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CASH FLOW--THE OIL THAT KEEPS THE SMALL AND FAMILY BUSINESS ORGANIZATION RUNNING SMOOTHLY

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ABSTRACT

The purpose of this paper is to emphasize the importance of cash flow and the purposes of uses of the Statement of Cash Flows. Two different methods of calculating cash flow from operations are presented along with a discussion of ways to interpret cash flows and how to plan for future activity. The importance of cash flow should be clear to the financial manager whether the business entity be a small family business or a major corporation. A shortage of cash flow could result in the loss of valuable trade discounts or, in extreme circumstances, financial embarrassment and bankruptcy. While a cash surplus does not necessarily translate into greater returns to owners, it certainly provides opportunities for prospective buyers who understand how to utilize positive cash flows. The caveat for interpreting cash flow is the same as that used for net income: quality counts. This means that firms that depend heavily on depreciation to generate cash flow are not looked on as favorably as firms that have a preponderance of cash flow from operations.

Furthermore, cash flow should be analyzed to make certain that the company is investing properly in order to maintain future operations. Managers who attempt to improve cash flow artificially by ignoring necessary investments in plant and equipment may not be familiar with the concepts of cash flow.

INTRODUCTION

Before the business day is over, probably a dozen small companies in our nation will declare bankruptcy. The Small Business Administration states that most businesses fail for lack of good management.(1) According to the Bank of America, the history of small business failures reveals that many firms fail because of inadequate working capital and poor cash flow management. Small business managers must always be concerned with their company's day-to-day financial position, as well as its future growth and profitability. It becomes necessary to ensure that your company is using its assets and liabilities effectively, is able to meet current obligations and borrow funds when necessary, and is financially prepared to support future operations.

A good starting point in an effort to enhance future operations would be in planning cash flow -- planning cash and planning profits period by period, performing cash flow analysis, calculating cash flow from extended data, determining free cash flow and undedicated cash flow and the cash conversion cycle.

The purpose of this paper is to suggest some procedures a small family business manager might follow in planning cash flow.

The income statement and the balance sheet, the general purpose and generally accepted financial statements, do not answer all questions raised by users of financial statements. Such questions include: How much cash was generated by the company's operations? How much was spent for equipment and property, and where did the company get the cash for the expenditures? How was the company able to make distributions to the owners when it incurred a net loss for the year? The statement of cash flows answers those questions.

In November 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 95, "Statement of Cash Flows."(2) The statement is effective for annual financial statements for fiscal years ending after July 15, 1988. Thus, the statement of cash flows is now one of the major financial statements issued by a public company.

Unfortunately many small businesses do not prepare this statement and are content with the conventional statements -- the income statement and balance sheet.

The main purpose of a statement of cash flow is to report on the cash receipts and cash disbursements of an entity for a period. Cash is broadly defined to include both cash and "cash equivalents," such as commercial paper and money

market funds. A secondary purpose is to report on the entity's investing and financing activities for the period. To accomplish these purposes, the statement of cash flows reports the effect on cash during a period of its operating activities, investing and financing activities. The effects of investing and financing activities that do not affect cash are also shown. A reconciliation of net income and cash flows from operating activities is also provided.

If one could visualize the income statement as a motion picture and the balance sheet as a still photo in black and white, the statement of cash flows converts the balance sheet into a motion picture in technicolor.

The statement of cash flows summarizes the effects on each of the operating, financing, and investing activities of a company for a period; it reports on past management decisions on such matters as expansion and the incurrence of debt. This information is available only in bits and pieces from other financial statements. Because cash flows are vital to a company's financial health, the statement of cash flows provides useful information to management and other interested parties, especially creditors and investors.

This paper deals with the financial management of organizations whether they be the large multi-national corporation or the small independent family business. Financial management is not confined to preparing financial statements, managing the petty cash, paying bills, collecting debts, and handling relations with banks.

Almost every action of the small business and every decision made by its manager(s) or the individual entrepreneur has financial implications.

For the most part, small business owners are concerned with the future. They must formulate decisions in terms of plans, with sufficient flexibility to adopt them to ever-changing circumstances.

As a small business grows in scale and complexity, so does the area of financial decision making. In this environment I shall list what I believe to be the five most important responsibilities of small businessmen. They are:

1.To ensure that the company always has enough cash to meet its legal obligations.

2.To arrange to obtain whatever funds are required from external sources at the right time, in the right form, and on the best possible terms.

3.To use their knowledge and viewpoint to ensure that the company's assets and liabilities current and long-term -- are utilized as effectively as possible.

4.To forecast and to plan for the financial requirements of future operations.

5.To perform all the above functions and make all decisions on the basis of one key criterion: maximizing the long-term wealth of the company's owners.

As the operations of a company go on day-by-day and month-by-month, they cause cash to be received and cash to be disbursed. Moreover, these receipts and disbursements will not always balance out to a steady, gradual increase in the company's cash, even if the company is making steady profits. Large cash outflows will occur at times, such as when income taxes are due or a major new capital investment must be paid for. Thus, over the short term, the cash balances of any company fluctuate considerably.

There are two reasons for planning cash flow. The first reason is to ensure that short-term sources of funds can be negotiated and arranged well in advance of having to use them. As the cash flows fluctuate, there may be a time when cash balances fall below zero. These shortfalls must be anticipated so that the liquidity of the business is not jeopardized. It is much easier to negotiate a short-term loan in advance, thereby giving the indication of good management, than it is to attempt to secure funds at the last moment in a crisis.

The second reason for planning cash flow is just as important if not more so than the first, especially during high inflation periods. As a result of fluctuations, cash balances may be much higher than immediate needs. The idle cash must be invested in short-term money-market instruments as soon as the cash becomes available, so as to preserve its purchasing power and contribute to business profitability. Whether the business's cash budget indicates a shortfall or a

surplus, the manager of the firm must take appropriate action in a timely manner.

PLANNING FOR PROFITS AND CASH FLOW

Although there is a relationship between them, profits are not the same as cash flow. Profit is an accounting concept designed to measure the overall performance of the company. It is a somewhat nebulous concept, open to various measurement techniques and accounting principles each of which produces somewhat different results, which are then open to different interpretations.

In contrast, cash flows are not a measure of a company's performance. Take two extremes: a new, profitable company, and an old, unprofitable company heading for bankruptcy and/or receivership. The results in terms of cash flow are likely to be the same: declining cash balances. A company can show a handsome profit and a net cash outflow in the same month, if it chooses to pay for new equipment in that month. It can equally show a substantial loss and an increased cash balance in one month, if the results of increased borrowing or the proceeds from the sale of other assets are received in that month.

However, the concept of cash is not nebulous. Either the company has a certain amount of cash or it does not. And a lack of cash is critical. Company can sustain losses for a time without suffering permanent damage, but a company that has no cash is insolvent and in imminent danger of bankruptcy, no matter what its profit picture may be. Thus, many financial transactions that do not enter into the calculation of profit -- such as buying new operating assets, getting additional financing, and making distributions to owners -- enter into cash flows. Similarly some transactions that enter into the determination of profit -- notably, the deduction of depreciation expenses -- do not enter into cash flows because they are non-cash transactions with no effect on cash balances.

PLANNING PERIODS

Cash flow planning consists of both short- and-long-term forecasts. The principal purpose of a short-term forecast is to identify temporary cash shortages or surpluses and to deal with them. The primary purpose of a long-term forecast is to establish long-term goals and objectives and provide a financial plan to meet the desired target.

Short-term forecasts are often prepared on a receipts minus disbursements basis while longer term forecasts are usually based on an adjusted net income approach. The short-term forecast is focused on the timing of cash flows and on the availability of cash to meet bills as they come due. An insufficient level of cash on hand could cause the business to pass up valuable trade discounts, and, at the extreme, could cause the business to file for bankruptcy. Thus, the short term forecast concentrates on the actual receipt and disbursement of cash.

In times of high inflation, the necessity for actively managing the business's cash position is obvious. Not only is it very expensive to borrow short-term funds, but there also may be periods when no funds are available at any price. A business that has not secured a commitment in advance will be unable to meet its cash requirements. Excess cash must be invested as soon as it becomes available, so as to avoid erosion in purchasing power. Making a cash budget also allows the financial manager to see the impact of various decisions on speeding up or slowing down cash flows.

Since cash flow planning is concerned with fluctuations in cash balances, the interval of time used in planning is a more important consideration than the length of the whole planning period. The most common interval is one month. That is to say, a financial manager forecasts cash inflows and outflows over one month and then calculates beginning and end-of month balances. The procedure is repeated for the other eleven months of the year, if the overall planning horizon is one year. Using one month as the time period has the advantage of coinciding with the accounting period of most companies and probably also with their official period for collecting receivables.

Many companies use a shorter interval of time, and some companies forecast by the day. Why such a short interval? If the company forecasts by the month and shows adequate balances at the end of each month, isn't it a waste of time to use a shorter interval? That this is not true can be shown by Schedule 1-1 and 1-2.

Suppose a company uses a planning interval of one month. Its cash flow plan for one month might look like that in Schedule 1-1.

As can be seen from Schedule 1-2, although the month cash flow forecast looks fine, the weekly forecast shows that the company will be in considerable trouble before the first week is over. Such a company would do well to choose a planning period not longer than one week, and possibly shorter.

Usually, the size of cash inflows and outflows is much more predictable than their timing. But when it is not, unexpectedly small inflows combined with unexpectedly large outflows could create a serious cash shortage over a short time. This possibility must be avoided, either by carrying large balances to provide a margin of safety or by maintaining a very short planning interval and a continuous watch on how actual events are conforming to plan. Which alternative is adopted will depend on the size of the balances needed and the management time available for short interval cash planning.

From the point of view of avoiding insolvency, the size of cash balances in relation to cash flow has a bearing on the planning interval. If cash balances are large, temporary variations within a long planning interval such as a month are unlikely to place them in jeopardy. But if the company is operating on inadequate balances, a strong net cash outflow over only a few days may bring balances down to dangerously low levels. In such circumstances a short planning interval is necessary for survival, even if it could not be economically justified on any other grounds. For this reason, a company that normally uses a planning interval of one month may switch to weekly planning when its cash balances are dangerously low.

DEVELOPING THE PLAN

Once the planning horizon and planning interval have been determined, the actual planning can begin. The first step is to forecast expected cash receipts during each planning interval. Sales receipts are normally based on the sales forecast and experience of the pattern of receivables collections. Other receipts, such as those from the sale of operating assets, and investment income, can also be predicted with a fair degree of accuracy. Receipts higher than the forecasts may result in cash that might otherwise have been invested profitably; but receipts lower than expected may expose the company to illiquidity, which is far more serious.

The next step is to forecast cash disbursements. Here planners again lean on experience of what cash outlays are normally needed to maintain a given level of sales, but they also need the help of others in the organization. For example, if the purchasing department believes that prices may soon be going up and plans to pick up several months' worth of inventory soon, the planner must know about it. If a major advertising campaign is being planned the financial manager must be made aware of its planned cost and timing. Every manager with the authority to commit large sums of money must be fully aware of the responsibility to keep the financial manager informed of future plans. Schedule 1-3 shows estimated cash outflows included in the cash flow forecast.

once cash inflows and disbursements have been forecast, the planner can forecast cash balances at the end of each planning unit. The results of this appear as the top and bottom lines of Schedule 1-3.

At this point, the planner has a cash flow forecast, not a plan. Planning is the mental process of visualizing a set of events that one is determined to make happen in the future, not just a summary of what one expects to happen. But it is at this stage that planning can begin.

Schedule 1-1 -- Cash Flow Plan For One Month

Cash at start of month $20,000

Cash Inflows: Collection of Accounts Receivable $35,000 Proceeds from sale of operating assets 10,000 Other collections - Miscellaneous revenues 3,000 Total cash inflows $48,000 ------- Cash Outflows: Selling expenses and wages $15,000 Purchasing of inventory 20,000 Supplies 5,000 Rent 3,000 Taxes 4,000 Miscellaneous Expenses 1,000 Total cash outflows $48,000 ------- Cash at end of the month $20,000 -------

It would appear from Schedule 1-1 that all is well. The company's cash balance will stay at $20,000. But will it? Suppose we break down this forecast by the week, as is done in Schedule 1-2.

Schedule 1-2 -- The Same Cash Flow Plan By The Week

Week 1 Week 2 Week 3 Week 4 Cash at start of week $20,000 ($2,250) ($9,500) ($2,250)

Cash Inflows: Collection of Accounts Receivable 6,000 15,000 17,000 20,000 Proceeds from sale of Operating Assets 12,000 Other collections: Misc. Revenue 4,000 5,000

Total cash inflows $6,000 $15,000 $21,000 $37,000 ------ ------- ------- -------

Cash Outflows: Selling Expenses and Wages $6,000 $6,000 $6,000 $6,000 Purchases of Inventory 9,500 5,000 4,000 5,000 Supplies 1,250 1,250 1,250 1,250 Rent 4,000 Taxes 5,000 7,500 Miscellaneous Expenses 2,500 2,500 2,500 2,500

Total cash outflows $28,250 $22,250 $13,750 $20,000 ------- ------- ------- ------- Cash at end of week $ 2,250 ($9,500) ($2,250) $20,000 ----------

Some of the cash balances at the end of each planning interval may be higher than needed; others may be too low or even negative. Planners first determine how to invest any excess cash in order to earn the maximum return on it, depending on its amount and the length of time for which it will be available. Next, they decide how to cover temporary shortages of cash exposed by the forecast. Other means are delaying purchases or payments until a later period, deciding to reduce or eliminate certain expenditures, selling short-term investments or other assets, accelerating collections, and so on.

Schedule 1-4 shows the results of this kind of planning based on the cash flow forecast in Schedule 1-3. The financial manager has decided to finance the forecasted cash shortage in January by a $20,000 short-term bank loan with a yearly interest rate of 18 percent, which will be paid off in two equal installments in February and March. (The $19,400 actually received from the bank represents the loan less interest deducted in advance. This is known as the proceeds from a discounted loan.) By March, the company has spare cash, which it can invest in short-term, interest yielding securities -- $5,000 in each of the three months of March, April, and June.

Schedule 1-3 Cash Flow Forecast By Month

Jan. Feb. Mar. Apr. May June Cash at first of month $19,680 ($10,020) ($1,820) $13,180 $22,230 $13,670

Cash Inflows: Sales receipts 55,000 57,000 69,000 61,000 64,000 65,000 Insurance Claim 7,000 Misc. Revenue 4,000 _____ _____ 3,500 _____ _____

Total Cash Inflows $59,000 $57,000 $69,000 $64,500 $71,000 $65,000 ----------

Cash Outflows: Labor payroll 23,000 23,500 24,000 24,500 31,000 25,200 Salaries 4,800 4,800 4,800 5,600 5,600 5,600 Inventory 31,000 15,500 18,250 11,650 28,760 15,625 Supplies 2,400 1,800 2,000 2,000 2,000 2,000 Insurance 750 Lease Payments 1,000 1,000 1,500 1,000 1,000 1,500 Advertising Exp. 500 500 1,500 500 500 500 Misc. Expense 1,000 1,200 1,200 1,200 1,200 1,200 Loan Payments 18,000 Income Taxes 7,000 9,000 Professional Fees 500 4,000 New Equipment 5,500

Total Cash Outflows $88,700 48,800 $54,000 $55,450 $79,560 $51,625 ----------

CASH AT END OF MONTH ($10,020) ($1,820) $13,180 $22,230 $13,670 $27,045 ----------

Schedule 1-4

Jan. Feb. Mar. Apr. May June Cash at first of month $19,680 $9,380 $ 7,580 $ 7,580 $11,630 $ 8,070

Cash Inflows Sales Receipts 55,000 57,000 69,000 61,000 64,000 65,000 Insurance claim 7,000 Misc. Income 4,000 3,500 Short-term Bank Loan 19,400

Total cash inflows $78,400 $57,000 $69,000 $64,500 $71,000 $65,000 ----------

Cash Outflows Salaries $27,800 $28,300 $28,800 $30,100 $36,600 $30,800 Inventory 31,000 15,500 18,250 11,650 26,760 17,625 Payments for Supplies 2,400 1,800 2,000 2,000 2,000 2,000 Insurance 750 Lease Payments 1,000 1,000 1,500 1,000 1,000 1,500 Advertising 500 500 1,500 500 500 500 Misc. expenses 1,000 1,200 1,200 1,200 1,200 1,200 Loan payments 18,000 10,000 10,000 Income taxes 7,000 9,000 Professional fees 500 1,000 3,000 Equipment 5,500 Short-term Investment 5,000 5,000 5,000

Total cash outflows $88,700 $58,800 $69,000 $60,450 $74,560 $61,625 ----------

Cash at end of month $ 9,380 $ 7,580 $ 7,580 $11,630 $ 8,070 $11,445 ----------

However, this would have caused cash to drop to a low in May: $3,070 by the end of the month. Instead of investing in April and borrowing again from the bank, the planner has decided that payment of some May bills can be deferred until June: $3,000 in professional fees and $2,000 for inventory. Thus, once the financial manager has determined how to invest excess cash and how to cover cash shortages, he or she incorporates the results of these decisions into the cash flow forecast, which now becomes a plan. The accuracy of the forecasts that are used in preparing the cash flow plan is of critical importance in having the plan be a useful tool. The less reliable the forecasts or the more uncertain the financial manager is about the unexpected events they may affect the cash flows, the larger the cash balances, lines of credit, or a combination of both that are required. If the planner does not have much confidence in the forecasts, the resulting plan will be of little value to the organization.

PLANNING AND CASH FLOW ANALYSIS

The financial manager should recognize that much of the desired information is difficult to forecast, since many of the receipts and disbursement dates are not always available. This will surely complicate cash flow planning. The traditional receipts and disbursements approach does not lend itself easily to interpretations of cash flow. For example, the answers to such questions as how much the firm should set aside for investments in fixed assets or how the firm should fund future growth are not apparent from such an analysis.

Although net cash flow can be calculated by subtracting cash disbursements from cash receipts, the financial manager should note that cash flow from operations is often calculated by taking net income and adding expenses that do not affect cash such as depreciation, amortization, and deferred taxes. historically, financial managers used net income plus depreciation as a proxy for cash flow. Today, most accountants and financial managers recognize cash flow as being the former amount (net income plus expenses not decreasing cash) plus increases (minus decreases) in spontaneous liabilities minus increases (plus decreases) in spontaneous assets. Spontaneous assets and liabilities are those accounts which move directly with a change in sales. For example, accounts receivable and inventories would be representative of spontaneous assets, while accounts payable and accruals would be indicative of spontaneous liabilities.

This calculation of cash flows is referred to as an indirect approach, since the actual cash receipts and disbursements are not used, but rather are estimated from all the accounts affecting cash flows.

For example, all of the sources and uses of funds that affect cash flows from operations are included in the indirect cash flow calculation. The indirect approach is frequently used for forecasting long-term cash flows (more than one year), since projections of net income may receive greater attention than the actual timing of receipts and disbursements. The indirect approach may also facilitate more reliable long-term planning.

Many financial analysts and managers are becoming increasingly interested in the concept of cash flow. Careful management of available cash resources is critically important to maintain a company's competitiveness. Footnotes

1. SBA: What it is...What it does, Publication OPI-6 (Washington, D.C., Small Business Administration, Office of Public Information, August, 1988), p.25.

2. FASB, "Statement of Cash Flows," Statement of Financial Accounting Standards No. 95 (Stamford, Conn., 1987).

3. "Steps to Starting a Business," Small Business Reporter 10 (1986):3.

AN EMPIRICAL EXAMINATION OF MANAGERIAL COMPETENCIES AMONG BLACK WOMEN ENTREPRENEURS AND BLACK WOMEN CORPORATE EXECUTIVES

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ABSTRACT

The new economic reality of the 1990's is clearly the notable entrepreneurial pursuits of women business owners in general and black women entrepreneurs in particular. This paper reports on the managerial competencies and perceived skill development needs of black women entrepreneurs and contrasts their profile with black women corporate managers. Managerial competencies were assessed through the use of the "Leadership Competency Inventory" (LCI). The LCI provides feedback on fifty-five competencies arranged in four categories: I. Socio-Economic Environment of Business, II. Technical and Operational Methods, III. Human Resource and Interpersonal Communication Skills, and IV. Vision and Environmental Co-Alignment Scanning Abilities. Upon testing for significance, the conclusions indicate that a relatively different and distinct competency profile exists and illustrates the developmental needs for black women managers anticipating stepping off the corporate track in favor of the entrepreneurial alternative. As for black women entrepreneurs, they continue to display mixed perceptions of their skills and abilities with some areas identified as very weak and others very positively viewed.

