan, Korea and Hong Kong solved similar problems of bringing small companies to the global market through the establishment of "trading companies". In Japan such organizations were known as "Zaibatsu" [Abegglen & Stalk., 1985]. Such companies established a significant presence in major trading centers around the world, all linked by telecommunications with the parent company in Japan. Local staff were fluent in the language of the country. Local offices served as a base for visiting business persons from Japan. The local staff were knowledgeable about the products of the companies they represented. They could quote prices and delivery times and obtain further information from the Japanese manufacturer. The same problem - getting the smaller firm into global markets - is very much the problem facing the EFs in the US today. A similar solution might be beneficial.

Given that EFs have more tasks than there is time to successfully perform, a service that would act as a broker bringing together potential strategic partners, especially connecting those in different parts of the world would be useful. Such a

service could guide and advise potential partners as to appropriate expectations. It would endeavor to ensure a match or fit between the values, goals, corporate climate and managerial style of the prospective partners. It could monitor events and suggest areas in which some adjustments might contribute towards sustaining the partnership. Probably the biggest contribution of such a brokerage firm might be to advise and persuade the entrepreneur as to the wisdom of a partnership in the first case.

### Counselling Service

Entrepreneurial owners need to realize that global trading demands a considerable investment of their personal time. Their expectation must be that a commitment to global trading requires a minimum of three to five years before success can be seen. They need to understand that product life cycles are shortening everywhere and that the Window of Opportunity is worldwide and does not often vary country by country within comparable degrees of industrial sophistication. So, rapid global rollout may be essential for the proper exploitation of any really new product. Also, success requires a stream of new products or continuous product innovation of existing products. A credible advisory service providing in-depth information market-by-market would facilitate EFs making the correct decision about global trading. Supporting the advice with case histories and detailed financial results in appropriate industries would add credibility to such a service.

### Global Investment Corporation- The New Role for EFs

If the entrepreneur applies an organic structure and management style [Burns & Stalker, 1961] to global trading then rapidly changing conditions around the world dictate delegation of authority. Local autonomy must be the rule. The role of the parent EF becomes similar to that of investment banker with, possibly, the addition of that of technology developer to the global subsidiaries or strategic partners added. It is the shared vision and values of the founder that hold the global organization together. It is those two - the vision and the values - that give the diffused global organization an individual character, uniform throughout the entire group. That is what prevents it from becoming a cooperative or a loose association of independent entrepreneurs. Such a dispersed loosely-coupled organization is favored to be the organizational structure most likely to achieve lasting financial success.

### Proposition #8

The more the role of the Entrepreneurial Firm approaches that of an investment banker and technology developer in relation to global trading, the more successful will it be.

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# TECHNOLOGY TRANSFERS TO THE THIRD WORLD AND SMALL BUSINESS OPPORTUNITIES

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## ABSTRACT

Small businesses with exportable technologies may play a more important role than large investment projects in the economic growth of developing areas if they can effectively identify and address problems commonly associated with the phenomenon of technology assimilation.

A major problem becoming apparent from a number of studies on the subject has been a number of large project failures which have resulted from what appears to be a level of reduced operating efficiency and of lowered productivity.

This paper examines the factors affecting a society's ability to absorb technology, and concludes that small business may have greater impact in stimulating growth in developing areas than large scale enterprises. "Small" may be beautiful when it comes to economic development.

## INTRODUCTION

Since the beginning of this decade, official development assistance from the OECD and OPEC nations to the Third World has totaled over \$250 billion. Most of these funds have been channeled into major investment projects, many of which have ended in failure.

This is the point that was attempted to be made by the writers, although in different contexts, at SBIDA 1988 [Proceedings, Page 662] and again at the Eighth Annual Babson Entrepreneurship Research Conference [Proceedings, Page 404], ie., that there seemed to be an inherent inability of large scale projects in certain Third World societies to have their imported technologies assimilated by local operators and the local community. An endeavor was made at those conferences to quantify what the writers felt was going on, but the mix of variables selected eg., changes in GNP, population growth, the savings and investment gaps, and the return-on-investment data left many questions unanswered. All efforts fell somewhat short of success.

This is why the writers felt it would be useful at the start of the research to again try to quantify "technology assimilation" in the format of a rating scale followed by a process of examining some cases in areas where technology assimilation levels appeared very low. This paper's tentative conclusion is that while big projects can contribute to economic development,

smaller, strategic business units might work better in accelerating the process due to a more intrinsic capacity to assimilate the imported technology.

## METHODOLOGY

The expression, economic development, was defined for this study as the processes used in improving and expanding the material well being of the community through the creation of new employment and income. [1] Technology assimilation was defined as the extent to which technology becomes viably rooted and efficiently utilized in society. [7]

The methodology of this study was to examine empirical data and some industry experiences in one developing area, Bangladesh, in order to describe some of the problems of technology assimilation faced by the Third World, and to set forth some recommendations in the implementation of which small businesses could play a major role. Bangladesh was selected as a test case.

The starting point for research in this study was to adopt an already available overseas business risk rating scale,

developed in an earlier study, as a set of proxy variables in an attempt to at first quantify the idea of technology assimilation. [5]

Data for 27 nations was used [10]. The Summarily, the business risk rating system used rank intervals arranged to reflect an unweighted average of three basic variables, per capita GNP, the savings/investment gap of a nation, and the annual rate of population growth, as shown in the Tables I and III.

The country scores obtained are shown in Table II. Low scores pegged to certain countries were not to discourage business relationships but rather to suggest the need to consider alternative approaches. It seemed clear from the low scores that traditional forms of large scale investments might not be suitable for specific environments. If business risk is high, could it then follow that technology assimilation levels might be low to allow for successful technology transfers?

A technology assimilation scale was derived using a similar approach. Three other variables was selected, lifespan, percentage of relevant age group enrolled in higher education and the per capita consumption of commercial energy. Each variable was given equal weight, and the same 27 countries were again ranked, as displayed in Tables II and IV.

## DISCUSSION

### The Success/Failure Of Technology Assimilation:

Average lifespan was chosen as a variable because it was felt that if longevity was very low, it could have a negative impact upon intellectual development. Enrollment in higher education

was selected for the same reason. Per capita consumption of commercial energy stated in kilograms of oil equivalent, was used as an indicator of technology is use.

One may note in Table II that nations with high levels of business risk tended also to experience low levels of technology assimilation. It might be that such countries should concentrate instead upon attracting smaller ventures that blend in better with and utilize local socioeconomic, educational and techno-managerial talents.

### Compatibility Of Imported Technology To The Community:

Bangladesh provides a good example of large project failure. It is a developing nation many of whose problems are typical of many Third World societies. Technology assimilation and business risk scores are 267 and 117 for the country respectively. Six percent of 20 to 24 year olds attend a university as opposed to 57% for the United States. An equally disturbing fact was that only 19% of young people between the ages of 12 to 19 attended a secondary school as compared to 95% for the United States. [10]

Three fertilizer plants, three paper mills and fourteen textile mills in the country were analyzed for capacity utilization, materials and energy usage, productivity and down time.

### The Fertilizer Plants

Capacity utilization analysis showed that all the three fertilizer plants have been operating well below design levels since their inception. [2] This does not conform to the logic that even infant industries must somehow eventually meet international performance standards if they are to remain competitive. [3] Many years after the commissioning (seven and nine years) two of the three plants still operating well below output levels. [7] According to a report by G.P. Williams and W.W. Hoehing, more than 80% of similar plants reach full production in less than nine months. [9]

### The Paper Mills:

Analysis of average capacity utilization rates showed that none of the mills were operating close to design level capacity. Average capacity utilization ranging from 38% to 70%. There were some performance improvement trends in the period covered in the study, but they were statistically insignificant. Even with the improvement trend, it implied a 15 year startup time for one mill, an unacceptable condition.



## The Textile Mills:

Fourteen textile mills out of a total population of forty nine mills were reviewed. Average capacity utilization based on installed and operating spindles were found to be around 50 and 60% respectively. In the case of the loom, the corresponding figures were around 50 and 65% respectively. The overall trend of capacity utilization was found to be downward over time. Labor productivity of the Bangladesh spinning mills was substantially lower than that of Japan or the U.K. Inter-vintage comparison of the spinning mill productivity between Bangladesh and the U.K. showed a substantial gap. [7]

## Use Of Local Resources By Smaller Strategic Business Units:

The thrust of the Bangladesh government, working in concert with large project investors, was apparently to promote development of basic industries, eg., paper, fertilizer, textiles, etc. The socioeconomic, educational and techno-managerial infrastructure proved unequal to that task. These large scale projects continue to stress the country's poor technology assimilation tolerances.

An interesting contrast to the large scale industry problems faced by Bangladesh is the relative successes of the garment industry in the country as well as in Sri Lanka and India, which is comprised mainly of smaller family owned entrepreneurial firms. [8] India is a good example of a country using small business creation to stimulate economic development, [4] a point made at the 1988 Babson Conference.

## CONCLUSIONS

Three conclusions are suggested:

- 1- That long-term business or commercial success parallels an area's endogenous ability to absorb imported technology.
- 2- That a sound statistical correlation may in fact exist between the general risks of doing business in developing areas and their technology assimilation capabilities. In all cases where an area exhibited a high risk business climate (scored low), it also demonstrated a low level of technology assimilation.
- 3- that economic development may be stimulated best by smaller businesses utilizing the talents and resources of the local community.

It remains to be seen if a low level of technology assimilation is generic to the condition of under-development or whether it is a function of certain large scale industries being incompatible with the existing infrastructure.

In either case, the argument can be made that, in the absence of anything else working well to bring about sustained development, small businesses which identify more closely with the problems and opportunities of the local community may be the starting point or triggering mechanism of economic growth.

Small scale industries generate immediate and local momentum to create work and to produce new income in areas stricken with chronic high unemployment. It may indeed prove to be that small will beautiful be when it comes to development in the Third World.

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TABLE 1 RANKING TABLE FOR BUSINESS RISK VARIABLES [5] -----

ITEM: GAP (% GDP)	ITEM: RANK	ITEM: SAVINGS/ GNP PER POPULATION	ITEM: INVESTMENT CAPITA (\$)	ITEM: GROWTH (%)
10,000+	<1.00	<1.00	8,000-9,999	1.00-1.25
1.00- 2.49	500	6,000-7,999	1.25-1.49	2.50- 4.99
450	4,000-5,999	1.50-1.74	5.00- 7.49	400
2,000-3,000	1.75-1.99	7.50- 9.99	350	1,000-1,999
2.00-2.24	10.00-12.49	300	500- 999	2.25-2.49
12.50-14.99	200	250- 499	2.50-2.74	15.00-17.99
150	<250	2.75+	17.50+	100

TABLE II

OVERSEAS BUSINESS RISK RATING SCALE ----- COUNTRY SCORE\* COUNTRY SCORE\* ----- CHAD 200 S. ARABIA 316 BANGLADESH 267 KUWAIT 366 MALI 117 IRELAND 450 SUDAN 167 SPAIN 450 MAURITANIA 133 NEW ZEALAND 433 SENEGAL 150 ITALY 466 JORDAN 150 SWEDEN 500 ETHIOPIA 117 U.K. 483 NEPAL 317 U.S.A. 466 LIBERIA 250 JAPAN 500 MALAYSIA 367 W. GERMANY 500 PANAMA 383 SWITZERLAND 500 LIBYA 150 CANADA 500 S. KOREA 417 ----- \* BASED ON 1985 DATA =====

TABLE III RANKING TABLE FOR TECHNOLOGY ASSIMILATION VARIABLES -----

ITEM: ENERGY	ITEM: EDUCATION	ITEM: SPAN (1)	ITEM: CONSUMED (2)	ITEM: (3)	ITEM: RANK
- 41-51 to 500	K 0-5	100	46-50	501-999	6-10
150	51-55	1,000-1,499	11-15	200	56-60
1,500-1,999	16-20	250	61-65	2,000-2,499	21-24
300	66-70	2,499-2,999	25-29	350	71-75
3,000-3,499	30-34	400	76-80	3,500-3,999	35-40
450	81+	4,000	45+	500	(1) Ranges extrapolated from longevity tables.

(2) Energy consumption per capita (Kilograms of oil equivalent for commercial consumption only).

(3) Relevant Age group is 19-24 years old.

TABLE IV TECHNOLOGY ASSIMILATION SCALE -----

COUNTRY SCORE*	COUNTRY SCORE*
CHAD	100 S.

ARABIA 300 BANGLADESH 117 KUWAIT 383 MALI 117 IRELAND 350 SUDAN 117 SPAIN 350  
MAURITANIA 117 NEW ZEALAND 417 SENEGAL 117 ITALY 383 JORDAN 300 SWEDEN 467 ETHIOPIA 100  
U.K. 483 NEPAL 117 U.S.A. 483 LIBERIA 117 JAPAN 413 MALAYSIA 250 W. GERMANY 413 PANAMA 300  
SWITZERLAND 400 LIBYA 283 CANADA 483 S. KOREA 300 -----

-- \*BASED ON 1985 DATA

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# BUSINESS INCUBATORS IN OHIO: IDENTIFYING ELEMENTS FOR SUCCESS

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A description of those elements contributing to the success of the Akron-Summit Industrial Incubator and other incubators in the State of Ohio is presented. These elements are: an aggressive entrepreneurial outreach program, a small business assistance center, access to sources of capital, and an incubator facility.

## INTRODUCTION

The objective of this paper is to describe those elements contributing to the success of the Akron-Summit Industrial Incubator and other incubators in the State of Ohio. These elements have been implemented by the authors and have proven to be crucial to the long-term success of an incubator. These elements include the following: an effective entrepreneurial outreach program, a small business assistance center, access to sources of capital, and an incubator facility.

Small business incubators have been an extremely popular economic development tool for communities in recent years in addressing the program of job creation. However, not all incubator facilities have been successful or have produced the results expected of them. Evidently there are basic elements that increase the probability of success for an incubator program. This paper presents these elements and their contribution to the success of the program.

This paper is based on the authors' experience involving the development of small business incubators for several communities in the State of Ohio, including two of the State's Edison Technology Incubators, and serving as consultants for other programs across the country. This data has been gathered over a period of five years, with the first incubator program being established in 1983.

## PREVIOUS RESEARCH

Federal, county, and governmental agencies, chambers of commerce, private corporations, universities, and community groups are among the organizations that are establishing incubators. A widely cited private corporation starting incubators is Control Data, which operated sixteen such centers in various locations. One of its facilities is in an old cigar factory in Charleston, South Carolina (12, p. 42). Two important characteristics of Control Data's incubators are (1) they offer new businesses a

place to operate and (2) they are viewed as a way of renovating old buildings and revitalizing depressed areas.

The Small Business Administration has been taking a role in the development of incubators through a networking role. In a Market Area Plan pioneered by SBA Region V, the S.B.A. has been instrumental in founding a number of incubators (9, p.17).

Broome County, New York, has been a county government that has founded an incubator (10, p.50). The goals have been to provide technical expertise and advice to newly founded businesses. The results of the efforts of the county in its incubating activities have not yet been published.

Rensselaer Polytechnic Institute, also in New York, is an example of a university founding an incubator (13, p. 84). Like the one in Broome County, its activities have included providing housing and advice. In addition, RPI has also supplied venture capital.

Allen and Dougherty reported in a recent study that 117 incubator respondents reported an average of seven graduated firm since the incubator opened. However, 50 percent of the facilities had one or no graduates (2, p. 10).

Private incubators are the oldest incubators with a median starting date of March 1983. They are followed closely by

university facilities, which have a median starting date of July 1983. Private facilities generally have more tenants; their median is 21. They are followed by university facilities, with a median of 14, and public facilities, with a median 7.8. Consequently, private facilities are much larger. Their median size is 154,000 square feet compared with a median size of 57,000 square feet for universities and 36,000 square feet for public facilities (1, p.20).

Studies dealing with the economic importance of incubators on a local economy have been two previously published studies in which the characteristics of incubators were analyzed. The first is a study of the role incubator industries played in the local economy of Westfield, Massachusetts (4, p.38). The study is a result of a survey of the owners of 25 small firms that have been in business for fewer than two years, manufacture a product, and are doing business in Westfield. The results of this study indicated that these firms are not really typical of what is now being defined as incubators. None of these firms received financial assistance from government sources, most had a customer waiting when they started, and most operate under poor physical conditions. Their employees are primarily recent technical school graduates and family members. It was found that this incubator increased employment in the city, but it did not have a very significant impact on employment. An important recommendation of this study was that the Chamber of Commerce develop marketing and management training programs for the incubator.

Another important study of incubators was done by Allen and Rahman (3). They surveyed 12 Pennsylvania incubator facilities. Of these, eight had unique financing arrangements, and eight incubators had provided rental space at below market rates.

But the following important consulting services were not usually provided: tax, advertising, marketing, computing, and information services. The Allen and Rahman study provides the following contributions to the understanding of incubators:

--incubators were geographically dispersed, thereby minimizing unique regional characteristics; --relationships between the new business and the incubator were described in more depth than in previous research; --more attention was given to the organizational structural characteristics and the objectives of the incubator facility than in previous studies.

Carroll (7) concluded that the beneficial economic impact of continuing the incubator project can be categorized as primary and secondary. The primary impact is the initial creation of new jobs and the diversification of the regional economy. Accompanying these new jobs is a higher level of local income and expenditure. From this primary effect of the region flows the secondary result, which is the economic multiplier effect. This impact is in terms of both employment and income expenditure.

Brooks (5) noted that as firms outgrow the economic incubator and its hands-on assistance, they also contribute to the local economy by feeding into the real estate model.

Campbell, Kendrick, and Samuelson (8) state that economic development strategists should view the conversion of entrepreneurs' ideas into new businesses and should view these ideas as a productive force for local job creation and economic growth.

Control Data is among the organizations that are sponsoring small incubators and viewing incubators as contributing to the economic development of areas by renovating an older building, revitalizing depressed areas, and potentially reducing significantly new business failures, generally about 50 percent in the first five years (12).

Demuth (8) points out that private companies often build small business incubators to receive such economic benefits as: (1) the opportunity for profits by investing in new companies, (2) profits from real estate appreciation, and (3) management or franchise fees.

## CRITERION ELEMENTS FOR SUCCESS

In order for an incubator facility to successfully create jobs through the creation of small businesses, it must be established as more than a multiple tenancy building and real estate project. It must be able to successfully locate entrepreneurs in the community and then successfully address the major causes of small business failure: poor management and lack of appropriate amounts of start-up capital. It has been found that the most successful way of meeting these needs is through the establishment and integration of a four element network designed to promote entrepreneurship.

## Entrepreneurial Outreach

The first necessary element is one of entrepreneurial outreach. Experience has shown that entrepreneurs have a tendency to stay submersed in the community, not coming forward with their ideas until they feel the timing is right. This timing may never be right in that they work for someone else in the community and fear the loss of their job if discovered. It normally takes a tragic event in their lives to force them to make the move to self-employment. So, it therefore becomes necessary to identify these individuals and explore their ideas in a non-threatening manner. This can and has been accomplished through the presentation of seminars and other events that address topics of interest to those interested in launching businesses. These topics might include: "Obtaining Seed and Venture Capital," "How to Write a Business Plan," "Low Interest Loan Programs," "Obtaining Money from Commercial Banks", etc. These programs allow access to the entrepreneur and an opportunity to discuss ideas in an informal environment. If an idea appears to have merit, the pledging entrepreneur is encouraged to further investigate the idea through the small business assistance center in a confidential manner. This seems to support the findings of Allen and Rahman (3). These findings lead to the introduction of the second element of the network, the assistance center.

## Small Business Assistance Center

The small business assistance center is composed of a small staff that initially works with the entrepreneur to identify needs and solve problem areas of the business. The core staff then refers the entrepreneur to one of its volunteer technical experts to provide the necessary assistance. In the Akron program, the Small Business Development Center serves this role. Although the S.B.D.C. includes a full time staff of three people, it has developed a technical advisory staff of over 150 active executives from the local community. In addition to this problem solving role, the assistance center plays one other critical role: assistance in developing a business plan. It is amazing how few businesses start without a plan. The plan serves as both

the blueprint for the business and as a tool to evaluate results once operations have started. In addition, it identifies the financial requirements for the business. This is critical since the entrepreneur has a tendency to be overly optimistic and underestimate financial needs. This often leads to serious cash flow problems and eventual failure. The plan also addresses the management needs of the business and forces the entrepreneur to critically evaluate his or her own capabilities and objectives. At this point it should become apparent where management weaknesses exist and how to address them. This approach seems to support the conclusions of Dunkirk (9).

## Access to Sources of Capital

Once the business plan is completed and the financial requirements of the business are identified, it then becomes necessary to secure the necessary funding to launch the business. Two sources of funding must be considered, debt and equity.

Access to debt funding requires the development of close relationships with the commercial loans officers of local banks. This relationship usually is the responsibility of the director of the small business assistance center or the manager of the incubator. As business plans are completed, these individuals will refer and, at times, may accompany the entrepreneur to local banks to meet with loan officers and assist in filing applications properly. This is especially critical if application is being made for something other than a standard bank loan, i.e., SBA 504 loan. If the business idea is sound and sufficient personal assets exist, the loan will likely be made. However, in many cases, personal assets are not sufficient to collateralize a loan and additional equity is needed. This makes access to source of equity funding extremely important in the packaging of funding. Sources of equity funding can be provided in two ways: an informal seed capital network or the establishment of a for-profit seed and venture fund.

A. An informal seed capital network is the easiest and quickest way to develop sources of equity funding. There exists within each community individuals with substantial financial resources who have an interest in investing in local businesses. The problem is identifying these individuals. They have a tendency to maintain a very low profile in the community for fear of being bombarded by investment ideas, many with little chance of success. However, if convinced of the effectiveness of the business assistance network and the quality of investment opportunities, these individuals can be reached through individuals who represent them, such as accountants and/or attorneys. This method protects their identity and yet provides many excellent investment opportunities.

B. A second, and perhaps more effective way to develop equity capital, is the formation of a seed and venture capital

fund. These funds are composed of investments on the part of

individuals, corporations, and associations. They are operated by a venture fund manager who generally reports to a board or committee. The objective of the fund is to generate an acceptable return on investment within usually a five to seven year period. The organization of a seed and venture fund depends on the objectives of the investment group. Seed and venture fund groups usually take an active role in assisting or managing those businesses in which they have invested. An entrepreneur may be required to give up substantial amounts of ownership in order to secure the investment. However, seed and venture capital companies can offer many benefits to the start-up situation.

### An Incubation Facility

If the entrepreneur has been successful in securing the needed capital to start his business, he then must have a location for the business. This could be a business incubator, the fourth and final element of the network. An incubator facility offers the tenant low cost space and assistance in meeting controlled start-up and operating costs as well as controlling overhead rates and being competitive in the marketplace. The manager of the incubator is an extremely important person. This individual should possess a strong background in operations in order to provide operational consulting services to the businesses on a day-to-day basis. The incubator should provide a sheltered environment for the business start for a specified period of time. The purpose of the incubator is to assist the business through its infancy and nurse it to a point where it can survive outside the program. It should allow the entrepreneur the time to acquire the necessary management skills needed to run his/her business similar to an on-the-job training program. If the program is publicly funded, it is important that it have a graduation policy. The program must be perceived by the private real estate sector as complementary rather than competitive. This supports the conclusion of both Brooks (6) and Demuth (8).

### CONCLUSION

This paper has addressed what experience has shown to be the critical major elements of a successful small business incubator program. If these elements are in place and properly managed, the success rate of small business starts will improve dramatically. In the Akron Incubator Program, 90 percent of the businesses have survived over a period of five years. This is substantially above the national average of 20 percent survival over the same time period as reported by Allen and Daugherty (2, p. 10). The Akron program has demonstrated that if weaknesses in the management team and funding requirements are addressed at the start of the business and a network is established to assist in early operational problems, the business has a substantially greater probability of survival. This allows one to then better accomplish the program's overall objective of job creation.

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# AN AMERICAN BUSINESS CHALLENGE: THE WORLD MARKET

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## ABSTRACT

American business can no longer remain myopic to the world market but must compete against foreign companies in their own countries. This paper examines why more American companies aren't in the world market, cultural influences and business differences, and makes recommendations to meet the challenge of the world market.

## INTRODUCTION

According to the U.S. Department of Commerce, 250 American companies account for more than eighty percent of our exports. The United States has five percent of the world's population, produces twenty-four percent of the world's gross product, and does twelve percent of world exporting. Of that twelve percent, only three quarters is in export of durable goods. Thus, there is a golden opportunity for American businesses to look beyond the domestic market to the world market for growth opportunities.

### American Business and the World Market

The basic objective of any business is profit maximization. Unfortunately, many companies are apprehensive about how to handle the bureaucracy, language and cultural differences, and distribution challenges that face neophyte exporters. But increasingly, they are realizing the need for world market involvement to remain competitive.

William P. Madar, president of Nordson Corporation, a \$200 million-a-year maker of industrial equipment believes, "To reestablish a balance of trade, the impetus for export sales must come from manufacturing. And it has to be manufacturing of the midsize companies." Charles F. Valentine, partner in charge of international trade advice at Arthur Young, agrees: "The majority of the impact will come from small and medium-size companies." (6)

Why do firms in different industries (5) have differing proclivities to export, and why does exporting vary by company size and location within the United States? In many cases, institutional and infrastructure limitations beyond the control of the company have diminished enthusiasm for exporting. The Commerce Department estimates, "there are 11,000 U.S.

manufacturers with export potential who are not exporting." The reason why these businesses haven't been involved in the world market include:

1. Lack of knowledge about the world market.
2. Disinterest.
3. Perceived complexity of exporting.
4. Unaware of available government assistance.
5. Inability to arrange financing for export sales.

Michael R. Czinkota, deputy assistant secretary of Commerce, indicates that shifts in the world market inevitably take their toll on corporations. "It is therefore imperative to encourage small and medium-size U. S. businesses to participate in that market, so that they can become the large corporations of the future." (4, p. 62)

### Cultural Differences and Influences

American business executives need to recognize there are differences in doing business in the world market. Some of these differences are obvious. People in other countries speak different languages. Rules and regulations differ. Add to the list climate, economic conditions, geography, and political conditions, The most important and the most difficult to measure, is cultural differences embedded in history, education, economics, and religion. Inability to recognize all these differences has proven expensive, if not embarrassing.

1. In the early 1950's, an ink manufacturer attempted to sell bottled ink in Mexico by using outdoor signs advising customers they could "avoid embarrassment (from leaks and stains) by using its product. The embarrassment, it turned out, was all the company's. The Spanish word used to convey the meaning of "embarrassed" was "embarazar" which means "to become pregnant." Many people thought the company was selling a contraceptive device. (12, p. 20)

2. A large American multinational corporation working with a Japanese corporate partner, each thought the other was responsible for a part called a "feed horn" on their jointly manufactured satellite receiver. But when they finished the first prototype, they discovered, due to language differences, this vital part was missing. (10, pp. 146, 150)
3. An American airline advertised in Brazil the "rendezvous lounges" in its jets, until it discovered that in the Brazilian brand of Portuguese this meant a place to make love. (12)
4. A large U.S. corporation's attorney arrived at a meeting to conclude a deal with a Saudi Arabian Minister. The lawyer rushed in, sat down, crossed his legs and watched, to his complete bewilderment, as the Minister gathered his papers and stormed out. What went wrong? The American had inadvertently turned up his shoe's sole, a grave insult to Arabs. As a result, the corporation lost a four million dollar account. (11, p. 6)
5. An American design engineer working in Asia called a meeting of his professional staff. Wanting to give credit for a key project's progress, he pointed out a particular individual. The individual showed little if any emotion and didn't seem pleased to be receiving the praise. The engineer later learned his well-intended praise only caused the person considerable embarrassment since, in that country, collective effort is valued over individual effort and competition. (9, p. 26)

American companies doing business in the world market obviously can't rely only on American values and behavior patterns to do business. Needed is awareness that while people throughout our world are the same biologically, culturally they are different. Culture provides the lifelong programming that guides people's actions, instills values, and maintains identity. (7) This "lifelong programming" varies sharply from culture to culture. What is good in one place ("Father is getting about the age where he would probably be happier in a senior citizens' home in Arizona") is outrageous in another ("Look at how they treat older people in this country---it's awful"). (9, p. 26)

Lack of understanding of cultural differences has costs far beyond the \$150,000 to \$250,000 a year to maintain an American family overseas. One cost incurred is when someone does poorly or comes home early. Company operations are disrupted and a period of lost opportunities and profits ensues. Failure in the world market can cut short the executive's career with the company and have a subtle but strong affect on others accepting similar assignments. Even apparently successful people may be reluctant to go. Ambitious managers have traditionally had good reason to shy away from foreign assignments. "Out of sight, out of mind" was more than just a cliché at most multinational companies. People would go overseas for a few years, then be brought back --- only to discover that there was no meaningful work to give them.

"An overseas assignment can actually delay a career," declared David F. Smith, managing director of executive recruiters Korn/Ferry International. "Companies bring people back from overseas and don't know what to do with them." Indeed, Mr. Smith knows a high-level manager who did an exemplary job running a foreign subsidiary, only to be dumped into his company's real estate department when he came home. (3, p. 26)

Probably the biggest fiasco happens in direct selling. (2, p. 112) Regrettably, the salesman rarely receives critical feedback. Usually he returns home grumbling "those people" are unmotivated, backward, corrupt, etc. He's unlikely to realize his behavior and "Dale Carnegie" approach were offensive or aroused suspicion. In America, he would never think of being late for an appointment, pinching the receptionist, or picking his teeth

during a presentation. But overseas, the same salesman will nonchalantly cross his legs, exposing his shoe's sole to the customer, pass over a catalogue, price list, or contract with his left hand (the toilet hand in many countries), or God forbid, touch his Asian customer on the arm or shoulder (an approach encouraged in America).

George Renwick, a cross-cultural consultant, described (2, p. 114) the perfect embarrassing moment: An American marketing executive and his Arab client walk down a Riyadh street. Suddenly, the Arab grabs the American's hand and they continue down the street, hand in hand. What does the American do? He hastily looks in all directions, hoping that no one he knows sees him. He begins to talk too fast, lose his train of thought, and finally pulls himself free of the handhold. Needless to say, to say, he probably injured the Arab's feelings and lost the deal.

Sondra Snowdon (13), Snowdon International's managing director, believes the loss of international business results from American business executives:

1. not realizing the status the foreign business executive holds, above and beyond personal wealth. At home, he's frequently thought of and treated with the respect due royalty. When visiting the United States, he's often ignored by his American hosts unless they are actually discussing business.
2. being unaware that their foreign counterparts put an extremely high priority on having personal relationships with their business associates. These relationships customarily take years to develop before any form of money even changes hands. Americans traditionally have little patience for such courtships.
3. not developing a formal structure within their companies to handle the needs and requests of their visiting foreign client, investor, or prospect. In practice, the American executive referred them to his secretary, who rarely understood how much was riding on meeting these demands.

According to Robert T. Moran (8, p. 48) director of the cross- cultural communication program at the American Graduate School of International Management, "When projects fail it's most often the interpersonal, intercultural relationships that fail, not technical business considerations." Problems most often arise, Moran believes, because many executives are "overly concerned with getting the job done, while tending to forget that people help us accomplish this."

Corporate executives (1, p. 56) can make a serious mistake by

assuming that because a person comes from a certain region, speaks a certain language, or has a particular ethnic background he is automatically qualified for the position in terms of dealing with cultural differences. In Southeast Asia, there are often strong feelings regarding ethnic Chinese, who, although in the minority, have controlled the businesses and economies of these countries. Similarly, sending a Japanese-American to Japan may seem like a good idea. However, these people, may they be nisei (second generation) or sansei (third generation), can be targets of subtle discrimination in Japan. They look Japanese, but they obviously have been "Americanized" and their spoken Japanese is not what native Japanese think it should be. Thus, choosing a person primarily because of ethnic may not resolve but add to the dilemma.

## Recommendations

Successful companies have learned from theirs and others mistakes to overcome problems. When Molex Inc., a suburban Chicago based multinational, held a dinner for its Japanese workers and their spouses, both wives and female employees would stay home to take care of the children. The company's solution: have a "family day" instead, and everyone comes. (4, p. 63)

The following are major critical areas for American businesses to be cognizant of prior to entering the world market:

1. Company personnel (2) need to have awareness of:
  - a. Social and business etiquette, and protocol.
  - b. History, customs, and traditions.
  - c. Relationships between our countries.
  - d. Geography.
  - e. Sources of pride: noted artists,
  - f. Religion.
  - g. Political structure.
  - h. Practical matters, such as currency, transportation, time zones, operation/business hours, etc.
  - i. Language.
2. Developing a personal relationship and trust is essential in many countries. (14) Often contracts in the world market don't mean what they do here, so interpersonal understanding and bonds are essential.
3. Decisionmaking (2) is slower in some parts of the world market; the nuances of dealing with foreign governments and companies are different and complex. Company personnel must exercise patience. In many countries, Americans are perceived to be in always in a rush (translated: unfriendly, arrogant, and un-trustworthy).
4. Prudent selection (9) of overseas personnel can eliminate or

reduce problems. One approach is to develop "assessment centers" to identify requirements for key positions. Once done, exercises can be developed to simulate the overseas working condition. Potential candidates are then tested and evaluated.

5. Obtain guidance (9) from experienced finance and accounting personnel to know local tax laws and likely costs or advantaged of using local currency. Also, conduct extensive cost and price analyses before beginning any negotiation session.

6. Establish and staff an international protocol department (11) to coordinate every aspect of a foreign client's visit in the United States.

### Conclusion

A good concept to follow is to respect the host country and its rules. As one Saudi business executive has said: "Americans in foreign countries have a tendency to treat the natives as foreigners and they forget that actually it is they who are the foreigners themselves!" (2, p. 118)

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# ART AND ECONOMIC DEVELOPMENT: CREATING A GLOBAL MARKET FOR TOURISM

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## ABSTRACT

This paper provides general information related to government efforts aimed at economic development through the establishment of a contemporary art museum in a rural area of Massachusetts. Significant economic impacts have been projected for the Massachusetts Museum of Contemporary Art at North Adams. Implicit in the economic impact studies is the existence of a global market for the museum. This project has received national and international attention and will create growth in the tourism industry which in turn will fuel entrepreneurial development.

## INTRODUCTION

Massachusetts has experienced phenomenal growth in its economy in the past ten years. Fueled by an atmosphere friendly to business, the state has experienced an unemployment rate drop from 11.2% in 1975 to 4.85% in 1985. At the same time, it experienced a shrinking industrial base that was characterized by job creation on the one hand and job loss on the other.

Like most states, Massachusetts had lost, or was losing a large number of manufacturing jobs. The period from January 1984 to May 1987 saw manufacturing employment fall by 74,800 jobs. At the same time, the state also experienced the creation of 164,200 jobs outside of the manufacturing sector. (1) In spite of these significant job gains, the loss of manufacturing employment caused severe economic hardship in many areas of the commonwealth. Many of the cities and towns adversely affected by this out-migration of manufacturing jobs, were isolated from the statewide economic revitalization that was termed the Massachusetts miracle. It seemed that all effort to import economic good times to these areas met with failure and the cities and towns affected seemed doomed to an existence of what many term the underside of a booming state economy.

One such city is North Adams, Massachusetts. Located in the northwestern most corner of the state, its very geographical location did not make it a prime candidate for economic recovery. Like all mill towns in New England, North Adams had been experiencing a slow erosion of its industrial base since the end of World War II. The city's population began to fall as more and more of its citizens sought opportunity elsewhere. In 1984, the city experienced an 8% loss of manufacturing jobs in less than one year. The resulting economic disaster precipitated a 1984 unemployment rate of 9% and a 50% increase in claims for unemployment.

All efforts to attract new manufacturing companies to the area met with little success, and the City seemed poised on the edge of a long downward economic spiral. Local and state leaders made extraordinary attempts to revitalize the area to no avail.

## ADDRESSING THE ISSUE

In early 1985, Governor Dukakis, formed the Governor's Task Force on Economic Development. It was composed of a formidable group of 60 individuals who were active in the economic life of northern Berkshire county. The results of their efforts was a task force report that recognized the need for the region to move away from manufacturing into a service/tourist-oriented economy.

In June of 1987, a development proposal was announced to convert vacant mill space in North Adams into a world-class museum of contemporary art. Largely the vision of Thomas Krens, then Director of the Williams College Museum of Art and supported by the resources of Williams College, the idea gained momentum. That momentum culminated in state approval for funding in the amount of \$35 million about one-half the cost of the total project. This funding approval put into motion a project that brings together art, business and government in a new alliance for economic revitalization and gives birth to the Massachusetts Museum of Contemporary Art.

## THE PROJECT

Planners of the museum were fortunate that a major employer had vacated a very large factory complex located in the heart of the city. Sprague Electric Company had been a major employer in North Adams for over 50 years, but the changing fortunes of the electronics industry and foreign competition had forced major cutbacks in employment and the closing of its major factory complex.

That complex, by its very size, was attractive to museum planners. They envisioned the conversion of the present 780,000 square feet of space, located in 28 buildings on 13.5 acres of land, into a mixed-use cultural and commercial development facility.(2) Current planned use of the space, in-

cludes 480,000 square feet for museum space and 150,000 to 300,000 square feet will comprise the commercial component of hotels, restaurants, retailing and housing. (3)

Why North Adams? Why pick this rural, economically depressed city for the site of what is expected to be the largest museum of its kind in the world? The rationale for the project is threefold.

From a museum point of view, the enormous amount of space available answers the needs for the presentation of contemporary art.(4) The fact that this amount of space is available without having to engage in construction makes the site even more attractive. Most urban museums are constrained by the lack of space available at any given time for the exhibition of art of any kind. Spatial requirements for contemporary art of the last 20 years and into the 21st century emphasize those limitations. For minimum cost of acquisition find rehabilitation, museum planners acquire space to exhibit works of art that by their very nature have spatial requirements out of the ordinary.

From a regional point of view, the factory complex is well-situated geographically. North Adams is the center of northern Berkshire county and is in proximity to southern Vermont and upstate New York. The downtown location of the complex allows the commercial aspect and the museum aspect to impact the economic growth and revitalization of downtown retailing. The area abounds with cultural institutions, and museum planners believe that such an institution would complement the many other cultural attractions of the area.(5)

Finally, from an economic and political point of view, such a project would do much to alleviate the economic distress of the area would in fact, redefine North Adams. That redefinition will convert the city to a tourist economy that will attract a large segment of visitors who currently visit the Berkshires and those foreign visitors that will attract by the international nature of the project.

## ECONOMIC IMPACT

Current economic impact studies for the project have been conservative for the most part. These studies indicate a local annual spending increase of \$21 million which will generate 600+ jobs and yield \$7.5 million in personal profits and income.

Within the total impact, it is estimated that the Museum of Contemporary Art will yield direct and indirect spending equal to \$8.3 million. In addition, it is expected to generate 230 new jobs and yield approximately \$2.5 million in personal income.

The commercial component of the project, which will include hotels, restaurants and retail outlets, is expected to yield direct and indirect spending equal to \$9.4 million. This component is also expected to generate 292 new jobs and \$3.9 million in personal income. The commercial element of the project also provides for a small convention center which is expected to yield direct and indirect spending equal to \$3.5 million. The convention center has the potential of creating 78 additional jobs and generating \$900,000 in income and profits.(6)

Not included in the economic impact studies are the additional opportunities for entrepreneurial spinoffs that will create additional employment and generate additional spending and personal income. Some of this potential is currently being realized within the city. Numerous new business ventures have started and downtown retail space is leasing much more quickly than it has previously. Exhibit 2 illustrates the direct and induced nominal economic impacts of the project.

## EXHIBIT 2

DOCUMENTA AMERICANA

OPERATIONS AND VISITATION

26,308,777 \$62,688 \$966,945 \$5,527,622 MASS MoCA MASS MoCA |||| COMMERCIAL OPERATIONS ||||  
 TENANTS And AND VARIATIONS |||| CONVENTION \\\||| CENTER \$8,301,679-----> OVERALL  
 SPENDING INCREASE | <-----\$412,814,667 \$47,425,124 |||| \\\|| \$51,434-----> NET LOCAL  
 GOVERNMENT | <-----\$420,242 FISCAL IMPACT | \$532,550 ||| \\\|| \$334,377-----> STATE  
 GOVERNMENT <-----\$546,701 FISCAL IMPACT PRE-DEBT \$1,848,024 || \\\|| \$2,580,226----->  
 -----> PROFITS AND <-----\$4,855,725 PERSONAL INCOME \$12,963,573 (923 F.T.E JOBS)

CREATING AN INTERNATIONAL MARKET

As noted earlier in this paper, tourism is big business in the Berkshires. A very strong core market exists for cultural attractions as indicated by visitor counts of the major events and institutions. Strong growth in the secondary housing market in south county further support the contention of a strong market in the area.

Visitor counts for some major events and institutions show that cultural/ artistic attractions have a strong and consistent following. The existing cultural attractions in the county provide a strong magnet that can only enhance the ability of the museum to attract.

Latest figures show the following visitor counts at these major Berkshire county attractions for 1987:(7)

Tanglewood Music Festival 350,000 Jacob's Pillow Dance Company 30,800 Norman Rockwell Museum 78,000  
 Williamstown Theatre Festival 50,000 Clark Art Institute 100,000 Williams College Museum 90,000

This market comprises a core of music/ art lovers that the museum will attempt to attract. It is not however, the primary market target of museum planners.

The Massachusetts Museum of Contemporary Art will position itself within the market as the premier institution for presentation of the contemporary art of the 1960's, 70's, 80's and 90's. Its ability to provide a forum and presentation space for the installation of major works of extraordinary scale will establish its image as a primary destination point.

Recognizing the need to attract the current market to North Adams, planners are also aware of the necessity of attracting an international clientele. The primary tool to be used in this effort is termed the Documenta Americana Quadrennial Exhibition. Planners refer to this exhibit as the "Olympics of Contemporary Art."(8)

Americana Documenta will be fashioned after its German counterpart. The German Documenta is held every four years in the small, secluded industrial town of Kassel, West Germany. This Documenta has received a publicly funded budget in the range of \$6 million and has attracted 380,000 visitors.

Part of the marketing strategy of the Americana Documenta is to organize and present it as a sister show to the German Documenta held every four years. By positioning itself in this manner, the Americana Documenta will occur at two year intervals with the European version. (9) Economic impact studies predict a potential income from the Americana Documenta of \$26.3 million and even conservative estimates predict attendance far in excess of the German exhibition.

CONCLUSION

The Massachusetts Museum of Contemporary Art has been funded by the state with \$35 million. Implicit in the approval of funding was the belief that this project was a unique economic develop-

ment tool. The economic misfortunes of the region called for drastic and visionary proposals. This museum fulfills all those requirements.

Building upon the current tourism strengths of the area, museum planners have targeted a substantial international market of potential patrons with the Documenta exhibition. Its success as a marketing tool is virtually assured - there is no comparable exhibit in the United States.

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5. Ibid, p. 2.
6. MASS MOCA Project, Economic Impact Report, Section 4.
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8. Ibid., Section 4.5, Economic Impact of "Documenta Americana" Exhibition.

## EXHIBIT SOURCES

Exhibit #1. MASS MOCA Project, Section 4, Economic Impact. Site Drawings.

Exhibit #2. Ibid.



# CREDIT CARD PRICING AND SMALL BUSINESS

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## ABSTRACT

This paper examines the pricing policy of credit cards issued by the banking industry. It attempts to identify the market structure, the demand for credit card loans, the nature of the industry and the elements affecting the rates established for these credit instruments. Price is determined by annual fees and interest rates. The relationship of these two components to costs is further analyzed. The current issues on interest rates are discussed in view of the competitive nature of the industry and the potential for government intervention to set interest ceilings. The impact of restrictive interest rates ceiling on the expansion of small business is critically examined. The paper concludes that credit card prices approach a long run equilibrium under current market conditions, thus, arguments that interest rates are excessively high are unfounded. The government intervention on interest ceiling is more likely to generate a harmful impact on small business.

## INTRODUCTION

A significant controversy exists today over the fees and interest rates charged for credit card balance among consumers, banks and government. Consumers argue that with lowering most key interest rates such as the prime lending rate and the discount rate in the past several years, banks and other credit card issuers have unfairly maintained high interest charges that are not warranted by market conditions. Consumers further argue that high credit card rates tend to adversely affect small business in general. Bankers maintain that the rates are reasonable for this market, since costs have risen substantially to offset the decrease in the cost of money. Government, particularly the Congress, has expressed a desire to further regulate the consumer credit industry, especially credit card rates and disclosure requirements.

This paper attempts to examine the market structure and demand for credit card loans and to ascertain whether rates are excessively high in the existing economic climate. The price for any goods and service is determined by the market demand and supply, and the costs associated with providing the goods and service by the firm. This study further examines the impact of restrictive ceilings on credit card interest rates on the small business expansion. Therefore, the nature of the market for credit cards, the classification of the industry and the governmental influence in the industry are closely reviewed.

## THE MARKET CONDITIONS

The market for credit cards consists of some 80 million cardholders who possess over 800 million cards [2]. This amounts to about seven cards per adult in this country. These users charge roughly \$160 billion annually based on figures for 1985 through 1987 [8]. The growth in annual charges has approached ten percent during the 1980's. As shown in Table 1, banks' loan under retail (charge account) credit card plans has continually increased for the period of 1970 to 1983. For instance the loan of \$3.792 billion in 1970 reached \$36.698 billion in 1983.

The Bank Credit Card Observer, the industry service organization, reported that the 35 percent of American adults hold no credit cards in American Demographic. The typical user earns over \$40,000 per year with a college education and maintains a balance of about \$430 at any given time [1] Credit cardholders repay only about 30 percent of their outstanding balances each month. Convenience users tend to pay off their balance in full during the grace period, while borrowers tend to pay part

Table 1 All Commercial Banks; Loan Under Retail (Charge Account) Credit Card Plans for Selected Years, 1970 to 1983.

Years Banks' Loan

(Unit: Million Dollars)

1970 \$3,792 1971 4,990 1972 5,408 1973 6,838 1974 8,281 1975 9,501 1976 11,317 1977 14,608 1981 29,767 1982 32,892 1983 36,698

Source: Board of Governors of the Federal Reserve System. Assets and Liabilities - Commercial and Mutual Savings Banks. Washington, D.C. 1970-1983.

of their outstanding balances during the grace period. Convenience users are generally in the lower-income group, whereas borrowers tend to be in the middle to upper income groups. Younger users owe more while mature users often repay the entire balance monthly. Approximately 30 percent of all cardholders are in the latter category. At present, the credit cards can be applied by any adult with an income over \$12,000 per year.

The card market is not a homogeneous market. There are basic cards offered to the majority of users with incomes between \$12,000 and \$30,000 per year. Affluent consumers in the \$40,000 plus are eligible for the "gold" premium cards with additional privileges and higher limits on charges. New offerings are "affinity cards." These cards provide special privileges to particular groups such as travel clubs, golfers, nature lovers and the like. Additionally, the basic credit card such as VISA and Mastercard used for retail purchasing, faces competition from the travel and entertainment card segment. They include American Express and Diner's Club. The distinction between these kinds of cards are further complicated by the introduction of the "Discover Card" by Sears Financial Network in recent years.

## THE INDUSTRY

It is this vast market that has attracted so many vendors into the selling of credit cards. In addition to traditional providers such as banks, retail clothing stores, independent financial companies, gasoline companies, a host of smaller companies attempts to capture a market share. It is the banking industry, however, that has the lion's share in the industry and controls the trend in rate setting.

The banking industry closely meets the definition of a monopolistic competitive industry. McConnell provides a matrix for classifying an industry among the four classical types. He cites the number of firms, the type of product and the control over prices as the foremost determinants of this classification [5]. Based on these guidelines, the banking industry fits most readily into the monopolistic competitive structure in terms of the number of firms, product differentiation, and price setting. Product differentiation may exist to some degrees among the credit cards.

Non-price competition will have a particularly important role in the market share. A firm in such an industry has only a limited and narrow range in which it can influence prices. In the short run, a monopolistically competitive firm can gain economic profits, because the price will be set at the point on the demand curve where marginal revenue equals to marginal cost. However, in the long run, economic profits tend to disappear. This will be discussed in the later section.

As long as there is an economic profit to be earned, the industry will attract credit card issuers. Under monopolistic competition, excess capacity can exist as long as prices remain higher than under pure competition. This is true for the bank credit card industry. At present, 4,000 institutions issue credit cards. A saturated market may force inefficient firms out of business. Many smaller institutions may promote their credit cards in conjunction with larger nationally established firms.

## THE GOVERNMENT

The Congress has expressed an interest in controlling rates on the credit cards. While the Truth in Lending Act of 1980 and the Fair Credit Reporting Act both protect consumers from fraud and abuses by industry, they have neither set rate ceilings nor fully required disclosure of pertinent credit card costs. Bills before Congress in 1987 and 1988 would broaden the requirements placed on firms issuing credit cards to disclose such costs and are intended to increase the consumers' ability to select among the many issuers available at the present market. The intention is to increase competition and drive prices down.

The Federal Reserve Board of Governors argued that such legislation will in fact increase costs and prices instead. They pointed out that traditional measures of interest rates such as the discount rate are monetary policy tools and cannot be efficiently used to set floating interest rates for consumer credit. The Federal Reserve Board has taken a strong position that a federal ceiling on credit card rates would not be appropriate, as this ceiling tends to limit credit availability and could lead to changes in non-rate credit card terms such as initiating or increasing annual fees, charges

for each transaction, and charging fees for particular services to customers [6].

Changes in the availability of credit will have a potential effect on "marginal" car applicants who may not meet the current minimum requirements for holding a credit card account. These consumers with the least access to credit are most affected by changes to credit card interest rates and have few alternative sources.

Restrictive rate ceilings for consumer credit closely associated with tighter lending standards. Most studies have concluded that higher rate ceilings are associated with lower rates of consumer loan rejection [3]. Thus, tight ceilings on credit card interest rates are more likely to result in reduced availability of bank credit card accounts for lower and lower-middle income families than higher-income families. The Federal Reserve Board concluded that further government intervention will be counter productive to the health of the industry as well as to the interests of the consumer [6].

## PRICE SETTING

Market demand of the credit card issuing industry is considered to be largely inelastic. This is borne out by the growth in credit card issue and increased use as shown in Table 1 despite the rise in both fees and interest rates during the past decade. Faced with such a demand curve, the firms in a monopolistically competitive industry engaged largely in non-price competition. This can be seen from the attempts to diversify the nature of the

credit card with such gimmicks as premium cards, affinity cards and gift giving for new accounts. With a large number of close substitutes in the product group along with an inelastic demand curve, the price fluctuation will be taken place within a fairly narrow range.

The components of fixed and variable cost are to varying degrees different for various banks. However, an analysis of the cost function appears that the cost curves are mostly similar among the banks regardless of accounting procedures.

It is possible that the large national issuers may have achieved economies of scale that sufficiently reduce overhead cost. Nonetheless, most rates vary little among issuers. Large scale issuers tend to offer no annual fee or insignificant amount in order to attract customers. They tend to maintain higher rates, arguing that without an annual fee the customer pays only for what he uses. Smaller companies charge a fee of \$15 to \$40 annually to absorb their fixed costs. They then can offer reduced rates in return, since they must cover only long term variable costs to remain in business.

B. Weberman in Forbes (June, 1987) presented component costs for the most individual firms as consisting of (a) 8 percent for the cost of money, (b) 5 percent for the cost of processing and marketing, and (c) 4 percent for the cost of loan losses [7]. A total of 17 percent costs is obtained by adding these component costs. This annual cost approximates the current credit rates.

In the short run, the cost of money is fixed. The bad debt losses are also fixed. Then, the processing and marketing costs are the components of long term average costs upon which the price will be determined. Since the firm knows its optimal advertising and marketing expenditure in order to maximize profits, the real component of cost affecting price setting is the processing cost.

Under the assumption of no restrictive ceiling on credit card interest rates, the competition among the credit card issuers will increase in the long run. As in perfect competition, the card issuers will have free entry and exit in a monopolistic competitive industry [4]. The long run equilibrium can be achieved, and all card issuers will have no economic profits, even though they will maximize their profits. Thus, as shown in Figure 1, the long run equilibrium condition can be achieved when the long run average cost (LRAC) curve is tangent to the demand ( $dd'$ ) curve, and the long run marginal cost (LRMC) curve intersects marginal revenue (MR) curve. Because of the influx of new issuers and the exit of old inefficient card issuers, the demand curve ( $DD'$ ) will be pushed toward the equilibrium point where it intersects the demand curve ( $dd'$ ).

At this stage, it would appear that the prices currently charged by banks for credit card usage are reasonable and acceptable. It

would be unreasonable to require a rate that is below the long run average cost. The requirement by government to set

price ceilings tied to some other national interest rate would not lower prices, but instead would reduce the availability of credit as argued by the Federal Reserve Board while at the same time increasing costs in an industry squeezed already by shrinking margins.

If the government sets restrictive ceilings on the credit card rates, it tends to diminish the competitive nature of this industry, resulting in the long run disequilibrium of the industry. The tight credit availability is harmful to both consumers and small business alike, and tends to dampen the expansion of the small business in general. This is especially serious to small business persons in light of the fact that small business people are already under financial difficulties and require more customer services.