INTRODUCTION

Aspiring black women entrepreneurs and corporate businesswomen have always faced numerous unique barriers, even when compared to other minority group members. Yet, experts anticipate a continuing growth trend for black women's labor force participation; reaching a 65 percent net growth rate through the year 2000 (Brand, 1988: p. 32) and representing 5.6 percent of jobs (Hudson, 1987: p. 81). Ironically, the black women's successes in the 1980's, particularly the corporate beneficiaries of desegregation, have created a rift between women in professional and managerial jobs and those black women entrepreneurs who are among the fastest growing segment of the small business formation population (Reskin and Roos, 1990: p. 317). This may contribute to diminishing the number of black women who have been leaving their corporate employers in large numbers (Morrison, White, and Van Velsor, 1987: p. 109), to seek the entrepreneurial alternative. One challenge that the remainder of the 1990's will bring both occupational groups is to create a united political-economic basis for demanding enhanced gender and race equity. Such a basis should be keyed to transcending the economic barriers and disproportionate institutional support between the more and less favored black businesswomen.

The possibility for building effective socioeconomic coalitions supportive of the training, positioning and development needs of black women, rests with a clearer understanding of the managerial competencies, styles and motiveprofiles of black women entrepreneurs and black corporate businesswomen. (Diffley, 1983: p. 31). The newest emerging group of modern black women entrepreneurs is most likely to be small business owners with prior corporate business experience, a strong need to be independent, and a self-empowered will to succeed. (Birley, 1989: p. 35; Brush and Hisrich, 1988: p. 612). Often identified in the literature as the "second generation" modern women entrepreneur, (Gregg, 1985: p. 13), this new source of black small businesswomen comes to the challenge often prepared with technical operative knowledge and managerial planning skills, a network of contacts and a 1990's orientation to creating a customer (Drucker, 1986: p. 154) through inventing new markets (Sekaran and Leong, 1992: p. 88-89). Having utilized her previous corporate managerial environment as a skills and competency building incubator (Cooper and Dunkelberg, 1987: p. 18), she seeks the entrepreneurial alternative to bridging the occupational and career queuing gaps, in order to reach for newly emerging opportunities in today's fresh approaches to the global marketplace.

If women business owners are truly the fastest growing "new breed of entrepreneurs" (Moriya, F.E., Judd, B.B. and File, K.M (1988): p. 84), then understanding the competencies and skills necessary to make the transition from the corporate to entrepreneurial environment would be of considerable value. (Rosener, 1989: p. 117). Although numerous research studies have examined the women entrepreneur (Hisrich, 1986: p. 6), very little attempt has been made to isolate the characteristic skills, problems and perceptions of the black women entrepreneurs.

OBJECTIVES

The purpose of this paper is (1) to examine the managerial orientations and competencies of black women entrepreneurs compared to black businesswomen holding executive and managerial positions in large corporations, as well as (2) to explore the developmental needs of both groups in order to enhance the survival and growth of minority firms and inform management assistance consultants and educators regarding developmental factors among the largest potential pool of future black women entrepreneurs.

The failure of legislators, administrators, and the feminist movement to address the working concerns of black women is currently receiving political attention and engendering widespread discussion in white women's organizations (Glenn, 1992: p. 173). Although racial ethnic scholars have attempted research focusing on racial ethnic women in relation to family, community and labor force participation, those studies have not explicitly recognized the specific competencies of black women in the two fastest growth fields of employment; and professional managerial occupations (especially small business formation).

Clearly, a necessary next step is to understand and develop a theoretical and conceptual framework for analyzing the socio- economic competencies, and occupational development needs at the interaction of race and gender stratification within the process of entrepreneurship. Hopefully a starting point for developing such a theoretical framework would appear to lie in the assessment of contrasting business skills and abilities among black women entrepreneurs and corporate managers. Such information should assist small business development educators and administrators in formulating minority business assistance strategies.

RESEARCH DESIGN

Following the suggestions of P.J. Hoffman (1960), Mitchell and Beach (1977) and Michael J. Stahl (1986), that a behavioral decision theory modeling approach (see Stahl, 1983, pp. 775-789) be used to study managerial competencies; a skills inventory assessment approach was developed. An advantage of such an approach is that scores based on the action-oriented behavior of subjects as reported by superiors, peers and subordinates can be combined with subject's self-reports of their perceived competencies. The research design therefore presents a rigorous experimental testing methodology (a triple replicate of a 2 x 2 x 2 full factorial) with regression analysis of each subject's perceived managerial competencies. The clear advantage of such a cross-scoring approach is that testing for nonsignificant regression equations highlights inconsistent data. Then errors in the separate data set models can be compared with the errors in the model run on the full sample.

Although instrument test-retest reliabilities are not a focus of this study, the average test-retest reliability for principal advisor/boss samples was .86, for self-reports .84 and for peer/subordinate .81. The test-retest reliability coefficient for the composite managerial competence measures for all samples averaged .72. Keep in mind that such reliability coefficients are considerably higher than the often employed McClelland's (1965) TAT instrument (.30).

Data Collection

Obtaining an accurate assessment and comparison of black women entrepreneurs' managerial competencies with black corporate businesswomen managers, was a difficult undertaking. To locate entrepreneurs and businesswomen for this study, a number of sources were employed. These included

- National Directory of Minority-owned Business Firms (1992) -The Directory of Women Entrepreneurs (1991) - National Minority Business Directory (1990) -The Women's Business Initiative, Inc. (Association) -The Society of Women Engineers (Association) -Women in Management Division of the American Academy of Management (Association) -The Network of Women in Business Directory (1990) -National Association of Family Business Directory (1992)

An initial stratified random sampling plan was employed to identify and select a proportionate number of black women entrepreneurs and black businesswomen executives who would consent to study participation. From these two groups a final sample was constructed to balance business type, geographic location, business size duration, and industry.

Data for this study were obtained on each of the fifty-five (5 = High; 1 = Low) competency components from the participating entrepreneur and manager, her closest business advisor or her immediate superior, and from four to six "observers" equally split at the peer and subordinate levels. In every case, the participants were to select people who were very important to them in doing their job and on the basis of "people whose opinion you value."

Each participant selected for the study was provided with a complete set of questionnaires (coded), instructions and postage paid return envelopes in order to preserve the confidentiality of the assessment process.

The fifty-five managerial competencies (see the Appendix to this paper) assessed by each group provided the following data sets:

1. The participant entrepreneur and corporate manager established the most "Important Competencies" for her job and identified their most critical areas for improvement ("Needed Improvement"). Complete data sets were assembled for 88 entrepreneurs and 102 businesswomen executives or managers.

2. For black women entrepreneurs, a principal business advisor (mentor) or board chairperson provided feedback on competencies "Important" to the job and "Needs for Improvement." The same set of questionnaires was received for participating black businesswomen managers.

3. The selected "Observers" perceptions of important managerial competencies and need for improvement, included 348 survey instruments for participating entrepreneurs and 520 questionnaires, returned for participating corporate businesswomen.

Research Hypotheses

The hypothetical constructs developed for this research effort are a first attempt at identifying creative development strategies for scholars, practitioners, and small business consultants, who, based upon the suggestions in the literature, believe that in order to succeed, entrepreneurial owner-operators need a broad and balanced spectrum of managerial competencies. In addition, it has been pointed out, time and again, that most corporate black businesswomen move, quit-working, or pursue their independent business because they perceive themselves discriminated against, thwarted and harassed in their careers, even by other women (Nkomo, 1988, pp. 133-149). Yet, by their achievements, skills, creativity and talents, they represent the largest pool of potential black women entrepreneurs in the history of our nation. Paying heed to the managerial competencies and needs for improvement among these two groups of minority women, is an essential, necessary and sufficient condition for the continuing success of entrepreneurial organizations in the United States and abroad. Therefore, based upon theory and previous research, the following hypotheses were developed:

Hypotheses 1: Black women owner-operator entrepreneurs will exhibit a significant difference in managerial competencies when compared to black businesswomen corporate executives or managers; on the competencies perceived as "Important."

Hypotheses 2: Black women owner-operator entrepreneurs will exhibit a significant difference when compared to black businesswomen corporate executives or managers, in the perceptions of "Need for Improvement" as evaluated by their own self-assessments, their principal business advisors, or immediate superiors, and "observers" selected at peer and subordinate organizational levels.

Based upon years of experience in teaching minority businesswomen programs, a number of sub-hypotheses are possible relative to motivational characteristics, value systems and personality types. Expectations are that entrepreneurs will perceive Part I and Part IV dimensions of significantly higher importance than their advisors and observers. On the other hand, black corporate businesswomen managers will be highly task focused (Part II) and truly interested in human resource management issues (Part III).

SURVEY RESULTS

Respondents to the leadership competencies inventory were presented a five point scale upon which to indicate both major (5) and minor (1) importance and developmental needs for improvement. The compiled data is presented in the following tables and ranked by the magnitude of difference between entrepreneurs and corporate managers. After first testing each data set for homogeneity of variance, Student "T" tests (as modified by the Kendell Tau statistic) were applied to examine significance in group means at the .01 (**) and .05 (*) levels. In addition, although all observations were employed, only the significant data for the upper and lower quartiles are presented. High priority and low priority development needs are also indicated by other study participants.

Table 1, summarizes the highest and lowest quartile dimensions of managerial competencies considered important (unimportant) by the participating black women entrepreneurs and their counterpart black businesswomen corporate managers. At a .01 level of significance, women entrepreneurs ranked profit management and control and monitoring, as the most important success skills along with competitor awareness and skill in managing creativity (.05 levels). Of least importance and significantly different than corporate businesswomen managers (.01) were legal requirements and organizational blending. Not surprisingly, group process skills and conflict resolution abilities were ranked higher (significantly different at the .05 level) by black corporate businesswomen executives.

In examining the highest quartile, which includes the greatest relative comparative importance selections by entrepreneurs, it should be noted that seventy percent of the competencies represent Part I and II dimensions or the "mechanics" of management (skills) rather than the "humanics" (process abilities) or dimensions from Parts III and IV).

Of critical importance to any business person is feedback relative to what "competencies" their immediate supervisor or principal business advisors (mentors) consider most important to doing a good job. Table 2, reports the assessments of business advisors and the bosses of participating corporate managers. In comparison with corporate businesswomen managers, seven competencies, including 1.02 - profit management, 4.10 managing creativity, 2. 11 - control and monitoring, and 1.03 - cost and cost control, exhibit significant difference, while 1.06 - competition awareness, 3.07 - personnel/staffing and 4. 11 - entrepreneurship are significant at the .05 level. Again, among the thirteen highest ranked competencies, eight out of thirteen represent the "blocking and tackling" on mechanics of operating a business. The mentors of participating corporate managers regarded 1.01 monetary conditions, 1.08 -organizational culture and 4.05 - sense of timing as more critical areas of managerial competency.

The participating women entrepreneurs and corporate managers, in this study, were asked to distribute and equal number of assessment questionnaires (at the peer and subordinate levels) to "observers" whose opinions were valuable to them in doing their jobs. These observers were to be in a position to judge which managerial competencies are of critical importance to the manager and entrepreneur and what improvements or developmental needs they would recommend.

While the identification of important competencies, as reported by the participants and their mentors demonstrated some similarity, the data provided by selected observers clearly displays a highly discriminate difference in importance, as shown in table 3.

Table 1. PARTICIPANT'S SELECTIONS: IMPORTANT COMPETENCIES

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIGNIF. (Lowest Quartile) 1.12 Legal Requirements 2.9850 3.5033 ** 1.07 Impact 2.5110 3.0438 * 4.04 Organizational Blending 3.7210 4.1315 ** 1.01 Monetary Conditions 2.2888 2.7037 * 3.14 Group Process Skills 3.7200 4.0645 * 3.02 Resolving Conflicts 3.9535 4.2840 NS 4.14 Policy Formulation/Implem. 3.2500 3.5598 NS 1.09 Internal Structure & Oper. 4.2631 4.5750 NS 1.08 Organizational Culture 3.8370 4.1157 NS 1.04 Business Conditions 3.1167 3.3733 NS 3.09 Performance Management 4.2248 4.4728 NS 4.05 Sense of Timing 3.8761 4.1158 NS 2.09 Time Management 4.3800 4.5092 NS ---------- (Highest Quartile) 1.05 Customer/Client Awareness 4.3025 4.2167 NS 2.08 Delegation 4.4965 4.3878 NS 2.07 Implementation 4.6901 4.5750 NS 4.13 Managing Change 4.0310 3.8943 NS 4.11 Entrepreneurship 3.7598 3.6227 NS 4.12 Risk Taking 3.8373 3.6567 NS 1.11 Social and Political 2.5583 2.3472 NS 2.12 Proposal Preparation 3.4883 3.1805 NS 1.06 Competition Awareness 3.2947 2.9423 * 3.07 Personnel/Staffing 4.0698 3.6737 NS 4.10 Managing Creativity 4.2248 3.6738 * 1.02 Profit Management 4.6989 4.1448 ** 2.11 Control and Monitoring 4.5103 3.9557 **

Table 2. BUSINESS ADVISOR/MENTOR SELECTIONS: IMPORTANT COMPETENCIES

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIFNIF. (Lowest Quartile) 1.01 Monetary Conditions 2.2392 2.6768 ** 1.08 Organizational Culture 2.5613 2.9644 * 1.07 Impact 3.5067 3.8965 NS 2.14 Information Management 3.7618 4.1510 NS 4.05 Sense of Timing 3.8618 4.2510 * 4.14 Policy Formulation/Implem. 3.0895 3.4525 NS 1.12 Legal Requirements 3.1302 3.4353 NS 4.07 Problem Solving 3.6992 3.8778 NS 3.14 Group Process Skills 4.3497 4.5068 NS 1.10 International Awareness 3.8618 4.0137 NS 4.13 Managing Change 1.9922 2.1430 NS 1.11 Social and Political 2.1953 2.3132 NS 3.11 Stress Management 3.8212 3.9287 NS ---------- (Highest Quartile) 2.08 Delegation 3.8620 3.6567 NS 2.04 Objective Setting 4.4715 4.1837 NS 1.05 Customer/Client Awareness 4.7155 4.3878 NS 4.03 Resource Blending 4.5528 4.1498 NS 3.09

Performance Management 4.7155 4.3027 NS 2.12 Proposal Preparation 3.6178 3.1973 NS 4.11 Entrepreneurship 4.1870 3.7417 * 3.07 Personnel/Staffing 4.1870 3.6905 * 1.03 Cost and Cost Control 4.6342 4.1328 ** 2.11 Control and Monitoring 4.8008 4.2993 ** 1.06 Competition Awareness 3.4147 2.7725 * 4.10 Managing Creativity 4.2683 3.5203 ** 1.02 Profit Management 4.7355 3.9847 **

Table 3. OBSERVER'S SELECTIONS: IMPORTANT COMPETENCIES

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIGNIF. (Lowest Quartile) 1.10 International Awareness 2.4870 3.1708 ** 4.04 Organizational Blending 2.8675 3.4850 ** 1.12 Legal Requirements 2.9102 3.5070 ** 4.14 Policy Formulation/Implem. 2.9103 3.3150 ** 1.04 Business Conditions 2.6858 3.0490 ** 1.07 Impact 2.4783 3.8308 ** 1.01 Monetary Conditions 3.7565 3.9847 * 1.08 Organizational Culture 4.1623 4.3432 * 3.14 Group Process Skills 1.9862 2.1655 NS 1.11 Social and Political 3.8333 4.0025 NS 4.09 Vertical Communication 2.8757 2.9932 NS 3.11 Stress Management 3.3592 3.4627 NS 4.08 Lateral Communication 2.3143 2.3688 NS ---------- (Highest Quartile) 3.07 Personnel/Staffing 4.1968 4.0872 NS 2.11 Control and Monitoring 4.7495 4.6378 NS 4.10 Managing Creativity 3.8170 3.6955 NS 2.12 Proposal Preparation 4.7495 4.6268 NS 2.09 Time Management 4.3955 4.2720 NS 1.03 Cost and Cost Control 4.7063 4.5648 * 3.09 Performance Management 4.3265 4.1500 NS 2.03 Decision Making 3.1952 2.9970 NS 1.05 Customer/Client Awareness 4.4042 4.1980 * 1.06 Competition Awareness 4.0587 3.8027 ** 3.10 Development/Coaching 4.5078 4.2350 ** 2.10 Budget Management 4.0328 3.6733 ** 1.02 Profit Management 3.9910 3.5727 **

Table 4. PARTICIPANT'S SELECTIONS: AREAS FOR NEEDED IMPROVEMENT

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIGNIF. (Lowest Quartile) 3.01 Managing Motivation 2.7558 3.6501 ** 2.08 Delegation 3.0917 3.6167 ** 1.07 Impact 2.9845 3.3503 * 3.04 Effective Listening 3.0233 3.3673 * 1.10 International Awareness 2.8295 3.1463 * 3.06 Effective Presentation 2.8297 3.1295 NS 3.12 Information Sharing 3.1395 3.4353 NS 2.13 Org. Systems & Structures 3.2945 3.5545 * 4.03 Resource Blending 3.0620 3.2993 NS 4.10 Managing Creativity 3.0233 3.2483 NS 4.05 Sense of Timing 3.0232 3.2485 NS 1.12 Legal Requirements 3.2945 3.5033 NS 4.06 Problem Perception 2.7520 2.9422 NS ---------- (Highest Quartile) 1.05 Customer/Client Awareness 3.4108 3.3503 NS 2.02 Problem Analysis 3.5658 3.5033 NS 2.10 Budget Management 3.1017 3.0272 NS 3.03 Empathic Response 3.1395 3.0612 NS 3.05 Influencing 3.2945 3.2143 NS 1.02 Profit Management 3.0233 2.9422 NS 2.11 Control and Monitoring 3.0620 2.9762 NS 4.04 Organizational Blending 3.6820 3.5885 NS 4.13 Managing Change 3.6822 3.5373 * 2.04 Objective Setting 3.5272 3.3163 * 1.06 Competitive Awareness 3.2170 2.8862 * 3.10 Development/Coaching 3.7322 3.3327 ** 4.14 Policy Formulation/Implem. 3.5043 3.0631 **

Table 5. BUSINESS ADVISOR/MENTOR SELECTIONS: AREAS FOR NEEDED IMPROVEMENT

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIGNIF. (Low Priority) 3.03 Empathic Response 2.6830 3.1293 * 3.13 Differentiating Individuals 2.8862 3.2993 * 3.01 Managing Motivation 2.6017 3.0102 * 3.11 Stress Management 3.2113 3.5713 NS 2.14 Information Management 2.7235 3.0782 * 3.02 Resolving Conflicts 2.6830 2.9932 NS ---------- (High Priority) 1.03 Cost and Cost Control 3.0082 2.8062 NS 3.10 Development/Coaching 3.0488 2.8232 NS 4.05 Sense of Timing 3.4553 3.2143 NS 1.06 Competition Awareness 3.4187 3.1086 * 1.05 Customer/Client Awareness 3.5833 3.2230 ** 4.01 Networking 3.6857 3.3081 **

Observers of black women owner-operator entrepreneurs identify/sight competencies at significantly lower critical importance; three-fourths of which are dimensions defined in Part I (socioeconomic environment) of the assessment questionnaire. They rated competencies in the areas of sound financial management control, as well as, a strong marketing orientation to customer and competitor, as the highest priority skills and abilities. One significant competency (.01 level) that had not appeared before was the development and coaching of employees.

Turning now to managerial competencies which are identified as areas for "needed improvement", tables 4, 5, and 6, summarize the participant's, mentor's and observer's selections.

Participating entrepreneurs appear to believe that they need little improvement in 3.01 managing motivation and 2.08 - delegation, for which they exhibit a significant difference (.01) when compared to women managers. Yet, they seem to recognize a need to improve their employee coaching and development skills. Other areas of significance in terms of

improvement needed include 4.14 - policy formulation and implementation (.01), 1.06 -competition awareness, 2.04 - objective setting and 4.04 -organizational blending or the systematic balancing of tasks.

Both the mentors (Table 5) and observers (Table 6) tend to agree that controlling costs (1.03, 2.10, 2.11) and competitor/customer/client awareness are critical areas for needed improvement. Two dimensions that have not previously received high priority rankings. 4.01 -networking (.01) and 4.05 - sense of timing, show up as mentor selections for improvement and observers give time management a high order of priority for needed improvement.

Tables 7 and 8 simply present the top priority competency ranking (rather than comparatively addressed as in the previous tables) as provided by study entrepreneurs and corporate managers. Both groups of participants give primary weight to Part II, technical and operational skills (40 and 50 percent respectively) with the corporate managers displaying a stronger association to human resource management and interpersonal communication skills (Part III), 40% of managerial competencies. What is perhaps more remarkable, and not necessarily unexpected, is the balance of managerial competencies selected by entrepreneur owner-operators.