An effort to establish a federally regulated ceiling on credit card interest rates will encounter substantial difficulties in our marketing environment. For instance, the imposition of credit controls in 1980 has resulted a tremendous contraction in consumer spending in the economy. Any regulatory measures can have the similar unpredictable and tragic consequences. Setting a price ceiling on credit card rates below the current level would likely reduce the amount of credit made available, causing consumers to reduce their spending. Moreover, such a curtailment of credit and spending would discourage the small business activities and dampen the economic growth of the nation. The proposed bills before Congress suggest the ceiling to be between 11.5 and 12 percent, well below the current finance rates [3]. These proposed bills are harmful to small business activities.

The national attention has indeed focused on interest rates in recent years. Many argued that if the prime rates can decrease, the credit card rates should follow the pattern. However, it must be emphasized here that the prime rate reflects very little cost to a bank, while the credit card rate is tied most closely to cost. The former is an instrument of monetary policy more than an instrument of the market. During the period of higher interest rates, the credit markets are squeezed. Thus, lower cost of money rates can generate the growth of the credit card industry. Finally, credit cards are considered more a durable good than a perishable one. Thus, the price fluctuations tend to create only limited impact on the credit card rates.

## SUMMARY

This paper presented market structure, demand for credit card loans, and the Federal Reserve Board's position on price ceiling on the credit card rates. This study made a special emphasis on price setting for the credit card issuing industry in light of its long run equilibrium condition. This presentation was particularly important in understanding the price implication of

this industry. This study is obviously prompted by strong and continual controversies centered on the fees and interest rates charged by credit card issuers.

The market demand for credit card loans has been relatively strong for the past two decades. The credit card issuing industry is considered a monopolistically competitive industry with many firms competing in non-price areas and prices being largely set within a narrow range. The demand for the credit cards tend to be largely inelastic, and cost curves for each firm within the industry tend to be very similar.

The prices for credit cards consist of annual fees and interest charges. The cost components composed of (1) the cost of money, (2) the cost of processing, (3) the cost of marketing, and (4) the cost of loan losses. These costs are sufficient to support the existing price structure.

The long run equilibrium price for the credit card issuing industry with free entry and exit would eliminate an economic profit. The industry as a whole can justify their price setting, as they do not have an economic profit in the long run situation.

The potential for the governmental price ceiling on the credit card interest rates is high, but the consequences of such a policy will be harmful to consumers, small business and the industry. Price ceilings will inevitably lead to a reduction in credit availability. This policy is especially harmful to the consumers in the lower income group, as they with little access to other forms of credit will lose the opportunity to use this instrument. The price ceiling on the rates will cause a sharp reduction of the consumers' spending and will be detriment to the small business expansion.

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# CONSULTING OPPORTUNITIES TO DEVELOP SMALL BUSINESS OWNERS RECEPTIVITY TO MARKET RESEARCH

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## ABSTRACT

It has been well documented that small business owners don't engage in formal strategic planning, including formal internal firm analysis, industry analysis, customer analysis, or competitor analysis. It has also been well documented in the small business literature that the high failure rate of small business stems primarily from poor management, including lack of planning and lack of market research.

This article discusses studies that indicate that managers of small manufacturing firms may be sales oriented, but are not marketing oriented. The article provides consulting scenarios of SBDC cases that offer examples of how an incremental task-oriented approach can introduce market research and an appreciation for the value of information in decision making.

## INTRODUCTION

Small business academic literature has documented the value of small business strategic planning (1; 2; 3), especially with outsiders (4; 5), and its lack of use by small business. (6; 7) This lack of planning has been a factor in small business failure. (8; 9; 10; 11)

Reasons for lack of planning have included time constraints. (12; 13) However there is evidence (14; 15) that planning tools, such as economic lot sizes, and financial controls, will be used, if their results are perceived to have immediate and predictable benefits. Market research is not among those tools that are perceived to be of immediate value, as indicated by the low level of formal market research conduction by small firms. (16; 17)

## MARKET RESEARCH

Market research is a crucial element of the planning process, especially for information on market size and growth, customer preferences, and competitive intelligence. In a study of manufacturing managers, Pelham (18) found that market research was the key factor to receptivity to strategic planning, and that a production orientation was a significant negative variable to market research receptivity. Not surprisingly, Jones's (19) study found planners and non-planners were separated by high discriminant function coefficients in the use of market research and long term forecasting.

The low perceived importance of marketing information gathering was established by Hess' study,(20) which found that analyzing customers and competitors ranked very low in weighted

average time, importance, and skill relative to customer contacts and personal selling.

In a study of small manufacturing managers, Pelham's (21) study found that while marketing was ranked first in importance, it was ranked fourth of five functions in actual time spent supervising. Further, this study found that customer surveys were considered less important (5.8 on a 1-10 scale) than analysis of competitive environment (7.35). A study by Mulford (22) found that the highest level of uncertainty for small business managers was the customer area (19.8 mean on a 1-60 scale) compared to competitor uncertainty (17.0).

Explanations for this bias against market research might include lack of time or money, perceived closeness to customers and the market, high perceived knowledge of the market by older managers, lack of market research expertise and internal staff, and suspicion of the validity of formal market research. Bellenger's study (23) found that larger firms had more research experience and positive attitudes toward research than smaller firms and found that consumer/industrial goods managers were more receptive to market research than retail/wholesale managers. Moschis (24) offered these reasons for low market research credibility: 1) cost, 2) subject to errors, 3) researcher jargon, 4) form not conducive to decision making, 5) timeliness, 6) difficult to quantitatively measure value, 7) reliance on numbers of

questionable validity provided by strangers was a poor substitute for managerial intuition. Another explanation for low market research use receptivity may be the generic strategy of the small firm. For instance, Mulford (22) found that the majority of studied small firm managers considered their firm strategy to be in a "defender" (secure niche in a stable product) or "analyzer" (maintaining a stable line of products). It would be expected that firms with these strategies, as opposed to a growth/opportunity oriented "prospector"/"build" strategy, would require less market research.

## METHODS TO INTRODUCE MARKET RESEARCH

Given the previously indicated barriers to market research, the outside consultant to small businesses faces difficulty when formal information gathering seems appropriate to aid decision making. The outside consultant must also deal with small business managers personal characteristics, which may include entrepreneurial impatience and low business education. Various studies suggest that the planning method should be incremental, (not synoptic)(25) and informal. (26)

The following composite case examples are drawn of the method used by staff and faculty consultants at our Small Business Development Center to introduce information gathering, when appropriate, into the task completion process. This incremental (versus synoptic) method of introducing market

research was a factor in the increase of marketing research counseling as a percentage of total counseling hours from 1983 to 1984, when a new SBDC Director was appointed. The total number of hours increased from 29 (2.4% of total) to 373 (14.9% of total).

Situations where market research seem most appropriate to the client are sales forecasting/ market size determinations for business plans and advertising/ sales brochure preparation.

### The Business Plan

Increasingly lenders and investors are demanding formal business plans which outline the marketing opportunity and financial objectives of the starting or expanding firm. The business owner will tend to turn to the consultant since he or she is unfamiliar with formal planning and financial proformas.

Figure 1 provides a model for the suggested interaction of consultant and client and a flow of events which introduce appreciation for the need for information gathering.

### Figure 1

#### Model for Incremental Introduction of Market Research in Small Business Decision Making

Client/Consultant Initial Attempt Recognition of Identification of ----> To Complete Task -----> Risk from Problem/Task (Proforma, Advertisement, Proceeding Brochure, Etc.) Inadequate Information --- Cient/Consultant Decision on Information Discussion of Analysis of <----- Gathering Method and Formal and Research Results on Primary/Secondary<----- Informal Data Method to Obtain --- Information

Decision to Conduct -->No-->Complete Task-----> Monitor Results Further Research of Output (Sales Results) - -

--- Yes -----> Conduct ----> Analyze Results Revise Output Research

Depending on the perceived financial risk to the client, the data search and survey design may be minimal or extensive.

An example of a client directed survey was a prospective restaurant operator who surveyed employees of businesses near the proposed site, and surveyed area residents to determine menu preferences, dissatisfactions with existing restaurants, and likelihood to eat at the prospective restaurant. Further data searches included competitive menu analysis, customer traffic at competitor location, a D.O.T traffic survey, and census data demographics at the site.

As a result of these efforts, the second attempt to prepare financial pro-formas was based on specific market share or customer count/purchase cycle data. The preparation of the marketing section of the business plan was based on less

rough assumptions and based more on customer feedback and analysis of client/competitor strengths and weaknesses. This information was also extremely valuable in the preparation of advertising messages and media planning.

### Information Needed for Preparation of Advertising/Brochures

Exhibit 1 presents the structure of advertisements and brochures that call for more detailed elements, strategic decisions, and information that guides those decisions.

### Exhibit 1 Example of Incremental Consulting Method to Introduce Market Research and Strategic Planning

Immediate Task Information Needed Ad Brochure Preparation For Strategic Decisions 1. Headline Copy 1. Who is the prospect? a. Identifying prospect, and a. Current and future key needs, problems, or b. Customer breakdown by opportunities amount of purchase, b. Prioritize those needs, frequency of use, and problems, or opportunities type of use c. What words get prospects c. Growth, sales, and attention profit potential by customer group 2. Body Copy 2.a. Who are the key and a. Identify key advantages minor competitors/ of client's product over alternatives from the competitive product customer's viewpoint? b. Prioritize key advantages b. Why do current for each customer group customers prefer the c. Decide of separate (client) brochures needed for (competitors) product different customer groups (price/value d. Customer problem/solution relationship) stories and testimonials c. What are the 3. Future Tasks/Decision competitors claims a. Direct mail use of in their ads and brochures and salesforce brochures? features? Use only? pricing?

b. Use of trade magazines d. What are the key c. Product improvements areas of d. New products dissatisfaction with e. Pricing changes? competitive products? f. Distribution channel changes? e. What are the key attributes that best describe the clients' product and competitive products? (Use of scaling, perceptual maps) f. Is purchase decision important? rational or emotion? A client, seeking advice on advertising or sales literature preparation, was dissatisfied with the sales growth and marketing penetration of their products. As in the business plan situation, the assumptions about customer profile, buying needs, and competitor product attributes were not based on quantifiable data.

Using an incremental consulting method, there was an attempt to write the ad or brochure with the client. This early attempt revealed lack of information on customer demographics, total number of customers, geography of customers, current customer perceptions, priority of buying motives, competitive advertising messages and media, product penetration and types of usage, and heavy user profiles. The resultant rough draft of the advertisement and sales brochure and the rough media plan typically convinces the client not to proceed without some market research to improve the effectiveness of the communication and the effectiveness of the means of delivery. The information searches were similar to those given in the business plan section of this article. In addition, the client exposed the proposed rough drafts of the ad or brochure to prospective or actual customers for feedback and suggestions. The results of the primary and secondary research provide the client with factual competitive information and a reasonable customer demographic/attitudinal profile which will improve positioning of the clients product.

### CONCLUSION

The introduction of market research through incremental methods in the business planning and advertising planning processes can result in benefits that out live the immediate task. The client will tend to value the process of information gathering to reduce risk and uncertainty in other business decision making such as setting prices, product revision or new product development, and new site selection.

The benefits of the incremental consulting method include its task oriented approach, its informality, the pragmatic and immediate benefits from the research results, and the ease of

replication by the small business owner for future research efforts.

While there is extensive normative business press literature on the subject of consulting methodologies, there is a notable lack of small business academic research in this area. It is suggested that empirical studies be conducted to measure small business owners receptivity to differing consulting methods and to different decision tools, such as market research.



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# Perceptions of Customer Buying Behavior by Owner-Managers during the Start-up process

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## ABSTRACT

Based on a sample of 103 recent new starters in England, this paper seeks to establish the underlying determinants of small business marketing decisions. Particular emphasis is placed on perceptions of buyer behavior and the problems of the small firm seller penetrating established industrial markets.

## INTRODUCTION

There are a number of studies in both the United States and United Kingdom that suggest that smaller firm marketing performance is below a level necessary to sustain business development and growth (1,2,3,4,5,6). Although the various dimensions of the problem can be summarized as relating to competitive positioning, poorly conceived designed and coordinated marketing mixes, and a failure to acquire and utilize marketing information, there has been less agreement on the underlying determinants. A variety of factors such as resource constraints (7,8), lack of specialist marketing expertise (9,10), owner manager attitudes and objectives (11,12) and inherent market structures (13) have been attributed as important contributors to performance problems.

The purpose of this paper is to examine the linkage between the 'conceptual models, adopted by owner-managers to explain customer buying behavior and the likely impact on marketing mix design. Although definitions of marketing abound, a central theme is the need to adopt the marketing concept as a general guide for management activities. Readers will be familiar with the concepts main points:

- (a) The need to focus on customer needs and wants.
- (b) To respond to customer needs through the creation of offerings that are valued by the target group.
- (c) To generate profitable sales revenue whilst keeping abreast or ahead of competition.
- (d) To plan, integrate and control market based activities so that desired objectives for sales, service and customer satisfaction are realized over time.

Implicit within a marketing approach to business development is the causal link between customer need profiles, competitive

offerings and a well thought out marketing plan at strategic and operational level. This was highlighted by Engel,

Kollat Blackwell (14).

"the firm must understand the interrelations between consumers and institutions if it hopes to influence the system to attain the objectives of the firm" p.11

An organization with the expertise, resources and foresight to explore this interrelationship is likely to use a wide range of information gathering approaches to assist marketing decision making rather than rely on instinct or accidental fit with market needs. However, the smaller new start firm may lack the ability or desire to utilize in a systematic manner information sources, whether of a secondary or primary nature. In the absence of a comprehensive search for information a number of alternative stances may be adopted to facilitate the planning of marketing effort:

(a) Environmental complexity reduction to simple operating principles' or 'rules of thumb':-

- 'customers buy on price' - 'a quality product is bound to succeed' - 'they don't really compete with my business' - 'advertising doesn't work in my market'

(b) Environmental information selectivity through a partial scan. The key structural determinants are assessed, ie total market size, trends, share etc. The more difficult, subjective areas (e.g. need profiles, receptivity, buying procedures), often at a micro level, are ignored. The former is utilized in a generalized way to guide more detailed planning, the latter is assumed to be compatible with the new starters launch plan.

(c) Environmental responsive positioning. Having accepted the complexity and difficulty of assessing key buying determinants prior to detailed negotiation, the marketing decision maker adopts an 'experiential learning' approach. Ongoing information feedback is used to modify and occasionally redirect marketing effort. Planning is therefore reactive, loose and informal.

Whatever model is adopted, all contain potential problems for the design of an effective, winning marketing strategy. Whereas an increasing amount of research is being focussed on the dimension of ineffective strategy, relatively little has been concerned with the models and processes that generate the customer targeted strategy in the first place. A number of generalized guidelines do exist to assess the characteristics of marketing effectiveness (15,16) and although useful, they all presume, with little elaboration, an underlying model of customer behavior that the marketing decision maker needs to influence in an effective

manner effective in influencing (ie product quality appreciation, service desirability, information seeking behavior, etc.)

The purpose of this paper is to better explain the underlying 'rationality' that guides the new starter in marketing decisions whether part of an integrated plan, or by default, decisions need to be made implicitly or explicitly on target market/need appropriateness, buyer sensitivity to marketing variables and buyer assessment of competitive offerings. If there is a lack of such information from the marketplace, a not untypical situation given the general unwillingness of owner-managers to fully accept the value of information, what factors guide decision making?

The fundamental proposition within this paper is that although meaning and assessment is drawn from the stimuli received from interaction with customers, it is likely to be heavily influenced by selective perception. The owner-manager can be expected to interpret customer feedback selectively as a result of a complex interaction of needs, drives, motives, values and attitudes.

The link between such perception and marketing decision making is worthy of study given the need to seek explanation rather than description of small firm marketing performance.

## INTERPRETING CUSTOMER BUYING BEHAVIOR

While it is not considered desirable or necessary to fully review the literature on organizational buying behavior, it is important to identify a number of the key underlying concepts.

Four main conceptual thrusts can be identified in the organizational buying behavior literature:

(a) The Buying Unit or Centre (b) The Buying Process (c) Factors influencing (a) or (b) (d) The interrelationship between Buyer-Seller

Briefly, (a) is concerned with the composition of buying units in individual organizations and how they vary between organizations, by purchases and over periods of time.

Whereas some units may be highly formalized other may be informal and project -specific. The roles and dynamics of inter-personal relationships within the buying unit, both by function and level in the hierarchy have been widely studied. (eg 17,18,19).

The Buying Process (b) is concerned with the myriad of activities that take place from purchase inception to post purchase review. A variety of models have been proposed to reflect different organizations and different purchasing tasks. Most of the research focusses on the different buying stages and the critical decisions at each stage. (eg 20,21)

The factors influencing both (a) and (b) have been the subject of much research although they tend to polarize around the buying situation (new purchase to straight repurchase)and the complex, interacting influences related to personal, interpersonal, organizational and environmental conditions. This area has been subject to considerable efforts in theoretical modeling to assist in the explanation and prediction of buying behavior. Of particular concern to this study is the choice criteria exercised by key members in the decision making unit. Much of the organizational marketing effect is designed to maximize the leverage created by the skilled use of marketing variables (product design, positioning, price, advertising etc.) (eg 22,23).

An emerging perspective (d) focusses on the interaction of buying and selling firms and the mutual influences and processes that take place to arrive at a negotiated outcome. The literature base for this area stems from transactional economics, inter -organizational theory and distribution theory as well as industrial marketing. Despite the tendency towards asymmetric power relationships in the small firm (supplier) and larger firm (buyer) situation, relatively little attention has been placed on this area from the organizational size perspective. (eg 24,25)

## NEW STARTER PERSPECTIVES

Although it is unlikely that the new starter selling into organizations would have developed research skills to a sufficient degree to link specific marketing decisions to anticipated organizational buying behavior (market response), these decisions are obviously based on some view of likely impact. Fundamental issues such as who to contact, what kind and amount of influence they exert, what are the stages in the buying process, and current loyalty/relationship patterns exist, are obvious characteristics in any planned customer contact. The issue is whether the new starter is sufficiently able to position activities to achieve an efficient, timely and effective impact on the potential buyer(s).

Prior to start up a wide variety of topics needs to be reviewed and appraised as part of a formal or even informal planning process. The sales forecast and the expected utilization of marketing resources are likely to be heavily dependent on a perceived notion of customer reaction. This begs the questions as to how well the reaction of customers can be assessed from limited contact? It has however been argued that a large number of a new firm's customers are known personally to the entrepreneur prior to business commencement.(26) If supported, this would enable a greater depth of understanding of behavior.

Knowledge and prior contact with potential customers may be helpful in assessing, likely market acceptability of the new business offer. However, where intentions to order are given, thus providing a degree of confidence and security to the new

starter, some skepticism could be expressed as to the probability of these intentions being realized. Small firm advisors often discount heavily on the 'intention to order' projections made in the initial business plan. Little previous research has attempted to quantify the degree of prior knowledge of customers or the intention to order realization ratio.

If knowledge of customers buying situations is regarded as a critical input to effective launch planning it is worth reflecting upon are the dimensions of knowledge that will make a major contribution to decision making. Factors such as buyer identification, buying procedures (stages), specification and usage requirements are likely to be important factors influencing the direction, timing, rate and likelihood of sales being achieved.

Another issue in launch planning with its implied roots in organizational buying behavior is the rate of order inflow. Source loyalty and buying inertia are counteracting forces that are likely to impede successful adoption of the new starters product or service. Therefore competitor reaction and established order routines may slow down sales forecast achievement. The average order time and the expectancy of this period are all based on assumptions of the impact of marketing efforts.

An assessment of who to contact and the choice criteria used will probably form a major part of the marketing mix design and targeting of marketing effort. The product and company specific nature of the buying unit presents a complex problem for the new starter that demands an ability to probe and adjust to individual circumstances. If the targeted customers tend to be similar small businesses the size of the problem may be reduced and simplified, but as soon as larger, functionally based organizations are contemplated, the complexity is likely to mount.

Unravelling supplier choice criteria is a further challenge to the new starter who is inexperienced in penetrating buying organizations.

While factors such as price, quality and delivery are sure to feature in any negotiation their actual level needs to be brought down to the individual customer rather than generalized mix abstraction. For example, small business advisors will be well aware that price does not mean low price or cheap price but a 'fair' price commensurate with the offering to the customer.

Additional factors such as reputation, perceived risk in change, loyalty and flexibility are all likely to impact upon the final choice decision. The new starter needs to conceptualize these influences, rate their varying importance in particular situations and then respond with a mix strategy that promotes, in

an integrated manner, the idea of an efficient, effective, competent supplier.

The above review, of organizational buying behavior is primarily designed to highlight the complexity assumptions that need to be made when assessing the impact of organizational buying (response) to marketing plan implementation. The larger, experienced organization will often have the benefit of experience, systems, structures and expertise to assess more accurately market responses. However the new, smaller business owner often needs to make judgements based on limited experience, low levels of information and only partial 'models' of buying behavior. In such a situation it is easy to understand how the decision makers own assessment of rationality and response is attributed to the buying organization and mixes designed accordingly. An example of this phenomenon can be suggested with direct mailing. The new starter with wide experience of receiving 'junk mail' as a consumer, may attribute similar responses to the industrial buyer even though the context and impact may be very different.

The research in this paper, by focussing on the perceived level of knowledge and understanding of organizational buying probably indicates more about the underlying attitudes, values and preconceived notions of the owner-manager than it does about the influences on organizational buying. Perhaps only by disassembling these underlying perspectives can perceptual barriers be removed and the fundamental bases for improved marketing effectiveness be established.

## METHODOLOGY

Data for the research was obtained by undertaking a mail survey of new and recent starters in the North East of England. As the study was primarily concerned with the issues associated within understanding organizational buying behavior rather than consumer behavior, listings were edited to exclude those businesses in the retail/home services area. (see Table 1)

The mail questionnaire was designed in three parts:-

(a) General Background considerations (b) Pre Start-Up Customer knowledge and issues (c) Assessment of organizational buying behavior influences.

A variety of 'Likert' rating scales were used along with dichotomous and ranking questions. A total of 400 questionnaires were mailed over the summer of 1988 and a usable response rate of 26% (103 respondents) was

received. A mail survey can only provide a relatively basic level of information on underlying attitudinal and perception based issues. It was hoped that a number of directions would be

identified that merited a second stage of indepth interview type research.

Several sources of bias are likely to reduce the overall impact of this research. Perhaps most importantly, as individual relationships are not examined, it is difficult to determine the quality of the customer based generalizations provided by respondents. As some respondents had been trading in excess of two years it may have been difficult for them to accurately recall their pre start-up situation. Similarly variations in product complexity, ranging from industrial services to new product investment are likely to impact upon buyer behavior. It is also significant that the majority of respondents were operating in relatively low unit cost, repeat purchase situation.

## SURVEY RESULTS

Although it is often assumed that new starters, as part of the pre-start up decision making process, exploit previous contacts with potential customers, Fig 1 suggests that the majority (65%) knew less than 10% of their customers prior to launch. It follows that a prime task facing the new starter must be to identify, create and secure a customer base through research, networking and negotiation. The challenge posed by such a task should not be underestimated given the general level of inexperience of many new starters in externally focussed activities.

Prior contact with potential customers is of course only a pre-requisite to initial orders. Where intentions to order have been given, not only does this act as a boost to confidence, but also may facilitate greater interest from external backers. However, in Figure 2 only 14% of respondents indicated the 'relative security' of firm intentions. By far the majority (68%) started with the clear knowledge that orders must be created with all the attendant problems of time lags, uncertainty and their impact on cash flow/resources.

It could be argued that gaining an 'intention to order' from prospective customers is relatively easy compared to finalizing specific orders at specific prices and quantities. Figure 3 demonstrates that although 41% of respondents were able to realize intentions, significantly nearly 59% achieved either a 50% or less conversion from intention to order.

Figure 4 presents the new starters rating of their own knowledge in potentially critical areas to the successful development of the customer base. It is interesting to note that whereas the product - application areas appear to be reasonably well understood, the purchasing characteristics of potential customers reflected a far lower level of knowledge. Only 28% and 30% respectively of respondents rated their knowledge of company buyers and buying procedures as good. There are important implications for new starters in these findings in terms of

access, influencing buying decisions and appreciating buying complexity. All of these factors are likely to interact upon the reliability of the timing and amount of sales forecasts.

The theme of influences on sales forecasts is pursued in Figures 5 and 6. Fig. 5 examines the average time period between initial customer contact and the receipt of initial orders. The time period is likely to be influenced by a number of variables, not least the type of product/technical complexity, purchasing routines/complexity and entrenched competitive position. The majority of respondents (52%) suggested that the average time period tended to be short, less than one month. This may partially reflect the sample structure, with its bias towards services rather than technical products. However, a significant minority (13%) did experience a time delay in excess of three months, a factor, which if not predicted, could have a major influence on the survival of the fledgling business.

Of course time delays are less critical if predicted and budgeted in the start up plan. However, Fig. 6 suggests that nearly 25% of respondents experienced longer than expected delays and a further 17% were unsure of what to expect! The problems associated with order negotiation cycle length, let alone ultimate payment, are worthy of further reflection by practitioner agency and adviser alike.

The start up process is likely to be a period of intense learning by the owner-manager as dreams are turned into reality. This is particularly true in the uncertain area of customer reaction. Although many new starters will need to perform a multi-functional role, it may be expected that once initial directions and controls have been established, operations and sales are likely to pre-occupy attention in the early months of the business. It is interesting to note the actual amount of

weekly customer contact in Fig. 7.

Surprisingly 70% of respondents indicated that one day per week or less was the actual customer contact time despite the need to expand rapidly the customer base given the earlier findings. Although it is difficult to comment on the appropriateness of the use of time, unless outside representatives are employed, it would appear difficult to achieve all the selling tasks, in such a limited period unless the customer base is very narrow indeed.

The perceived difficulties of expanding the customer base are reviewed in Figure 8. It is interesting to note that the personal selling tasks appear to dominate the problem field compared to broader marketing considerations (service, product quality, pricing etc). Therefore gaining interviews, stimulating interest and closing the sale are regarded as significant issues in constraining customer base development. The remainder of the survey focussed upon the perceptions of the respondents of organizational buying behavior. Figure 9 highlights the perceived contribution of different members of the

buying unit to the specific purchasing situations faced by the owner-managers. By assigning a weighted score to the relative importance of individuals in the unit, an overall score was identified for each of the six alternatives (ie buyers, directors etc). It is interesting to note the predominance of owner-managers/directors in the overall ranking. Rather than reflecting penetration at high levels in the organization, these results may demonstrate the selling bias of these new starters toward smaller, medium sized enterprises.

Professional buyers/administrators rated second lowest but this again may reflect the size bias and the predominance of service selling situations.

Buying criteria across the decision making unit is a vital input to marketing strategy design. Figure 10 presents the perceived relative importance of a range of choice factors. Product Quality and Price emerged as important factors whilst interestingly service and track record/reputational dimensions were judged as being of only some importance.

Figure 11 considers an expanded list of criteria in relative rather than absolute terms. Significantly reliability, product performance and price were considered as major considerations in influencing customer buying decisions. It can be noted that the commonly regarded area of small firm strength, flexibility, service and local supply were not considered as major factors. The low rating given to technical suitability and particularly previous experience, may represent an underestimation of their contribution to choice decisions.

Finally, a series of statements were presented as issues in appraising customer buying motivation. Respondents were asked to indicate the degree of agreement or disagreement with seven statements. Points were allocated to the responses ranging from +2 for strong agreement and -2 for strong disagreement. Each statement score was then divided by the number of respondents to provide an average score for each statement. Figure 12 highlights the responses. None of the issues researched provided a strong opinion, either positively or negatively but it is interesting to note that on all issues except (f) the average tended towards some agreement.

In 12a there was some agreement with the proposition that customers want cheaper products, a perspective that could have a fundamental impact on the priorities given in marketing implementation. Rather than emphasize product upgrades, service improvement etc., it would appear that the focus is more on price reduction - but at what expense? This is supported by 12b where only a small bias was recorded towards agreement with the benefits of product improvement for customers.

The issue of 12c suggests that there is some appreciation of the role for service, but this was far from positive. In 12d this

classic 'mousetrap' theory does not appear dead and buried! If the seller is able to convince his/herself of product quality there appears to be an expectation that active forward communication strategies are not necessary.

If 12(e) and 12(g) are analyzed together, the introverted perspective of the respondents again appears to be demonstrated. Rather than adopt an external, customer orientated focus there appears to be an implicit, tacit belief that buyers should make special considerations to the smaller firm. Although a buyer may actively court local suppliers, especially if niches exist for a more specialized technical or service support, this may only reflect enlightened self interest.



Only in 12(f) was there some disagreement with the statement on price cutting, although even then the strength of disagreement was not that convincing. Although there are conceptual and methodological dangers in adopting a normative appraisal of these statements, there does appear some evidence from the responses to highlight a number of perceptual biases. These may create a passive, introverted and limited assessment of the influences on, and how to, influence customer buying behavior.

## SUMMARY AND CONCLUSIONS

The research findings presented in this paper provide tentative support for the proposition that many new starters are not that familiar with buying behavior patterns and dynamics within potential customer organizations.

Although to some extent this situation may be inevitable given the previous background of the entrepreneurs and their need to learn rapidly during the start up process, there are important implications for marketing strategy design and launch effectiveness.

Generally, only a small percentage of customers were known prior to start up and although the relative importance of a small number may be significant, there is likely to be an urgent requirement to expand the customer base. However, the research suggests that the majority may not be best prepared for such a task. It would appear that on a self rated understanding of contacts and buying procedures, less than a third claimed a good knowledge. Even in such areas as competition and specifications, nearly 50% expressed less than a good knowledge (Fig 4). If an assessment of knowledge levels was undertaken utilizing externally derived measurement, it would be interesting to further analyze pre start up knowledge levels.

A direct outcome of the variable knowledge levels recorded is the uncertainty and potential problems created by delayed decisions and extended negotiation cycles. Interestingly, sales related

activities were recorded as more difficult during the critical period of customer base expansion. Whereas the areas of specification, service and buyer identification did not appear a problem, interview approaches, stimulating interest and closing sales were areas of greater difficulty. There may be important implications in these findings for priorities on marketing training programs for new starters.

The overall ratings of customer choice criteria suggests a strong bias towards product and price considerations. Whereas the role of product quality may be important in many applications, given the sample bias towards service type organizations, it was interesting to note the low ratings given to such areas as experience, service, flexibility and location despite the intangible nature of many service products.

The question must therefore be asked as to whether the perception of key choice criteria is an accurate reflection of the buying situations faced? Choice criteria are likely to vary between members of the buying unit and according to the complexity and routines of the buying situation. The evidence presented in this research suggests a rather narrow perspective of criteria, revolving around the traditional, 'rational' models of quality, price and delivery. Even within these areas the emphasis appears to favor cheaper products without necessary close attention to product improvement, service and active promotion. There appeared almost an undercurrent of feeling that 'special allowances' should be made for the smaller firm when comparing competitive quotes.

Empirical research in the organizational buying field suggests a far more complex and extended range of buying influences. It could be proposed therefore that many of the new starters studied were not fully appreciative of the complexity and variety of influences. Their own or conventional rationality for choice behavior appears to have been attributed to their customers buying behavior. The impact of selective perception is likely to ensure that changes in this understanding are a slow, and at times costly process in terms of ineffective market decisions. Underpricing, lack of emphasis on service or product upgrades, mis-directed and badly timed promotional messages are just some of the likely outcomes of any misperceptions.

There are a number of implications for researchers, practitioners and development agencies from this research:

- (1) There may be merit in an increased focus on the detailed relationships/dyads that exist between the small firm selling and their potential customers. How well are the small firm sellers able to identify, evaluate and penetrate buying organizations?

(2) Increased attention needs to be placed on the assumptions that underly sales forecasting when penetrating industrial markets. Any support plans should provide clear evidence of an understanding of customer buyer behavior, perhaps even on an account basis. Such issues as buying procedures, loyalty patterns, buying teams and risk/uncertainty factors can be considered crucial factors influencing the market response level.

(3) Training in small business marketing may need to place more emphasis on buying behavior and how to obtain appropriate information to guide launch planning. It could be argued that the tendency in a number of programs is to focus on the strategy design with insufficient attention to underlying customer adoption and modifications to match individual account needs.

(4) It follows from point 3 above, that increased emphasis could be given to assisting new starters in sales and negotiation techniques. Gaining access, interest and orders are not unfamiliar topics to such courses yet appear to represent a significant challenge to the inexperienced seller.

(5) Knowledge levels and familiarization of company buying procedures may be raised by an extension of the role of the agencies to link smaller firms with the large firm supply network. Although such familiarization through Buying Guides, Exhibitions, Workshops etc, cannot guarantee immediate penetration, they do provide an opportunity for the smaller firm to understand the processes that they need to influence through their marketing strategy. Agencies can play a critical role in assisting knowledge transfer.

The results from this research, although not definitive, do suggest a real need for an upgraded learning transfer from buying practice to marketing strategy design. The adoption of a more interactive approach may well assist the new starter in achieving penetration plans more efficiently and effectively than by intuitive, internalized strategy design.

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TABLE 1

SAMPLE STRUCTURE

(a) Length of Time in Business	n	%
Less than 6 months	20	19.4
Between 6-12 months	29	28.2
Between 1-2 years	20	19.4
Above 2 years	27	26.2
Not yet started	7	6.8
	103	100

(b) Business Type	n	%
Manufacturer	18	18.2
Wholesale	13	13.1
Service	54	54.6
Retail	3	3.0
Transport	4	4.0
Engineering/Construction	7	7.1
Not Classified	4	
	99	100

Figure 1

Degree of Personal Contact with Customers Prior to Start Up	Known	21-49%	10.4%	11-20%	7.3%	1-10%	28.1%	None	37.5%
Above 75%									
50-75%									
Number of Respondents	10	20	30	40					

Figure 2

Customer Intention to Order Prior to Start Up

Majority Gave | Firm Intention |-----14.1% | | About 50% Gave | Firm Intention |-----17.7% | | Majority Gave |  
No Firm Intention |-----68.2% |----- 10 20 30 40 50 60

Number of Respondents

----- Figure 3

Realization of Order Intentions

Majority of | Intentions |-----41.3% Realized | | About 50 % of | Intentions |-----  
---30.2% Realized | | Majority of | Intentions did |-----28.5% not Materialize | |-----  
----- 10 20 30 Number of Respondents

Figure 4

New Starter rating of own customer knowledge prior to start up

[Where 1= Good Knowledge, 2= Some Knowledge, 3= Little Knowledge]

% Good Knowledge Mean

Knowledge of Company Buyers 30.4% 2.14

Knowledge of Company Buying Procedures 27.9% 2.13

Knowledge of Competitor Offerings to Customers 46.5% 1.66

Knowledge of Customer Specification 50.5% 1.60

Knowledge of Customer Application 67.4% 1.41

----- Figure 5

Average Time Period Between Initial Customer Contact and First Orders

Above 6 months |---2.4% | 3-6 months |-----10.5% | 1-3 months |-----35.3% | Up to 1 month |-----  
-----51.8% |----- 10 20 30 40 50 Number of Respondents -----

----- Figure 6

Expectations of Average Time Period

Longer than expected |-----24.7% | As expected |-----43.8% | Less than expected |-----  
---14.6% | Not sure |-----16.9% |----- 10 20 30 40 50

Figure 7

The amount of weekly contact with customer

None at all |-----18% | Up to 1/2 day |-----28% per week | | Between 1/2 day | and 1 day per |-----  
-----24% week | | Between 1 and 2 | days per week |-----10% | Above 2 days | per week |-----20% |-----  
----- 10 20 30 40 50 Number of Respondents -----

----- Figure 8

## Perceived Difficulties when trying to increase the number of customers during start-up period

[Where 1= Very Difficult to 3= Not at all difficult]

% Very Difficult Mean

Finding the right buyers name 2.1 2.50

Gaining interviews with buyers 14.1 2.19

Meeting customers specification 3.1 2.82

Encouraging customers to become interested 13.4 2.25

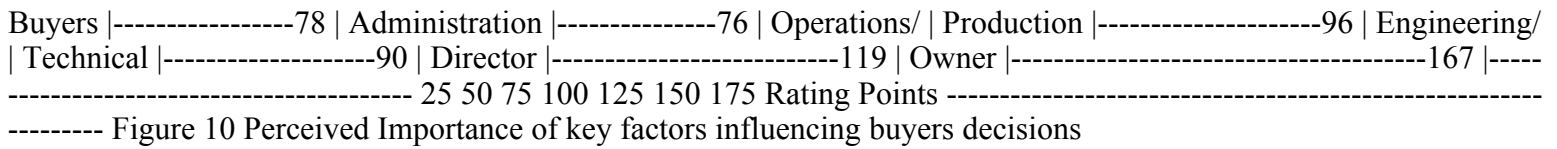
Beating Competitors prices 10.2 2.46

Matching Competitors services 6.2 2.71

Closing the Sale 12.5 2.18

Figure 9

Rating of relative contribution of decision making unit members to organizational buying decisions: Owner manager perception



[Where 1= Very Important to 3= Not Important]

% Very Mean Important

Product Quality 69.1 1.32

Price 53.5 1.47

Prompt Servicing 45.6 1.61

Delivery 44.6 1.67

Previous Experience 34.0 1.91

Reputation 51.0 1.65

Figure 11

Rating of factors influencing customers buying decisions

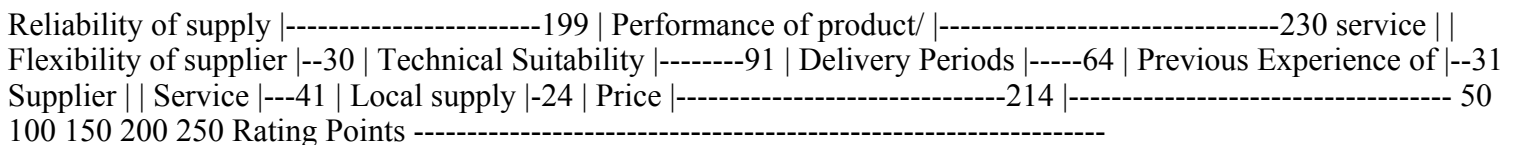


Figure 12

## Attitudes towards statements on Customer Buying Behavior

(a) "Customers usually want -----| cheaper products" || (b) "Customers will often pay ---| for product improvement" || (c) "Customers will often pay ---| for better service" || (d) "Customers will usually -----| seek out good products" || (e) "Customers should place | more regard to supplier -----| costs when discussing price" || (f) "It is best to lower price | when faced with competition" |---- | (g) "Buyers should make more | allowances when dealing --| with the smaller firm" | +2-----+1-----0--- -1----- -2 Strongly Agree Neutral Dis- Strongly Agree Agree Agree -----  
----- Figure 13

Percentage of Respondents on Strong Agreement or Agreement with Statements % (a) Customers usually want cheaper products 61.0 (b) Customers will often pay for product improvement 45.0 (c) Customers will often pay for better service 49.0 (d) Customers will usually seek out good products 48.5 (e) Customers should place more regard to supplier costs when discussing price 55.7 (f) It is best to lower price when faced with competition 18.8 (g) Buyers should make more allowances when dealing with the smaller firm 37.6

# AN INTEGRATED SPREADSHEET APPROACH TO THE EVALUATION OF RETAIL CONSUMER CREDIT PLANS

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## ABSTRACT

In this paper the author discusses a seldom articulated quantitative approach in evaluating consumer credit plans applicable to small business retailers. A demonstration is given of a methodology for analyzing an in-store credit system versus a bank or other credit card system using an integrated spreadsheet approach.

## INTRODUCTION

"Buy now, pay later!" "Charge it!" "Easy terms available!" "Only \$15 down and \$10 a month!" "Financing Available!" "Three years to repay!" These typical notices decree that credit has become a basic way of life for many consumers. And for a substantial number of consumers, credit has become either an essential or an expected part of a retailer's service mix. Therefore, for most retailers, the question is not whether to offer credit, but what type of credit to offer. After reviewing the purpose of retail credit for the small retail business, we will examine how a small retailer can evaluate an appropriate credit plan.

## PURPOSES OF RETAIL CREDIT FOR RETAILERS

Retailers sell merchandise on credit for many reasons. The basic reason, however, is that credit sales tend to increase a store's sales volume and, hopefully, also increase the store's profits. This alluring proposition has a great appeal to the small business manager, for sales are the foundation of profits, and any method that will help to increase sales should command the attention of a competent business person.

Many consumers have become accustomed to charging their purchases and paying for them later on. This is not only a convenient way of buying items, but it also allows the individual who does not have the sufficient funds on hand to purchase an item to take possession of the good and make payments at a future date. Also, if retail credit is properly promoted, some merchandise may be sold that would not normally have been sold if the consumer had to pay for it in cash. Generally, there is less

consumer resistance to buying on credit.

Another major reason why a small business should consider the use of credit is to meet competition. Large retailers frequently issue their own credit cards in the hope that consumers will patronize their stores more often simply because purchases can be made on credit. Even the small retail stores in the same geographical area may be offering credit terms to encourage potential customers to purchase goods from their establishments. Consumers generally do shop where it is more convenient for them. Thus, the store's credit card may facilitate the purchasing decisions for the consumers.

Finally, and often overlooked by the small business, is the fact that credit records are an excellent source of customer information. Credit applications provide considerable amounts of information (age, sex, income, occupation, etc.) on the credit customer; and credit records can reveal a history of what, when, and where (which department) the customer bought. Also, because credit customers are known to be customers of the store, they are an excellent foundation upon which to build a mailing or telephone list for special promotions; additionally, the monthly statement credit customers receive is an effective vehicle for promotional literature.

## TYPES OF CREDIT

In a retail business credit can be granted primarily on the basis of two possible systems:

1. The retailer can honor one or several credit card systems which are usually run by a bank or other financial institutions.
2. The retailer can handle credit through an in-store credit system where they allow customers to open

accounts with them and grant them credit directly.

## BACKGROUND TO THE CREDIT CARD SYSTEM

In granting credit through the credit card system, the small business manager will have several choices:

- one or more of the major bank credit cards - travel and entertainment credit cards - in an automobile related business, one or several major oil company credit cards

Whichever card(s) are honored and how many are offered is going to depend on the needs of the business. However, it is important to remember that the more cards honored the more paper work is created and the more complex the credit authorization procedure becomes when someone wants to make a fairly large

purchase on one of these cards.

Credit granted with a credit card system will not require a manager to make many complex decisions except for the initial decision to work with a particular credit card issuer. At this point they may be able to negotiate the charge that will be made, usually known as the discount, which the issuer will deduct from the credit slips for the service of paying the business before the money can be collected from the consumer. Since it is the credit card company who assumes the responsibility for collecting payment from the consumer their fee of 3% to 6% of the amount purchased is usually well worth not having the collection problems and the paper work that a manager would normally have to do if they made the collections themselves.

Along with the discount rates, the credit card company will establish a store's credit authorization line. This authorization line is the maximum amount which a store may allow a customer to charge to a card, without store personnel having to call the credit card company for approval. It is at this time that the credit-card company checks the customer's balance and decides whether or not to allow the customer credit for the purchase. It should be obvious, too, that if the customer has a withdrawn card, or if the customer wishes to purchase on credit more than the credit company is willing to lend, then the store is not authorized to transact the sale through credit. If the store fails to obtain an authorization number for a large credit card purchase, then the store not the credit card company must bear the loss should the customer fail to pay. Also, the store is responsible for checking that the customer's signature on the slip matches the one on the credit card itself.

## IN-STORE DIRECT CREDIT

Some small business people feel that their business would benefit from granting credit directly. Some credit customers are often more loyal than cash customers. Therefore, sales and income may benefit from such a move. If the decision is made to grant credit directly, there are two basic ways it can be done:

1 For individual purchases - This means that a separate bill will be submitted for each purchase and full payment against that bill is expected within the normal credit period, whether it be 10 days, 30 days, or even longer. As long as payment is received within the normal credit period, no finance charge is made to the customer. 2. Revolving credit basis - In this method, a separate bill is submitted for each purchase and a minimum partial payment against that bill is expected to be paid within the normal credit period. The customer must also pay finance charges each credit period, based on the unpaid balance of the bill.

In-store credit can be both profitable and expensive. It can be profitable because it can increase sales volume and promote purchases by a clientele of steady customers. And it can be expensive because it requires maintenance of a credit collection function.

## IMPLICATIONS OF GRANTING CREDIT - COSTS

Credit costs money. A small business person cannot expect to run a credit operation without paying for it. The most commonly cited cost factors are:



-- Higher operating expenses. There are substantial costs involved in recording the credit sale, billing the customer, and handling the payments. Add to that the costs of collection from slow-paying customers, and credit can cost anywhere from 2 to 5 percent of sales, depending upon the nature and efficiency of the operation.

-- Costs of fees and commissions. Such fees are paid to outside credit agencies who provide part or all of the retailer's credit services.

-- Cash flow. When the business receives immediate payment for merchandise then the sales and collections are identical. If the business grants credit, either through a credit card system or instore directly, the business, at first, will receive less payments than the sale value of the merchandise sold. This will be especially true in the first year but also occurs whenever the business increases the amount of credit it grants to its customers, or when it extends it for a longer period of time. Whether and how much the business will reduce its cash receipts depends, of course, on the terms of the credit and to what extent credit will increase the sales. For those customers who pay their bills in full once a month, there will merely be a delay of one month. For those who pay in installments, however, the delay can be significantly longer.

-- Tied-up funds. The retailer will have to make some provision in the business plan for additional working capital for operating the store. Since there is a time lag between the sale of an item on credit and the receipt of the full payment, the retailer may need additional operating cash. The retailer may have to make arrangements with a bank or other financial institution to borrow additional funds to operate the store. Whether the retailer makes a profit from the extension of credit to customers obviously depends, in part, on how much the retailer will have to pay for the additional working capital. If the costs of the additional money from a financial institution are greater than the profits from the sale of the goods on credit, the retailer will lose money. Thus, the retailer must be able to borrow money from

a financial institution at a favorable rate of interest. But in addition, the retailer must receive an even greater rate of interest from the customer if any profits are to be derived from the use of credit sales.

-- Bad debts. Losses from uncollectibles are part of the risk of providing credit. However, if reasonably stringent credit standards are used, bad debt losses should not exceed one-half of 1 percent of sales.

## FACTORS INVOLVED IN DECISION TO SELL ON CREDIT

Let us assume that the retailer has made the decision to sell the store's merchandise using some form of credit. As we have already discussed, the main forms of retail credit include: revolving credit with option terms, open account credit, and bank or company credit cards. A retailer has the option of using any, all, or some combination of these credit plans.

At this stage, the retailer should make some predetermination regarding the effect of the credit plans on the profit of the store. Hopefully, the store's profits will be increased through the stimulation of additional sales volume. However, it is possible that the costs or expenses associated with the use of credit transactions and uncollectible accounts could drastically reduce the profits of the retail store.

In evaluating the benefits and the costs of granting credit you have to look at both sides: the benefits which the credit can bring the business, and the costs involved.

The benefits are chiefly the extra business obtained because credit is granted. If all competitors are conveniently located and they grant credit, you can assume that you would lose a large proportion of the business that is now transacted on credit, if you had no-credit policy. On the other hand, if only a relatively small proportion of business is credit business, then you gain relatively little benefit from offering credit. How much benefit is derived from offering credit is a judgment that has to be made based on the conditions of that business.

It is a much easier process to evaluate the cost of credit. If you are doing business with a bank credit card system or other established credit card system, you can easily calculate how much you pay in discounts to the credit card issuer and how much telephone calls and other costs amount to. These costs can then be compared with the benefits which credit brings in additional sales.

All of these estimates are, of course, very difficult to make. Nevertheless, an attempt to make reasonable estimates can

give a small business manager a lot of information about the impact which credit is likely to have on their business.

## THE SPREADSHEET MODEL

The spreadsheet model developed as a template for Lotus 1-2-3 and VP Planner offers the user two different calculation options: you can choose between evaluating the credit of an in-store system or a credit card system. The monitor screen displays a simple form which asks you to answer the appropriate questions one by one. Answering them all permit the program to calculate the appropriate figures.

## AN APPLICATION EXAMPLE

Assume that a retailer does \$40,000 of business annually on direct credit which is granted through the store. A review seems to indicate that only \$15,000 worth of business would be obtained if credit were not granted. Also, assume that the retailer has a 15% net profit margin.

The retailer's costs of providing direct credit are:

Annual cost of billing customers...\$1,000 Cost of credit reference checks...\$200 Bad debt loss (and lawyer's fees)...\$2,500 Cost of money tied-up in credit.....\$333

The manager would like to know how much benefit does he derive from granting direct credit. And, would he have been better off honoring credit cards at a 5% discount, rather than granting direct credit? (Assume that the cost of checking large purchases would have amounted to \$300.)

The first screen to appear on the template is the menu:

CHOOSE THE ANALYSIS EVALUATION YOU WISH TO CONDUCT:

[Alt] I TO RUN IN-STORE DIRECT CREDIT GRANTING SYSTEM

[Alt) C TO RUN CREDIT CARD GRANTING SYSTEM

If you choose [Alt] I, the monitor will display a simple form which asks you to answer the appropriate questions. The program first asks you:

1. HOW MUCH BUSINESS, IN DOLLARS, DID YOU DO ON CREDIT LAST YEAR? You would enter the appropriate amount in cell G25. In our case this would be 40000. The program then asks and

displays the results as follows: 2. DETERMINE HOW MUCH OF THE BUSINESS YOU WOULD HAVE OBTAINED IF YOUR DID NOT GRANT CREDIT. Enter this figure in cell G27. In our example this is 15000. 3. ENTER NET PROFIT IN % BUSINESS MADE (I.E., .05). This figure is entered in cell G28 and should be entered in decimal form, i.e., .05. In our example this figure is .15. 4 WHAT IS YOUR ANNUAL COST OF BILLING CUSTOMERS AND KEEPING THE CREDIT RECORDS? Enter this figure in cell G30. In our case this is 1000. 5. WHAT IS THE COST OF CREDIT REFERENCE CHECKS, E.G. , CREDIT BUREAUS, ETC.? Enter this figure in cell G32. This is 200 for our example. 6. HOW MUCH DID YOU LOSE IN DEBTS WHICH CUSTOMERS NEVER PAID? This figure should be entered in cell G34 and in our case is 2500. 7. WHAT IS THE COST OF MONEY TIED-UP IN CREDIT? This figure should be entered in cell G36 and is 333. 8. TOTAL COST OF GRANTING DIRECT CREDIT is displayed in cell G37 and is the addition of lines 4 through 7. This comes out to be 4033. 9. BENEFIT IN NET PROFIT, WHICH CREDIT BRINGS YOU is displayed in cell G38 and is -283.

You may now ask, would the retailer be better off honoring credit cards at a 5% discount. The answer can be found by using the second option [Alt] C from the menu:

1. WHAT IS THE DISCOUNT RATE ON CREDIT CARD CHARGES (ENTER THE FIGURE IN % FORM, I.E., .05 FOR 5%)? This figure is entered in cell G45 and is .05. 2. ENTER THE AMOUNT OF SALES CREDITED TO CREDIT CARDS. This is entered in cell G46 and is 40000. 3. WHAT IS THE COST OF CHECKING LARGER

PURCHASES (I. E. , PHONE CALLS AND TIME SPENT CALLING)? This figure is entered in cell G48 and in our example is 300. 4. TOTAL COST OF USING CREDIT CARDS is displayed in cell G49 and is 2300. This represents the sum of line 3 and 4. 5. BENEFIT IN NET PROFIT, WHICH CREDIT CARDS BRING: is displayed in cell G50 and is 37700.

Since the total cost of granting direct credit amounts to \$4,033, the retailer would have higher net profit by honoring credit cards rather than by granting direct credit.

## CONCLUSION

The analysis you can perform using the methodology presented in this paper and, the accompanying spreadsheet template can provide you with a way of evaluating the most appropriate credit granting system for a particular small retail business. The microcomputer and the spreadsheet have taken the drudgery out of

making the appropriate calculations with a pencil and paper or a calculator. The spreadsheet enables you to quickly create a model of a situation by entering labels, numbers, and formulas, and by using the program's built-in functions, you can perform the appropriate calculations. You can then use the completed model to explore "what-if" questions. If you change any variable for instance, the cost of checking out the customer - the model will recalculate a new result automatically and instantly. The model can be modified so that it may be used in other situations in which you have additional costs that must be accounted for.

There has been a paucity in the literature on how to evaluate a credit granting system. Most of the literature has focused on such descriptive topics as uses of credit, kinds of credit, collection policies and procedures, managing credit, and granting credit. This paper has approached the evaluation of a credit granting system by developing a model that allows you to evaluate a system in quantitative terms.

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G25 40000 G26 G27 15000 G28 .15 G29 G30 1000 G31 G32 200 G33 G34 2500 G35 G36 333 G37 @SUM  
(G30..G36) G38 (G25-G27)\*G28-(G37) G45 .05 G46 40000 G47 G48 300 G49 (G45\*G46)+G48 G50 +G46-((G48+  
(G45\*G46)))

## MACROS

\I {GOTO}a2I~ {GOTO} G25~

\C {GOTO}A41~ {GOTO}G45~

M {GOTO}A1~

# DEMOGRAPHICS AND MOTIVES OF WOMEN-OWNED BUSINESSES

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## ABSTRACT

Women are opening business of their own in record numbers. The 1980's have even been referred to as the decade of the women entrepreneur. Of course, the failure rate of small business owners, in general, is still taking a heavy toll.