Table 6. OBSERVER'S SELECTIONS: AREAS FOR NEEDED IMPROVEMENT

ITEM # DIMENSION DESCRIPTION ENTREPRENEUR MANAGER SIGNIF. (Low Priority) 3.03 Empathic Response 2.3057 2.6275 ** 1.08 Organizational Culture 2.8325 3.0780 * 1.01 Monetary Conditions 2.7462 2.9712 * 3.14 Group Process Skills 2.2625 2.4870 ** 3.13 Differentiating Individuals 2.7807 2.9860 * 1.10 International Awareness 2.7893 2.9897 * ---------- (High Priority) 2.09 Time Management 3.1852 2.9997 NS 4.03 Resource Blending 4.6011 4.4117 NS 2.10 Budget Management 4.3267 4.0048 * 2.12 Proposal Preparation 3.1958 2.9549 * 2.11 Control and Monitoring 4.5078 4.1989 ** 1.06 Competition Awareness 4.0328 3.5431 **

Having identified the critical managerial competencies for success, women entrepreneurs seek help in improving their 2.09 - time management skills, 4.13 - change management abilities and their 1.05 - customer/client awareness strategies (Table 9) employment development and coaching and organizational blending are among their top five identified needs for improvement.

Table 7. RANKING OF MOST IMPORTANT MANAGERIAL COMPETENCIES BY BLACK WOMEN

ITEM DIMENSION DESCRIPTION MEAN VALUE

1.02 Profit Management 4.6989 *2.07 Implementation 4.6901 *2.08 Delegation 4.4965 3.05 Influencing 4.4573 2.11 Control and Monitoring 4.5013 2.09 Time Management 4.3798 1.05 Customer/Client Awareness 4.3025 4.10 Managing Creativity 4.2248 3.07 Personnel/Staffing 4.0698 4.13 Managing Change 4.0310

Table 8. RANKING OF MOST IMPORTANT MANAGERIAL COMPETENCIES BY BLACK BUSINESSWOMEN MANAGERS

ITEM DIMENSION DESCRIPTION MEAN VALUE

2.02 Problem Analysis 4.7960 2.01 Situation Analysis 4.6938 3.01 Managing Motivation 4.6935 3.04 Effective Listening 4.5918 *2.07 Implementation 4.5750 1.09 Internal Structure and Operation 4.5750 2.03 Decision Making 4.5578 3.09 Performance Management 4.4728 *2.08 Delegation 4.3878 3.10 Development/Coaching 4.3707

Black women corporate managers share three ares of need improvement (Table 10): 2.09 time management, 4.13 - managing change and 2.02 -problem analysis with participating entrepreneurs. However, delegation, management of motivation and managing performance represent areas of needed improvement which they also regard as critical managerial competencies in their careers.

Table 9. RANKING OF MOST IMPORTANT NEEDS FOR IMPROVEMENT BY BLACK WOMEN ENTREPRENEURS

ITEM DIMENSION DESCRIPTION MEAN VALUE

*2.09 Time Management 3.7340 3.10 Development/Coaching 3.7322 *4.13 Managing Change 3.6822 4.04 Organizational Blending 3.6800 *2.02 Problem Analysis 3.5658 2.04 Objective Setting 3.5272 1.03 Policy Formulation/Implement. 3.5043 2.05 Strategic Planning 3.4450 1.05 Customer/Client Awareness 3.4108 1.06 Competition Analysis 3.2170

Table 10. RANKING OF MOST IMPORTANT NEEDS FOR IMPROVEMENT BY BLACK BUSINESSWOMEN MANAGERS

ITEM DIMENSION DESCRIPTION MEAN VALUE

*2.09 Time Management 3.7245 3.01 Managing Motivation 3.6501 2.08 Delegation 3.6167 4.04 Organizational Blending 3.5885 3.11 Stress Management 3.5715 2.13 Organizing Systems & Structures 3.5545 3.09 Performance Management 3.5373 *4.13 Managing Change 3.5373 *2.02 Problem Analysis 3.5033 1.12 Legal Requirements 3.5033

DISCUSSION

As with the case of all entrepreneurial ventures in general, a number and variety of influences can be expected to affect survival. For minority - owned firms operated by black women, Part I socio-economic business knowledge, and Part II technical and operational skills tend to dominate their "focused-in" approach to needed improvement and their identification of critical managerial competencies.

Although black businesswomen corporate managers agree on the significance of Part II skills, they display a more "focused-out", (Part III - human resource management and interpersonal communications skills) developmental need and critical competencies. Both the mentors and observers for each group of participants, strongly support this picture of strengths and weaknesses.

The fact that there were a number of significant differences among entrepreneurs and corporate managers, in the nature and direction of competency development, suggests that strong joint- partnership alliances may be warranted. As an example, rather than attempting to become more of a generalist (moving from Part I/II to Part III/IV in skills development), entrepreneurs could reach into a significantly large and growing pool of executive business talent among corporate businesswomen managers to form mutually beneficial co-partnerships (see Table 1 1). Work-role performance could be greatly enhanced without putting the survival of their firms ahead of personal time and values, while complementing creativity and offering greater potential for empowering and attracting good employees.

Worthy of note are the consistently higher mean importance scores given by black businesswomen managers to Part II and Part III competencies, indicating that they attach greater significance to rational order and motivation strategies associated with defined objectives and job performance expectations (also, apparently producing high stress levels). Corporate management participants, for example, identify "front-end" operational management skills such as

Table 11. EMPLOYMENT OF WOMEN IN MANAGERIAL AND PROFESSIONAL OCCUPATIONS

BLACK WOMEN OCCUPATION 1970 1980 1990

Total Employed 3.7 M M 4.7 M M 5.1 M M

Professional 11.0% 14.2% 21.6%

Managerial 1.5% 4.7% 20.0%

WHITE WOMEN OCCUPATION 1970 1980 1990

Total Employed 25.5 M M 26.7 M M 37.1 M M

Professional 15.3% 15.1% 28.2%

Managerial 3.8% 8.4% 20.9%

Source: U.S. Bureau of the Census, Census of the Population 1970: 1980: 1990. Characteristics of the Population, Vol. 1, Part 1, U.S. Summary.

situation analysis, problem identification and decision making as the most critical competencies (Part II), while entrepreneurs stress implementation, delegation and control and performance monitoring process skills (apparently producing time management problems for them).

One remarkable finding is the perception of both groups of participants regarding their most critical areas for improvement. Corporate management participants identify delegation, time management and system organizational skills as improvement needs. Women entrepreneurs, on the other hand, recognize the need to develop problem analysis, objective setting and strategic planning ("front-end") skills. Once again, these findings clearly show how well the study participants complement each other as potential team players.

CONCLUSION

The exploratory research results presented in this paper serve to suggest that a unique interaction of race and gender is a viable, challenging, and rewarding area of research that has been generally ignored in the women manager and entrepreneurship literature. Clearly, educators and organizational development consultants interested in understanding the status of women in organizations and owner-operated firms must begin to recognize that the study of both race and gender is a key pivotal point in establishing, developing and advancing educational programs and government policies to enhance that status.

As for the first hypothesis proposed in this study that black women owner-operator entrepreneurs will exhibit a significant difference in managerial competencies when compared to black businesswomen corporate executives or managers, the results are clear. Overall, entrepreneurs hold those components of leadership relatively more important which are "focused-in" and "focused-on" task performance. There were significant differences in concern for profit management and control and monitoring skills. Therefore, the first hypothesis was well supported.

The second hypothesis proposed that black women owner-operator entrepreneurs will exhibit a significant difference when compared to black businesswomen corporate executives or managers, in the perceptions of "need for improvement" as evaluated by their own self-assessments, their mentors, and "observers" selected at the peer and subordinate levels. The data provides some relative support for this view, but with mixed results. Entrepreneurs self-select employee coaching and development along with policy formulation and implementation skills as most critical. Yet, their mentors and observers identify customer and competitor analysis, as well as, a need for greater networking.

Black businesswomen corporate managers fared much better in their self-selections relative to mentors and observers. Their areas for improvement include resource blending, monitoring and control and the ever present problem of time management. Overall, therefore, the second hypothesis was supported, but not well supported.

Perhaps the greatest surprise, although not posed as an hypothesis, was an intuitive expectation that entrepreneurs will perceive Part I and Part II dimensions of significantly higher importance, as well as, developmentally needed, in concurrence with their advisors and observers, and that black corporate businesswomen managers will be highly task focused (Part II) and truly interested in human resource management issues (Part III).

Study results demonstrate that entrepreneurs, in a relative sense, regard Part I and Part II as most important competencies and areas of developmental need. Black women managers showed a strong concern for Part II and Part III skills and abilities. Thus, both groups exhibit minimal concern for "big picture", Part IV abilities. Those associated with organizational vision, mission and environmental co-alignment issues. While this might be easily explained for entrepreneurs, it may suggest that organizations place black women managers in highly visible, showcase type jobs without external job challenges or future mobility. Nevertheless, black women managers and entrepreneurs need to maintain more proactively in defining their own criteria of success. job challenges

In the final analysis, the findings and implications of this study must be evaluated within the context of its design and methodology. Although further specific entrepreneur case study research would reveal more micro-specific competencies and developmental needs, interesting observations and conclusions have been made in this study which should serve as a clear basis for further research.

Previous research, it seems, has produced only generalizations about black women entrepreneurs that serve to obscure differences in how they perceive themselves within the context of managerial competencies and especially the patterns of knowledge they regard as critical to their development. Only by continuing to study black women entrepreneurs' and black businesswomen corporate managers' experiences, can we afford a unique opportunity for understanding the effects and particular developmental needs associated with race and gender.

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(APPENDIX) LEADERSHIP COMPETENCY INVENTORY SELF-ASSESSMENT EXERCISE

Part I: The Socio-Economic Environment of Business Your knowledge and understanding about business, economic, social, organizational, and political conditions, and their impact on present and future business decision-making and performance.

1.01 MONETARY CONDITIONS -Understanding of cash flow, capital market conditions, interest rates, investments, and fiscal and monetary policies.

1.02 PROFIT MANAGEMENT -Understanding the time value of money relationship and its impact of return on capital, sales, profit margins, growth rates, return on assets/investments.

1.03 COST AND COST CONTROL -Knowledge of cost of materials, labor, facilities, commodities, and services.

1.04 BUSINESS CONDITIONS -Knowledgeable about business opportunities, growth potential, long-range forecasts, inflationary trends, and recession or growth expectations.

1.05 CUSTOMER/CLIENT AWARENESS -Sensitivity to and awareness of customers' needs, organization, systems, characteristics, climate, and personnel.

1.06 COMPETITION AWARENESS -Knowledge and understanding of competitive positions, strength, weaknesses, market share, potential, and trends.

1.07 IMPACT - Assessing the impact/influence of general business, economic, social, and political conditions on management of the internal organization.

1.08 ORGANIZATIONAL CULTURE -Understanding the organizational culture, values, standards, formal and informal norms, operating principles, stated and unstated values, folkways, and mythology.

1.09 INTERNAL STRUCTURE AND OPERATION - Understanding of both formal and informal structure and systems within the organization. Knows formal and informal hierarchy, power bases and decision makers. Knows who to work with to get things done.

1.10 INTERNATIONAL AWARENESS -Understanding of other countries social, cultural, business and political conditions and the resulting influence and impact on management of the business. Ability to effectively communicate with international customers and contemporaries.

1.11 SOCIAL AND POLITICAL -Understanding and ability to assess the impact of external social and political conditions. Ability to interface with governmental and related agencies.

1.12 LEGAL REQUIREMENTS - Knowledge of legal requirements, guidelines, restrictions, laws, and contracts, and understanding of legal implication in management of material and human resources.

PART II: Technical and Operational Methods This category includes the traditional technical skills and business operational skills, most of which are based on classical management science concepts. The focus is on the ongoing, day-to-day, management function.

2.01 SITUATION ANALYSIS - Ability to: Identify issues, break issues into component parts, determine priorities, set goals, define appropriate action, and recognize alternatives.

2.02 PROBLEM ANALYSIS - Ability to define problems, analyze causes, determine corrective action, and implement solutions.

2.03 DECISION MAKING - Skill of establishing criteria, gathering and reviewing information, developing alternatives, assessing risks, choosing among alternatives and choosing optimum timing for decisions.

2.04 OBJECTIVE SETTING - Skill in determining short and long-range goals, targets, and end results. Stating objectives incorporating inputs from self, boss, subordinates, clients, customers, and others.

2.05 STRATEGIC PLANNING - (Long and Medium Range Orientation) Skill in developing strategies to accomplish organizational mission. Ability to understand and articulate organization mission and plan for optimum use of resources to accomplish mission.

2.06 TACTICAL PLANNING - (Short-Range Orientation) Skill in developing an implementation plan to meet objectives determining and sequencing activities, scheduling, seeking help, getting feedback, taking corrective or contingent action.

2.07 IMPLEMENTATION - Ability to program steps and move from plan to initiating action for accomplishment of mission and goals.

2.08 DELEGATION - Skill in appropriate sharing of authority accountability, responsibility, power and influence for meeting organizational and individual objectives.

2.09 TIME MANAGEMENT - Skill in allocation of individual and organizational time to meet individual and organizational goals.

2.10 BUDGET MANAGEMENT - Skill in establishing, negotiating, and controlling operating budget.

2.11 CONTROL AND MONITORING - Skill in effectively controlling material and human resources, projects and tasks, against plans using appropriate tools, techniques, and procedures to assess status and take required action.

2.12 PROPOSAL PREPARATION - Skill in preparing and documenting proposals, bids, grants, or recommendations for internal or external review and response.

2.13 ORGANIZING SYSTEMS AND STRUCTURES - Skill in establishing organizational structure, relationships, responsibilities, systems, procedures, and charters to meet organizational needs.

2.14 INFORMATION MANAGEMENT -Knowledge of and access to relevant management information. Use and understanding of communication systems, hardware and software systems, and applicable management information systems.

PART III: Human Resource and Interpersonal Communication Your effectiveness as a manager or small business owner-operator depends to a large degree on the undertaking of and responses to human behavior. This category includes competencies of an interpersonal nature, especially as they relate to instilling productive behaviors in the working environment.

3.01 MANAGING MOTIVATION - Knowledge and understanding of motivational drives of self and others. Ability to develop and maintain a motivated work group by appropriate management of rewards, recognition, coaching, participation, delegation, assignments, and developmental opportunities.

3.02 RESOLVING CONFLICTS - Skill in recognition, confrontation, and resolution of disputes, disagreements, differing opinions, conflict, and personality clashes at both the individual and group level.

3.03 EMPHATIC RESPONSE - Ability to maintain personal objectivity while providing understanding and sensitivity to others and enhancing others' self-esteem. Putting yourself in the other person's place.

3.04 EFFECTIVE LISTENING - Skill in accurately hearing what others are saying and providing others with verbal and non-verbal clues that they are being heard. Receptiveness to inputs and feedback from others.

3.05 INFLUENCING - Effectiveness in influencing the behavior and receptiveness of others, including subordinates, peers, superiors, clients, and customers.

3.06 EFFECTIVE PRESENTATION -Ability to present ideas to others clearly and persuasively.

3.07 PERSONNEL/STAFFING - Skill in recruitment, interviewing, selection, and placement of personnel.

3.08 COMPENSATION - Knowledge of compensation practices and internal and external rates and levels.

3.09 PERFORMANCE MANAGEMENT - Skill in evaluating performance against job expectations; identifying motivational and skill strengths and deficiencies; providing ongoing informal and periodic formal feedback on consequence of both good and poor performance.

3.10 DEVELOPING/COACHING - Skill in providing direction and feedback, advice, training, job opportunity, and relational interfaces to develop employees for proficiency in current assignment and potential future roles in the organization.

3.11 STRESS MANAGEMENT -Understanding the nature of stress and stressors. Skill in managing the environment and use of coping techniques to maintain stress level of self and employees at a production level.

3.12 INFORMATION SHARING - Skill in maintaining environment of open communication to, from, and within work unit. Ability to develop climate of two-way communication about work status, goals, and visions of the future.

3.13 DIFFERENTIATING INDIVIDUALS -Ability to recognize, respect, and respond to the individuality and uniqueness of each employee. Ability to recognize and reward contributions on an individual basis, ability to maximize potential of each. Recognizing and taking effective action with problem performers.

3.14 GROUP PROCESS SKILLS - Ability to recognize and act on task and interpersonal dynamics that occur in group situations.

PART IV: Vision and Environmental Co-Alignment Scanning Seeing the "big picture." Ability to integrate hard and soft information, to orchestrate human and material resources, to utilize rational and intuitive perceptions, to respond to organizational and individual needs, and to know when to act and when to defer action.

4.01 NETWORKING - Ability to develop and reciprocate in a network of relationships which provides information, technical expertise, political insights, etc.

4.02 INFORMATION GATHERING -Develops many and varied sources and ways of gaining needed information and has ability to integrate varied and conflicting information.

4.03 RESOURCE BLENDING - Skill in integrating group and individual competencies, motivation, experience, tasks and responsibility to provide individual and team effectiveness.

4.04 ORGANIZATIONAL BLENDING -Understands total organizational system, structure, and dynamics and effectively blends his/her work unit and its output into total.

4.05 SENSE OF TIMING - Skill in integrating a variety of information, issues, and opinions to sense potential for

problems and may take preventative action before problem becomes acute.

4.06 PROBLEM PERCEPTION - Skill in integrating a variety of information, issues, and opinions to sense potential for problems and may take preventative action before problem becomes acute.

4.07 PROBLEM SOLVING - Ability to solve problems by focusing in on specific issues and information and also by finding relationships between remote but related events and data.

4.08 LATERAL COMMUNICATION - Ability to effectively communicate across the organization and beyond to achieve cooperation, coordination, collaboration, negotiation, and problem solving.

4.09 VERTICAL COMMUNICATION -Ability to communicate plans, accomplishments, requirements, and recommendations, both up and down the organization.

4.10 MANAGING CREATIVITY -Understanding specific needs of creative people. Setting the proper climate for creativity to emerge. Arousing the creative urge in others and fostering innovation.

4.11 ENTREPRENEURSHIP - Ability to create alternatives, perceive/accept and exploit new ideas, redirect resources, establish new directions, seek extraordinary results.

4.12 RISK TAKING - Skill in defining parameters of acceptable risk taking, encouraging and supporting risk taking in others, and practicing individual risk taking. May involve operating in an environment of uncertainty and ambiguity.

4.13 MANAGING CHANGE - Ability to assess current state, determine desirable future state, articulate the desired, overcome resistance, shape the political system to support the change, and provide management of the transition from the current to the desired state.

4.14 POLICY FORMULATION/IMPLEMENTATION -Ability to know, interpret, implement, establish or modify company policies.

4.15 ENVIRONMENTAL SCANNING -Ability to analyze current and potential change in specific segments in order to better understand the change and its implications for strategic decision making.

BASIC SKILLS DEFICIENCIES AT WORK: PERCEPTIONS OF SMALL AND LARGE EMPLOYERS

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ABSTRACT

American business is faced with major problems due to the decline in basic work skills. Yet, many employers continue to ignore the threat of a proficiency gap in the workforce. This paper addresses the importance of basic work skills to business, especially small business. It also presents the results of a study comparing how small and large employers are screening for and dealing with workers who lack basic skills.

INTRODUCTION

Basic work skills have been the subject of much attention in the United States during the last few years. "Eye-opening" publications like Jonathan Kozol's Illiterate America (14), the Hudson Institute's Workforce 2000 (13), the United States Department of Labor's and the American Society for Training and Development's Workplace Basics: Skills Employers Want (6), and the U. S. Bureau of Labor's statistical reports, as well as studies from various private sector organizations, have focused attention on the issue.

American employers are fortunate that a majority of workers are literate (i.e., they can read, write, and compute at higher skill levels). However, there are millions who cannot use these skills effectively (i.e., they cannot read, write, or think well enough to meet challenging job requirements). According to the Business Council for Effective Literacy (BCEL) (4), 23 million or 20 percent of American workers read at no better than an eighth-grade level. Yet, most of the reading material in the workplace is geared toward at least a ninth-grade comprehension level.

Today's workplace demands more than competency in the three R's. Employers want a new kind of employee with a broad set of skills, or at least a strong foundation in the basics, in order to facilitate learning on the job (7). Deficiencies in many of the basic skills are barriers to entry-level employees, experienced employees, and dislocated workers attempting to adapt to economic and technological change within organizations (7).