This study revealed a trend of female ownership of business with a strong preference toward service and retail type firms. A majority of female business owners were motivated toward success as a result of motives often attributed to male business owners, that is, to earn more money and personal satisfaction along with the desire to be one's "own boss". These motives seem to have been dominant in leading to business success for both male and female owners.

## INTRODUCTION

Women are opening businesses of their own in record numbers. In fact, women are launching new companies at a rate of over five times faster than that of men, and we are told that they are creating about one-third of all new businesses which account for over \$40 billion in annual revenues [1]. More specifically, during the 1980's, more than 50,000 women have annually started their own business firms [2]. Carolyn Gray of the U.S. Small Business Administration says "the 1970's was the decade of women entering management and the 1980's is turning out to be the decade of the woman entrepreneur" [3].

Even though a large number of small business firms open each year, nearly one-half of them are out of business portion of the business casualties can be traced to the lack of a properly developed business plan prior to business entry, or failure to implement, maintain, and alter various parts of the business plan as needed. A number of authors place the blame for the failure of small business on poor marketing and management practices. A main concern in the area of marketing frequently given as a general weakness is in the omission or minimum effort given to market research. During a business seminar for small business owners, D. F. DuToit stated that the most important determinant of business success could well be the ability to effectively perform market research [5]. Even when appropriate market

research has been conducted prior to starting a business, the owner often fails to note changes occurring in that particular market segment after the business is under way. Today, buying habits change so quickly (partially due to changing products and services) that success belongs largely to those entrepreneurs who note market change and quickly alter their line of products or services offered to keep pace [6].

Other research studies place the blame more specifically on the lack of business experience and insufficient capital. One study suggested that female entrepreneurs face problems in launching and operating a business while dealing with tension between personal lives and career pursuits [7]. The presumption seems to be that some of these factors create difficulty for female entrepreneurs. If such problems facing the female owners of small businesses are found to be unduly severe for them as a group, perhaps special remedial steps can be taken to correct or minimize such problem areas before they become fatal to the small business operation.

## SURVEY

This study was undertaken in trying to describe both demographic data and look at some motives leading to success for the female entrepreneur. A sample of 500 female entrepreneurs was randomly drawn from the national population of female business owners listed in National Directory of Women-Owned Business Firms 1988 Edition. A pilot study was conducted in trying to reveal any major questionnaire defects or biases that might adversely effect the survey results. Each respondent was asked to complete a two page questionnaire containing questions of demographic data and designed to reveal motives that might have encouraged the female owner to become successful in the new business. The data was collected during the summer of 1988. A total of 144 questionnaires were returned for a total of 28.8%. Of

course, a higher percentage return would have been desirable, but it is felt that 28.8% return is sufficient to allow meaningful implications resulting in the success of the business.

This study was descriptive and may or may not be a sample that is truly representative of the entire population.

#### QUESTION ANALYSIS Question 1 Type of business establishment: Type of Business Raw Score Percent of Total

Service	66	46	Retail	66	46	Wholesaling	9	6	Other	3	2	-----	-----	TOTALS	144	100
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Service and retail businesses tied for the largest category of women-owned businesses. One problem that the researchers discovered was that many of the businesses were operating in several areas (i.e.: service, retail, wholesaling). The above totals represent the major types of businesses owned by women.

#### Question 2

Your primary product line consists of what?

Type of Line	Raw Score	Percent of Total	Printing/ Office Supplies	4	3	Clothing	22	15	Travel	11	7	Food	16	11																	
Industrial	10	7	Transportation	3	2	Crafts	24	17	Medical	4	3	Advertising	10	7	Service (Professional)	22	15	Computers	3	2	Florist	7	5	Home Furnishings	8	6	-----	-----	TOTALS	144	100

A variety of responses were given to this question. The largest group of respondents was involved in crafts, with clothing and professional services tied for second place. Professional services were mainly tax and legal services. The wide variety of responses gives this nationwide study a good balance of types of marketing related businesses.

#### Question 3

Number of years of experience in your present type of business at the time of start up of business.

Experience Raw Score Percent of Total

Less than 1 year	12	8	1-5 years	26	18	More than 5 years	62	43	No experience	44	31	-----	-----	TOTALS	144	100
------------------	----	---	-----------	----	----	-------------------	----	----	---------------	----	----	-------	-------	--------	-----	-----

Forty-three percent of the women owners had been in business more than five years in their present type of business, and sixty-one percent of the women owners had at least one year of experience. By using a national handbook as their frame, the researchers were able to get responses from a more experienced group of women. Still, thirty-one percent of the respondents had no experience in their present type of business. The women who had experience gained it while working for someone else. These women were motivated to start their own business by many facts that will be discussed in the upcoming questions.

#### Question 4

To what extent did you research your market area before you pursued your business?

Extent of Research Raw Score Percent of Total

A great deal	35	24	Somewhat	48	33	A little	23	16	None	38	27	-----	-----	TOTALS	144	100
--------------	----	----	----------	----	----	----------	----	----	------	----	----	-------	-------	--------	-----	-----

Fifty-seven percent of the respondents indicated that they either researched their market area a great deal or somewhat. Studies have shown that women want more business information than males. This high rate of response of women doing research prior to opening a business verifies this fact.

Still, twenty-seven percent of the women did no research before opening their business. Doing little or no research is a major cause of business failure.

#### Question 5

What was the major source of information in doing your research?

Information Source Raw Score Percent of Total Small Business Administration 10 9 Library research 7 7 State agency 1 1 Survey 21 20 Interview with persons in similar business 56 53 Other 11 10 ----- TOTALS \* 106 100

\* Excludes 38 that did no research

The majority of women owners gathered information for their potential business by interviewing persons in similar businesses. Most women as well as men tend to use information sources that are most convenient to them. By using interviews, information is obtained instantaneously and advice can be given on the spot. Gathering information by survey was the second largest total. A number of the women actually went out to potential customers and gathered the information they needed. In the other category, the largest percentage of respondents used past experience to draw their information.

#### Question 6

How many hours per week do you spend in business related activities?

Hours Raw Score Percent of Total

0-20 9 6 21-30 5 3 31-40 20 14 41-50 46 32 51-60 37 26 Over 60 hours 27 19 ----- TOTALS 144 100

The majority of the women owners spent more than a forty hour work week at their business. Seventy-seven percent of them were in the over 40 hour categories, and nineteen percent spent over 60 hours a week. If the business is to succeed, the woman owner is probably not able to work an 8:00 to 5:00 job. Yet, the time a woman invests in her business may not be spent only at the business location. Telephone calls, taking work home, etc.,

consume many hours. Any woman interested in beginning a business should realize that considerable time must be invested in the business.

#### Question 7

Does owning a business interfere with your family life?

Interfere Raw Score Percent of Total

No Interference 45 32 Interferes somewhat 74 51 Greatly interferes 25 17 \*How? ----- TOTALS 144 100

\*How? Answers

"Role reversal with spouse who is jealous of the time I commit to business"

"Constantly talking and involved in the business"

"Time away from family beyond normal business hours"

"Unable to stay at home with husband"

"Time is always short - the family becomes last on the list"

"Divided loyalties as parent, spouse, and community activist"

"Caused a divorce"

"Difficult to plan entertainment activities because of the hours I work"

"There is not time left for me"

"Work 7 days per week, usually 10-12 hours a day"

"Accelerated divorce from first husband, second husband is hardly supportive"

"Children think they are being neglected (short vacations, unexpected emergencies)"

"Cannot socialize as we wish - no time too tired"

"Makes it hard to date. Most men are intimidated by me and what I do."

Fifty-one percent of the women surveyed are experiencing some interference, while 32 percent do not experience any interference at all with their family lives. These figures are an indication that the business may be a family effort or that women are indeed able to balance their career and home.

Seventeen percent of the women responded that the business greatly interfered with their family lives. Respondents were asked to answer the question "How?" following the "greatly interferes" choice. A majority of the responses involved the time element.

#### Question 8

What motivates you to continue in your business? (Answer as many as apply)

Motivates Raw Score Percent of Total

Money 74 28 Personal Satisfaction 118 45 Hobby 13 5 Social Recognition 24 9 Family Pressure 3 1 Other\* 31 12 -----  
----- TOTALS 263 100

\* Other Answers:

Travel benefits

Being my own boss

This is all I know

Family owned

Needs of clients

Head of Household

So my husband can quit his job to start another company

A family to support, making our investment grow

Livelihood, it takes a husband and wife to survive these days

Profits are set aside for special trips

Helping others grow and accomplish

I truly enjoy it

Debt



Love my work

Personal satisfaction and money were the two most cited factors of motivation for continuing in business. As the researchers analyzed the answers to the "other" category, the same two factors, personal satisfaction and money, kept coming up again. Five percent of the women were in business as a hobby, and only one percent cited family pressure as their motivation.

#### Question 9

What has been the response from your customers to the fact that you are a woman?

Response Raw Score Percent of Total

Positive 84 58 Somewhat positive 17 12 Neutral 34 24 Somewhat negative 7 5 Negative 2 1 ----- ----- TOTALS 144  
100

Fifty-eight percent of the women surveyed responded that the public has a positive reaction to the business being owned by a woman. Only six percent of the women sensed any negative reaction from the public. The public is generally positive about women owning their own business, but there is still some degree of prejudice. Society has come a long way in their acceptance of the increasing role of women in business, but there are still those who find it hard to accept.

#### Question 10

What prompted you to pursue a business of your own? (Answer as many as apply)

Promoted Raw Score Percent of Total

Self-satisfaction 77 29 To provide a service to your community 30 11 To be your own boss 69 27 To earn more money  
51 20 Other 35 13 ----- ----- TOTALS 262 100

Other Answers:

Security Relocated

Ego

Flexible schedule

I was out of a job

An invention wanted to see if marketable

Encouraged by colleagues

To build towards retirement

Started out as a hobby

Always stuck in woman-paying position

Extra retirement income

A goal

Support myself

## Make your own hours

The majority of the women said they pursued their own business for self satisfaction, while 27 percent said they wanted to be their own boss. Twenty percent replied that they wanted to earn more money. Several women felt that there was a need for a specific product or service in their community. Various women acknowledged that the reason for their entrance into business ownership was due to the challenge involved and their interest in that area. This response is closely related to the self-satisfaction response.

## Conclusion

This survey included a selected sample of female owners operating small businesses. It was expected to reveal demographic characteristics and motives that may have been instrumental in the success of the female owned business.

Ninety-two percent of the respondents were engaged in either service or retail types of businesses. Of these types, the tendency seems to be toward a greater dependency on self-employment rather than the dependency on hiring several employees. Of the types of business, 58% were engaged in crafts,

service, clothing and food businesses, in that order of preference. The two larger types, crafts (17%) and service (15%), reveal an increasing trend of female owned businesses toward the service area. Most of the female business owners have past business experience, obtained assistance before starting the business, and work long hours (over 40 hours per week). They also find that interference by the business occurs in their family life while success is sought or maintained in the business. A majority of the respondents revealed motives similar to other studies that lead to success in the female owned business. The primary motives were personal satisfaction and the desire to earn more money than a job would provide if working for another firm. It was noted that customers of the firm generally presented a positive response to the female owned business, and the female owner did not seem to feel as uncomfortable as the business owner. Other personal reasons were given for starting and maintaining a business. Self-satisfaction was the major reason and the need to be one's "own boss " closely followed. These demographic characteristics and motives seem to be those that have generally lead to success of business firms with either male or female ownership.

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# AN ANALYTICAL MODEL FOR SBI CONSULTANTS

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## ABSTRACT

The writer has encountered two main problems in directing an SBI program: (1) SBI Teams are "brand new" each semester, and need to learn quickly how to deal with clients and analyze client operations; (2) Clients' problems are often hard to distinguish from symptoms, so that diagnostic work is required of the SBI Team.

This paper describes the use of an analytical model and diagnostic flow charts to make SBI team consulting more productive.

## INTRODUCTION

In 1986, the writer was offered the opportunity to become SBI Director at Southwest Texas State university. Favorable factors were: A chance to help small businesses in tangible ways; and to utilize personal consulting, teaching, business, and bureaucratic experience. The drawbacks: Students would do the actual consulting---new students each semester. The appointment portended much responsibility; little control.

The students, mostly senior management majors, would come to the program with interest, enthusiasm, academic knowledge, and some work background. What would they lack? Experience. Experience. Experience. Most would enroll in the SBI program to gain experience: To decide about small business; to prepare to go on their own, or learn why not to do so.

## STARTING OUT

After "muddling through" the first semester, reviewing outcomes, and gathering ideas at the Spring 1987 SBIDA Meetings, some program improvements were implemented: Selective student and client recruitment; preplanned access to faculty, business owners SBA and SCORE/ACE; new library and database resources; an SBI facility with phones, computer, software, and reference materials.

One thing was still lacking: A framework to guide the SBI Teams through the consulting process. Handbooks were abundant and checklists plentiful, but no handbook quite seemed to fit. Checklists turned out to be inflexible, linear mixtures of

significa and trivia. A framework was badly needed to help teams become productive quickly, separate symptoms from problems, communicate, identify feasible solutions, document results, and explain their recommendations to others.

## WHY A FRAMEWORK?

Experience had shown most SBI clients to be good at their primary specialties (Printers good printers, welders good welders, and so on), but less proficient in areas NOT previously experienced: Marketing, record keeping, hiring and firing --- MANAGING. Clients seemed quick to ask for assistance in increasing sale revenues and obtaining outside capital, but slow to accept the need for planning, resource management, and cost control.

Experience had likewise shown SBI teams to be quick to notice symptoms, but slow to recognize underlying problems, disinclined to cross-communicate (even teams working on similar problems for different clients), reluctant to show ignorance, prone to get "hung up" and lose valuable time, and very dependent on trial-and-error procedures.

Both of these experience factors served to underline the need for a consulting framework.

## FINDING A FRAMEWORK

A model existed which the writer had developed and used successfully in consulting, in teaching Operations Management, and (subconsciously) in advising SBI teams. Could this model, developed for use in large organizations,

be adapted for use in small organizations, which might consist of only one or a few persons? Since the model addressed management functions present in organizations of all sizes, an adaptation effort seemed worthwhile.

## ADAPTING THE MODEL

The Managerial Interrelationships Model is a generic model designed for problem solving in large corporate, government, and nonprofit organizations. The model is based on the "designer's black box" concept, the marketing concept, and the idea that form follows function.

The firm, upon detecting the existence of potential customers and identifying their needs, must answer the question of whether and how the firm can meet those needs. To do so, the firm must secure resources from its environment and transform them into useful outputs. The central box contains the transformation

process (coordinated activities) whereby transformation takes place.

Resources are seen as also coming from markets (human resources from labor markets, material resources from commodity markets, and capital resources from money markets). Aside from technologies applied inside the central box, all activities of the firm are essentially market oriented: The securing of mutually agreeable relationships not only with customers, but with workers, suppliers, investors, and lenders. The "market" ellipse representing these markets thus forms the interface between the firm and the environment, where all customers, resources, and other external forces are located.

The market is also the interface at which competitors contest the firm's access to its customers and resources. Except for government, the various "publics" which are said to inhabit the firm's environment can be accounted for as "players" who come in contact with the firm at the market interface. Government, by regulating or not regulating markets, and transformation processes, sets the tone of the firm's environment and determines its relative stability.

Any "publics" which do not interact with the firm through its market interfaces can be thought of as doing so through the medium of the government. (It can also be seen that a single individual could fill many "players" roles: A single person could conceivably be a customer, an employee, a supplier, a stockholder, and through exercise of citizenship exert forces through the government).

The model now becomes useful for strategic planning. Environmental opportunities can be identified by inspecting the market interfaces in terms of product market opportunities, opportunities to obtain new or better resources on favorable terms, or opportunities to take advantage of favorable social trends or governmental activities. Threats also appear, in the form of competitive products or substitutes, resource shortages, competition for resources, and unfavorable actions by government. Strengths and weaknesses can be defined in terms of ability to exploit opportunities, counter threats, and employ superior transformation technology.

A final feature of the model is the superimposition of a management structure on the input-output and marketing features already depicted. The model now becomes useful for analysis of management roles and interrelationships.

## Managerial Functions

In the completed model, management has three basic functions: Marketing management, Operations management, and Resource management, portrayed by the lower-level blocks of the structure diagram. Given perfect communication and willingness to

cooperate, no other management roles would be needed. In the absence of perfection, an executive management block, with augmenting staff, is needed to orchestrate the efforts of the functional managers. (The executive role is very different from the roles of functional management. Whereas functional management applies to the work OF the organization (Procuring and transforming resource and marketing products), executive work is that of MAINTAINING the organization, especially the communication system, and being sure that work performed under functional management is coordinated).

## The Small Firm

The management structure outlined above is for large organizations, where different management roles are played by different specialists. What about the small company; in particular, the one-person firm? Is a structured model useful for analyzing such a small entity? The answer is "yes"--- even if only one person does all the work of the firm, that person NEEDS to perform each and all of the management roles: Functional management is necessary if resources are to be obtained, transformed, and marketed as products. If planning, prioritizing, phased execution, and control are to occur, the owner-manager must also play an executive role. S/he must play the right roles at the right times, including that of "staff" manager, and know when to add personnel or call for outside help.

## PRESENTATION TO SBI TEAMS

The model was presented to the SBI students as depicted above. The teams were then told: "This is your client's firm, as it exists now, or as it will look when the company grows. Your client must do ALL kinds of management: Marketing management, resource management (People, materials, money), operations management (Minding the store), and EXECUTIVE MANAGEMENT (Planning, prioritizing, harmonizing functional management roles, and knowing how and when to get outside help). You may not be able to teach this model to your client, but your team can use it to identify problems, generate alternative solutions, formulate plans and recommendations, document your case, and organize your final report presentation."

## EXAMPLE OF MODEL APPLICATION

A client cites a "problem" (Low sales revenue), and asks for help with "promotion", but is not sure who the customers are, who the competitors are, or where to obtain funds for promotion. The team uses the model to map out the firm's environment, operational patterns, strengths and weaknesses. The team learns that the client is not competitive on product quality or price.

Working backward through the model, the team analyzes operations, human resource, and material resource management. It develops recommendations for improved procedures, supervision, employee participation, materials purchasing, receiving and inspection. Early implementation leads to improved quality, lower costs, lower prices, improved sales, and increased profits. The team then provides a promotion plan and budget (the client can afford promotion now), together with written recommendations for further management improvements.

## FIRST SEMESTER RESULTS

In the Fall semester of 1988, the model, previously used by the writer as an SBI Director's tool for advising student teams, was formally presented, discussed in the SBI classroom, and promoted as a tool for use by the teams themselves. Early improvement was noted in the ability of the teams to separate symptoms from problems and arrive more quickly at macro-diagnoses. However, the model was not as useful as expected in enabling the teams to do microanalysis and arrive at specific recommendations to solve particular problems. For instance, a team might detect a low level of employee motivation, but would not see the model as a useful tool for analyzing and improving employee motivation. This shortcoming might have been predicted because of the short time available for discussing the model and the operative factors involved in the multitude of transactions with customers, employees, vendors, lenders, investors, and government officials around the model's periphery.

To augment the model without additional investment in classroom time, a set of diagnostic flow charts (one for each management area), is being developed for use in detailed analysis and problem solving.

An example flow chart for the product market interface is shown in Attachment 1. The flow chart can be used for deeper analysis in the event a marketing problem is detected during overall evaluation of the firm, or used simply as a "tune up" guide adapted to the client's organization. Commonly experienced marketing phenomena are built into the chart, and the chart structure is designed to lead the team to possible solutions which they may consider.

The model and supplementary charts are currently provided on a handout basis. If evaluations are favorable, the model and flow charts will be packaged into an "SBI Trouble-Shooter's Kit" and made available through a local copy service.

## CONCLUSIONS

The Managerial Interrelationships Model proved useful to SBI Teams, but its utility was limited by the time available for "teaching" the model to the students. Since SBI is a "hands on" program where students use knowledge and abilities already gained, an added investment in classroom time is not desirable. Additional benefits to be derived from the model will depend upon the utility of the flow chart supplements now being tested and evaluated.

If current evaluations are favorable, the completed package will be offered for presentation at a future SBIDA meeting. Otherwise, the model will be relegated to its original role as an SBI Director's "background" analytical tool for advising the student teams.

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# ENTREPRENEURIAL CHARACTERISTICS OF SUCCESSFUL INTER-CITY BLACK SMALL BUSINESS OWNERS

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## ABSTRACT

This study examines the business performance of Black entrepreneurs within an inter-city economic development area. It was designed to add dimension to the widely held belief that Black business failures can be attributed mainly to lack of capital as opposed to ineffective managerial practices.

The managerial behavior of successful versus unsuccessful Black small business owners was investigated by measuring objective-centered management skills as a condition of effectiveness. Study participants completed an extensive Managerial Assessment Profile. Scores were divided into management function subcategories for analysis comparing and contrasting, as well as, determining the similarities between the two groups.

Study findings suggest a number of recommendations for correcting the deficiencies between the test groups and to improve the success rates of Black capitalists in America's Inter-Cities.

## INTRODUCTION

As the United States recovers from the worst economic period since the 1930's Black entrepreneurs face the challenge of participating in the ensuing economic prosperity. Failure to do so could threaten the long term prospect of Black economic development (3, p. 37). For the business sector to assist Blacks in achieving "economic prosperity" and "economic independence," it is critical that Black-owned businesses perform well (6; 1, pp. 477-479).

As the foundation of economic activities in the Black communities of the United States, independently owned Black entrepreneurial businesses have become recognized as very important factors in the social and economic development of Black America, particularly in terms of employment and the provision of goods and services (1, pp. 477-479). However, many of these businesses are gradually beginning to disappear from the neighborhood scenes, primarily due to business closeouts and outright business failures (16).

As a result, Black economic plans are disrupted and many people whose livelihoods depend on failed businesses become unemployed or destitute. The problem was first brought into sharp focus in a study conducted for the Minority Business Development Agency, an agency of the Commerce Department, by Steven in 1981. Steven confirmed that the failure of business enterprises had a greater negative effect on Blacks than on any other ethnic minority. The number of business failures among Black-owned firms is about twice that of other minority groups, while the rate of formation of Black-owned firms is comparatively lower. By contrast, the failure rate of White-owned firms was less than half that of Black-owned firms.

There has been a strong belief among business operatives that relates success in business to the amount of financial resources available to the firm. However, several recent studies on the subject suggest that the performance of small businesses depends greatly on the quality of management provided by entrepreneurs (9).

The question then is, why do so many Black-owned businesses fail? What can be done to help correct the situation? The argument that lack of access to capital sources contributes to Black business failures (11, 13) may no longer be fully sustained. The Board of Economists of Black Enterprise Magazine has warned that "Black America is in a state of crisis, and business-as-usual was no longer acceptable" (2, p. 119).

To help redirect the efforts of Black entrepreneurs to a successful performance, the type of management system most useful for the successful operation of Black businesses must be identified. This research effort proposes to examine the most effective management system used by successful Black-owned businesses located within an inter-city economic development area, based on the personal accounts provided by successful as well as unsuccessful Black entrepreneurs

themselves.

## RESEARCH SCOPE AND STUDY METHODOLOGY

### Basic Study Criteria

The entrepreneurs chosen for the study were selected from among current and previous business owners whose businesses were located within the "inner city" area (ICA) of metropolitan Kansas City, Missouri; an area chosen for the study for the following specific reasons:

1. It was one of 21 blighted areas in cities across the United States in the early 1980's targeted for special economic enhancements by the Office of Economic Development, of the U.S. Commerce Department.
2. The "inner city area" like its counterparts in other metropolitan cities, is an area of the city predominantly inhabited by a large majority of urban Blacks and in which the greatest number of Black-owned businesses are located.
3. The inner city area of Kansas City, Missouri is economically and demographically similar to other metropolitan Black communities in the United States (Community Services Administration, U.S. Office of Economic Development, Title VII: Impact Program Act, 1979).

An extensive records search was carried out to gather the required background information for this study. In general, only the following criteria were considered eligible for inclusion in the relevant population of ICA firms:

1. Must have been fully operational and had no less than 5 employees and no more than 100 employees, by December 31, 1986.
2. Must be privately owned and personally managed by its owner(s).
3. Must have been in continuous operation for at least 10 years.
4. Must not be a franchise or a not-for-profit or a professional consulting business.

These criteria were imposed because it is believed that jointly they formed a strong basis for establishing the independence of the business-owners' right to make private and independent decisions about their businesses.

The minimum number of employees was established at five because it is believed that five employees were capable of raising a variety of managerial problems to test the entrepreneur's managerial skills.

Ten years was established as the minimum number of years for the on-going firms to have been in business because studies conducted by the U.S. Small Business Administration have suggested that most new businesses fail within their first eight years of existence and only mature companies existed beyond their tenth year.

Not-for-profit organizations, franchised businesses, and professional consulting firms were excluded from the study because by their very nature, effective management of these organizations was generally assured through contractual arrangements, funding requirements, and professional training.

### Sample Characteristics

A total of 561 ICA firms whose businesses are or had been located in the study area were identified. Random sampling from this pool of entrepreneurs produced a combined list of two hundred sixty-two firms from which 122 successful firm interviews and 58 failed Black businesses were completely studied.

The subjects which included owners of surviving (successful) businesses and failed businesses were engaged in a variety of business activities and were found in the areas of general services, retail trades, wholesale trades, manufacturing, construction and contracting, and finance insurance and real-estate.



## Survey Instrument

A five-page survey instrument was constructed from two existing instruments: the "Management Style Questionnaire" (8), and "Effective Planning and Control Questionnaire" (15). Both instruments have been extensively tested and proven to be accurate, valid, and reliable through a wide range of studies and application.

The modification was basically a combination of the two tests in which only those factors which were considered to have direct relevance to the current study were utilized.

The survey instrument, Managerial Assessment Profile asked the respondents to rate themselves on a scale of 1-5 according to their perceived individual managerial behaviors. The management issues explored, included:

A. goal setting and task performance B. planning and budgeting C. organizing D. evaluating E. motivating F. conflict resolution and goal commitment G. reviews and appraisals H. rewarding I. staffing

By applying the test instrument together with a personal interview of each responding subject, data on the managerial attitudes of the entrepreneurs were collected.

The modified test instrument- Managerial Assessment Profile was administered to a group of entrepreneurs and non-entrepreneurs, and the test data analyzed using the Student's t-test model, Scheffe's multiple comparison test, and the ANOVA. The results at the 0.05 level showed the managerial characteristic traits to be significantly different between the entrepreneur group and the non-entrepreneur group.