CONCERNS FOR BUSINESS

Business needs to be aware that deficient workplace skills contribute to low productivity, workplace accidents, poor product quality, costly errors, and lost management and supervisory time (4;12). It is estimated that illiteracy costs American businesses $20 billion every year due to absenteeism, workplace accidents, lost profits, lowered productivity, reduced competitiveness, increased remedial training, lost customers, and reduced customer spending (20). Additionally, BCEL believes adult illiteracy costs American business and taxpayers $225 billion annually in lost wages, profits, unrealized tax revenues, prisons, crime, and related social ills (10;18).

For the first time in American history, employers face a proficiency gap in the workforce so great that it threatens the well-being of organizations both large and small. The smaller the business, the more important basic skills proficiency becomes.

Small businesses hire the majority of younger, older, minority, and female employees, groups that will continue to expand in the future. If present trends prevail, disproportionate numbers of these workers will lack the skills needed to do the job properly, which will have a disproportionate impact on small businesses.

It appears that there will be intense competition for experienced and technically competent workers. Larger firms, typically with more financial resources, will be in a position to outbid smaller firms. Offering relatively lower salaries and less extensive benefits coverage than their larger counterparts, small businesses will be scrambling to compete in a tight market where qualified labor is at a premium (3).

Workers hired by small firms typically have less formal education than those working for larger companies. According to Jules H. Lichtenstein, chief of the applied policy branch of the United States Small Business Administration, small

firms are more likely than large firms to hire and have to train functional illiterates (27). One study commissioned by the Department of Labor found that in firms with fewer than 500 employees, almost four percent of workers ages 20 to 25 had no more than an eighth-grade education. In large firms, however, employees in the same bracket and with that level of education accounted for under one percent of the workforce (27).

When skills deficiencies affect the bottom line, employers respond with training or replacement. But, replacement is becoming less practical since the supply of workers is shrinking. Employers are forced to utilize training to make employees more productive instead of simply hiring productive employees. As a result, there is increasing interest in providing training in basic work skills.

JUSTIFICATION FOR RESEARCH

A study of efforts in basic skills training by small business is needed as evidenced by a review of the literature. To date, research has focused on the changing nature of the workforce and projecting the future impact of illiteracy on the workplace (14;13;2;1;24;29). A significant amount of attention has been given to basic skills education programs in large businesses (employing more than 500 persons) (22;9;3;6;11;30;16;17;27;15;19;8;28). Relatively little attention, other than one major research project (cited by Carlson (5)) and a few individual case studies (23;27;19;25;5), has been given to small businesses.

The research in the area of basic skills and the effect on the workplace has been entirely descriptive. However, it has failed to address an important issue: does the size of the organization influence perceptions of applicant/ employee basic skills deficiencies, employment procedures, or training programs? This study was designed to address these issues.

RESEARCH METHODOLOGY

The sample for the study was drawn from Texas businesses listed in Million Dollar Directory. To operationalize large versus small businesses, a cutoff point of 500 employees, as identified by the United States Small Business Administration (SBA), was utilized. The SBA defines a small business as one with fewer than 500 employees or fewer than 100 employees, depending on its purpose (26). Since a diversity of industries were represented in the sample, it was determined that the cutoff of 500 employees was more appropriate.

The data were collected through the use of a mail questionnaire. A pilot study was conducted in a rural Texas county. Based on the responses and review of other research efforts, the final questionnaire was developed.

Questionnaires were mailed to the personnel/human resource director in 900 businesses (450 small and 450 large). The overall response rate from the mailing was 40.67 percent (366 responses). Of these, 228 (62.3 percent) represented small businesses (less than 500 employees), while 138 (37.7 percent) represented large businesses (500 or more employees). Within the group of small businesses, 100 (27.3 percent of total respondents) have less than 100 employees, 87 (23.8 percent of total respondents) have 100 to 299 employees, and 41 (11.2 percent of total respondents) have 300 to 499 employees. Of the large businesses responding, 54 (14.8 percent of total respondents) have between 500 and 999 employees, 30 (8.2 percent of total respondents) have from 1,000 to 1,499 employees, and 54 (14.8 percent of total respondents) have more than 1500 employees. The responding companies represent a diversity of types of businesses.

RESEARCH FINDINGS

The following findings describe perceptions of small and large employers to basic skills deficiency. Specific emphasis is given to employment procedures (particularly screening efforts) and training programs.

Basic Skills Deficiencies

Small business respondents (110 or 48.2 percent) indicated that "verbal communications skills" were the number one deficiency of job applicants. On the other hand, large businesses (79 or 57.2 percent) noted that "writing skills" were most often lacking in applicants. Significant differences existed between the responses of small and large businesses in regard to writing, job specific, and reading skills of applicants (see Table 1).

Although no significant differences appeared relative to current employee deficiencies, small employers (93 or 40.8 percent) reported "computer skills" as most lacking. Again, large employers (65 or 47.1 percent) noted "writing skills" as most lacking (refer to Table 1).

Screening Mechanisms

Two hundred twenty (96.5 percent) of the small businesses reported using an application form for screening purposes. Yet, only 103 (46.8 percent) indicated they required applicants to complete the forms in their facility. On the other side, 137 (99.3 percent) of the large businesses responding use an application form. Seventy-four (53.6 percent) require application forms to be completed in the facility. Therefore, large businesses are more likely to use an application form than small businesses (Chi-square 6.56, p value < .05).

Respondents were also asked how they verify educational requirements. Both small (134 or 58.8 percent) and large (69 or 50.0 percent) businesses reported that verification was most often done "during the interview." Still, seventy-one small employers (31.1 percent) and 48 large employers (34.8 percent) stated they "do not verify" educational requirements. Significantly, large businesses (20 or 14.5 percent) are more likely to require a copy of a diploma for verification of education requirements than their smaller counterparts (18 or 7.9 percent; Chi-Square 6.55, p value < .05).

Positions Available

Ninety-six (42.1 percent) small businesses and 49 (35.5 percent) large businesses responded there are "no positions available in the organization for individuals who lack basic skills." Thus, 128 (56.1 percent) small employers (four did not respond) and 87 (63.0 percent) large employers (2 did not answer the question) indicated that their organizations might have positions available for individuals deficient in basic skills.

Why would you employ persons who lack basic skills? Interestingly, 91 (39.9 percent) small employers and 42 (30.4 percent) large employers said they "would not employ persons who lack basic skills." Therefore, it appears that 128 (56.1 percent) small employers (9 did not answer the question) and 91 (65.9 percent) large employers (5 did not respond) might employ persons who lack basic skills. Of these, both small (91 or 39.9 percent) and large (69 or 50.0 percent) businesses cited "skills not needed for job" as the primary reason for employing those who lack basic skills.

Training Programs

Eighty-six small businesses (37.7 percent) offer basic skills training. On the other side, 67 (48.6 percent) of the large businesses reported they offer basic skills training. The resulting Chi-square statistic was 4.15 (p value < .05). Thus, large businesses appear to offer basic skills training more than small businesses.

The methods used for basic skills training were then addressed (refer to Table 2). Specifically, respondents were asked what sources are used to develop and implement basic skills training programs.

Monetary Support for Training

One hundred eleven (48.7 percent) small employers and 93 (67.4 percent) large employers offer tuition assistance for training purposes (Chi-square 12.86, p value < .01). Thus, large employers are more likely to offer tuition assistance for training purposes. Of the 111 small businesses offering tuition assistance, 48 (43.2 percent) cover remedial or basic skills training. On the other side, 51 (54.8 percent) of the 93 large employers cover remedial or basic skills training.

Fifty-four (23.7 percent) small businesses and 51 (37.0 percent) large businesses provide overtime pay or other monetary support (like regular pay) for training purposes (Chi-square 8.36, p value < .05). So, large businesses are more likely than small businesses to provide monetary support (i.e., overtime or regular pay) for training purposes. Seventeen (31.5 percent) of the 54 small employers and 25 (49.0 percent) of the 51 large employers provide such support for remedial or basic skills training. Finally, 56 (24.6 percent) of the small employers reported they work with public programs such as publicly subsidized, on-the-job training, welfare department sponsored classroom training, the Job Training Partnership Act, etc. At the same time, 64 (46.4 percent) of the large businesses indicated involvement with such programs. The Chi-square statistic was 18.95 (p value < .01). Ultimately, large employers are more likely to

work with public programs than small employers.

CONCLUDING REMARKS

While it does require extra effort for businesses, especially smaller firms, to set up basic skills training programs, the positive results are numerous. According to Jerome Carlson, co-founder and co-owner of United Mailing, Incorporated, an organization in Chanhussen, Minnesota, that has been participating in a workplace literacy program, "Small firms become known in their communities as employers who not only represent potential employment, but who also offer training opportunities. The result is that more employees want to work for you" (27).

Forrest Chisman, project director of the Southport Institute for Policy Analysis, states in a 1989 study, "There is no way in which the United States can maintain the health of its economy, fend off the competition, improve productivity, and in general, maintain its standard of living unless we substantially increase the skills of the workforce" (21). Improving basic skills is a challenge to the school system, government, and business to ensure that America's businesses continue to be a source of competitive strength.

How can smaller employers assist in improving basic skills? First, smaller firms can increase attention to the importance of a literate small business workforce in a competitive economy. Second, smaller employers can improve the understanding of basic skills concerns by becoming more involved in local school systems. This can include encouraging business-education basic skills partnerships. Third, smaller businesses should identify existing local and state adult literacy resources they can utilize. Also, successful basic skills programs in other smaller organizations should be identified. Ultimately, small employers must work to improve public education to prevent future adult illiteracy.

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TABLE 1 BASIC SKILLS JOB APPLICANTS AND CURRENT EMPLOYEES LACK

Skills Small Businesses Large Businesses n=228 n=138 JOB CURRENT JOB CURRENT APPLICANTS EMPLOYEES APPLICANTS EMPLOYEES

No. % No. % No. % No. %

Verbal Communication 110 48.2% 85 37.3 63 45.6 49 35.5 Computer 106 46.5 93 40.8 69 50.0 51 37.0 Writing 97 42.5* 85 37.3 79 57.2* 65 47.1 Job Specific 86 37.7* 51 22.4 70 50.7* 35 25.4 Math 85 37.3 58 25.4 59 42.8 31 22.5 Word Processing75 32.9 58 25.4 50 36.2 32 23.2 Reading 65 28.5* 43 18.9 56 40.6* 31 22.5 None 9 3.9 22 9.6 3 2.2 16 11.6

Others:

Interpersonal 0 0.0 2 0.9 0 0.0 2 1.4 Work Ethic 1 0.4 0 0.0 1 0.7 1 0.7 Cross Training 0 0.0 1 0.4 0 0.0 1 0.7 Safety

Skills 1 0.4 0 0.0 1 0.7 0 0.0 Do Not Know 3 1.3 0 0.0 0 0.0 0 0.0

* Chi-square p < .05

TABLE 2 METHODS UTILIZED FOR BASIC SKILLS TRAINING

Method Small Businesses Large Businesses n=86 n=67

Number % Number % In-House Staff 67 77.9 62 92.5+ Outside Consultants 24 27.9 30 44.8* Community Colleges/ Universities 33 38.4 30 44.8 Partnerships 8 9.3 18 26.9+ Community Education 8 9.3 9 13.4 Trade Schools 18 20.9 12 17.9 Volunteer Tutors 3 3.5 3 4.5 Computers/Videos 32 37.2 26 38.8 Traditional Classroom 14 16.3 18 26.9

* Chi-square p < .05 + Chi-square p < .01

"REAL RICHES" TO GIRLTOWN

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ABSTRACT

"Real Riches" is an investigation into Girltown Corp., a family- owned enterprise, at a time when the owners are contemplating an initial public offering (IPO). The organization is also chal- lenged to integrate new family members who bring a variety of ca- pabilities into this specialized business. The situation serves as a vehicle to examine financial and personal values for a company in the transition from public to private life, as well as to evaluate the impact of the absence of longterm strategic plans. The case can be used most effectively in entrepreneurship courses when students evaluate the question of how to deal with a growing business.

TEXT OF CASE

April 8, 1991

Buzz, buzz, buzz ... Leo Marcus picked up his car phone. On the other end was Maurey Rosen, his partner of twelve years and his friend and brother-in-law of over thirty years. Leo was cruising up Morrissey Boulevard just south of Boston on his way to the Girltown plant (see Appendix). As he bent his head to adjust the receiver, lo and behold, in the left lane was Maurey in his brand new Allante purring along side of him.

Maurey, oblivious to the car next to him, spoke into his phone, "Leo, I was just thinking, what are we going to do about the parking situation? I know you told your son-in-law that he would get one of the prize spaces right near the entrance, but I'm worried that we are opening some major potholes here! Sure, we bring in this bright, super-star MBA, but before he puts in one day's work, a prime parking spot is his."

"Good morning, neighbor," interrupted Leo. "Why don't we discuss this when we get into the office? I have a lot on my mind; the attorneys called me at home last night." Just at that moment, Maurey realized that the car right next to him belonged to Leo. They both chuckled as they simultaneously turned into the main entrance.

Leo and Maurey walked into the plant through the lobby, past the

main switchboard, to the executive office area. One could really tell a lot about these two gentlemen by the completely opposite ways in which they maintained structurally identical offices. Maurey was "Mr. Fashion," completely into design and decor. His office was Victorian with very dramatic features. The walls were covered with many original paintings and prints. He operated out of a huge rolltop desk with a pink designer print chair. Maurey had an eye for what's "in"; he'd always been on the leading edge of the latest trends.

Leo's office, on the other hand, looked like it could be featured on the cover of Field and Stream or on the L.L. Bean Catalog. It had a very business-like den feeling to it, with lots of wood and cork. Above a very elegant deep maroon leather couch was a gigantic silvery stuffed tarpon--the king of all game fish! Leo had caught it himself on his last Florida-coast fishing trip.

As they laid down their briefcases, Leo ordered coffee from the plant kitchen. Not normally a heavy coffee drinker, he felt an early fatigue, partly because he had been tossing and turning all night contemplating the many different angles of the Girltown po- tential public offering. "Make it two pots of coffee, Gloria, I think we'll all be needing heavy doses of caffeine this morning."

Meanwhile, near the main switchboard desk, Larry Hall, Leo's son- in-law and assistant to the president, ran into Carl Packer, of Packer & Sons, a small outside accounting firm located in Boston. Carl was a nephew of both Maurey and Leo. He was on his way up to the front office area to review some payroll changes, while Larry was going in the opposite direction heading to Logan Airport.

"Hi Larry, how does it feel to be in the 'rag' business?"

"Hectic, but listen I've been meaning to call you...."

"You mean about Uncle Maurey's fifty-fifth surprise birthday party? We did a fantastic job on Leo's; this will be a piece of cake."

"Well, not exactly that, but you're right, we need to plan that too! What I want to discuss is your role if we take Girltown public. As you know, I've been dealing with L.F. Rothchild, our investment bankers, and they feel very strongly that when we go public, we should align ourselves with a national accounting firm, you know, one of the 'Big Six.' To put it bluntly, they want us to drop our long-term relationship with Packer & Sons and to hire Deloitte & Touche. Basically, Rothchild feels more comfortable with a national name which would bring in more institutional interest. This would lead to an increase in the selling price, which in turn will mean more dollars for the company and all the current stockholders."

"Larry, you have got to be kidding me! You're trying to turn

this company into a Fortune 500 firm! You'll never get the personalized service you get from us now! You'll be just another account on their customer list! You're totally crazed by this initial public offering scene. You're even starting to look like Michael Douglas in the movie, Wall Street! I've been watching Leo and Murray; they're overworked and nearly stressed out over this IPO. This whole thing requires so much of their time; time that is being diverted from the effort required to run this business! And for what? For the loss of our independence and flexibility! The whole thing could end up as an exercise in frustration! And besides Larry, you know, it's harder to communicate with the public than it is with our own families. If some institutional investors buy in, we could anticipate some real trouble."

"Carl, Carl, wait a second! You're taking this way out of pro- portion. Sure, there will be complications, but believe me, there is a lot of opportunity in this for all of us. You have to realize, Girltown is not going to stay the same size that it is today. We're growing; there are so many extras that a stock offering can provide. We have a great product line, and the market is active and it's e-x-x-panding! Making preparations for going public should be part of our long-term business plan. It's a chance to line up some real topnotch business people as board members. We're ready; we have the right kind of management, which incidentally, you would be part of. Look, I've got to run now; the shuttle's not going to wait for me. I'll call you from the Big Apple."

Discussion surrounding the initial GT public offering seemed endless. A multitude of complexities were consistently swirling about. In a family business, a variety of pros and cons go along with the transformation into a publicly held structure. The most recent conversations centered around the use of fresh capital from the stock sale.

Leo's Office, 11:00 a.m.

"A new warehouse would allow for fast turnaround, more accurate inventory records, and better coordination with the cutting rooms," said Leo.

Maurey, who was standing, staring out the window behind Leo's desk said, "Why couldn't we dedicate that money towards product development .... You know that's the key to the fashion business .... we could attract more creative types, top designers who would keep us on the leading edge."

Leo immediately reacted. "Maurey, Maurey, don't worry, if this deal goes through, the company will have enough to do both and more. And, don't forget, a successful stock offering will mean significant financial rewards for both of us."

Suddenly, there was a firm knock on Leo's door. At first he thought it was Gloria with the coffee; but just as that went through his mind, he realized it was too aggressive a sound for Gloria--in burst Walter Ress, the Vice President of Merchandising. Walter Ress walked and talked very fast. An unusual looking man, always in a top-of-the-line designer suit, he had that chic, very tailored European look that most women would swoon over (and Walter loved it when they did!).

Maurey looked up at Walter and said, "Hey, Walt, that's a very special outfit you've got on; think we could add it to our line somewhere?"

Walter laughed rapidly and said "Maurey, I got your message that you wanted to see me as soon as I got in. Something about a meeting on the public offering?"

Walter Ress was the only non-family member of the Girltown Corporation senior management team. He wondered how the public offering would affect him personally. He didn't exactly like the fact that suddenly his salary would become public knowledge, and he also had become concerned about his fat stock position.

Gloria came into the office. "Mr. "M" (Leo), Sid Lewis is on the phone. Would you like to pick up or should I take a message?"

"Great timing," said Leo, "Put his call through....Sid, hold it I'm going to put you on the speaker phone. I've got Maurey and Walter in here, and we are all discussing the IPO."

Sid, in his mid-thirties was another of Maurey's cousins. With his boyish appealing style and multi-connections in the apparel industry, Sid had become a valuable asset. Held learned it all on his own, no college, just plain old street smarts. Sid was calling from the Girltown New York headquarters where he was in charge of sales. He had previously expressed concern that the family feeling would soon disappear if the corporation were to go public. He felt that this company was made to be a family-run operation. Leo had tried to assure him that the benefits would help him to put his financial house in order. Leo also pointed out that the extra working capital would "grow the business" and provide new opportunities and challenges for Sid at Girltown. Sid, however, remained skeptical.

Maurey, who at this particular moment had jumped on the "take-it- public" bandwagon, or perhaps was just playing devil's advocate to see how Sid would react, said, "Sid, if the sale of our stock should go through, we could launch a swimwear division, your all-time favorite suggestion! What a way to diversify the company .... With the extra capital it could be possible! "

Leo immediately dove into the conversation. "Who-o-o-a, ho-o-o-ld it! Slow down here a second! Swim suits are hot, all right, they're a great item, but we don't have the required

expertise. We just don't have that particular know-how. And what about the crazy downtime cycle that goes along with a swimwear line? How would we deal with that?"

As Leo's questions rang through the air, Gloria's voice franti- cally came across the intercom and said, "Mr. 'M', Norm Alperin wants you in the cutting room; he says that the purple passion plaid fabric is the wrong shade; it's way off! He needs you down there immediately!"

Leo, quietly, practically under his breath, said, "Just another demonstration of why it's so very difficult to take a company public and still run the business as usual!"

"Look, I have to get down to the plant. I want everyone to get together at six o'clock to continue this discussion. Sid, we'll call you back then, take care. Walter, I would really appreciate it if you could take a later plane back to New York tonight or even make plans to spend the night in Boston. I'm sorry but I've got to get down to the cutting room now."

6:00 p.m., Back in Leo's Office

This time, Leo and Maurey were joined not only by Sid (via phone) and Walter, but also by George Hildebrandt, Frank Lewis, and Bob Marshall. Hildebrandt, Maurey's son-in-law and the data processing expert at Girltown, was considered to be quietly competent but rarely would one see him crack a smile.

He had been described as somewhat unimaginative and colorless. Frank, Maurey's cousin and Sid's older brother, was the head of production. A Harvard graduate, he was also known to be very hardworking and sharp witted, but unfortunately, also known as an unsophisticated people person. Bob Marshall, in charge of off-price and private label sales, was Maurey's other son-in-law. Bob had spent a good deal of time developing a strong relationship with J.C. Dime, a giant apparel chain. This relationship was just beginning to become big business for Girltown. Bob's efforts and diligent work were finally starting to pay off in a major way. Business situations like the J.C. Dime relationship meant greater volume, but at reduced profit margin. This worried Marshall; because if Girltown were to be a publicly

held corporation, his neck could be on the line if the gross margins became distorted. They would have to be ultra cautious with the proportion of total business dedicated to the likes of J.C. Dime.

As the evening's discussion continued, Frank blatantly inter- rupted the conversation with one of his famous wisecracks (a common practice). With a smirk as wide as a yardstick, he asked, "Who's going to run the annual meetings? Whoever it is, I promise to buy them a diamond studded gavel as well as the latest edition of Robert's Rules of Order." His remark, of course, was directed

at Maurey and Leo.

Maurey interrupted Frank's enthusiastic banter and got the conversation back on track by asking, "Do you think that any of our competitors could be at these meetings? How are we going to answer their questions?"

Leo looked at his watch and then out the window. It was already seven thirty, pitch dark out with the typical New England wintry night settling in. "Where had the day gone?" he thought to himself. He still had to meet with one of the union agents later that evening in downtown Boston on Kneeland Street. -Look, there are so many issues being batted back and forth here that I need all of you to develop a list of your concerns about this potential initial offering and get it to me this Friday."

The Next Morning

Leo was sitting at his desk, reviewing some piece-work and labor rates from his union meeting the night before. The phone rang; it was his son-in-law Larry.

"Hi Dad, how are you? I'm at L.F. Rothchild's office. Are you with Uncle Maurey?"

"Yes, he's right here." Leo put down the phone and called, "Maurey, can you come in here? It's Larry; he's with the invest- ment bankers! Go ahead Larry; I've got you on the speaker phone."

"Okay, listen, I'm showing these people some of my spreadsheets, the ones with percentage fees of similar new offerings and dis- cussing possible stock options and director positions with them. As a result, it looks like they might be willing to reduce their fees on the common stock offering, but only if we act immediately on the current window of opportunity. What do you want me to tell them?"

APPENDIX 1 GIRLTOWN HISTORY

Girltown Corporation was founded in 1976 and since that time has grown to become one of the leading producers of girls' (ages three to twenty) fashion sportswear.

Girltown Corporation's success has been built on three pillars: 1) the ability to anticipate with consistent success those fashion trends which will have appeal in the markets served by the company; 2) the ability to design quality products which incorporate these styles; and 3) the ability to keep costs in line so that these products may be offered at a reasonable price.

The company's products are sold under the brand names "Girltown," "Gingertree," "Great Things," and "Whistlestop" to more than six thousand retail accounts across the country. These accounts are the leading department and specialty stores in the United States and include most of the outstanding names in the retail trade. Girltown Corporation maintains showrooms and sales offices in New York, Dallas, Chicago, Atlanta, Los Angeles, and San Francisco. Sales are made directly to the company's customers through com- missioned road salesmen, each of whom travels an exclusive geo- graphic territory.

The company manufactures pants, skirts, shirts, sweaters, and al- most any sportswear idea currently in fashion. This apparel is designed to be worn as separate items and also as color coordinated ensembles. The major portion of the lines are sold at retail prices averaging $25-$45.

The garments are produced and sold on the basis of major selling periods with extra presentations filling any seasonal

gaps. (These periods overlap as selling commences on the new line while shipments continue on the previous numbers.):

Traditional Sportswear * Fall (School): 3/15 to 9/15 * Holiday: 7/15 to 12/15 * Spring: 10/15 to 3/15 * Summer: 1/1 to 5/15

Most of the production is against orders which are usually received from customers in the early part of each manufacturing season. Inventory is also made to cover estimated incoming sales and to provide improved service to customers. At the end of each selling season, unsold merchandise is disposed of at reduced prices.

The fabrics purchased by the company consist principally of piece goods from major textile mills in the United States. Most of the material is made and colored especially for Girltown. There are minimal outstanding long-term commitments for the purchase of raw materials or supplies.

The company's cutting, warehousing, and distribution activities are conducted at its own plant in Boston. Some manufacturing is completed at company owned factories in the Fall River area of southern Massachusetts. To meet customer requirements during heavy demand periods, arrangements are made with contracting plants for the balance (approximately 80%) of the necessary stitching requirements.

1 Additional appendices, including financial data, are available with the full case packet.

THE QUIET REVOLUTION: ACCOUNTING MADE EASY

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ABSTRACT

Recent innovations in "low end" accounting software make up a quiet revolution. Ease of use is now a reality. The new software can overcome bookkeeping phobia and benefit thousands of very small businesses. This is revolutionary. However, the real revolution is that accounting is made easy.

Advertisers stress the new software "organizes all your finances painlessly." The small business person will focus on the word "painlessly." Financial advisors will read the entire slogan. They will recognize that the new software provides good data and reporting. These new packages will allow very small businesses to deal easily with strategic issues. Many will do so for the first time. This is the quiet revolution.

This article discusses recent innovations in accounting software. First, it explains their advantages for small business owners. Next, it explains their advantages for those who advise small business on financial matters. It then discusses how improved data and reporting allow very small businesses to deal with strategic issues. Key points are illustrated by reference to software packages on the bestseller list of "low end" accounting or personal finance programs.

INTRODUCTION

Recent innovations in "low end" accounting software make up a quiet revolution. Ease of use is now a reality. The new software can overcome bookkeeping phobia and benefit thousands of very small businesses. This is revolutionary. However, the real revolution is that accounting is made easy.

Advertisers stress the new software "organizes all your finances painlessly." The small business person will focus on the word "painlessly." Financial advisors will read the entire slogan. They will recognize that the new software provides good data and reporting. These new packages will allow very small businesses to deal easily with strategic issues. Many will do so for the first time. This is the quiet revolution.

This article discusses recent innovations in accounting software. First, it explains their advantages for small business owners. Next, it explains their advantages for those who advise small business on financial matters. It then discusses how improved data and reporting allow very small businesses to deal with strategic issues. Key points are illustrated by reference to software packages on the bestseller list of "low end" accounting or personal finance programs.

ADVANTAGES FOR OWNERS

Certain innovative features of "low end" accounting software are attractive to owners of very small businesses. (1; 3; 5; 6; 8; 10; 13) These features include:

Ease of use Custom reporting of sales and expenses Custom analysis of sales and expenses Budgeting The ability to set up recurring entries The capability to identify a general ledger account as a part of each vendor or customer record the ability to add vendors or customers on the fly Defining accounting periods to suit your business Easy tracking of expenses and revenues by department or job Bank, credit card, and cash account reconciliation Automatic posting. (18)

These and many other features, like the ability to track and consolidate both personal and business finances, serve the small business owner well. They make it easy for the owner's accounting methods to score high on the relevance and reliability characteristics suggested by the Financial Accounting Standards Board's Statement of Financial Accounting Concepts No. 2. "Qualitative Characteristics of Accounting Information." Specifically, they help the owner achieve predictive value, feedback value, timeliness, comparability (including consistency), verifiability, representational faithfulness, and neutrality. (16, pp. 6162). They help the owner improve the "decision usefulness" of accounting information.

If you are an accountant or financial advisor, you will be potential problems with some of these features. They do not fit traditional accounting paradigms. However, the nature of very small businesses and a few simple procedural safeguards will prevent these potential problems from becoming real problems in practice. Clearly, "accounting made easy" by using the new software is a dramatic improvement over manual accounting systems now used by owners of very small businesses.

Further, the software offers many advantages for those who are in the business of advising small business owners on financial matters. The new software can overcome the traditional conflict between the owner and the advisor. On the one hand, it can provide the owner with "practical," timely information. on the other hand, it can satisfy the advisor's desire to have the owner consider characteristics important to financial statement preparation. Both people can focus more on strategy. This ability to refocus is a major part of the quiet revolution.

Here are the advantages to owners of small businesses:

1. User friendly. The first advantage of the new software is that it is user friendly. For example Quicken 5.0 by Intuit (list price $69.95 for the DOS version) uses laymen's language. The word "accounts" is reserved for bank accounts. Instead of posting expenses to accounts, the user puts them in categories and classes.

User friendly goes beyond vocabulary. Screen formats are designed to look like a manual accounting system. The check register looks like a manual check register. Even the check writer screen looks like a check. No instructions are required to fill out a check.

Another user friendly feature is speed. For example, even on a low power DOS machine, Quicken 5.0 bookkeeping is faster than manual bookkeeping. You can record income and pays bills faster than you can use a manual, one-write system. Quicken 5.0 memorizes repetitive transactions. It updates balances instantly. Math errors are eliminated. The program shows how much you have in each account at a glance. Further it finds any transaction, from any point in history, in seconds, reconciles bank statements in minutes, and updates all financial records instantly when you make changes.

2. Forgiving. The new software forgives errors. If you misclassify an entry or make an error (name, entry, date, and so on), you can go back and change any portion of the original input. This is a great advantage to the small business owner. When the original entry is changed, the database is automatically updated. You don't have many, locked-in original entries and subsequent correcting entries on the books. This is much more logical and much less confusing for the owner of a very small business.

Forgiveness is a good example of a feature that violates traditional accounting paradigms. It is a real advantage to the owner of a very small business. However, it is a potential problem from an accountant's point of view. In a larger business where accounting entries are delegated, the owner could lose control over accounting entries. File and transaction security is nonexistent. Verifiability and comparability (including consistency) could be lost. However, for the very small business this need not be a problem. If the owner is the only one using the computer, simple instructions from the owner's financial advisor will be sufficient to achieve good results. The versatility of the forgiveness feature clearly outweighs security concerns in such circumstances.

3. Flexibility. Financial statements can be easily tailored. For example the owner can print an income statement, a cash flow statement, or both. Statements can be summarized or detailed. They can be departmentalized or " filtered" to focus the owner's attention on the profitability of particular enterprises, departments, jobs, or product categories. The owner can use separate files to prepare budgets for individual projects, jobs, products or departments. This data can be manually inputed into a company budget screen to compile a company budget. The owner can easily create new categories and budgets. It is simple to update the company cash flow forecast.

Report formats can be customized on the computer screen and saved as templates for future use. This feature is very powerful. For example, a custom report may be used as an estimate sheet by a job shop. When preparing a bid, the estimate sheet template is first copied to a new file and given a job name. "Budget" data is then entered. If the bid is accepted, the job can be tracked in the separate file. At appropriate times up-to-date job information can be manually transferred into the company file to prepare financial reports. Alternatively, special asset and liability accounts can be used to track each job.

Another flexibility feature is the ability to customize reports by period. One can report results for any number of days, weeks, months or years. The owner defines the period of interest. The software does the rest. Continuing the job shop example from the previous paragraph, reports may be printed from job files daily. At the end of the accounting period, data may be manually transferred from job files into the company file to compile up-to-date financial statements.

Alternatively, for very small businesses, this can be done automatically (depending on the capability of the program). For example, when the owner uses Quicken 5.0 for cash basis accounting, the owner can classify income and expense accounts by job. For accrual basis accounting, special asset and liability accounts can be used in the company file to automatically track the jobs. "Filtered" reports can be made on jobs of interest.

Different reports accomplish different objectives. Some are used to run the business. Others are formal financial statements for banks and creditors. Still others provide data required by regulatory agencies like the IRS. The ability to customize reports in light of changing demands is a major advantage for the owner.

4. Classification. New low-end accounting software offers the business owner the opportunity to categorize each transaction, so the owner always knows where the company's money is going. With Quicken 5.0, for example, this classification scheme goes beyond posting. Transactions can be split among several classes of assets or customers. For example, different projects managed by a property manager can be a class, or different jobs done by a contractor. Each class can itself be classified. For example, if a particular customer has made repeated purchases, you can "QuickZoom" the total of receipts for that customer. This will show you the individual transactions that make up the total.

The new software's alpha/numeric search capabilities make classification easy. The owner can assign names to classifications that are easier to remember than account numbers. Partial entry of a name is sufficient to recover desired information. If the abbreviation first entered is ambiguous, a "pop-up" menu appears that lists similar account names. Many owners will find this feature important. They remember the names of their accounts, customers, and suppliers. They do not remember account, customer, and vendor numbers. When someone calls with a complaint or a billing dispute, a few keystrokes based on neumonics provide historical data.

5. Cash control. The new generation of accounting software has one other major advantage. It allows the owner to achieve cash control with less effort than formally required for maintaining a primitive set of manual books. Very small businesses can create the "decision useful" financial reports expected by the Financial Accounting Standards Board.

For example, the owner can keep bank account balances up-to-date automatically. Bank reconciliation is very easy. You go into the program, bring up the check register, scroll the listings, mark the checks returned, enter bank charges, and enter interest income. One additional key stroke brings up a bank reconciliation screen to tell you if you are out of balance.

At a more advanced level, the owner can assess the impact of new work on present company budget and anticipate cash flow needs (See advantage three). Also, the owner can assess sources and uses of funds for any profit center. The profit center might be a customer, job, product, or department. In this way, the new software offers an easy transition from basic bookkeeping to strategic thinking based on good data and customized reports.

Special advantages are available to those owners who have invested in DOS computer hardware that supports a Microsoft Windows environment. Flexibility, classification, and cash control are especially easy to do with accounting packages that use Windows environment. For example, M.Y.O.B. now allows easy data transfers though Windows clipboard.(15, p. 226) Windows' dynamic data exchange and object linking and embedding features promise even more flexibility in the future. (15, p. 238)

The above are the major advantages of the new "low-end" accounting software to owners of very small businesses. To summarize, the software gives the owner what is needed to run the business. However, this is only part of the quiet revolution. The software also provides the owner's financial advisor with what is needed to best serve the owner. It is adaptable to not only business practices but also to the characteristics expected of financial statements by the financial community.

ADVANTAGES FOR ADVISORS

The new software offers many advantages for those who are in the business of advising small business owners on

financial matters. As noted earlier, the new software can overcome the traditional conflict between the owner and the advisor. The owner gets "practical," timely information. The advisor help the owner create financial statements with "decision useful," characteristics. Both people can focus less on routine and more on strategy. This "upgrades" the advisor's job from high-paid clerk to that of a financial consultant.

The new software creates many opportunities for advisors to serve owners better. These opportunities are major ingredients of the quiet revolution. The new software allows the owner of a very small business to receive "big company" service. The software also allows the advisor to receive "big firm" profits. Less client effort is required. Prices for services remain affordable. The Advisor's profits increase. Everybody wins.

Here are the advantages to advisors:

1. Monthly write-up revenues. An accountant might fear that encouraging an owner/client to use a low end accounting package will take away monthly bookkeeping income. However, if the advisor sets up client's systems properly, both the number of clients and the billing rate per hour should increase.

2. Speed. There is no question it is quicker to do monthly "write-up." Data is imported from a low-end accounting system or personal finance system into the advisor's more complete system. The advisor does not have to sift through piles of receipts. The advisor saves time even in the worst case where data must be transferred manually. Often the transfer can be semi-automated.

This can be done if the client and the advisor use the same software. For example, they can possibly agree to use the same personal finance software package (e.g. Manage Small Business, Microsoft Money, MoneyCounts: Personal Edition, or Quicken 5.0). (5; 6; 8; 13). Alternatively, they may settle on an easy to use accounting package (e.g. Manage Complete, MoneyCounts: Business Edition, M.Y.O.B., One Write Plus Accounting, or Quick Books). (4; 7; 9; 10; 12) When using the same software, the client simply "backs up" his copy of the software at the end of the accounting period. He gives the advisor a back-up data file. The advisor "restores" the back-up file on his copy of the software in a special company file. When the advisor needs more accounting power than the client can handle, client data can sometimes be imported to the advisor's more sophisticated accounting software published by the same software house. For example, Quicken 5.0 data can be imported into Intuit's Quick Books. (12; 13) Managing Small Business can be imported into Manage Complete. (4; 5) CashBiz can be imported into Paciolli 2000 (with difficulty). (1; 11) MoneyCounts 7.0 Personal Edition can be imported into MoneyCounts 7.0 Business Edition. (7; 8)

Sometimes data imports can be virtually automatic, as is the case with MoneyCounts. (7; 8) In most cases it requires electronic manipulation of the data to do monthly updates. An intermediary spreadsheet program may have to be used. In almost every case, however, electronic transfer of data can be accomplished by establishing and following a simple standard operating procedure. This is possible even when the client's software and the advisor's software are "incompatible."

3. Accuracy. Also, the data received is more accurate. Cash is reconciled. Frantic calls from clients about problems with cash balances are reduced.

4. Monthly write-up margins. When the advisor sets up the accounting structure properly, the client does most of the routine data entry (and learns valuable information in the process). This data entry now consumes much of the professional time of small accounting practices. It cannot be billed at full professional rates.

5. New services. Once the advisor sets up the client on a low-end accounting package, the accountant/advisor can redeploy the data-entry time saved. The advisor's preparations can be more sophisticated. Examples of higher-level preparations include: ratio analysis, inventory control, receivables control, and payables control. Time becomes available to educate the client how to use financial data for cash control and strategic decision making.

The advisor can offer many additional services. For example, budget services. As noted in the previous section, detailed information will be available without additional work by the client.

Another example is a report on changes in cash. Small business owners tend to look at their businesses in this way. They understand cash. This is an accepted alternative form of reporting by the financial community. However, advisors do not usually offer this extra report. Instead, they give clients a standard report on working capital position. The quiet

revolution makes compilation of the extra report easy and affordable. Everyone benefits.

7. Competitive edge. Another way to look at the opportunity is that the advisor can offer a higher level of service for the same price. This makes the advisor more competitive.

8. Practice development. From a practice management standpoint, this also implies the advisor has time to talk to the client about statements. This increased communication aids practice development. First, it increases client loyalty. Second, it increases the advisor's prestige. The owner no longer perceives the advisor as just a bookkeeper. The advisor assumes the higher status of the owner's financial advisor. Third, increased communication contributes to a better understanding of needs and leads to more assignments. For example, the area of budget review alone can be a great help to clients.

9. Standardization creates profits. There is another great advantage to the advisor if the client uses low-end accounting software that is reasonably compatible with the advisor's software. That is standardization of the computer interface. Assume the advisor can install a single program with several, similar, very small clients. Standardization will allow the advisor to set profitable and affordable fees for this group.

10. New Vertical Markets. Standardization of the interface will also give the advisor time and the economic incentive to specialize in vertical markets. When a group of similar clients is assembled, the advisor can develop indepth industry expertise. For example, current industry performance ratios can be established for use in financial comparisons.

Specialization will also allow the advisor to "know the numbers." The advisor will develop intuitive understanding of the expenses required to run the clients' businesses. This familiarity will allow the advisor to easily spot variances. If certain client expense categories are unusual, the advisor will spot them immediately and easily adjust to standard form during compilation.

11. Expansion of trade area. Computerization, standardization and specialization also allow expansion of the geographical boundaries for the advisor's practice. Modem transfer or mailing of floppy disks allows the advisor to serve a more dispersed client base.

12. Rapid Tax preparation. Tax return preparation is also eased by conversion of very small business clients to low-end accounting software. For example, Quicken 5.0 allows categorization by tax form. This saves much time for the tax preparer, especially if the client did not categorize when keeping manual records.

13. Expedite Audits. Using software also better prepares clients for audits (tax, lender, business valuation, etc.). There is increased accuracy. The auditor has to depend on the advisor to find relevant data. Generally, the computerized system is more organized and makes a better impression.

The above are the major advantages of the new low-end accounting software to financial advisors of very small businesses. The software gives the advisor what is needed to provide profitable, sophisticated services to a clientele of very small businesses. The resulting financial statement preparations meet the expectations of the financial community. This is the second part of the quiet revolution. There is more. It now makes economic sense for owners and financial advisors to work as a team to address strategic issues.

STRATEGIC ADVANTAGES

The above discussion has touched on several strategic advantages of new low end accounting software for the owner of a very small business. The main point is that the owner now has the opportunity to deal easily and affordably with strategic issues. It is not simply the opportunity to improve. It is the opportunity to deal with these issues for the first time. Very small businesses can create and use "decision useful" financial reports formerly available only to larger businesses.

Here are the strategic advantages:

1. Activity-based accounting. The software gives the owner the capability to analyze activity-based service, product, or customer classes. For example, the software can report on the profitability of different properties managed by a

property manager. It can do this for both the property owner and the property manager. Or the software can report on the costs and profitability of different types of home improvement jobs done by a contractor. Or it can show which products are profitable. Data is accurate and understandable. In short, the new software provides valuable data for SWOT analysis. Most very small businesses have never had such data available before.

2. Spotlight on profits. The new software, appropriately supported by financial advisors, can painlessly hone the owner's financial skills. Financial consequences of job and product selection are spotlighted. The owner can see which activities are profitable.