The new test instrument, which consists of 52 questions, was divided into two parts. Part I contained 46 direct and specific questions dealing with nine management functions. Part II contained four open-ended questions and two ranking order questions. With the exception of the four open-ended questions in Part II, all the questions were developed on the basis of Likert's (10) 5-points opinion survey scales to measure changes in the attitudes of subjects towards the number of statements surveyed. The responses were measured on the 5-points scale with the value of 1 signifying a very unfavorable attitude and 5 a very favorable attitude.

## Statistical Analysis Procedure

The statistical level of 0.05 was established for this study within which to accept or reject the hypothesis being tested. The statistical tests used in the analysis of data in this study were based on the assumption that the values of the distribution will be discrete enough to highlight the variances in the pooled variance estimates of the samples.

## FINDINGS

The study hypothesis postulated that in a sample of Black entrepreneurs there will be no significant difference between the managerial styles of successful Black entrepreneurs and failed Black entrepreneurs. The assumption here was that successful Black entrepreneurs became successful because they were better managers than the unsuccessful Black entrepreneurs.

To test this hypothesis a one-tailed test was employed. Details of this test are shown on Table 1.

## TABLE 1

### COMPARATIVE ANALYSIS OF BLACK ENTREPRENEURS

#### SUCCESSFUL VS. FAILED

-----	Managerial Variables	Group	Mean	t	df	p	0.05	Result	-----
-----	Goals	1	3.21	2.15	16.58	0.023	SG 2	2.73	Planning 1 3.91 2.61 15.16 0.01
SG 2	2.82	Organizing	1 3.71	2.27	10.60	0.022	SG 2	2.93	Evaluating 1 3.73 1.57 5.79 0.036 SG 2 3.02

Table 1 Con't



Thus, within the limitations of the study as they related to the sample size and geographical location, the following conclusions can be drawn from the findings of the study:

1. Successful Black entrepreneurs manage their businesses through effective planning and control.
2. The management styles of successful Black entrepreneurs are more goal directed than those of the unsuccessful Black entrepreneurs.
3. The management styles of unsuccessful Black entrepreneurs differ significantly from the management styles of successful Black entrepreneurs.
4. Good education is necessary for successful Black entrepreneurship.
5. Successful Black entrepreneurs are generally not any better at motivating, gaining commitment and staffing than unsuccessful Black entrepreneurs.
6. Though lack of capital may contribute to business failure, it is not wholly responsible for the high rates of Black business failures.
7. For Blacks to improve their prospects for success in business, they must first acquire good business training through formal and informal (on-the-job) sources.

The above conclusions lead to the fact that within the economic, social, and psychological aspects of business ownership, an important limiting factor for success unique to Black entrepreneurs has been identified. The results of this study suggest a need for better preparation of Blacks, through training, to better develop their business aptitudes.

A number of questions raised in this study still remain for future research effort. The impact of variables such as sex, socioeconomic standing, and personality traits must still be determined along with education to establish more complete causes of Black business failures.

## APPENDIX

### DEMOGRAPHIC DISTRIBUTION OF RESPONDENTS

----- Black Entrepreneurs Category Successful Failed -----  
 ----- No. of Sample (122) (58) -----

#### AGE: AT BUSINESS START UP

Under 25 Years 67% 100% 26-30 17% 0% 31-35 0% 0% 36-40 0% 0% 41-45 16% 0% 46-50 0% 0% Over 50 Years 0% 0%

#### PRIOR BUSINESS EXPERIENCE

None 86% 67% One 0% 0% Two or More 14% 33%

#### FAMILY OR PERSONAL INFLUENCE

Yes 71% 0% No 29% 100%

#### TYPE OF BUSINESS ACQUISITION

Founder 67% 67% Heir 0% 0% Purchaser 33% 33% Employee 0% 0% Other 0% 0%

#### FORMAL EDUCATION LEVEL COMPLETED

Grade School 0% 0% High School 33% 34% Technical School 0% 0% Some College/Associated Degree 17% 0%  
College Degree 0% 33% Graduate Degree 50% 0% None 0% 33%

## APPENDIX (CONT.)

----- Black Entrepreneurs Category Successful Failed -----  
----- BUSINESS EDUCATION -----

High School 0% 0% Technical School 14% 25% Some College/Associated Degree 14% 0% College Degree 0% 0%  
Graduate Degree 43% 0% None 29% 75%

## REASONS FOR BUSINESS START-UP

Don't want other people to boss me around 25% 25% Believe I can do a better job than anyone else 0% 25% Want to  
be in charge of my own life 50% 50% Want to be in control 25% 0%

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# A PRELIMINARY ANALYSIS OF LONG ISLAND'S LARGEST PRIVATELY-OWNED FIRMS

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## ABSTRACT

This paper reports the first stages of a study of a group of large privately owned companies, a focus uncommon in business research. A listing of the fifty largest privately-owned firms on Long Island, New York was developed, and a general profile and statistical analysis of these firms and their CEO owners was then generated. Subsequently, in-depth personal interviews with a sampling of the CEO's produced conclusions with regard to perceived reasons for company success, the frequent existence of a critical incident or a strategic turning point in the firm's history, and the commonality of non-business reasons for company location. This analysis will now be expanded via a mail survey to the entire population of firms.

## INTRODUCTION

The study of large but privately-owned companies is rare in business research; and it is much more common to see research findings concerning either large publicly-held firms or small privately owned businesses. This is primarily because it is much easier to obtain information about the latter two types of companies in comparison to the former.

Information concerning companies with publicly-traded stock is by law available to any interested party. Such companies are required to publish a variety of quantitative and qualitative reports which allow a researcher to analyze the performances and strategies of such firms in great detail. In the case of small privately-owned companies, a perusal of small business academic journals shows that these firms too are often open to the scrutiny of the researcher. While many of the owners of such small firms prefer to maintain secrecy in their activities, a sufficient number of others have found a need for some sort of outside assistance, and it is these small firms that are usually the subject of small business research.

However, it is the larger privately-held firm that is least open to the researcher's probe. Such firms are usually past the need for outside assistance, and are not legally obligated to advise the public of their activities. On the contrary, secrecy becomes a major objective, to protect the firm against its competition

and to protect the owner's privacy. Thus the lack of information on such firms in the business research literature.

Privately-held companies are especially important on Long Island. The Long Island regional economy consists of Nassau and Suffolk counties, with a total population of 2.7 million people, and a "gross regional product estimated at \$50 billion in 1987. If Long Island were a state, its economy would rank 22nd in the nation. The region is characterized by great diversity in type of economic activity, ranging from potato production and vineyards to tourism, electronics, aerospace and biotechnology. The per family disposable income of the region is typically among the top three regions of the country, and the retail market for various merchandise lines ranges from seventh to twelfth largest in the nation. Long Island is the 17th ranked manufacturing region in the country.

While the regional economy is very large and diverse, there are few large companies based on Long Island. Rather the typical Long Island firm would be classified as small to medium-sized, and most are privately-owned. In 1987 there were only 135 publicly-owned companies with sales of more than \$3 million. The Hofstra Business Research Institute has estimated that 60% of the regional employment of 1.2 million people is provided by privately-held companies. Thus, it is the privately-held companies that constitute the backbone of the Long Island economy.

## OBJECTIVE

The objective of this research study was to develop a valid listing of Long Island's largest privately-owned companies. Having developed such a listing, the next stage of research would be to obtain a general profile of these firms. What

patterns or trends exist with regard to type and size of business, etc.? This analysis would then be followed by a probe into the common denominators of bases for success among these firms. Development of this latter stage of analysis would be of value in our understanding of why some privately held companies achieve success and others do not, and would extend our knowledge in the field of small business.

## METHODOLOGY

In the Spring and Summer of 1987 Hofstra University in conjunction with Peat Marwick Main & Co. and the Long Island Business News, instituted a publicity campaign to announce the development of a "Long Island Top Fifty" listing of the fifty largest privately-held companies on Long Island. Through the local media and via direct mailings nominations for this listing

were solicited. Owners, employees or acquaintances of large privately-owned firms were asked to complete and submit a form with the company's name owner/CEO's name and 1986 sales volume and number of employees.

Although there were fears that the desire for privacy might keep company owners from responding to the solicitation, the response was excellent and several hundred replies were received. Taking the top 150 responses by sales volume reported, a verification process was performed in which each company was personally contacted for sales and employee data, and this information was then checked with any independent data available (D&B listings, etc.).

In the verification process, the definition of the "Long Island Top Fifty" was fine-tuned. Only companies headquartered on Long Island were to be included, and sales volume was defined as only the sale of goods or services owned by the firm. Thus, the gross revenues of travel agents or the billings of advertising agencies were not considered sales volume.

The verification process led to a final listing of the "Long Island Top Fifty" as ranked by 1986 sales revenues. Much publicity was given to this listing, and the CEO's of these fifty firms were honored at a banquet in November 1987. The validity and thoroughness of the methodology and resulting listing were supported by the fact that this publicity elicited only a very few firms claiming after the listing was published that they had not been contacted and that they should have been included in the listing. Furthermore, experts on Long Island business have studied the listing, and estimate that it is 80-90% complete.

After the development of the "Top Fifty" listing and the subsequent publicity, the next stage of the research was implemented. An in-depth probe of these firms was begun with twenty percent of the CEO's being personally interviewed. Rather than a random sample of the fifty firms, two firms were randomly chosen from each of the top fifth, second fifth, etc. of the listing. Hofstra University faculty members met with each of these ten CEO's for a lengthy interview in which the company owner was asked to discuss his or her firm's history, growth patterns, reasons for success etc.

## RESULTS

The resultant listing of Long Island's fifty largest privately-owned companies is shown in Exhibit 1.

It can be seen that the annual revenues of these firms cover a wide range, from \$532 million (a supermarket chain) to \$14 million (a manufacturer of medical equipment). Of the fifty companies, eight had sales of \$100 million or more and seventeen had sales of \$50 million to \$99 million.

The number of employees also varied greatly, from 4,200 (the same supermarket chain) to 16 (a footwear wholesaler). Four firms had 1,000 or more employees, seven had 500-999, twenty-eight had 100-499, and eleven had 99 or less. The mean number of employees was 403.

A calculation of sales revenue per employee reveals different patterns. The high was \$3,080,000 (a lumber wholesaler) and the low was \$39,000 (a food services company). Five firms had revenues/employee of \$1,000,000 or more, nine had \$500,000-\$999,000, twenty-one had \$100,000-\$499,000, and fifteen had \$99,000 or less. The mean was \$450,000.

Company age ranged from 72 years (two firms, a paper wholesaler and a textile wholesaler) to 2 years (a construction company). Eleven were 50 years old or more, twenty-nine were 20-49, three were 10-19, six were 5-9, and one was less

than 5 years old. The mean age was 34 years.

A further classification of the listing by principal field of business is presented in Exhibit 2. It is logical that the above ranges and means also vary among these fields. (An analysis of these various tabulations follows in the "Analysis and Conclusions" section of this paper.)

The results of the twenty follow-up interviews can also be reported. Because the interviews were largely unstructured, most of the findings can not be tabulated, but some generalizations can be made.

The primary focus of the interviews was the reasons for the company's success (as perceived by the CEO/owners), and certain responses proved to be common. Many of the firms had developed a unique product or service, or had identified a particular target market that was not being satisfied; and the firm had grown by marketing that product or service, or selling to that target. Similarly, a number of companies had strived to achieve service superiority over their competition. While the confidentiality of the interviews precludes giving specific examples, such strategies included identifying new consumer products that market research or instinct indicated would be popular, selling industrial products to companies previously ignored because they were too small, and developing very large economies of scale to become the clear price leader in an industry.

There were other common responses, some strategy-oriented and others more operations-oriented. Many CEO/owners cited "service to the customer" as a major reason for success. Also mentioned frequently were "hard work" and "long hours" as well as "hands-on management" and "quality employees/good employee relations."

While the above responses were most common, and mentioned by the majority of the sample, other responses were also frequent, although not to a majority degree. These reasons for company

success included "aggressiveness," "luck," "government assistance or contracts," "access to capital," "participative/democratic management style," and "good management skills."

It is significant that many of the CEO's mentioned a specific strategic decision or turning point in their firm's history that was critical to their current success. For example, one CEO related that the unexpected loss of his firm's major customer forced him to become much more aggressive and innovative and this led to sales and profits far larger than before. Another CEO told how the decision to computerize his firm's entire operations enabled him to serve his customers with a level of quality and speed that could not be matched by his competitors. Other critical turning points included a move from consumer to commercial target markets, and being the first firm in an industry to satisfy a new market demand created by a change in a state commercial code.

Another issue raised in the interviews was the Long Island location of the business. Most respondents said that this location was not strategic but rather determined by the fact that the owners lived on Long Island when the firm was founded. Furthermore, there were mixed responses as to whether the Long Island location was currently beneficial to the firm. Some companies served primarily Long Island markets or benefited from the close proximity to New York City resources, but others cited the high wages, energy, and other costs of doing business in the area. Some firms involved in product distribution mentioned higher transportation costs due to Long Island's "dead end" location (freight must travel west through New York City to reach anywhere in the U.S.). It is apparent that the CEO of a privately-held firm is under less pressure to always place profits as the number-one criterion in decision making; and many of the CEO's in this sample chose to locate or keep their companies on Long Island in spite of possibly higher costs of being there. Had they been required to justify that decision to outside stockholders, the choice might have been different.

The issue of "family business" was also discussed in the interviews. Several of the CEO's were children of company founders, and a larger number had children working in the firm. Also, several companies had siblings or other relatives as owner/managers. Clearly there is a conscious effort among many of these firms to be a "family business" in the multi-generation sense.

## ANALYSIS AND CONCLUSIONS

The tabulated data indicates a number of interesting points with regard to these privately-held and successful firms. There is a wide variety of company types; and Long Island is certainly not a



one-industry or single business category area, as are some parts of the country.

Furthermore, while some of these fifty firms are large in terms of sales volume and/or employees, most are medium or small. Many would qualify as "small" by U.S. Small Business Administration standards of sales, employees, or share-of-market.

Eighty percent of these companies are over twenty years old, as is to be expected in a listing of most successful businesses. Perhaps more surprising is that 14% are less than ten years old.

Many of the variations by business category (as tabulated in Exhibit 2) are also logical. The highest average (both mean and median) sales volume is in Retailing and Wholesaling, where sales volume is necessary for profitability; while sales volume is lowest in Manufacturing and Services, where profit margins can be higher. (The Construction category is too small [n=2] to be included in this analysis.) It also stands to reason that the average number of employees is highest in the Services category and lowest in Finance/Insurance /Real Estate; and it thus follows that the lowest average revenues per employee is found in Services and the highest in Finance/Insurance/Real Estate.

The more qualitative results of the interviews point out the need for the formulation of strategy in a developing company, and a resultant strategic advantage as a basis for success. Other interview responses perhaps confirm that business success requires good management skills (certainly the reverse finding that poor management is a primary cause of business failure is well established). It is also refreshing to know that some successful owner/managers are able to admit that government contracts or access to capital or even luck was a key to their success.

It is also apparent that company location is generally not the result of a strategic decision but rather based on convenience for the company owner(s); and this is probably true for most non- retail businesses, regardless of size or degree of success.

Being a "family business" also appears to be a common situation for privately held firms. Certainly the conscious effort to maintain family managerial control of a firm is a primary reason why a successful company would avoid the often common step of using that success to then go public, which would be financially rewarding to the owners but might jeopardize that control.

Thus, the results of this preliminary analysis tend to confirm much of what has already been written about business success. However, most of these previous writings did not have the empirical support to allow application to larger privately-held firms. These current findings, based upon these empirical quantitative data and qualitative interview responses, provide

the beginning of a better understanding of this segment of the total range of American businesses.

Further stages of this research are now in progress or are planned. The analysis of the 1986 data will be expanded via a mail survey to all fifty CEO/owners. The survey instrument will be based upon the results of the personal interviews. Thus, this survey will build upon the analysis discussed in this paper, and should refine and strengthen the conclusions reached.

In the second year of the project, a 1987 listing of the fifty largest firms will again be developed, and in addition a listing of the twenty-five fastest growing privately-held Long Island firms will also be generated. (Requirements for this second listing are at least \$3 million in 1987 sales and at least two years of business operations.) These two new listings, in conjunction with subsequent interviews and surveys, should allow for further stages of analysis and still stronger and more meaningful conclusions.

## EXHIBIT 1

### LONG ISLAND'S TOP 50 PRIVATE COMPANIES (Ranked by 1986 Revenues)

Rank	Company	1986 Employees	Year Founded	Description	Revenue in 1986 (Mil)
1	King Kullen Grocery Co.	532	1930	Food	2
2	Ris Paper Company	320	550	1915 Paper	3
3	Northville Industries	304	320	1954 Petroleum Corporation	4
4	Meenan Oil Co., Inc.	205	650	1933 Petroleum	5
5	Banfi				

Vinters 200 200 1919 Wine 6 Masters, Inc. 130 1600 1963 Clothing 7 E.W. Howell, Inc. 128 200 1985 Contractor 8 Stuart D. Flaum 100 60 1965 Footwear 9 Harbor Distributing Corp. 96 250 1962 Beer 10 ILC Industries, Inc. 96 1718 1966 Electronics 11 Rosen Associates 92 108 1961 Real Estate 12 Stephen J. Sabbeth Ltd. 83 200 1961 Lumber 13 Parr Development Co., Inc. 75 30 1962 Real Estate 14 Sports Imports, Inc. 75 106 1980 Automobile 15 Bermil Industries 75 300 1949 Laundry Equipment 16 Southern Container Corp. 73 550 1946 Corrugated Boxes 17 The Strathmore Org. 71 150 1964 Developers 18 Intercounty Appliance Corp. 70 60 1972 Major Appliances 19 Record World/Elroy, Inc. 68 1100 1958 Records 20 Baltic Linen Co., Inc. 65 100 1939 Linen Service 21 Futter Lumber Corp. 62 20 1944 Lumber 22 Maharam Fabric Corp. 61 191 1915 Textiles 23 Coinmach Industries, Co. 60 250 1946 Laundry Service 24 Clare Rose, Inc. 52 108 1936 Beer 25 Reckson Assoc. 50 80 1968 Developers 26 D. Waldner Co., Inc. 47 250 1939 Office Furniture 27 Sid Tool Co., Inc. 45 250 1940 Machinery 28 Monitor Aerospace Corp. 44 440 1948 Air Frame Parts 29 N. Racanelli Associates 42 63 1980 Developers 30 Van Son Holland Ink Co. 35 50 1953 Print Ink 31 Marchon Eyewear, Inc. 34 95 1982 Ophthalmic 32 Logicsoft/MSI Intntl. 33 23 1980 Software 33 Rivkin, Radler, Dunne, & Bayh 33 518 1950 Legal 34 Fairhaven Prop.-G.C. Hotel 32 500 1966 Real Estate 35 Jameco Industries, Inc. 31 365 1931 Plumbing Products

EXHIBIT 1 CONT.

Rank Company 1986 Employees Year Description Revenue in Founded (Mil) 1986 -----  
 ----- 36 Breslin Realty Development 30 35 1953 Real Estate 37 Lackmann Food Service 30 750 1965 Food Service 38 Amer.Med Ins./ Amer.Dent.Cntr. 29 450 1964 Insur./ Dental Svc. 39 Florence Corp. 28 136 1946 Bldng. Mat. 40 LNR Communications 25 250 1971 Telecom. Equip. 41 Direct Press Modern Litho 24 387 1917 Printers 42 Dayton T. Brown, Inc. 23 450 1950 Engrng. Svcs. 43 Leon D. Dematteis Constr. 23 233 1953 Const/Devel. 44 Universal Photonics, Inc. 22 227 1926 Ophthalmic 45 Data Communication, Inc. 21 425 1962 Tech. Consulting 46 Chanry Communications 21 500 1980 News. Publishing 47 Crockett & Buss, Inc. 19 60 1926 Floor Coverings 48 Austin Productions, Inc. 17 245 1953 Home Accessories 49 Vendor Funding Co., Inc. 15 56 1978 Fin. Svcs. 50 Atomic/Biodex Co. 14 69 1949 Medical Equip.

EXHIBIT 2

ANALYSIS OF THE "TOP 50" LISTING BY INDUSTRY CATEGORY

Category Number Company Employees Revenue Company of Revenue per Age Companies (Mil) Employee (Years) (thousands) ----- Wholesale 15 Mean \$105.7 211 \$725 44 Median \$61.6 191 \$358 43 Range \$19.0 to \$320.0 20 to 650 \$95 to \$3,080 5 to 72

Finance/ Insurance/ Real Estate 9 Mean \$52.6 125 \$774 24 Median \$50.0 80 \$650 23 Range \$15.3 to \$92.0 30 to 500 \$64 to \$2,503 7 to 51

Services 8 Mean \$29.9 466 \$76 33 Median \$26.3 450 \$56 31 Range \$20.5 to \$60.0 250 to 750 \$39 to \$240 7 to 70

Retail 8 Mean \$129.1 967 \$287 31 Median \$71.5 250 \$228 27 Range \$33.0 to \$531.6 106 to 4200 \$62 to \$708 7 to 57

Manufacturing Mean \$46.7 492 \$123 35 8 Median \$37.3 333 \$100 38 Range \$13.6 to \$96.0 69 to 1718 \$56 to \$248 16 to 56

Construction Mean \$75.3 217 \$369 18 2 Median \$75.3 217 \$369 18 Range \$22.6 to \$128.0 200 to 233 \$97 to \$640 2 to 34

# ANOTHER WINDOW: THE REEMPLOYMENT DEMONSTRATION INITIATIVE

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## ABSTRACT

Under the provisions of the Unemployment Insurance Program (UIP), the Federal Government is presently evaluating the concept of providing monies to claimants to start new businesses. This will help to effectively and efficiently stimulate the flow of the structurally unemployed into the productive mainstream of the industrial sector of society. Pilot program initiatives, patterned in part by public policy practices in Europe, are currently being activated, which may well impact on the delivery systems of existing Small Business Institutes and Small Business Development Center undertakings.

## INTRODUCTION

When an organization has determined that its labor costs are too high, or that technological change has obsoleted some jobs, one popular response is to declare some portion of the work force surplus, and proceed with layoffs. While not the only approach, generally it is the most common. This paper explores some innovative proposals and programs for dealing with labor reemployment, and the potential opportunities for existing governmental assistance systems, such as Small Business Institutes (SBI) and Small Business Development Centers (SBDC), for contributory involvement.

Seniority and merit are the two criteria most used in determining which specific individuals are to be terminated. Unions normally

prefer seniority, and the specifics as to how it is to be applied are generally detailed in most collective bargaining agreements. Management usually favors merit, but seniority is generally not completely ignored. It is fairly typical in non-union situations that down sizing determinations are the resultant of the use of both merit and seniority (Heneman, et al., 1983). For those laid off, a number of programs have been developed to provide some financial assistance to help cushion some of the resulting economic hardships. One such plan is the Unemployment Insurance Program (UIP), established under the provisions of the Social Security Act of 1935. Compensation is provided, through state-operated offices, to those who have lost their jobs through no personal fault. While there is some variation, benefits are generally available for a maximum of 26 weeks. Eligibility

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requirements are: that the person has worked for a covered employer, is seeking a job, and is willing to accept a suitable position. The aid provided is financed by a tax on employers. The maximum tax is 6.2 percent on the first \$7,000 of employee earnings, but may be less depending on the status of the states' Federal loan programs. The minimum rate, however, is 0.8 percent (Federal Unemployment Tax Act, 1987).

The UIP is administered jointly by the United States Department of Labor (DOL) and individual states. Operating guidelines are established by the DOL. The state administrative cost, as well as benefit payments, are paid out of funds collected under the Federal Unemployment Tax Act. The basic intent of the UIP is to provide financial support to workers who become unemployed due to fluctuations in the business cycle. It is generally expected that such displacements from the workforce will be of relatively short duration: workers finding new employment rather quickly within their industry. However, since the 1970's rapid technological changes and intense competition from abroad

have altered the nature of unemployment in the United States. Traditional manufacturing has declined, while the information and service sectors have grown. The consequences of these modifications has been an increase in structural unemployment: that which results from a mismatch between employer skill requirements and the expertise of available workers. Unable to return to similar jobs or occupations, for they no longer exist, structurally unemployed workers face prolonged periods without gainful employment. Thus, the limited financial assistance that UIP normally provides is generally insufficient (Turner, 1987). Recognizing this change, the Congress has recently focused attention on ways to use the existing UIP structure to provide other forms of assistance to unemployed individuals who no longer have jobs to return to in the workplace. Going beyond simply providing income maintenance, feasibility studies of a number of early intervention initiatives have been undertaken. These include: reemployment bonus incentives, job search assistance, retraining, and relocation subsidies. Supporting pilot projects have been activated to design and develop techniques to identify UIP recipients who will probably have difficulty, because of structural displacement, in finding jobs, and tracking their progress in the presence of these initiatives.

#### DEPARTMENT OF LABOR PROGRAMS

One such undertaking is grants for self employment. To test this concept, a demonstration project has been funded by the U.S. Department of Labor. Selected applicants in Washington State will receive cash awards, and be provided with technical assistance services, to start their own businesses. The one year project, to begin in November 1988, will make available seed

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monies of approximately \$5,000 to each of about 400 participants. This stipend is about equivalent to the total

amount of unemployment insurance benefits the claimants would normally be entitled to receive, under UPI, while looking for a job. Ancillary technical support services will be offered by existing local job service centers, and a network of new business assistance operations will be established as a related part of the program.

The State of Washington was selected from among 12 applicant states based on a number of factors including: existing entrepreneurial services in the state, the potential number of claimants, and the economic and small business environment.

Throughout this venture, the Department of Labor will evaluate the use of self-employment programs as a policy tool in the United States. Similar programs, with varying degrees of success, have been used in foreign countries, such as France and Great Britain (O'Keefe, 1987).

Specifically, there are three purposes for the demonstration. First, there is the matter of improving the ability of the UIP system to identify, early on, those claimants who will probably encounter difficulty in finding reemployment and thus exhaust their benefits. Second, there is the issue of determining the cost effectiveness of early intervention strategies to promote self-employment. And, third, there is a need to improve the working relationships between UIP and other available governmental human resource services.

Of a more global nature is Section 9152, "Demonstration Program to Provide Self-Employment Allowances for Eligible Individuals", of the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203). This statute requires the Secretary of Labor to enter into agreements with three states to carry out pilot programs to test the impact, and determine the costs and benefits, of providing self-employment allowances to unemployment recipients to assist them in starting their own businesses. These self-employment allowances are to be paid to eligible claimants in lieu of their

regular UIP benefits. To increase the probability of success in their business venture, these claimants are to receive training and supporting instruction.

The program will accept about three to four hundred applicants per state. The average compensation will be approximately \$5,000, paid out in weekly installments in accordance with normal UIP payment practices. Unlike the Washington State Program, there is no provision for business loans, grants, or other forms of added capitalization; applicants desiring such additional assistance will have to seek out such funding on their own. In the past, starting a business would have rendered claimants ineligible for UIP benefits as they were neither actively seeking nor ready to accept employment. Now, this requirement will be waived. Further, weekly payments will continue to be made, until the benefit period is exhausted, even after the business is

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started.

Criteria in selecting the three states to participate in the program, will include: the availability and quality of technical assistance to the self-employed; the prevailing climate within the state for new small business enterprises; the standards that the state will use to insure that the individuals who will be receiving assistance will have sufficient training and ability to be self-employed; and, the adequacy of the state's UIP reserves (Federal Register, 1988).

While the self-employment allowances will be paid out of regular UIP program trust funds, the states must provide the monies for the program administrative costs out of their own general fund, or some other nonFederal funding source. DOL, however, will pay for the cost of research and evaluation activities, encumbered by the states, through a DOL-selected contractor. These activities will include the design, monitoring and evaluation of the program, in addition to process impact and cost-benefit analysis.

Service Corps of Retired Executives (SCORE) volunteers will assist DOL (The Savant, 1988).

#### SOME SIMILAR PROJECTS

A somewhat similar initiative, within the confines of the independent sector, is the Trickle Up Program. Started in 1977, as a private agency undertaking, grants have been provided to more than 7000 unemployed people in 99 countries to start businesses. Mostly operating in underdeveloped countries, the group offers two stipends. The first, \$50, is advanced when applicants write down what they want to do in the form of a business plan. If, after three months, they have organized themselves according to the plan, put in a reasonable number of hours of work, and indicated their intent to plow back into the business at least 20 percent of the profits, an additional \$50 is provided. Once the business has started, it is on its own. There are no formal progress checks or monitoring. The Program estimates that about 65 percent of businesses thus started are ongoing. Ventures range from bakery products in Kenya, through candle production in India, to peanut-oil production in Chad. Approximately two-thirds of those assisted have been women (Harvey, 1988).

The Program has a limited operating budget, of which all but about two percent goes directly into grants; the two percent is for operating costs. Financial support comes mostly in the form of small amounts contributed by individuals. However, some funding has been received from the United Nations and the Netherlands. The total grant per individual, \$100, does not sound like a lot, but for many of the Program's clients it is enormous. More important than the dollar amount, however, is the fact that in many cases this is the first time that some of the

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applicants have been listened to and taken seriously. Awarding



of a grant, even if modest, provides a person with a feeling of self-respect and dignity; a powerful stimulus to succeed. The Program feels that it is one of the few instances where the First World has advised the Third World what to do in a way that is in the best interest of the latter, rather than the former.

Recently, the Program has directed some of its efforts to the New York City area. Using the same format, about forty businesses have been started. While some are already successes, it is still too early to tell whether the concept will work in an environment such as New York. The setting may be so significantly different as to preclude effectiveness in inner cities in industrialized nations.

Paralleling this effort, the New York City's Human Resource Administration is giving thought to a similar initiative; grants to those, now regularly receiving routine financial assistance, who want to start their own businesses. One target group would be high school dropouts displaying relatively favorable probability for success in small business (Daley, 1988). While many question if the concept is doable with such a group, there is general agreement that it might well be worth trying. The existing support system has generally proved to be relatively ineffective in breaking the poverty cycle and advancing assistance recipients to the status of productive members of society.

#### EUROPEAN EXPERIENCES

Amin (1987) reports that worldwide economic recovery has generally failed to reduce unemployment in many Western nations. Citing a study by the Organization for Economic Cooperation and Development (OECD), he suggests as a partial solution more encouragement of self-employment.

Even before the OECD Study, Europe had long since accepted the potential of this panacea. Towards affecting the concept, the

United Kingdom, for instance, allows the continued payment of unemployment or welfare benefits during the first year of a new business start-up. A follow-up investigation of 200 small businesses established under the program found a survival rate, of at least three years, to be greater than 50 percent. However, most surviving businesses were those headed by people who had intrinsic skills to acquire existing jobs; the failures occurring mostly among those not possessing such attributes. In France, where the unemployed are allowed to withdraw their benefits in a lump sum to finance a new business, about 25 percent of all new businesses are started in this way. By the end of 1985, approximately 139,000 persons had participated in the British undertaking, and about 235,000 in the French program. But, it is widely acknowledged that businesses formed under these

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initiatives tend to generate only limited revenues and exhibit some inherent patterns of instability (Bendick, 1987).

As to whether or not these and similar programs can be considered successful, there is some disagreement. Friedman (1984) feels that the European experience suggests that the policy makers in the United States should consider modifying their stand toward the unemployed and the poor by affording them a reasonable chance to create their own employment. Conversely, Bendick (1987) suggests that those operating in the public policy area should not expect this approach to provide major assistance to the economically disadvantaged or the long-term unemployed.

While Congress is willing to give the idea a chance, by providing for a limited three state demonstration program, the states do not seem to share an equal measure of confidence. This is evidenced by the hesitancy to sign up for the three openings. However, this may well be a result of misgivings about associated procedural requirements and revenue short falls, as well as internal fiscal and monetary constraints.

## OPERATIONAL OPPORTUNITIES

Conceptually, reemployment demonstration initiatives appear worthy. The idea of integrating self-help, self employment, and governmental support services is indeed one that merits serious consideration. As previously indicated, there are both advantages and disadvantages associated with such projects. However, if the underlying principle is sound, and it is believed that there is sufficient evidence to suggest it is, then efforts should be made to solve logistical challenges.

There is a significant opportunity for existing on-going activities, such as the Small Business Institutes (SBI) and Small Business Development Centers (SBDC), to be of assistance in the implementation of such reemployment demonstration initiatives. The services provided by the SBI or SBDC are already in existence, have proven to be successful, and are consistent with the goals of the new proposals. Consequently, operating costs for assisting these novice entrepreneurs can be minimized, while the delivery of needed benefits can be maximized.

By using established support mechanisms, more of the limited resources allocated for such initiatives would go directly to the individual rather than provide for administrative overhead. It should also be noted that, as these new enterprises emerge, they will outgrow the services provided by the incubating public agencies and will need the services of old established help groups. Thus it is conceivable that a certain degree of synergy can be achieved.

Whether these demonstration projects can provide major assistance

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to the structurally unemployed, economically disadvantaged, or long-term unemployed, is indeed a valid question that needs to be seriously examined by public policy makers. While amounts of \$100, or even \$5,000, may not be able to go far in starting a business, it does provide initial motivation. Further, it is

possible that \$5,000, with the proper guidance, could be leveraged into additional funding. Also such programs could meaningfully encourage individuals to think about alternatives that they may not have previously considered. The result could well be a move to acquire new skills through not only governmental management assistance services, but also various retraining programs.

While the reemployment demonstration initiatives do not provide a universal panacea for structural unemployment, given the difficulties that exist with current programs of assistance, these new proposals do provide "another window" through which challenges may be seen, and effectively and efficiently operationalized.

#### EPILOGUE

The Department of Labor has selected the three states for its pilot project: Massachusetts, Minnesota, and Oregon (Hencke, 1988). Because of concerns raised by the group as to the possibility of actual costs exceeding budgetary funding, contingency provisions have been made to allow the states, if the problem should arise, to shorten the benefit period, or to limit the number of clients. Further, allowances have been made for more state participation in planning the operational phase of the project. As the initial effort, representatives of all three states, plus Washington State, will visit Great Britain, France and Sweden to study the European experience with this concept.

The Washington State program has been experiencing some delays, attributable, in part, in finding qualified clients willing to participate. In general, the two major anticipated controversies, small business groups perceiving the new start-ups as subsidized competition and organized labor saying that the payments are too small, have generally failed to materialize.

In the not-for-profit sector, a reemployment demonstrative

initiative, started about seven years ago and targeted specifically for disadvantaged youths in the Metropolitan New York Area, has now begun to move ahead more rapidly. The Mariotti undertaking, named after the small business entrepreneur turned high school teacher in the South Bronx section of New York City, provides applicants up to 80 hours of instruction and 300 to 500 dollars in seed money. Mariotti, who heads the program, advises that the major source of these funds is small foundations and individual contributors. For the most part the businesses are retail sales oriented, and to date about 80 have started. As

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Mariotti's clients are normally high school students, the businesses are structured as part-time entities so as to allow their proprietors to continue their education on a full-time basis. To date, relatively few failures have been experienced.

The Corporation for Enterprise Development, an independent sector group operating, through the market place arena, is pressing selected individual states to waive the traditional delivery system for welfare payments. The purpose for these waivers is to allow some entitlement recipients to receive lump sum funding for business start-ups, in place of the conventional small incremental flow of monies. Training would be an integral part of the initiative, and total seed money would generally be limited to one year's worth of regular welfare benefits.

The issue of whether self-employment training programs are effective, and whether self-employment is in the interest of the unemployed, is beginning to receive serious attention in academia (Balkin, 1988). While the approach is starting to generate a broad base of attention, increasing concern is beginning to be voiced (Balkin, 1987) that as the concept unfolds the zest for high business start-up numbers might well displace the original goals of the initiative: assisting the structurally unemployed

and providing upward mobility for low income people.

Additional information on this subject, including an extensive bibliography, may be found in: Puls, Barbara, "From Unemployed to Self-Employed: A Program Analysis", National Conference of State Legislatures, Washington, DC, 1988.

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# PROJECT MANAGEMENT FOR SMALL BUSINESS MANUFACTURERS

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## ABSTRACT

This paper demonstrates the use and power of project management software to solve problems facing the small business manufacturer, namely, planning and control of projects. In addition, information is provided regarding what project management software is available on the market and costs and benefits of using this software.

## INTRODUCTION

Today many small business manufacturers use a computer to accomplish many of the routine functions of the company. However, the literature indicates that despite the benefits derived from the use of computer software tools such as word processing, spreadsheets, etc., these firms have been slow to realize the productivity benefits available through project management software. The effective use of project management software can result in better cost control, improved resource utilization, and an increased focus on time and budgetary limitations.

In this paper, the authors will (1) present a brief overview of project management techniques, (2) present an application of PERT using project management software, (3) provide the reader with alternatives regarding the selection and purchase of project management software, and (4) summarize the cost/benefits of project management software for small business manufacturers.

### Project Management Techniques

To date, most literature relating to small business planning and control has generally centered around the areas of financial and personnel planning. For the small manufacturing firm, these issues are of major importance. However, to remain competitive in today's market, these firms must compete on the basis of three factors --price, quality, and on time delivery. In addition, small manufacturing firms that are involved with complex projects, in terms of planning and control, have an additional burden placed on them. In such firms, the following questions are frequently encountered.

What elements are critical to the success of completing the project?

Which of these elements should be monitored?

How should the owner/manager allocate his/her limited time in order to insure success of the project?

These questions can be answered through the application of various network methods. Three of the most popular network methods for project planning and control are Gantt Charts, Program Evaluation, and Review Technique (PERT), and Critical Path Method (CPM). All three methods can be used by the small manufacturing firm that is faced with a complex project such as development of a computer based information system, installation of a new manufacturing control system, fabrication of a complex machine or process, custom design of a process or machine, etc., to properly plan, control and coordinate the project. These techniques may also be used in a flexible manufacturing environment where operations are performed in a cellular fashion as opposed to an assembly line process (5). In essence, Gantt Charts, PERT, and CPM are information producing techniques that provide a practical and structured method to monitor and control the progress of a project. They can aid the owner/manager of a small manufacturing firm to insure that the project is under control and/or provide timely information regarding project problems that will require a managerial decision.

GANTT charts, PERT, and CPM have been available for over thirty years. GANTT charts are line graphs which a manager can use to "control by eye" in determining if an activity is on time, late, or ahead of schedule. PERT and CPM charts show the same information but incorporate precedence relationships into the chart. Advantages of using PERT/CPM have been identified by Wolf and Hauck, and they include:



1. It forces a thorough preplanning of each task. 2. A better coordination of the work to be performed is achieved. 3. Problems are resolved on paper before they occur. 4. It focuses management's attention on to the critical path activities rather than on non-critical path activities. 5. Thorough preplanning reduces the chance of omission of a task. 6. A network diagram is a working model which can be followed with little explanation. 7. The scope of the entire project can be readily seen on a summary network. 8. The added cost of crashing (reducing the activity time) of critical activities can be determined."(8)

### PERT: A Small Manufacturing Application

To demonstrate some of the advantages listed above, the following example relates to the use of PERT by a small metal manufacturing and fabricating company. The firm had been awarded a contract to manufacture and install an almond nut huller and dryer at a remote site. Terms of the contract provided significant penalties if the project was not completed within the allotted timeframe. Because of the penalties, the contractor was concerned about installation problems he might face since there would be several sub-contractors involved in the various phases of the project and timing of their involvement would be critical to the overall completion of the project. The firm had experience in manufacturing but not in field installation. The problem was studied and 49 distinct activities and their precedence relationships were identified.

Based on these activities, three time estimates--optimistic, pessimistic, and most likely--were determined. The time estimates were in worker days so that crew sizes could be determined. Table 1 presents the result of applying PERT, via OPERATIONS RESEARCH SOFTWARE by Dash and Kajoiji (3), to this problem. This table includes identification of the critical path (those activities that must be completed on time or the total will be delayed), average completion times, standard deviations, and, in addition to the computer results, actual completion times (see right-hand column).

Based on this information, a PERT chart was developed and is shown in Figure 1. Activities on the critical path indicate a project duration time of 359.5 worker days. Also, a path could be determined for each sub-contractor and with this information, the firm could monitor each sub-contractor's effect upon the total project.

In comparing the average and actual time for the project, there are significant variations between the average and actual times for a number of activities. This may be partly explained by the fact that the small manufacturer was a novice in estimating field activity times. Also, the manufacturer did not impose a penalty on the sub-contractors for deviations from the expected completion times. In the future, a penalty will bring about a more reasonable estimate of activity times as well as a reduction in the difference between average and actual completion time for sub-contractor activities.

### Microcomputer Project Management Software

Microcomputer project management software available to small business manufacturers generally falls into three categories-- planning, planning and updating, and automatic resource scheduling. Most software falls into the first two groups of planning and updating. The third category, relating to automatic resource scheduling, is relatively expensive, operates

on the high end of hardware configurations (4), and is of lesser value to the small manufacturing organization due to hardware costs. Reviews of project management software may be found in articles by Bermant, David & Martin, Poor & Brown, and Wasil & Assad (1, 4, 6, 7).

These articles do an excellent job of detailing the basic and advanced functions offered by project management software costing more than \$250 such as SUPERPROJECT (Computer Associates), HARVARD TOTAL PROJECT MANAGER (Software Publishing Corp.), PROJECT MANAGEMENT WORKBENCH (Applied Business Technology), and PROJECT SCHEDULAR (Scitor Corp.). In the \$200 and less category Bermant (1) includes ADVANCED PRO-PATH 6 (Softcrop Inc.), SCHEDULING AND CONTROL (Softext Publishing Co.), MILESTONE (Digital Marketing Corp.), EASYGANTT (Morgan Comptering Co., Inc.), PROJECT MANAGEMENT (IBM), and others. In these reviews, the price of the packages and the computer system requirements necessary to effectively use the software is documented. However, due to rapid change within the software industry, many of these packages have been updated and many more projects have entered the market.

Moreover, there was not one project management software package declared as a clear winner in the literature.

However, the reviews indicated that the key to software performance is the user's skill and judgment rather than any special features in the software itself.

Table 1

Results from PERT Software and Actual Completion Times (Times in Worker Days)

Node Start Finish Start End Early Late Early Late Slack E(t) STD Actual

1	2	0.00	65.00	Crtcal	65.00	5.00	65	2	3	65.00	130.00	Crtcal	65.00	5.00	65	3	4	130.00	293.83	144.00	307.83	163.83	
14.00	2.33	20	3	5	130.00	281.83	132.00	283.83	151.83	2.00	0.33	6	3	14	130.00	265.67	137.33	273.00	135.67	7.33	1.00		
11	3	6	130.00	213.17	150.00	233.17	83.17	20.00	1.33	24	3	7	130.00	154.25	143.42	167.67	24.25	13.41	12.25	8	3	9	
130.00	155.33	146.50	171.83	25.33	16.50	1.16	21	3	8	130.00	155.67	146.17	171.83	25.67	16.16	0.50	24	3	10	130.00			
251.00	Crtcal	121.00	8.33	240	4	11	144.00	307.83	147.00	310.83	163.83	3.00	0.33	12	5	12	132.00	310.33	136.50				
314.83	178.33	4.50	0.50	4	5	13	132.00	283.83	139.00	290.83	151.83	7.00	0.33	12	6	22	150.00	233.17	158.33	241.50			
83.17	8.33	0.66	8	7	15	143.42	195.33	155.58	207.50	51.92	12.16	0.50	14	7	16	143.42	167.67	153.42	177.67	24.25			
10.00	0.66	12																					

Table 1, Con't

Node Start Finish Start End Early Late Early Late Slack E(t) STD Actual

8	9	146.17	171.83	146.17	171.83	25.67	0.00	0.00	0	9	16	146.50	171.83	152.33	177.67	25.33	5.83	0.50	8	10	25	251.00	
251.50	284.33	284.83	0.50	33.33	6.66	120	10	17	251.00	284.83	Crtcal	33.83	4.16	60	11	18	147.00	310.83	151.00				
314.83	163.83	4.00	0.33	12	12	19	136.50	314.83	140.50	318.83	178.33	4.00	0.33	3	13	20	139.00	290.83	145.00	296.83			
151.83	6.00	0.33	6	14	21	137.33	273.00	140.33	276.00	135.67	3.00	0.33	14	15	23	155.58	207.50	163.58	215.50	51.92			
8.00	0.66	15	16	24	153.42	177.67	187.08	211.33	24.25	33.66	1.66	44	17	25	284.83	284.83	Crtcal	0.00	0.00	0	18	26	
151.00	314.83	157.00	320.83	163.83	6.00	0.66	10	19	26	140.50	318.83	142.50	320.83	178.33	2.00	0.33	14	20	32				
145.00	296.83	175.00	326.83	151.83	30.00	3.33	120	21	32	140.33	276.00	191.17	326.83	135.67	50.83	5.83	158	22	28				
158.33	241.50	162.33	245.50	83.17	4.00	0.33	15	23	27	163.58	215.50	173.58	225.50	51.92	10.00	0.66	14	24	30	187.08			
211.33	196.25	220.50	24.25	9.16	0.16	14	24	31	187.08	220.50	192.08	225.50	33.42	5.00	0.66	9	25	37	284.83	329.83			
Crtcal	45.00	3.33	10	26	32	157.00	320.8	163.00	326.83	63.83	6.00	0.66	17	27	29	173.58	225.50	188.58	240.50	51.92			
15.00	0.66	15	28	34	162.33	245.50	172.33	255.50	83.17	10.00	0.66	30	29	34	188.58	240.50	203.58	255.50	51.92	15.00			
0.66	15	30	34	196.25	220.50	231.25	255.50	24.25	35.00	166	55	31	33	192.08	225.50	207.08	240.50	33.42	15.00	0.66			
19	32	37	191.17	326.83	194.17	329.83	135.67	3.00	0.33	4	33	34	207.08	240.50	222.08	255.50	33.42	15.00	0.66	17	34		
35	231.25	255.50	285.58	209.83	24.25	54.33	2.33	60	35	36	285.58	309.83	305.58	329.83	24.25	20.00	1.33	20	35	37			
285.58	319.83	295.58	329.83	34.25	10.00	0.66	18	36	37	305.58	329.83	305.58	329.83	24.25	0.00	0.00	0	37	38	329.83			
359.50	Crtcal	29.66	1.66	102																			

E(t) - Average Completion Time STD - Standard Deviation

### Conclusion

Since 1976, the cost side of the software cost/benefit equation has dropped by 10% and continues to decrease. At the same time the benefit side of the equation has continued to rise. With an equation where cost of software has decreased and cost of the alternatives to computerization continue to increase, the balance of the cost/benefit ratio has shifted to a point where the cost-effectiveness of certain kinds of software are no longer

questioned (2). This is also consistent with, and enhanced by, the reduced cost of minicomputers and microcomputers. In particular, there were a number of relatively powerful microcomputer project management software packages, discussed in an earlier section, including the one used in this paper, priced under \$200.

On the benefits side of the equation, it is the ability of project management soft-ware to improve the decision making process that offers the small business manufacturing firm the greatest potential benefit (4), as demonstrated in the huller and dryer PERT application. Project management software can put large amounts of data at the manager's fingertips to use for effective project planning and control. More timely and better informed decisions have a positive impact on an

organization's productivity from both a reduced cost and increased output perspective. Also, project management software, by producing visual evidence of work progress, provides intrinsic motivational effects that help the small manufacturer maintain employee support and enthusiasm throughout the project.

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# ACADEMIC VIEWS ON SMALL BUSINESS CONSULTING: CAN WE USE THEM?

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The main thesis of this paper is to examine some of the difficulties encountered by a consultant who tries to operationalize or implement many of the academic views or theories associated with small business consulting. There is not much available in the literature at large in the general support area of implementing small business consulting theories; i.e., there is not a well-developed or well-defined body of knowledge or theory discussing the implementation of various academic views or theories in small business consulting. There are however, many case studies that form a large body of one-on-one or one time examples or applications models associated with consulting in various small businesses. Textbooks, casebooks, and some journals make use of small business cases as demonstrations or examples of various business practices (strategic planning, financial analysis, accounting practices, etc.) that are or may be applicable to small business consulting. Therefore, the small business consultant must first overcome this lack of a common body of knowledge or a common set of academic theories that she/he can use in her/his consulting ventures or practice.

In addition to the lack of a common body of knowledge or the consistent groundwork theories cited above, the small business consultant faces another problem of some magnitude in attempting to operationalize or implement any available academic theories or views in small business consulting. That problem is that much of the available academic theory has in most instances not been "reality tested". For example, some of the small business academic theory often cited by other academicians, (example: Robinson and Pearce, AMR, January, 1984) could prove to be very difficult in implementation. Perhaps this is because the academic authors do not have a great deal of actual work experience or have not undertaken much small business consulting. Another reason that the authors have observed perhaps offers an even more applicable explanation. This reason is that academicians and small business people or entrepreneurs have widely varying perceptions on business practices, and certainly on business foundations, philosophies, values, and operations. This difference in perceptions may account for the reason why numerous small business practitioners or entrepreneurs have disdain for some academic views or theories. This set of

perceptual differences may well be based on the fact that academicians tend to be "organizational creatures", and that in their creation of academic theories on small business, they hold and attempt to implement more organizational norms, values, structures, processes, etc. On the other hand, small business practitioners and entrepreneurs appear to hold more individually based norms, values, and views on process or structure. These more individualistic views or approaches are reflected in the attitudes and operational practices of small business persons and entrepreneurs.

The sharpest differentiation focus that an experienced small business consultant notices between the academic views and theories and the ideas/values of practitioners is in the area of problemsolving. Practitioners generally want and expect from the small business consultant "hard-headedness" (or practical solutions that are relatively easy to understand and implement) rather than any of the more theoretical or research-oriented views that are common among academicians. Thus, the small business person or entrepreneur takes an operational approach to problem-solving with a time-fixed, cost-related set of values and ideas. (Situation + Environment = Problem --> Realignment --> Solution). As a result of this demand for more pragmatic problem-solving, the small business consultant must be wary of the introduction of too much academic theory or research because of the possible problems this might create.

An example of this variance of views concerning business processes between small business practitioners and entrepreneurs and academicians can be found in comparing the ideas expressed in the 1987 book by Stoner and Fry, "Strategic Planning In The Small Business" (Southwestern Publishing, 1987) with some commonly held small business practitioner or entrepreneurial views, such as the ideas that strategic planning might be of questionable value to small business because the planning horizons (time-lines) are too short; the process is too cumbersome and consumes too much cost, effort, and time; that the results are too "stiff" and inflexible; that the business is too "small" to devote the

human resources necessary to strategic planning; or that the entrepreneur wants to "operate out of her/his hipocket" in running things. Given these values or ideas, the small business consultant would have difficulty in recommending Stoner and Fry's views/ideas to the practitioner or entrepreneur. Similar contrasts can be found when one reviews the last few years of JSBM, AJSB, AMJ, AMR, AME, and picks out various academically-oriented articles which are subsequently compared with the ideas, norms, values, procedural and structural views of small business people or entrepreneurs.

An additional example of the contrast between academic and practitioner views can be gotten from comparing the academic and small business person views on decision-support systems (DSS). Currently "en vogue" in academic theories, DSS presents the small business practitioner with a somewhat complex and confusing array

of business ideas. Academicians themselves advocate various requirements and views on DSS, and therefore, no common foundation concerning the applicability of DDS to small business is found in the literature. However, this does not prevent some academicians who are attempting small business consulting from convincing small business owners that DSS will "really help" solve your problems, or that "you don't know much about effective business decision making and DSS will really help you." There- fore, we have the same category of problem repeating itself in that academic theory and research on DSS provide a limited set of norms, expectations, and values that are not small business "reality-tested"; whereas small business practitioners needing consulting want DSS to be examined in light on such management concepts as: authority - "how will this effect my authority?" - cost "what's the cost/benefit of DSS as opposed to how I'm doing it now?" - time - "DSS appears to take more time than warranted by the results".

In summary, this paper will provide a look at some of the difficulties encountered by the small business consultant in attempting to implement or operationalize many academic or research oriented theories which are found in the literature. Through the use of perceptual comparisons, some actual cases, and a comparative analysis of norms, values, ideas, etc. concerning small business practices, procedures, and operations; the paper shows that some academic work needs "more reality testing", and that more of a common body of knowledge or established "set" of theories concerning small business consulting is required to help the small business consultant in her/his work with small businesses and entrepreneurs.

# "HOW SPECIALTY RETAILERS CAN USE MARKET SEGMENTATION TECHNIQUES TO INCREASE SALES: THE CASE OF THE RECOGNITION RETAILER"

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## ABSTRACT

One of the most critical decisions small business owners/managers face is determining the type of customers they should pursue. Typically, small retailers do not have a "game plan" for conducting effective market segmentation and selecting the right target markets. This fundamental marketing strategy is too often left to chance -- based solely on an entrepreneur's "gut feel" or at best, a cursory analysis of a particular market.

Specialty retailers, due to the uniqueness of their business situations, require even more of a customer-oriented focus. For discussion purposes, specialty retailers can be defined as relatively uncommon small businesses that satisfy specific customer needs. Examples might include retailers who sell baseball cards, musical instruments, or rare books. Typically not found in neighborhood shopping centers, specialty retailers appeal to a limited customer base and emphasize product depth over breadth. This paper provides a practical illustration of how one type of specialty retailer, trophy shops (referred to in its industry as recognition retailers) can benefit from market segmentation techniques.