3. Improved knowledge of operations. The owner learns the financial consequences of operational decisions. This "feedback value" suggests system improvements that can create comparative advantage. "Timeliness" and "relevance" are high.

4. Plan creation. The software speeds plan creation (budgeting). Budgets provide benchmarks for cash control and orderly growth. This "predictive value" is high. Budgets "find" money for expansion that might otherwise be wasted. 5. Plan execution. The software can provide feedback on plan progress. Accurate data allows the owner to recognize and adapt to the unexpected. The "representational faithfulness" of available data is likely to be higher. It can be easily improved over time. "Neutrality" of the accounting system is also likely to be better. The owners subjective, biased opinions about what works can be supplanted by accurate data concerning what actually works. Inadequate rules of thumb can be replaced.

7. Profit and loss responsibility. The owner can assess the impact of new work on the company budget and anticipate cash flow needs. Also the owner can assess the profitability of any profit center and define profit and loss responsibility for subordinates. People can be informed of the economic consequences of their actions. They can be accountable. Better controls allow the owner to delegate more and create better trained and more self-reliant workgroups.

8. Credibility. Use of the software improves the owner's knowledge about the business. It encourages better organization of operations. It refines the owners understanding of which activities contribute to profits. As the owner's knowledge increases so will the owner's credibility with lenders, suppliers, competitors, and regulators. Increased credibility will open new opportunities.

9. Advisors. The new software works two ways to encourage owners of very small businesses to build a team of advisors for their businesses. First, it creates an accepted model of the business that is understandable to a wide array of financial advisors. Second, it provides the basic, organized data necessary to make their advice affordable. Once the owner understands the benefits of using financial advisors, it is a short step to seeking other kinds of outside help. The client is more likely to seek all types of advice at critical points in the business' history.

10. Customer needs. Early flagging of sales and credit trends by the new accounting software will make owners more sensitive to customer needs. Owners will find interim financial results to be valuable feedback on the consequences of changes in customer service level. The ability to get this feedback on a weekly or even daily basis will allow business strategies to be refined quicker.

11. Strategic alliances. The new accounting software gives owners the opportunity to "professionalize" very small businesses. A knowledgeable owner with high credibility and good advisors is much more likely to be able to form strategic alliances with major customers, distributors, and/or money sources. Given worthwhile goals and integrity, the new software can help an owner achieve rapid, profitable growth.

The above are strategic advantages sought by all successful business people. The nature of the quiet revolution is that these advantages are now accessible by the owners of very small businesses. This is revolutionary.

CONCLUSION

Recent innovations in "low end" accounting software make up a quiet revolution. Ease of use is now a reality. The new software can overcome bookkeeping phobia and benefit thousands of very small businesses. This is revolutionary. However, the real revolution is that accounting is made easy.

This article discussed recent innovations in "low end" accounting software. First, it explained their advantages for small business owners. Next, it explained their advantages for those who advise small business on financial matters. It then discussed how improved data and reporting allow very small businesses to deal with strategic issues. Key points were illustrated by reference to popular software packages.

Owners who operate very small businesses should be aware that accounting can be easy. There has been a quiet revolution. Owners that are pioneers in the use of the new accounting software will gain comparative advantage. Those that are not will fall behind.

Financial advisors to small business also need to embrace the new software. They need to participate in the quiet revolution. The advantages are great for the advisor that helps clients adopt and use the new software. Innovative new software offers exciting new ways to do business.

The quiet revolution will have broad impact. The new low-end accounting packages will provide good data and reporting. These new packages will allow very small businesses to deal easily with strategic issues. The small business sector can achieve new levels of efficiency and profitability. All this is because of accounting made easy.

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SMALL BUSINESS OWNERS LACK OF UNDERSTANDING AND COMMUNICATION WITH THEIR ACCOUNTANT

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ABSTRACT

The current small business environment demands an effective management reporting system. Traditionally, the financial accounting reports were driven largely by operations management with little or no regard for non-financial information. Today, both types of information are generally used by large firms for advanced or strategic planning and problem solving activities. Smaller firms are slow to understand the need to adapt and even slower in determining how to locate the needed information. This survey substantiates the reliance on the accountant by the small business owner, yet it reveals a lack of understanding and lack of communication of the importance of the data needed and the information supplied in the accounting reports.

INTRODUCTION

The stereotypical view of small business owners has been that they are shortsighted and reactive in their managerial duties. They make very little systematic use of the managerial planning and control techniques that are becoming commonplace in larger businesses (5). In the small business, emphasis is generally still placed on short term operational plans rather than strategic (long-term) written plans. However, attempts have been promulgated during recent years to copy the adoption and use of both financial control information and the use of nonfinancial management control information (6). Originally, the financial accounting system really didn't tell the owner how the business was doing or things to do to make it better. A whole new discipline, Management Information Systems (MIS), was developed to analyze how to conduct the business rather than using "the traditional accounting system to only tell you what you just did" (8).

Small business owners, in a nationwide survey, ranked accounting as the major industry or service most responsive to their needs (1). It thus seems appropriate to identify the firm's accountant as the one most likely to bring both financial and non-financial data through a performance measurement system that will assist the small business owner in making better decisions in today's rapidly changing business environment. The changes in business include more emphasis on customer satisfaction and responsiveness (quality, delivery timing, and services provided); production/service line profitability; product/service contribution; operating effectiveness (lower inventories, shorter

cycle times, lower cost of non-quality, higher throughput, lower operating expenses); and asset-management (equipment, fixed assets, and space utilization) (3). Most of the small to medium size firms utilize reporting schedules focusing only on financial accounting information. They omit information that should be available and useful in the other areas just mentioned.

New management accounting practices are ideally suited to the professional manufacturing, retail, and service oriented firms. Management accounting is beginning to reject standard cost systems, traditional variances analysis, and the sole use of financial accounting for internal decision-making. Instead, non- financial measures are supplementing traditional financial measures in evaluating performance (6). Traditional accounting systems are criticized for their financial orientation with emphasis on short term results and operating personnel's lack of involvement. People, quality, delivery and cost are the four critical success factors whose performance needs to be measured at every level of activity. Unfortunately, accountants traditionally have been myopic, focusing solely on cost and ignoring the nonfinancial "critical success factors" (6). Today, additional management information including non-financial data, in addition to cost information, is available for use in making appropriate decisions and sufficient strategic planning for the future success of their firm.

The information needed today would include subsystems of performance measurements designed to meet the operating and management informational needs at the market, business organization, plant, and shop levels (6). The performance measurement systems should be balanced between financial and non-financial measures. As business strategies change, performance measures must keep pace with the changing business environment. Most medium and smaller firms today

either do not change or are slow to change their performance measures to reflect the changing information needed by management. Seven performance areas were developed to support the firm's strategy and provide feedback of customer satisfaction. These areas are: consumer loyalty index; product/service satisfaction survey; sales and service satisfaction survey; warranty frequency; consumer complaints index; order response time; and on-time delivery performance (2). The strategies of many firms have three possible themes: design, manufacturing, and marketing high quality products; provide superior customer service; and do the above two at lowest possible cost (2). In order to meet the changing business strategies, the changing performance measures need to provide constant feedback from all management levels of business. This feedback indicates how effectively the business strategy is being achieved and identifies areas in need of correction (2). The process management system should guide management in short-term activities and result in measures that directly assess goal accomplishment in the firm.

To improve the quality of the accounting services, the accountant

and the small business owner should conduct a principal client "satisfaction survey" occasionally (4). This would determine if both parties understand the services of the accountant being provided and determine whether or not they should be continued. Al Pipkin, V.P. of Finance at Coors Brewing Company proposed the concept of "Strategic Accounting" as the next major step for accountants to use in business and industry. He states that strategic accounting would be an integral part of the decision-making process and would transfer the traditional core accounting system into a "Strategic Intelligence Center" (7). Information developed through this center would add both internal and external data about customers, marketing, distribution channels and competitors to the financial accounting systems (7). The strategic accounting concept is based on a close working relationship with non-accounting personnel. This would create better communication and understanding between the accountant and the small business owner.

SURVEY

This survey was undertaken in trying to determine the relationship between the small business owners and his/her accountant in terms of the initial selection process, services used, and effectiveness of communication. As most small business owners use one or more services of the accountant, we felt that the accountant would be the one most likely to help develop understanding and communication of the changing performance measures (both financial and non-financial information) needed to meet the rapidly changing business environment. A sample of 900 (300 from small manufacturers; 300 from small retail firms, and 300 from small service firms) were randomly selected from a national listing of each type. A two page questionnaire was sent to the selected firms with a cover letter explaining its purpose. The questionnaire contained some questions pertaining to demographic data; some questions concerning the selection process used to acquire the accountant's services; questions to determine the number and extent of services used; the effectiveness of communication and understanding between the small business owner and the accountant. A total of 405 questionnaires were returned (small manufacturers = 136, small retailers = 142, and small service firms = 127) for a total of 45 percent. This percentage reflects meaningful implications in considering the small business person's point of a view toward the questions posed. This study is descriptive and may or may not be a sample that is truly representative of the entire population.

SURVEY RESULTS

The following is an analysis of the 11 questions asked in our survey to small manufacturers, retailers and service businesses.

1. What type of small business category fits your business?

% of Rawscore Respondents Retailing 142 35 Service 127 31 Manufacturing 136 34

Total 405 100

Nine hundred small businesses were mailed surveys with 405 returning our questionnaires. This gives us a response rate of 45 percent. As the percentages indicate, the returns from each of the three separate groups were fairly close with retailers having the highest total return rate of 35 percent of those responding.

2. How many people does your firm employ?

% of Rawscore Respondents Less than 5 85 21 5 - 10 36 9 11 - 15 65 16 16 - 20 57 14 21 - 25 49 12 26 - 30 45 11 31 - 35 12 3 36 - 40 20 5 Over 40 36 9

Totals 405 100

Of those small businesses responding, the largest group employed less than five employees. The second largest group totaling 16 percent were those employers employing 11 to 15 employees. As these numbers indicate, the overwhelming number of respondents truly are small businesses. Eighty-three percent of those small businesses responding had less than 31 employees. Only nine percent of those responding small businesses hired over 40 employees.

3. Does your firm employ an outside accountant?

% of Rawscore Respondents Yes 373 92 No 32 8

Totals 405 100

The overwhelming majority of the small businesses used an outside accountant. Ninety-two percent of these small businesses needed some form of accounting outside help. These 373 separate

businesses showed varying degrees of understanding and utilization of the accounting profession, as will be indicated in the following questions.

4. What was your primary consideration in selecting your outside accountant?

% of Rawscore Respondent Personal Contact 97 26 Reputation 48 13 Timely Service 15 4 Experience 19 5 Accessibility & Availability 63 17 Range of Service 11 3 Industry Expertise 7 2 Fee 34 9 Quality of Service 60 16 Stable/Qualified Staff 19 5

Total 373 100

Personal contact had the highest response rate with 26 percent of the response. Accessibility & availability finished second with 17 percent. This is a strong indication that these small businesses want or respect personal contact with the accountant. They look at the outside accountant as a member of their team. Quality of service is also very important finishing at 16 percent. Reputation finished fourth with 13 percent of the respondents indicating that was important to them.

5. How long have you been with your outside accountant?

% of Rawscore Respondents Less than one year 48 13 One year 15 4 Two years 15 4 Three years 71 19 Fours years 60 16 Five years 48 13 Over five years 116 31

Totals 373 100

The largest response to this question was over five years with 31 percent responding in this category. Forty-four percent of the small businesses had been with their accountant at least five years. Thirteen percent had been with their outside accountant less than one year. These percentages indicate that once a small business starts with an accounting firm, they are not likely to change even if they are not totally satisfied as some

of the following questions will indicate.

6. What service does your outside accountant perform? Check all that apply?

% of responding small business owners who normally use the specified service

General Record Keeping 21 General Ledger/Journal Maintenance 27 Tax Return Preparation 100 Financial Statement Preparation 80 Financial Statement Audits 41 Tax Planning 39 Government Report Preparation 62 International

Accounting Systems 25 Accounting Systems Design 7 Forecasting & Long-Range Planning 6 Data Processing Evaluation 4 Capital investment Analysis 18

One hundred percent of the small businesses used their outside accountant for tax return preparations. The second largest service is financial statement preparation with 80 percent of the small businesses utilizing this service. Sixty-two percent of the respondents used their outside accountant for government report preparation. Looking very closely at the rest of the services that could be offered by an outside accountant we find very quickly that these services are very underutilized by small businesses.

Data processing evaluation is definitely an area in which small businesses could utilize their outside accountant more closely followed by forecasting and long range planning. One question that the researchers have is the failure to utilize forecasting and long-range planning and underutilization of the outside accountant, or a lack of very little long range planning.

7. If your outside accountant prepares periodic financial statements for your firm, how often are these reports prepared?

% of Rawscore Respondents Weekly 4 1 Monthly 179 48 Quarterly 26 7 Semi-Annually 4 1 Annually 160 43

Totals 373 100

As the previous question indicated, most of these small businesses are utilizing outside accountants for taxation purposes. Given that 43 percent of the businesses only receive annual reports, this leads the researchers to believe that taxation purposes is the only service that many of these small businesses are utilizing. Forty-eight percent of these small businesses are receiving monthly reports, which could be helpful in their planning and forecasting. These figures indicate a high percentage of underutilization of small businesses of their outside accountant.

8. Does your outside accountant analyze your financial statements and discuss significant trends with you?

% of Rawscore Respondents Always 108 29 Often 49 13 Sometimes 112 30 Always Never 37 10 Never 56 15 No Response 11 3

Totals 373 100

Only 42 percent of the respondents indicate that their outside accountant analyzes and discusses their financial statements with them, always or often. These figures indicate an alarming fact that the majority of outside accounting firms are doing a poor job of communicating to the small businesses what financial statements they have been given. It has been the researchers experience in dealing with small businesses that many of them do not understand the financial records that they receive from accounting firms and subsequently do not know how to utilize the information they have been given. Some of the small businesses are afraid that if they do communicate for very long with their accountants, that the process would be too costly. Some how, there needs to be a happy medium between cost and communications. How much advice is available at the standard rate for each financial statement? Another question is have we turned out accountants or bookkeepers?

9. Do you and/or your staff feel free to call upon your outside accountant with questions and problems?

% of Rawscore Respondents Yes 164 44 No 209 56

Totals 373 100

The majority of small businesses did not feel free to contact their accountant for advice. This ultimately leads to a high

degree of no communication, or very little communication. Why do so many small businesses not feel free to converse with their outside accountant? Is it a lack of understanding, cost, personality differences, lack of communication, etc.? This question should be an eye-opener, both to small businesses, as well as outside accountants.

10. What could your outside accountant do differently to better service your firm?

% of Rawscore Respondents More timely service 182 49 Reasonable & clear fee structure 119 32 Provide stable, professional staff 0 0 Service beyond standard reports 0 0 Greater orientation toward small business 15 4 Knowledge of client business and industry 0 0 Better communication and rapport 34 9 Adequately trained staff 4 1 Provide clear & concise reports 19 5

Totals 373 100

More timely service was the overwhelming response from the small businesses responding to this survey. Service is definitely an important factor in selecting an outside accountant. Reasonable and clear fee structure was the second highest response with 32 percent. It seems that many small businesses are not comfortable or have an understanding of the outside accountant's fee structure. All these questions, as did the previous questions, indicate a lack of communications between small businesses and their accountants.

11. How satisfied are you with your outside accountant's performance?

% of Rawscore Respondents Very satisfied 19 5 Satisfied 19 5 Need moderate improvement 41 11 Dissatisfied 156 42 Very dissatisfied 138 37

Totals 373 100

Seventy-nine percent of the responding small businesses were dissatisfied or very dissatisfied with their outside accountant. Only 10 percent of the respondents were either very satisfied or satisfied with their outside accountant. This response is a little puzzling in the fact that 44 percent of these firms have been with their outside accounting firm for five years or longer. Is there a need for training on both the small businesses behalf, and the accountant? Every indication shows a lack of communication on both parties behalf. One definite fact is that small businesses are very dissatisfied as a whole with their outside accountants.

CONCLUSION

This survey reaffirmed the small business owner's need to have an accountant providing one or more services for the firm. Small business owners again reflected a need for the accountant to provide the traditional control reports. There is little indication of a felt need or use for non-financial data or management performance measurements that are generally used today by the management of large firms. The small business owner and the accountant have an established relationship and it seems that a better understanding of the rapidly changing business environment could be developed through more effective communication. The survey reflected lack of interest or knowledge by the small business owner of the changing performance measurement reports being utilized by large firms. This information should be known by the accountant in working with various businesses and should be communicated to the small business owner along with suggestions for its implementation. A letter of engagement would specify types of control reports most beneficial to the firm. Periodically, a satisfaction survey could be implemented to review the information provided by the accountant and reconsider the information that will be needed in the future. Open and candid communication between the small business owner and the accountant is essential and should result in a better understanding of changes needed for the firm to continue operating successfully.

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GAINSHARING PLANS IN THE FAMILY-OWNED ENTERPRISE: A PRELIMINARY PROSPECTUS

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ABSTRACT

This paper briefly explores the history and definitions of gainsharing, specifically as it might apply to family-owned enterprises. The considerations which go into the decision to implement gainsharing in a family-owned enterprise are discussed, especially as these considerations apply to a particular firm. A brief success story of implementation in such a firm is outlined, followed by a brief look into the future.

GAINSHARING HISTORY

What is formal gainsharing? Graham-Moore (5) has defined it as follows: "Gainsharing involves a measurement of productivity combined with the calculation of a bonus designed to offer employees a mutual share of any increases in total organizational productivity. Usually all those responsible for the increase receive the bonus." Paulsen (9) has stated that gain sharing programs are an excellent way to increase teamwork, employee output (and thus pay), and the firm's profits, "because the programs reward employees for combined work efforts." A typical program "sets a goal in a dollar amount" to improve a firm's performance. Employee efforts are rewarded monetarily and directly that "increase productivity based on a comparison of employee costs to what employees sell or produce." In short, a gain-sharing plan is profit-sharing at its best: employee contributions to increased profitability of the firm are shared with the employees.

A major percentage of the gainsharing plans put into place in the past have been established in relatively large, publicly-held firms. Much of this may be attributable to the fact that the first true gainsharing plan was the Scanlon Plan, devised by Joseph Scanlon, a vice president of the United Steelworkers of America. Thus, gainsharing plans may have seemed most applicable in large unionized manufacturing firms. Another factor favoring the establishment of gainsharing plans in relatively large publicly-held firms is a widely dispersed shareholder base, giving management greater latitude in running the firm.

Graham-Moore (6) made a comprehensive review of the literature on the subject. [The literature, although extensive, is somewhat

hindered because of the tendency on the part of many managers to regard gainsharing information as proprietary.] Nevertheless, based upon the current literature, he concluded that the keys to all successful gainsharing plans of whatever description are:

1. The normal, average, or standard labor cost is measurable;

2. The ratio of either sales value of production or units of production value to labor cost is relatively stable;

3. Policy established for sharing true increases in labor productivity is "fair."

To the extent that family-owned enterprises present more-than-normal difficulties in these areas (because their small size or newness precluded the sophisticated "professionalism" needed to establish cost accounting systems or "policies" of any sort), installation of gainsharing plans in these firms may be a problem. Further studies have indicated that communication in both directions with the employees and plan simplicity are crucial as any of the above attributes. Paulsen (10) outlines several lessons be has learned over the years: commitment, simplicity, involvement, and communications. Although there is no guarantee, of course, that these factors will be easier to attain in a family firm, or

any small firm, it is to be hoped that a firm with management and ownership in the same hands, anxious to have the improvement in profitability that gainsharing promises, would find it possible to abide by these four lessons.

THE ENTERPRISE

In May, 1992, the Chairman of DCOI (not the firm's real name) approached one of the authors to explore the possibility of establishing a plan whereby his production workers might be able to help the firm cut costs and share in resulting savings. The previous two years had not been profitable for DCOI and there had been only small increases in hourly wage rates. The hope was that a plan, if feasible, could substitute for future wage increases so that more money could be paid the employees in good years. In return, wages would not rise in years of low profitability.

DCOI was founded in the late 1950's in northern Ohio primarily as a newspaper publishing and printing operation. It was among the first to use web-offset and cold type outside the New York City area. In the 1960's DCOI entered the real estate publishing market with two black-and-white newsprint photographic magazines featuring houses for sale, distributed free to interested house- buyers. By the late 1980's, DCOI was publishing approximately twenty weekly suburban newspapers, twenty magazines, and one weekly real-estate newspaper, covering cities from Southern California to northern Ohio. DCOI has remained a technological

innovator in the industry, using laser cameras and digital type- setting equipment. In 1977, DCOI began the development of CompuAd, a computer program which writes residential housing classified advertisements. By the late 1980's, several hundred copies of a PC based version of the CompuAd program had been sold in the U. S. and overseas.