## INTRODUCTION

In addition to trophies, most recognition retailers feature plaques, engravings, small gifts, and related products. These specialty retailers can use market segmentation analysis to better understand their customers and market. Segmentation, a primary marketing planning tool, is the process of dividing markets into segments of potential customers with similar characteristics who are likely to exhibit similar purchase behavior. The objective of segmentation research is to analyze markets, find a niche, and develop and capitalize on this superior competitive position. This can be accomplished by selecting one or more groups of customers as targets for marketing activity and developing a unique marketing strategy to reach these prime prospects (market segments). In a practical sense, market segmentation efforts must be managed to be effective. It is impossible to pursue every market opportunity so the firm must make strategic choices in the market. Consider the following: 1. Everyone is not a prospect for every product or service offered (e.g., different types of customers buy trophies,

plaques, and pen sets). 2. A retailer's product mix must be controlled for maximum cost efficiency. One industry expert noted that there are over 15,000 advertising specialties available. Obviously, it only makes sense to handle products that are most in demand.

## SEGMENTATION OPTIONS

The trophy shop has two basic strategic choices: to segment the market or use an undifferentiated marketing strategy (aggregation). Based on a two-county telephone survey of twelve recognition retailers, the consensus is that management feels everyone is a likely customer (the undifferentiated approach), rather than targeting those who are the most likely customers. Despite this lack of a marketing-driven orientation, it is clearly preferable to segment markets, recognizing the great diversity in the marketplace. Segmentation options that can be employed include differentiation and concentration.

### Differentiation

If the firm identifies and actively markets their product and services to different segments of the market based on different needs, a differentiation strategy is being used. The recognition retailer that separately targets corporations, schools, professional associations, and small businesses is employing a differentiation approach.

### Concentration

The concentration strategy means the firm decides to serve one of several potential segments of the market. Using the

above example, under a concentration segmentation approach, the trophy shop may be interested in serving primarily the corporate market. Concentrated marketing is less expensive than differentiated marketing, and may be the appropriate choice for a new business with limited resources. Sometimes, it may pay to break the market down to the finest detail -- often to the individual customer level. This strategy might be appropriate for firms specializing in customized and relatively expensive products. Faced with a smaller market, a targeted marketing program to the few, but key prospects, needs to be designed.

## THE 5-STEP MARKET SEGMENTATION PROCESS

For recognition retailers to effectively incorporate market segmentation techniques into their marketing plan, a five-step approach should be used. This includes the following: 1. Define the relevant market. The market definition should

reflect the firm's primary geographic trade area (see geographic segmentation), its primary product focus (e.g., awards, trophies, ad specialties, etc.), and major customer orientation (e.g., sales-oriented companies, schools, associations, etc.). 2. Determine appropriate dimensions to use in segmenting markets. Segmenting dimensions or bases are methods/variables used to divide the total market into smaller and more manageable parts of the market that can be targeted effectively and cost efficiently. Physical dimensions include geographic and demographic bases, while appropriate behavioral dimensions for the recognition retailer include product usage by customer, product/product line, and situation/occasion; attitudinal; and marketing mix bases. These will be discussed in the next major section, segmentation bases. 3. Gather the necessary information. Marketing information for making segmentation decisions are available from a variety of sources. Among these include customer files, published sources (e.g., census reports, trade journals, newspapers, etc.), mailing lists, trade associations, Small Business Development Centers, universities, marketing research firms and consultants, chambers of commerce, governmental agencies, or via inhouse custom designed marketing surveys. Research objectives, needs, and budget will dictate which sources are most appropriate. 4. Analyze and evaluate the information. Once the data has been collected, it is important that we can make sense out of the research. Numbers alone are meaningless unless they provide practical information to help make better business decisions. 5. Develop marketing strategies based on the research. Assuming the data has been gathered and analyzed, it is next essential to translate the findings into action -- marketing strategy.

One Miami-based trophy retailer used market segmentation techniques effectively by targeting sailing and yachting clubs, a segment largely ignored by major competitors. By actively pursuing this market niche and placing advertising in boating magazines, this retailer prospered.

## SEGMENTATION BASES FOR THE RECOGNITION RETAILER

There are a number of useful ways recognition retailers can segment their markets. The following overview will discuss some of the more important options. 1. Geographic. Geography is one of the simplest and most effective means for segmenting a market. In urban areas, typical shopping goods retailers get approximately 75% of their customers from within a three mile radius of the

store. In suburban areas, this primary trade area distance expands to a ten mile radius. Since recognition retailers' products are specialty goods, trade areas can even be expanded. One small retailer defined his trade area as the local community, while another retailer a few miles away stated that as an exporter, his market was worldwide.

Regardless of chosen scope, a geographic analysis of the trade area is the recommended first step. A careful analysis of the population and industrial base within this targeted area should be undertaken and reviewed periodically. Such geographic measures as census tracts and zip codes can be studied to better understand local market conditions.

2. Demographics. This segmentation base is comprised of consumer and business demographics. These variables should be studied in conjunction with the geographic boundaries specified. Consumer demographics include basic population statistics of an area such as the number of people, the number of households, age and income distribution, racial and religious backgrounds, education levels, occupations, etc. This data can provide valuable insights into a community and assist the trophy retailer in offering desirable products. Some areas for opportunity that can be spotted through consumer demographics might be school and church activities, team sporting events, and civic and community clubs.

Often more important, however, to the recognition retailer is business demographics. This can reveal how many

companies are located in an area, the types of companies (insurance agencies, banks, etc.), the size of the company (10 employees or 10,000), and so forth. This information can be of tremendous value to the recognition retailer. For example, sales-oriented companies and incentive-driven firms are more likely to have a need for these products. Similarly, larger companies have a greater need for recognition products than do smaller firms. An understanding of basic consumer and business demographics in the geographic market can provide a tremendous edge over competitors who have not invested the time and effort into scientifically learning about their market.

3. Product Usage. One of the best ways for segmenting markets is through analyzing past and expected purchase behavior or product usage. This can be done in three ways. First, through examining customer files (good recordkeeping is essential) one can find out a great deal about their customers. The 80/20 rule means that approximately 80% of the firm's sales come from about 20% of its customers. Analyze customer files to learn which customers are the best ones, the heavy users; those that are dependable, regular customers; those that are infrequent customers; and inactive

customers. An ABDC coding system can be established, assigning an A to the heavy user, B to the average user, C to the light user, and D to the former customer. Of course, one other customer category exists: the non-user. This approach allows the firm to target various user groups to improve marketing performance. For example, type A customers may be contacted every other month, while D customers might be followed up annually.

The second product usage dimension examines product profitability. Again, the 80/20 rule is important here. Research has shown that typically 80% of a firm's sales come from only 20% of the firm's products. Products (e.g., Cross pens or ribbons) and product lines (e.g., laminations or trophies) should be tracked to measure fast sellers. Slow-moving items waste valuable space and should be cut-back or eliminated. The ABCD classification approach can again be used to analyze product movement.

The final product usage alternative considers the purchase situation or occasion. By identifying the use for the product, often it is possible to effectively target key markets. Some examples include: - Various managers in mid-large size companies can be targeted. Recognition products are often needed by personnel managers as retirement gestures, sales managers for top performing sales people, and marketing managers as promotional incentives (ad specialties). - Organizations and clubs may need recognition products for monthly meetings, acknowledging member service, and related situations. - Sporting organizations have a regular need for trophies.

Once an understanding exists of who is in the market and their need for products, including when, it is relatively easy to target select customer groups. In fact, in many cases it is easier for the specialty retailer to target its market since customer needs are more apparent than in many other industries.

4. Other Behavioral Bases. The recognition retailer can use a series of other dimensions to target its market. These include customer attitudes, psychographics (personality traits and lifestyles), benefits sought, and perceptions/preferences. Additionally marketing mix variables such as product factors (e.g., quality, loyalty, and innovativeness), price sensitivity, promotion (e.g., media exposure and sales territories), and distribution can be employed. However, due to the complexity of using these higher level segmentation techniques, it is recommended that the specialty retailer only consider these approaches once a thorough understanding of geographic, demographic, and product usage analysis occurs and is successfully implemented.

As we can see, there are many alternative approaches to consider when segmenting markets. It is desirable to use various techniques to get the best possible understanding of potential market segments. Next, the most desirable segment or segments can be targeted, and a unique marketing positioning strategy developed to meet the needs of these customer group(s).

## CONCLUSION

In summary, most recognition and specialty retailers do little or no market research. However, market research and market segmentation techniques can reward the small business with some or all of the following riches -- new customers, better customers (a segment of the market desired), more satisfied customers (since products offered are more responsive to customer needs), increased sales, the identification of potentially profitable opportunities, and improved market share. It is not an overnight process, but through systematically researching and segmenting a market,



one can be better prepared for attracting and keeping customers in competitive markets, for years to come.

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# FRANCHISING IN PERSPECTIVE: AN EXAMINATION OF CANADIAN FRANCHISEE BEHAVIOR

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## ABSTRACT

This paper analyzes some aspects of Canadian franchisee behavior. The opinions of the franchisees on entrepreneurship, their feelings of being franchisee entrepreneurs and the reasons for them to join such ventures have been investigated. Findings revealed that franchisees perceive risk taking to be the most important function of entrepreneurship.

## INTRODUCTION

Franchising, during the last two decades, has become one of the most prominent types of entrepreneurship and new venture creation in North America and the world. Also, it has become a proven format of business for many entrepreneurs. There are over 500,000 franchise business establishments in North America, which account for more than five million jobs. These figures are presently fast growing. According to the statistics of Canadian and the United States governments, over one third of all retail sales are from franchising. An estimated 7,500 franchisors offer franchises in the United States, and more than one thousand Canadian franchises administer over 2,500 franchise units in Canada (6;5).

Knight (8, pp. 5361) states that almost 35 percent of Canadian businesses are controlled by Americans either by means of area franchises such as McDonald's Restaurants of Canada Ltd. or by unit-by-unit franchises directly from the headquarters in the other side of the border. Similarly, Canadian franchisors own more than two thousand units in the United States and elsewhere.

However, very little research has been done to investigate important issues of Canadian franchisee entrepreneurs who are large and growing in number. Several studies have suggested that franchising is one of the under studied areas in the field of small business (2, pp. 23-28; 8). Hence, systematic analyses of franchisee behavior and their competitive environment is timely and very useful to both academics and practitioners. The results of the study should be important to potential franchisees who are interested in moving into this type of enterprises. The research will provide useful information for the franchisors to develop better incentives for the franchisees. Also, such analyses will fill the gap in the Canadian small business and entrepreneurship literature.

The purpose of this study is to examine the opinions, personal characteristics and motives of franchisee entrepreneurs in Canada. The paper is comprised of four parts. Part 1 deals with a short review of franchising. Part 2 is devoted to a discussion of methodology including the sample selection, questionnaire and the results of the survey. A discussion of the findings is presented in Part 3. Part 4 deals with the conclusions and implications of the study.

## FRANCHISING IN PERSPECTIVE

Franchising in general is a method of doing business or a concept of marketing products and services. The franchise system provides potential entrepreneurs--the franchisees--with a method of business formation which differs from the traditional business start-ups. Franchising has developed from a system of distribution used by the manufacturers at the turn of the century to a total marketing concept practiced by a wide variety of industries and businesses (14).

According to Richard Ashman, Chairman of the International Franchise Association, franchising is a more equitable method of business formation for entrepreneurs from all walks of life.

Ashman (1, p.6) states:

The franchising method of doing business provides a perfect environment for the entrepreneurs. In some ways, franchising is the most supportive business structure for entrepreneurs because it provides something for everyone. For men and women who want to own their business and who ask the freedom of being their own bosses, there's a place in

franchising.

Venture magazine (18, P.72) recently categorized franchise operations in North America into 23 groups including amusement & recreation, fast food, hotels & motels, printing and copying and travel agencies etc. This shows that franchising is one of the rapidly expanding areas of small business.

Franchising can be considered as a unique type of business according to most of the views on entrepreneurial functions identified up to date (9; 3; 17; 10). It is evident that (a) franchisees bear uninsurable risks (9); (b) undertake opportunities (16); (c) establish, nurture and promote businesses (3); (d) introduce novel ways of delivering the products (17); and serve as a constructive force in market economies by being alert to the opportunities (10).

Overall, franchisees are a type of entrepreneur. However, as Knight (1984) suggests, franchisees' priorities and autonomy for decision making are different from other types of entrepreneurs. For example, along the continuum of independence-dependence of decision making, franchisees are placed toward the middle whereas solo independent entrepreneurs and partners are placed at the independence extreme and the large corporation managers are placed at the dependence extreme (8, P. 55).

This paper, therefore addresses the behavior of the Canadian franchisee entrepreneurs in general, and to analyze the perceptions, personal characteristics and motives of the Canadian franchisee entrepreneurs for joining the franchises.

## METHOD

### Population and Sample

The relevant population of the study was the actual entrepreneurs, here, the franchisees who owned at least one unit of franchise operations in the province of British Columbia and/or Ontario. The managers of franchises were not considered as franchisees. The target population was confined to these two provinces since many of the franchises in Canada are located in these two provinces.

### Sample Selection

Using the Annual Franchise Yearbook (1987), we selected a sample of 150 franchise units operated in British Columbia and Ontario. The sample franchisees were categorized into three types: food (57), services (56), and merchandise(37). Franchise Yearbook provided quite up-to-date information and it was a sufficient source for the purpose of this study.

However, the identification of the target population was not easy since some of the franchises were company-owned. Two processes were employed to minimize the inclusion of company-owned franchise units in our sample. First, we selected those franchises with high proportion of independently-owned units as compared to company-owned units. Second, telephone calls were made to the franchise units when it was doubtful whether they were company-owned or independently-owned.

### The Questionnaire

Data for the study were gathered mainly through a structured questionnaire. The questionnaire consisted of four parts, each devoted to a specific aspect of franchisee information. Part 1 sought the opinions of the franchisees on the extent to which they agree with the questions made on entrepreneurial functions and activities. These questions were designed based on the major

conceptualizations emphasized in prominent theories of entrepreneurship (7, pp. 141-153; 9; 10) The intent of this set of questions was to identify which entrepreneurial functions were more important from the viewpoints of the franchisee entrepreneurs. Six statements summarizing the views of prominent theorists were listed on a five-point scale. They were asked to assign point 1 if they completely disagreed with the statement; point 4-5 if they completely agreed with the statement; and point 2-3 if they were in between). The six statements addressed the six functions of risk-taking, administration and organization, promotion, innovation, search for information and alertness to the opportunities, and making sound judgments among alternatives explored.

Part two of the questionnaire sought the personal characteristics of the respondents and the extent to which they reported they were manifesting each of these characteristics in the area of franchising. The characteristics included are among those found to be relevant in Hornaday & Aboud's (7) study. These questions were Likert type. An additional question was included in this part to find out the extent to which the franchisees felt that they manifested their entrepreneurial spirits. This question was useful to obtain evidence about franchisees' specific desires and expectations.

Part 3 of questionnaire was designed to identify specific reasons why the franchisees joined the franchise operations instead of starting their own businesses. These questions extend Knight's (8) study by investigating the Franchisee's reasons for joining the franchises. Furthermore, Knight's study was a comparison of the level of independence enjoyed by franchisees and independent entrepreneurs. The first four statements listed in the third set of the questionnaire were drawn from Knight's study since they were relevant to the present study. Also, another six statements were added to this part of the questionnaire by the author in order to investigate other benefits which may have motivated the entrepreneurs to join the franchises. These included some of the services offered by the franchisor such as start-up and on-going support.

Part 4 of the questionnaire was intended to reflect whether the respondents felt that franchising was more entrepreneurial than running an independent business and whether they would recommend franchising to others who intend getting into small businesses. Also this part of the questionnaire inquired whether the franchise operations were successful in view of the respondents. The success was the overall measure of several variables such as percentage of profits, risks involved, and room for innovation. The questionnaire was pretested on a sample of 14 franchisers, selected from the two provinces and the reliability of the information gathered from the pilot study was significant.

## Measurement and Results of the Survey

To measure the degree of importance of these variables for the franchisees, a Likert type rating scale was used. The scale was comprised of 5 points: 1-2 represents low, 3 represents medium and 4-5 represents high. Out of the 150 questionnaires (53 to service category, 62 to food category and 35 to the merchandise category) mailed to the selected sample of franchisees in British Columbia and Ontario, a total of 85 were returned. Thirteen of which were returned unopened due to address changes. Five of which were incomplete and not usable. These incompletes included two responses, in which the franchisee reported that he or she was not sure of his opinion on some statements. For example, one respondent reported that he or she was not sure whether franchise was less risky and a franchise offered a proven business format, two questions asked in part three of the questionnaire. Furthermore, in spite of a second mailing to about 40 nonrespondents one month after the first, we could get only two responses. Altogether, 65 responses were included in the analysis. The effective response rate of 43% was quite encouraging. The main reason for this high response rate, we believe, was that this type of entrepreneurs do not often get such questionnaires and they were very appreciative of the questions. Several respondents mentioned in their replies that they were keen to know the results of the study. Out of the 65 complete questionnaires returned, 29 were filled by franchises employed in food category, 22 were from those employed in services category and the balance 14 were sent by those who were employed in the merchandise category.

## ANALYSIS AND FINDINGS

### Analysis of Entrepreneurial Functions

The data collected was analyzed using the SPSSX programs.

The results of the responses given by the franchisees for each of the six entrepreneurial functions are given in Table 1 in the ascending order of mean values.

### TABLE 1 MEAN VALUE OF THE SIX ENTREPRENEURIAL FUNCTIONS

Function Mean Standard Deviation

Function 2 Admin & orgztn 3.0769 1.395

Function 6 Making sound judgment among alntnvs explored 3.6769 1.077 Function 4 Innovation 3.8154 1.298 Function

5 Search for infmtn and alert to the opportunities 4.2923 .824 Function 3 Promotn 4.3077 .883 Function 1 Risk taking 4.4154 .727

To determine whether the observed differences in the means of the six entrepreneurial functions surveyed were due to chance or true differences in franchisee entrepreneurial activities, analysis of variance (ANOVA) was done. The hypothesis tested through ANOVA were:

Null hypothesis  $H=U(1)=U(2)=U(3)=U(4)=U(5)=U(6)$  Alternate hypothesis  $H1U(1)=U(2)=U(3)=U(4)=U(5)=U(6)$

Results of the analysis showed that the F ratio was substantially greater than 1 indicating that the mean square deviation between the functions were large in relation to the mean square deviation within the functions. The F value was 2.29. Therefore, we rejected the null hypothesis that the means between the functions were equal at level of significance of 0.10. Since the rejection of the null hypothesis merely indicates that not all means are equal but nothing about where the significant differences lie, we administered the Scheffe test. Scheffe test is normally used to identify where and which of the means differ significantly from others (15). Scheffe test results indicated that the mean of function 2 differs significantly at .05 confidence level from all other functions except function 6. And function 6 differs significantly from functions 1 and 3. Based on this analysis, homogeneous subsets may be categorized. Subsets of functions, whose highest and lowest means do not differ by more than the shortest significant range of 0.7577 are considered to be insignificant and belongs to a homogeneous group. The homogeneous subsets are shown in Table 2.

TABLE 2 HOMOGENEOUS SUBSETS OF ENTREPRENEURIAL FUNCTIONS

Subset 1 Function Function 2 Function 6 Mean 3.769 3.6769

Subset 2 Function Function 6 Function 4 Function 5 Mean 3.6769 3.8154 4.2923

Subset 3

Function Function 4 Function 5 Function 3 Mean 3.8154 4.2923 4.377 Function 1 4.4154

Of the 65 respondents, 20% felt that they were manifesting low entrepreneurial spirits; 28% felt that they were manifesting moderate level of entrepreneurial spirit and 52% of the franchisee entrepreneurs in the study indicated that they were manifesting high level of entrepreneurial spirit under the franchise.

### Personal Characteristics of the Franchisee

The personal characteristics of the franchisee entrepreneurs and their manifestation of such characteristics under the franchise were also examined. The mean score of the 65 respondents on the two sets of variables are shown in Table 3.

TABLE 3 MEAN SCORE ON THE SEVEN PERSONAL CHARACTERISTICS AND MANIFESTATION OF SUCH CHARACTERISTICS

### Personal Standard Characteristics Mean Deviation

(Level of mnfstn) Need for achievement 4.4769 .868 (Need for achievement mnfstn) (3.6769) 1.288 Initiative 4.4462 .638 (Initiative manifestation) (3.5385) 1.062 Self-reliance 4.4462 .791 (Self-reliance manifestation) (3.7846) .166 Competitiveness 4.3231 .903 (Competitiveness mnfstn) (3.8000) 1.162 Internal control 4.2769 .820 (Internal control mnfstn) (3.2769) 1.341 Autonomy 4.1385 1.088 (Autonomy manifestation) (3.2154) 1.231

TABLE 3 CONT. Personal Standard Characteristics Mean Deviation

Risk-taking 3.5231 1.105 (Risk-taking manifestation) (4.2131) .727

The differences in the mean score between the two sets of variables indicate that the franchisees have not been able to manifest the level of personal characteristics they desire. We also administered the T-test to determine whether such differences were statistically significant. The result of the T-test indicated that the differences were significant for all

the cases except risk taking in which the 2-tailed probability was greater than 0.05 (0.165). Table 4 illustrates the responses of the franchisees to part three of the questionnaire. The questions given in this part addressed the respondents' reasons for joining franchises as opposed to starting their own independent businesses. The table shows the frequency and the percentages of "yes" responses to the 10 questions asked. The reasons for joining franchises were ranked in descending order.

TABLE 4 REASONS FOR JOINING FRANCHISES

Rank Reason Frequency %ge

1 Proven business format 51 78.5% 2 Less risky 39 60. % 3 Goodwill 38 58.5% 4 Start-up support 35 53.8% 5 On-going support 31 47.7% 6 Quick start 28 43.1% 7 Gain some experience 18 27.7% 8 Similar ideas 12 18.5% 9 More money 9 13.8% 10 Fad 3 4.6%

Also, 67.7% of the respondents felt that running an independent business was more entrepreneurial than operating a franchise unit; 32.3% indicated that both were equally entrepreneurial.

In response to the questions given in part four 33.8% of the franchisees indicated that their operations were highly successful; 46.2% said their operations were successful; 18.5 % replied that their operations were only marginally successful, and 1 respondent indicated that the operation was unsuccessful. Also, 44.6 % reported that they would extremely likely to recommend moving into franchise oriented business to others, 23.1% indicated 'likely'; 26.2% indicated 'maybe'; 1.5 % said 'unlikely'; and 3.1% said they would 'extremely unlikely' recommend franchise oriented businesses to others.

## DISCUSSION

Out of the six entrepreneurial functions surveyed, the respondents perceived risk taking to be the most important function. It seems that the franchisees' perception of risk taking is different from the traditional view of financial risk. Risk, here, has been appraised by the franchisees in terms of their ability to take challenging decisions, and freedom to make sound judgments. In particular, the risk they perceived may be interpreted as misperception of what the franchisors demand or offer and their inability to select the right franchise which would let them maneuver the level of freedom they desire.

The next two functions considered to be important by the franchisees were search for information and alertness to the opportunities, and promotion. They must have considered them as important since it is essential to seek relevant information on various types of franchises--such as the start-up support and on-going support provided by the franchisors--prior to joining any franchise. Promotion was ranked high since the sample of franchises studied here were mainly of business format under which transformation of ideas on ways of doing business into practice was the goal. Furthermore, the concept of promotion may be understood by the respondents as the image promotion of the franchise. While the franchisees may not have been allowed to engage in much innovative activities, they must have taken into account the level of autonomy delegated by the franchisors in adapting to environmental constraints and opportunities. About twenty percent of the respondents expressed that they were not manifesting the level of entrepreneurial spirit because of the limited opportunity they were given to participate in strategy formation.

It is important to note that franchisees have placed little emphasis on administrative and organizational activities. One plausible explanation for their behavior is that the staff and personnel of the franchises, are usually centrally selected and trained by the franchisors and such staff are familiar with their general tasks and responsibilities. This makes it easy for the franchisees to manage and run the franchise units.

The findings about the characteristics of the franchisees studied here are, in general, consistent with those of Hornaday and Aboud (7). The respondents in both studies rated themselves as being high in initiative taking, self-reliance, competitiveness and need for achievement and moderate in risk taking. Mancuso (11), confirming this finding reported that entrepreneurs in general were moderate in risk taking. The finding of the study also supported McClelland's (12) postulation that the entrepreneurs (here, franchisees) high in need for achievement are moderate in risk taking. It is not surprising to find that the franchisees are moderate in risk-taking and autonomy. On the one hand, a substantial portion of the risk faced by franchisee has been

absorbed by the franchisor. On the other hand, the franchisees were aware of their limited autonomy before they opted to join the franchise.

The reasons cited by the respondents in this study for joining franchises do differ substantially from Knight's study. It shows that the percentages of "yes" responses for the four reasons-- proven business format, lower risk, quick start-up facilities and ability to earn more money--are relatively lower in the present study. A comparison of the percentage of "yes" responses between the present study and Knight's study is shown in Table 5.

#### TABLE 5 PERCENTAGE OF 'YES' RESPONSES BETWEEN THE TWO STUDIES

Reason Present Knight's study study

Proven business 78.5% 83% format Less risky 60. % 78% Quick start 43.1% 92% More money 13.8% 51%

However, the basis for such comparison may not be valid. Knight's study requested the respondents to make a comparison between independent businesses and franchising. In this study, the franchisees were asked to state the actual reasons for them to join franchises.

Beside those listed in Table 5, other factors mentioned by the franchisees which motivated them to join franchises and to recommend franchising to others included: (i) ease of obtaining loans from the bank with the backing of a franchise, (ii) self-reliance in that the franchisees do not have to depend on outside supplies, (iii) availability of expert consultation, and (iv) facilities for mass media advertising.

#### CONCLUSION

This paper has approached entrepreneurship from a different perspective--the franchisee entrepreneur perspective. In this study, the opinions of the franchisees on entrepreneurship, their feelings of being franchisee entrepreneurs, and the reasons for them to join franchises have been investigated.

Three main conclusions may be drawn from this study. First, in spite of the relative safety and stability of the franchise environment, the respondents of this study felt that risk-taking was the most important function of the entrepreneurs. The respondents also perceived that activities relating to

franchising including search for relevant information and promotion to be important functions of the entrepreneurs.

Second, the study showed that the franchisees in general rate themselves being high in initiative-taking, self-reliance, competitiveness, need for achievement and internal control but moderate in autonomy and risk taking.

Third, the study revealed that the entrepreneurs are joining the franchises as opposed to starting their own businesses mainly to take advantage of what have been established by the franchisor including a proven business format, goodwill, and on-going and start-up supports.

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