The main reason for DCOI's success in newspaper publishing and real estate publishing- both print and electronics, without a doubt, the Chairman and founder. A graduate of one Ivy League college and holder of a Master's degree in Journalism from another, he put together a successful company. Its success was the result of a combination of hard work, vision, and top people who were not only good at what they do, but were also quite complementary to the Chairman. By his own admission not much of an administrator, he has an extremely low threshold of boredom; therefore, his senior people need to have the ability to pick up his intellectual "dirty clothes" where he has dropped them and carry projects through to their conclusion. He has consistently been able to find such people.

Most of DCOI's innovative posture is also directly attributable to the Chairman. Blessed with a wide-ranging and inquiring mind, he continually has asked questions beginning with "why can't we?" or "why doesn't" - questions that often lead to innovative solutions to problems. Because he is a Chairman who lets his managers manage, he has no difficulty "taking time from the same old grind" (2) for innovation - in fact, innovation frequently takes precedence over operations, often to the distress of line managers. Thus DCOI fits within Pearson's (11) five key activities which make some firms very good innovators, despite not having a clear structure or a clear strategic focus. These activities are: creating an environment that values performance above all else, structuring to permit innovative ideas to rise above the demands of operations, defining a focus that lets the company channel its innovation realistically, knowing where to look for good ideas, and going after good ideas full speed. With the Chairman leading the innovating and heading the "incubator", innovation continues to be the name of the game at DCOI.

In 1987, an outside consultant was retained to design a reorganization plan for the firm, even though, in the words of the consultant, "it is impossible to reorganize something which has never been organized in the first place." Although the plan was never acted upon, in December, 1991, the Chairman' s son was named to the long-vacant post of president. It was he who first broached the idea of installing a gainsharing plan as part of an attempt to modernize the printing operation.

DESIGN AND IMPLEMENTATION CONCERNS

What are the optimal conditions for a gainsharing plan to succeed? The list is long, but it seems that it may be summarized

as follows:

1 . Each plan must be custom designed for the firm in question. This is probably even more crucial with family-owned enterprises as they are often ultrasensitive to the "cookie-cutter" treatment.

2. Competitive wage and fringe-benefit programs must already be operative prior to adoption of the gainsharing plan.

3. Gainsharing must not be used as a "salvage operation", but should be installed in successful and competently-managed firms. This may always be a problem as all too often family-owned enterprises only climb out of their rut when things are not going well.

4. Gainsharing should not be installed along with an individual incentive system because of their competing philosophies.

5. Gainsharing should include all employees at a given facility, or at least within identifiable departments.

6. Gainsharing bonuses should not be flat amounts but should vary with wages for time worked.

7. Gainsharing plan implementation requires an education program that enlists the great majority of employees.

8. Installation of any new gainsharing plan should be subject to a significant majority affirmative vote of all covered employees. Management of publicly-held firms are used to dealing with this element of democracy. Unless theirs is a unionized firm, managers of family-owned enterprises may resist and resent having their "managerial prerogatives" curtailed by this requirement. This applies equally for the next two items in the list.

9. The first year of gainsharing should be a trial period after which future continuation of gainsharing should be contingent on one additional favorable vote by employees.

10. Termination of gainsharing should be subject to 90-day notice by management.

11. Everyone involved must have an understanding of the gainsharing formula, at least in its link to performance.

12. The gainsharing formula should be monitored regularly and carefully to ensure equitable results for both the company and the employees.

13. Initial gainsharing success depends on the dedication, enthusiasm, and competence of a "champion" - usually top

management. Here a family-owned enterprise might have a true advantage over a public company; if the Chairman wants a plan in a family-owned enterprise, s/he will get one.

14. The role of third-parties in developing, disseminating, and educating about gainsharing is very important in building trust and confidence in the plan, particularly in the early years. Publicly-owned firms are used to working with third parties since their accountants do audited annual reports. Family-owned enterprises may be reluctant to have third parties around much and snooping in confidential areas - a necessity if gainsharing is to succeed.

15. All suggestions, as well as minutes of the involvement system, must be open, public, and distributed to achieve maximum employee recognition.

16. Product quality should be improved as part of a plan to achieve total organization productivity. In fact, gainsharing is an ideal entry into a total redesign of the firm's strategy in terms of its employees, its marketing, and its overall future direction.

17. The committee is a consultative or advising body, and not a decisionmaking one - management manages, the committee advises.

18. Rapid follow-up on the disposition of suggestions encourages employees to make more suggestions.

19. The productivity-sharing calculation, and any changes to it, must establish a bonus level which does not jeopardize the firm's ability to compete.

20. Bonus earnings should be paid separately from normal paychecks.

There is also a list developed by Ross (12) of characteristics which firms whose plans fail exhibit in an extensive degree. Of this list, the one variable which has a dramatic impact upon family-owned enterprises is a poor internal financial information system. It is imperative that management open the books. No matter how financially unsophisticated and trusting employees are, it is apparent that gainsharing only works well when the employees become more financially savvy and also become quasi-partners with the owners. In order for these events to occur, the owners have to trust their employees and open the books to them.

Ross (12) quotes the results of a study conducted a few years ago of twenty-three firms where gainsharing had been implemented. The following findings support the list above:

1. High levels of failure are associated with low levels of employee participation.

2. Larger firm size does not seem to be a major factor for failure. Ross does not state that smaller firm size is a plus or a minus factor. This may not bode well for family-owned enterprises, or smaller firms in general, but it is not an insuperable obstacle.

3. Low levels of managerial confidence in participative management are strongly associated with failure or marginal success. Family-firms have no monopoly on confidence in participative management nor of lack of confidence, either. Those owners whose confidence in participative management is low need to spend the time and money necessary to be "re-educated" by talking to firms where this mode of management has worked.

4. Firms are less likely to abandon longer lasting plans.

5. When installing a plan, realistic favorable expectations are important.

6 . If a high-level executive does not take a leading role, the probability of a plan's failure increases. Here again, the family-owned enterprise has a major advantage over the public firm. If the Chairman wants it, s/he will get it.

7. Technology seems to have no relation to plan failure.

The upshot of the above lists and discussion, along with articles by Beck (1), Masternak and Ross (7), Ost (8), and Doherty, Nord, and McAdams (3) is that gainsharing is doable, probably should be done at most firms and could be done in a family-owned enterprise.

In fact, in a large Midwestern city, a motor remanufacturer was faced with productivity and space problems. The space problem was partially solved by adding space to the property line on all four sides of the existing building. Productivity was a different matter. This plant historically had high absenteeism and about 30% annual turnover. In cooperation with some human resources advisors, management devised a gainsharing plan that rewarded productivity plant-wide and by department with the highest rewards accruing to those with perfect weekly attendance. The firm just finished its second year of gainsharing. The average employee received slightly more than $5,000 over and above his/her already-competitive wages and fringe benefits in 1991-92. This gainsharing program was instituted at a fortuitous time because, thanks to some exceptional sales opportunities, the company has filled the new space with work four years earlier than expected; the productivity gains from the gainsharing program enabled management to keep things under control while a second plant is being readied.

FUTURE OF GAINSHARING IN FAMILY-OWNED ENTERPRISES

Despite the statement made above that the first year of a gainsharing plan must be understood by all concerned to be a trial period, no firm should enter into the design and implementation of such a plan without the whole-hearted commitment of management to live with the results of this effort for the foreseeable future. Gainsharing plans seem to be rather delicate creatures at birth, becoming quite robust, however, as they mature. One criterion for future longevity of a plan is current longevity. Expected plan life is positively correlated with current plan age. Although this seems to be an academic tautology - defining inertia - it is not; success breeds success and should be planned for.

Goodman and Dean (4) have developed criteria which can be utilized to help ensure that any gainsharing plan lasts:

1. Carefully select organizations. Some reasons not to select a particular organization include an unstable economic environment, instability in leadership, and mistrust between employees and management. It is possible that the family-owned enterprise suffers from a disadvantage in the last two categories. Instability in leadership will devastate such a firm unless there is good succession planning. Even though fights in the boardroom of public companies do occur, their impact on production workers seems less than such succession fights in family firms. Further, great trust between employees and a founder may not accrue to the founder's offspring.

2. Plan to institutionalize from the beginning. Again, the family-owned enterprise might have difficulty with this, as many family-owned firms refuse to institutionalize anything.

3. There must be a good organizational fit. There needs to be a good fit between the organization's values, philosophy, and structure and the nature of the change program. If the family- owned enterprise can be brought to an understanding of its values, philosophy, and structure, it will have a great advantage over the publicly-held firm since these items are often more easily articulated in the family firm.

4. Training and education in the plan must occur continuously, not just at start-up.

5. Commitment at all levels of the organization is necessary, especially from the top.

6. Build an effective reward system. Include both intrinsic and extrinsic rewards, linked to desired behaviors and with a mechanism for revising the system as needed over time.

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THE PRACTICE OF FINANCIAL MANAGEMENT AND THE USE OF COMPUTERS: SURVEY RESULTS

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ABSTRACT

This paper reports the results of a survey of financial management and the use of computers to facilitate financial management conducted by the Center for Entrepreneurship at the University of Colorado at Colorado Springs. The survey attempts to determine the time dedicated to and the perceived importance of nineteen financial management tasks. It also looks at the extent, the value, and the type of computer support used for these tasks.

The reported results indicate that financial managers dedicate a significant proportion of their time and computer resources to the routine tasks of day to day financial management. It does not appear that computerization has freed financial managers to spend time on more complex decisions with long-term consequences.

INTRODUCTION & MOTIVATION

This paper reports the results of a survey of small publicly-traded companies conducted by the Center for Entrepreneurship at the University of Colorado at Colorado Springs. The purpose of the survey was to increase our knowledge of the practice of financial management and to measure the extent to which computers are used to aid financial management tasks.

The next section discusses the survey, the sample, and the respondents. The third section reports how the survey respondents allocate their financial management hours and their ranking of the relative importance of financial management tasks. Section four reports responses regarding the use of computers to aid in financial management, and the final section offers a short summary and conclusion.

SURVEY CONSTRUCTION AND RESPONDENTS

The survey (available from the author) was mailed to 1,973 firms listed on the Compustat data base using a screen for fewer than 500 employees. We intended to form a sample of small, but publicly-traded firms. In publicly-traded firms financial managers should be keenly aware of the informational content of the accounting statements that are made public and the impact of their decisions on these statements.

The survey focused on the following nineteen financial management tasks:

1. the preparation of financial statements, 2. ratio analysis of the financial statements, 3. preparation of pro-forma financial statements and financial forecasting, 4. ratio analysis of pro-forma financial statements, 5. preparation of a cash budget, 6. comparison of actual financial results with forecasted results, 7. comparison of the current year's results to the previous year's results, 8. cash management, 9. marketable securities management, 10. accounts receivables management, 11. accounts payable management, 12. inventory management, 13. the acquisition of short term funds, 14. capital budgeting, 15. determination of the average cost of capital, 16. management of the debt/equity funding mix, 17. long term funds acquisition, 18. tax management, and 19. international financial management, including exchange rate management, obtaining letters of credit...

Eighty-nine surveys were returned completed or nearly completed and were used in the data analysis. Thus, the percent usable response was 4.5%. In spite of the low response rate, the data provide us with some interesting information about financial management in these small public companies.

Exhibit 1 summarizes data on the size and age of the firms according to the respondents. In spite of the fact that the sample was screened for firms with fewer than 500 employees, 30% of the firms returning the questionnaire employed more than 500 full-time-equivalent employees in 1990. However, only one firm employed more than 1,000 full-time-equivalent employees, so these are still relatively small companies given they are publicly-traded. Also note that, as one would expect for public companies, a large percentage have been in operation for more than 10 years.

EXHIBIT 1 SUMMARY OF SAMPLE

Years of Operation - % firms < 2 Years 2-5 Years 5-10 Years >10 Years 3.4% 4.5% 18% 74.2%

Full-time Equivalent Employees - % firms <10 10-50 50-100 100-200 2.2% 2.2% 6.7% 25.8%

200-300 300-400 400-500 > 500 16.9% 4.5% 11.2% 30.3%

FINANCIAL MANAGEMENT - TIME ALLOCATION AND IMPORTANCE

After these general questions, the survey addresses the area of interest -- financial management. The first two questions ask the number of person hours per average week spent on financial management and who in the firm is responsible for financial management.

EXHIBIT 2 TIME AND RESPONSIBILITY

Person-hours per Week - % firms <10 10-40 40-100 10.1% 13.5% 16.9%

100-500 500-1,000 > 1,000 40.4% 4.5% 14.6%

Average Percent of Financial Management Responsibility Sole Owner 0.0 CEO 4.1 CFO 54.0 Executive VP 1.5 Business Manager 2.0 Financial VP 15.8 Accountant: Inside 15.5 Outside 1.2 Other 5.9

Exhibit 2 summarizes these data. The average number of hours per week is about four-hundred, or ten full-time equivalent employees. Most of the financial management in these firms is done by the chief financial officer, though financial vice presidents and in-house accountants also play an important role.

Exhibit 3, summarizing the responses to the next question, reveals how the financial managers allocate their time among the

nineteen various tasks listed above. Four of the tasks take a considerably higher percentage of the financial managers' time than any of the other fifteen. Managing accounts payable, accounts receivable, preparing financial statements and inventory management take over 60% of the financial managers' time. Clearly net working capital management and financial statement preparation are time consuming, and day-today management takes priority over longer-term considerations. It appears that the common characterization of management as firefighters has some truth to it.

EXHIBIT 3 DISTRIBUTION OF TIME FOR FINANCIAL MANAGEMENT TASKS

Avg. % Tasks Time Accounts payable management 16.4 Accounts receivable management 15.8 Preparation of financial statements 15.5 Inventory management 13.6 All others 38.7

The next question asked how important each one of the nineteen tasks is to both the survival and profitability of the firms. The respondents rank each task from "l -- absolutely critical" to "5 -- relatively unimportant." Exhibit 4 shows the scores for the top 4 ranked tasks for both profitability and survival. Cash management is ranked, on average, as the most important function for survival, followed by the preparation of financial statements, accounts receivable management, and the preparation of a cash budget.

The preparation of financial statements, inventory management, accounts receivable management, and the preparation of pro-forma statements are considered the most important functions for profitability. These financial managers rank some of the tasks differently based on whether the objective is to survive or to be profitable. Note the importance of the preparation of financial statements for both survival and profitability. It is interesting to note cash management is singled out as critical for survival, but does not rank in the top four for profitability.

EXHIBIT 4 IMPORTANCE OF FINANCIAL MANAGEMENT TASKS

Survival Task Rank Score Cash management 1 1.830 Preparation of financial statements 2 1.849 Accounts receivable

management 3 1.893 Preparation of a cash budget 4 2.038

Profitiblity Task Rank Score Preparation of financial statements 1 2.024 Inventory management 2 2.139 Accounts receivable management 3 2.154 Preparation of pro-forma financial statements/ Financial forecasting 4 2.293

Comparing Exhibits 3 and 4 reveals a less than perfect match between the tasks that occupy financial managers and the ranking of those tasks by importance to either survival or profitability. This may indicate that less important tasks are time consuming, but must be done. Or it may indicate that financial managers should reassess the use of their time and focus more time on those things that are critical. In particular it appears that perhaps the time spent on managing accounts payable should be reallocated -- only 23 respondents considered it absolutely critical for survival and only 19 for profitability, yet it receives a very high percentage of the financial managers' time.

FINANCIAL MANAGEMENT AND COMPUTER-AIDED DECISION MAKING

The next section of the questionnaire was aimed at determining to what extent computer tools are used to aid the financial management tasks and how effective the computer tools are. Exhibit 5 lists the five tasks for which the greatest number of firms use computer tools. Also listed is the average number of months computer support has been used.

EXHIBIT 5 COMPUTERIZATION OF FINANCIAL MANAGEMENT TASKS

Average Number # of Firms Months of Tasks Computerized Computerized Preparation of financial statements 87 75 Accounts payable management 84 71 Accounts receivable management 83 75 Preparation of pro-forma financial statements/ Financial forecasting 81 49 Comparison of this year's actual to prior year's actual 80 58

Eighty or more of the firms use computer aid for five of the tasks: the preparation of financial statements, the management of accounts payable and receivable, the preparation of pro-forma financial statements and the comparison of this year's performance to last year's. These results show that most computer support is for fairly routine tasks that rank relatively low on a scale of analytical complexity.

The data indicate that 3 of the 4 tasks occupying the greatest percentage of the financial managers' time are also those for which a high percentage of the firms use computer aid. One can only imagine how much time would be devoted to these tasks if computers were not used. The data also suggest computer aid is not used for the more complex financial management tasks. Complex tasks may not lend themselves readily to the well-defined rules necessary for computerization. But it is surprising that computerization has not allowed financial managers to devote more time to complex financial management decisions.

Looking at the average number of months these tasks have been computerized demonstrates that financial statement preparation and accounts receivable and payable management were the first to be computerized. The mechanical detail of managing accounts receivable and payable and the necessity for public companies to produce up-to-date financial statements explains this.

For tasks that are computer-aided, the firms indicated both the hardware (reported in Exhibit 6) and software (reported in Exhibit 7) used. Most of the computeraided financial management is done on individual personal computers. However, the two time consuming tasks of managing accounts payable and receivable are tasks that are more likely to be done on a main frame or a mini computer than on a PC. Only one firm uses time sharing for accounts payable and receivable management. Some of the firms

use a combination of PCS, work stations, minis, and mainframes.

EXHIBIT 6 HARDWARE USED FOR FINANCIAL MANAGEMENT TASKS

Key: 1 = Personal Computer 2 = Work Station 3 = Mini Computer 4 = Main-Frame 5 = Time Sharing 6 = Other

# of respondents for each type 1 1 2 1, & & & 2& Tasks 1 2 3 4 5 6 3 4 4 4 Preparation of financial statements 20 6 19 18 - - 11 8 2 1 Preparation of pro-forma financial statements/ Financial forecasting 47 8 5 8 - - 4 2 3 1 Comparison of

this year's actual to prior year's actual 29 8 16 13 - - 6 4 2 1 Accounts receivable management 8 6 24 26 1 1 7 2 3 - Accounts payable management 5 7 28 32 1 1 5 2 2 -

Exhibit 7 summarizes the firms' use of software for these same five tasks. A large majority of the financial management tasks in all the firms are aided through the use of spread-sheet programs created by the firms' own employees. When asked to name a spread-sheet package, Lotus is named 64 times, compared to the next most popular spread-sheet package, Excel, with 19 mentions. However, for accounts receivable and payable management the firms are more likely to use non-spreadsheet canned programs than any other software. A significant, but small, percent of the firms also uses non-spreadsheet canned programs to produce financial statements. There is some use of consultants to prepare both spread-sheet and nonspread-sheet programs, but these programs are created to deal primarily with accounts payable and receivable, tax management, and the preparation of financial statements.

EXHIBIT 7 SOFTWARE USED FOR FINANCIAL MANAGEMENT

1 = spreadsheets created by the firm's employee(s) 2 = spreadsheets created by an outside consultant 3 = non-spreadsheet programs created by the firm's employees 4 = non-spreadsheet programs created by an outside consultant 5 = non-spreadsheet canned programs 6 = other # of respondents for each type Tasks 1 2 3 4 5 6 Preparation of financial statements 28/17* 3/4 2/7 8/6 21/6 2/0 Preparation of pro-forma financial statements/Financial forecasting 56/9 4/4 1/2 1/2 4/1 2/0 Comparison of this year's actual to prior year's actual 44/8 3/4 4/3 2/5 13/7 2/0 Accounts receivable management 8/13 515 8/7 7/8 28/10 2/0 Accounts payable management 10/10 4/5 9/5 10/9 29/9 2/0

*The top # indicates single response. The bottom # indicates each software type mentioned in multiple response.

In response to later questions, an overwhelming majority, 80%, indicate the computer tools developed by the firms' employees are better than those developed by outside consultants. Of the employee-created tools, 46% are developed by the people responsible for financial management; 30% by programmers in an MIS or computer unit, and only 22% by programmers in the financial management unit. It is apparent that good financial managers, especially in smaller firms, must be capable of creating and using their own spread-sheet programs (predominantly Lotus) to facilitate decision-making. This makes a strong case for end-user development.

EXHIBIT 8 VALUE OF COMPUTERIZATION

Key: 1 2 3 4 5 extremely little or valuable no value

Average Tasks Score Preparation of financial statements 1.30 Accounts receivable management 1.31 Preparation of pro-forma financial statements/ Financial forecasting 1.44 Accounts payable management 1.44 Inventory management 1.49

Exhibit 8 summarizes the results from assessing the value of computer decision support. The five functions with the highest valued computer support are reported along with their average scores. The tools to aid the preparation of actual and pro-forma financial statements and working capital management (accounts payable and receivable and inventory management) ranked the highest. Generally, the computer aid is the most valuable for those tasks that take a lot of the financial managers' time and are most important. On the other hand, those tasks that are relatively unimportant to financial managers have also benefited little from computerization. Perhaps this can be explained by a rational allocation of relatively little time to computerizing less important tasks.

Other important issues are the time and expense involved in training employees to use computer tools. Exhibit 9 reports the results of ranking the importance of time and expense. For these firms time and expense are not a hindrance to computerizing in most cases. Finally when asked why the firm computerized, the respondents indicated that accuracy, timeliness, and necessity are the driving forces.

EXHIBIT 9 TRAINING TIME AND EXPENSE TO COMPUTERIZE

% Respondents Retraining is: Very difficult 1 Somewhat difficult 24 Not too difficult 44 Relatively easy 24 Very easy 6

Retraining is: Very expensive 6 Somewhat expensive 13 Average Expense 54 Relatively cheap 25 Very cheap 3

Time is: A big factor 21 We consider it 71 Not a factor 38

Expense is: A big factor 23 We consider it 49 Not a factor 28

SUMMARY

The disappointingly low response rate, 4.5%, restricts the reliability of generalizing to a larger population. But the results reported in this paper allow some interesting observations to be made about the practice of financial management and the use of computers for financial management among the respondents.

The surveyed financial managers spend a majority of their time on working capital management and the preparation of financial statements, but cash management is ranked as the most important function for survival. For profitability, current asset management combined with the preparation of current and pro-forma financial statements are key.

A majority of the financial managers use self-created, PC-based, Lotus spreadsheet programs to aid financial decision-making (though main frames, minis and canned programs are used to manage accounts receivable and payable). The respondents also indicate that the time consuming financial management tasks benefit significantly from computerization.

These results give one cause to be both encouraged and discouraged. It is encouraging that small firms have made such progress in the use of computers to facilitate many of the mechanical chores of financial management, and that employee resistance is not a significant deterrent to computerization. But it is discouraging to find that this has not resulted in the dedication of resources to the more complex areas of financial management that have long-term consequences for the firm.

ASSESSING MARKETING POTENTIAL FOR EXPORTING: A MARKET TYPOLOGICAL APPROACH USING LOTUS 1-2-3

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ABSTRACT

Market potential assessment is a topic of growing importance for small businesses interested in entering international markets. It is difficult to imagine a small business serving the entire spectrum of countries. Therefore, it must choose among the countries of the world in order to identify its target markets. The assessment of a foreign market should start with the evaluation of economic variables relating to the size and nature of the markets. Because of the large number of worthwhile alternatives, initial screening of markets should be done efficiently yet effectively enough with a wide array of economic criteria to establish a preliminary estimate of market potential. This paper presents a market typological model using a spreadsheet to accomplish this task. The model shows how a data base can be organized, sorted and analyzed to produce insights into international markets.

INTRODUCTION

Current economic trends point to the efficacy of small-sized firms to find ways to increase sales (9). The concept of exporting is frequently overlooked or dismissed as a feasible means of attaining this goal (38). However, sound economic reasons for the small business to consider exporting include:

1) Market Saturation - Markets for a variety of goods in the United States are becoming saturated faster than new markets are being formed (16). Thus companies in many industries must develop new markets to continue to operate successfully.

2) Foreign Competition - In many industries, United States firms face fierce and intense competition from foreign manufacturers (1, 8, 33, 34, 35). One way to meet the challenge from foreign companies is for U.S. companies to enter the home markets of their foreign competitors.

3) Emergence of New Markets although an individual developing country may not provide adequate potential for U.S. companies, developing countries as a group constitute a major market (17, 18, 24, 32, 36).

Large companies have long realized the advantages of exporting and have reaped the benefit of international trade. The administrator of the Small Business Administration has estimated that while there has been a large increase in the number of U.S.

exporters, a large number of other firms have the potential to do so, but are not (7). These small businesses probably determine as a priority the focus of their resources on developing the domestic market and possibly also feel intimidated and overwhelmed by the world market and, therefore, have been reluctant to consider overseas marketing efforts. Upon further investigation though, they may be surprised to discover that developing an export program may be easier than expected, given the right guidance. One of the most important factors that a small business needs to consider is whether a market potential exists for a given product in a specific foreign market.

Many sources suggest ways in which a company can assess the market potential for exports (14, 21, 23, 25, 30). However, the typical small business does not have the resources of a large multi-national corporation at its disposal to gather the relevant information (2). Other cost effective methods must be considered by such a business person.

Market potential assessment is a topic of growing importance to people involved in small business operations if they are to consider competing internationally.

Accordingly, successful small business managers will not only need the critical ability to manage well, but will also be required to interpret the market potential more accurately. Therefore, managers will require a basic understanding of market potential assessment for exporting and exposure to the fundamental techniques.

SEGMENTING THE INTERNATIONAL MARKET

PC Globe-Version 5 (26), a computer international database, lists 208 countries. It is difficult to imagine that a small business could serve the entire global market. Therefore, a company must choose among the countries of the world in order to identify its target markets. Worldwide there is a great contrast economically, culturally, and politically among nations. These contrasts mean that a small business marketer cannot select target countries randomly, but must employ workable criteria to segment the world market and choose those segments, or countries, where the company's products or services have the best opportunity for success. But what is the rationale for grouping countries into segments? What procedure could a small business employ to segment the international market?

RATIONALE FOR SEGMENTATION

A market segment refers to a group of countries that are alike in respect to their responsiveness to some aspect of a marketing strategy (15). Market segmentation may be defined as a technique of dividing different countries into homogeneous groups. The

concept of segmentation is based on the fact that a business cannot serve the entire world with a single set of policies because there are disparities among countries-both economic and cultural. An international small business marketer, therefore, should pick out one or more countries as target markets. The firm may not find it feasible to do business immediately with the entire spectrum of countries forming a segment. In that case, the firm may design its marketing programs and strategies for those countries it does enter and later draw upon its experience with these countries in dealing with additional markets.

CRITERIA FOR GROUPING COUNTRIES

A review of marketing literature shows that studies have been done on grouping countries using a single variable or as many as 200 descriptive factors (20, 37). The following is a summary of the more popular techniques for classifying countries.

Geographic Grouping

One popular way of grouping nations is to classify them along regional lines. However, geographic lumping of countries to form market segments does not automatically guarantee they will present the same market opportunity for international business for it overlooks the possibility of economic and cultural differences among countries (27).

Economic Status Grouping

Economic status grouping classifies countries on the basis of GNP per person. However, there are no empirical studies showing that the economic status classification of countries is a viable system. Additionally, emphasis on economic status alone in classifying countries misses the crucial impact of cultural differences among nations (3, 5, 13).

Political Grouping

Another way of grouping countries is to classify them by their political perspective (e.g., democratic republics, dictatorships, communist dictatorships, and monarchies). But from the vantage point of an international marketer, their political closeness may not render them potentially similar customers. The differing economic perspectives of each of the countries under this scheme would seem to negate their grouping according to political environment in order to develop a common marketing strategy.

Grouping by Religion

Religion constitutes an important element of society in most cultures. It thus greatly influences lifestyle, which in turn affects marketing. Following this logic, religion could work out to be a viable criterion for grouping countries. However, the

formulation of a common marketing strategy for a group of countries following any one religion may not suffice. For

example, both Pakistan and Saudi Arabia are strong adherents of Islam. But the economic differences between the two countries would invalidate lumping them together for marketing decision making. Saudi Arabia, with a per capita GNP of $4,816 (1992 estimate) is a customer for a variety of consumer and industrial products. On the other hand, Pakistan, with its per capita GNP of $386 (1992 estimate), offers a very low potential for international marketers. In summary, while religion via culture plays an important role in determining lifestyle, by itself it may not serve as a viable criterion for grouping countries (31).

Cultural Classification

Countries can be classified in stereotyped cultural groupings. Presumably countries in a cultural group should be amenable to the same marketing strategy. Cultural groupings make sense since lifestyle is affected intimately by culture, and therefore, this form of classification for marketing decision making should be adequate. However, the problem is what constitutes a cultural category. The Human Relations Area Files, Inc., associated with Yale University, has identified about 700 major cultural groups in the world, in which they further collapsed into over sixty cultural types (22). Even if only these sixty categories were used, it would be an enormous task for a small business marketer to relate all the different countries of the world to each of these categories and formulate an individualized strategy for each of the sixty cultural types. An alternative would be to establish fewer than sixty cultural categories. Although it may be technically feasible, this type of exercise would require a tremendous effort and be cost prohibitive for a small business (10).

Multiple-Variable Grouping

A number of studies have been reported in marketing literature that used a large number of variables to form country clusters (4). The argument behind the use of multiple variables has been that countries relate to each other in accordance with their cultural, religious, socioeconomic, and political characteristics. Therefore, it is desirable to form international segments using variables in all these areas rather than simply grouping countries on the basis of characteristics such as geographic proximity or economic status (6). An important grouping study using cluster analysis was done by Sethi (29). This approach is beyond the technical and financial resources of most small business marketers.

Despite the difficulty of identifying segments for the small business interested in international operations, some means must be found for organizing intelligence that most vitally affects the firm.

A MARKET TYPOLOGICAL APPROACH

The following analysis illustrates a methodological tool which can be used in global examination of various marketing problems; e.g., for evaluating sales, channels of distribution, advertising, market potential and others. To achieve this objective, a market typology model has been developed which incorporates considerations involved in any major marketing operation: economic factors, standards of living, health, education, transportation and communications channels. Several indicators have been selected to reflect each of these marketing considerations (19). Table 1 lists the major components and the respective indicators which can be used in the market typology model. The components presented deal with a sampling of indicators of general marketing interest. However, many others might have been included such as merchant shipping and air freight, for these are of importance to distribution in certain countries. Major sources of statistical data can be obtained from the United Nations, the World Bank, the International Monetary Fund, and a computer database, PC Globe.

The typological model developed as a template for Lotus 1-2-3 (or comparable spreadsheet) allows the user to assess the market potential for selected countries (See Figure 1 for a printout of the cell and formula setup). The methodology involves a simple calculation which takes into account both the relative positions of the countries on each indicator and the distance between them. From the raw data, relative values ranging from one through ten were derived for each indicator. These were obtained by subtracting to get the differential between the highest and lowest value on each indicator, and dividing this differential by ten, forming ten ranks. Countries were assigned the appropriate rank on each indicator corresponding to each value. Rankings one through ten reflect most through the least favorable rank. Finally, the relative ranks of each country on all indicators were summed to obtain a total country score. The lower the composite score the higher the market potential. The model also permits the user to weigh each variable as to its importance in the analysis. On the basis of this composite score, countries can be arranged in descending order and differentiated into levels reflecting relative market development on these particular marketing conditions.

This methodology was preferred to a straight numerical ranking because it allows several countries to be assigned the same relative score. The data unquestionably requires interpretation, however, and some cautionary comments are required concerning the varying significance of relative ranks for each indicator. An exceptionally high or low data point of one country on an indicator may result in misleading relative ranks for all other countries under study. For example, a particular country's high per capita annual electric power production can cause a depreciation in the apparent capabilities of other countries.

It is also important to note variations in the differential between high and low data points, since this effects the significance of relative rank. In Western Europe, for example, Gross National Product per capita ranges from Portugal's $342 to Switzerland's $2,270, a sixfold difference. In contrast, Life expectancy varies far less, ranging from Portugal's 66.35 to Sweden's 75.39 years.

Despite the need for careful interpretation and these recognized unavoidable shortcomings, this methodology illuminates certain facts about the markets considered. It enables a broad grasp of problems to be encountered in various countries and an idea of the relative acuteness of these problems.

ILLUSTRATIVE EXAMPLE (TAKEN FROM AN SBI CASE)

Epic Entertainment (disguised name) is a film production and distribution company. It is a worldwide distributor of feature-length motion pictures for theatrical, home video, and television. Its global network, however, was very limited. Management was concerned about the globalization of the motion picture industry, and therefore, was interested in expanding its worldwide markets. One aspect of the case was to assess the market potential for their products in selected countries. Using the methodology and spreadsheet template developed by the author, an analysis was conducted on a series of groups of countries. Figure 2 shows a sample of the absolute data input into the spreadsheet for the selected indicators (data obtained from 11, 12, 28). Figure 3 indicates the results of the analysis and contains the relative values assigned to each country on the individual indicators. Based on the results of the analysis the client was able to select appropriate countries for further investigation.

CONCLUSION

A small business interested in marketing abroad needs to decide which countries to enter. Just as the U.S. market is segmented by marketers in different ways, it is also desirable to segment the international market and choose one or more segments (countries) to be served. The analysis presented in this paper, using the methodology and accompanying spreadsheet template, can provide the user with a sophisticated analysis of assessing international market potential. The microcomputer and the spreadsheet have taken all the drudgery out of a complicated analysis. The market typological model can be expanded from the example presented. By using a spreadsheet it enables one to quickly create a model for a particular situation by entering more variables, expanding the formulas, and entering additional data. This model allows the user to approach market potential assessment logically and systematically because it makes it possible to focus on the problem, not on the calculations.

REFERENCES AVAILABLE UPON REQUEST

Table 1 Major Components and Indicators of the Market Typology

The Economy

1. Gross National Product Per Capita, U.S. Dollars. 2. Electric Power Production, Kilowatt-hour Per Capita. 3. Energy Consumption, Kilograms Per Capita. 4. Steel Consumption, Kilograms Per Capita. 5. Investment as Percent of Gross National Product. 6. Agricultural Employment as a Percent of Male Labor Force. 7. Gross National Product, Average Annual Rate of Growth. 8. Trade Dependency on Raw Materials: Raw Materials as a Percent of Exports.

Health/Hygiene

9. Life Expectancy, Years at Birth. 10. Infant Mortality Rate: Deaths Per 1,000 Live Births. 11. Inhabitants Per Physician. 12. Inhabitants Per Hospital Bed.

Education Level

13. Literacy: Percentage of Adults Literate. 14. Primary School Enrollment, as a Percent of Population Aged 5-14. 15. Secondary School Enrollment, as a Percent of Population Aged 15-19. 16. Enrollment at a Higher Level of Education Per 100,000 Total Population.

Communications

17. Newspaper Circulation: Estimated Daily Circulation Per 1,000 Population. 18. Radio Receivers Per 1,000 Population. 19. Telephones Per 1,000 Population. 20. Television Sets Per 1,000 Population. 21. Urban Population: Percent in Cities Over 20,000.

Transportation

22. Motor Vehicles Per 1,000 Population. 23. Road Density: Kilometers Per 100 Square Kilometers. 24. Railroad Density: Kilometers Per 100 Square Kilometers> 25. Rail Freight Utilization: Million Freight Tons, Kilometers Per 100,000 Population.

Figure 2

Foreign Market Assessment Country Typology: Absolute Values

POPUL. VCRPEN TVPEN SCREEN CABLE Sum of (Mil.) (Mil.) (Mil.) (Actual) (%) Total Weight ---------- Weight -----> 0.00 Country (After entering weights, PgDn for Results) Equal Weight ---------- Denmark 5.140 1.150 2.200 347 56.0 Germany 77.530 14.340 31.070 3.754 53.9 France 56.330 6.630 20.300 4.554 20.0 Italy 57.788 3.600 20.250 3.249 0.0 Spain 39.812 5.200 11.200 1.773 50.0 Sweden 8.418 2.100 3.300 1.144 91.5 Portugal 10.607 630 2.700 250 0.0 ---------- After Entering the data you want to analyze into the appropriate cells above, press the ALT [A] keys to begin the analysis. After the analysis is complete, the results screen will appear.

Figure 3

Country Typology: Relative Values

Index POPUL. VCRPEN TVPEN SCREEN CABLE Total Country (Mil.) (Mil.) (Mil.) (Actual) (%) Score ---------- Denmark 10 10 10 10 4 44 Germany 1 1 1 2 5 10 France 3 6 4 1 8 22 Italy 3 8 4 4 10 29 Spain 6 7 7 7 5 32 Sweden 10 9 10 8 1 38 Portugal 10 10 10 10 10 50 ---------- Press the (PgUp) key to enter new weights. After entering new weights, press the (PgDn) key for results.

SOME THOUGHTS ON WHY THE NIRVANA OF COMPUTER-BASED STRATEGIC DECISION SUPPORT SYSTEMS IS NOT A REALITY FOR SMALL BUSINESSES

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ABSTRACT

This paper examines the predictions of the last two decades that computerbased strategic decision support systems will be in common use by large and small businesses by this time. Since this does not appear to be the case, two specific propositions are offered as possible reasons for these unfulfilled realizations.

INTRODUCTION

As early as April 1969 or more than twenty years ago writers, such as Dearden, McFarlan and Zani of the Graduate School of Business Administration of Harvard University were reporting on the promise of computerbased decision support systems. These three scholars reported on a meeting of the Management Sciences Association, New York Chapter. It was suggested that the conference's purpose was to report on the use of information techniques such as graphic reporting for senior management as well as the design for information retrieval systems for strategic decision making [8]. In 1980, Steve Alter in his book on decision support systems chronicled their use in eight case studies. Alter cautiously concludes that the trends that he cites " ... should lead to much wider application of computers in decision supporting roles" [2, p.192]. Alter however, does further caution that there are many "...counter examples to ever surefire paths to DSS Nirvana...." King in 1983 coins the new term "Strategic Decision Support System" (SDSS) and similarly describes four systems at Equitable Life, IBM Research, RCA and Citibank [14]. In fact, he states that SDSS can only be achieved if developed in accordance with the process of strategic system planning that he describes. Holloway and Pearce [11] propose three specific strategic planning models based upon simulation and linear programming.

As recently as 1985, David [7], Luconi et. al, [15] and Montgomery [18] wrote glowing predictions for computer-based support systems. David [7] proposes a specific system of Quantitative Strategic Planning Matrix (QSPM) for small businesses and suggests that the "...technique has been successfully tested in business policy classes." Montgomery [18] recommended a system specifically for marketing strategy. Montgomery stated in 1985 that the next decade is bright with promise for the emergence of significant integrated decision support systems for strategic marketing" [18, p. 121]. Luconi et. al. in 1985 described four types of computer-based systems and stated "...it will take until about 1990 for ES [Expert Systems] and ESS [Expert Support Systems] to be fully recognized as having achieved worthwhile business results" [15, p. 13]. From my experience, the Nirvana of computer-based decision support systems has not fully been realized. The above writings have promised wider acceptance of this new concept than has been realized. However, a review of other writings suggests why this is such a traumatic birthing.

A proposal for a small business computer-based strategic DSS and two propositions will be offered in this paper.

SUGGESTIONS FOR SUCCESS

In his seminal treatise on organizations in 1967, Thompson [24] early cautions that choosing a judgmental decision-making strategy is difficult. In a similar tone, Simon states, "Strategic planning directed toward key factors in decision making makes quite different information demands from planning conceived as comprehensive prediction and control of a system [20, p. 131]. In that case, strategic decision-making is unique and requires a special effort to realize successful decisions.

Keen and Wagner [13] issue a challenge to bridge the gap between the specialized world of data processing, management information systems and operations research and the practicing strategic business manager. One guideline toward bridging that gap is suggested by Keen and Scott Morton [12, p. 59] is a declaration that "Our starting point is that information and information- processing technology surely can be made useful, given an understanding of their needs." As is true in any organization offering a service to clients, the needs of the clients must be paramount.

A number of writers [1], [4], [9], [16], [17] and [21] offer various quantitative and conceptually based methods to minimize the difficulties that researchers and consultants have had in implementing computer-based strategic decision support systems into the mainstream of the strategic decision process in organizations. These works are quite helpful and probably can be summarized in the recent updating of Anthony's book on management control. Anthony states that, "...system designers should work closely with individual managers to develop reports that draw from the central system the information needed to present it in the form that the manager finds most useful" [3, p. 134]. Indeed, the message that comes in loud and clear from these writings is the need to covetously seek to understand the practicing manager's needs and perceptions. This concept will underlie the proposal of this paper presented below. Anthony further suggests that practicing managers learn touch-typing. This suggestion also leads toward a testable proposition to be stated later in this work.

Several other salient suggestions are offered by other writers. Carr [5] calls for a champion to promote a specific system since new capabilities are perceived as threats, and people take comfort in persistence. A "champion" is probably a valuable asset but the champion needs to be careful not to set up a "we/they" type of confrontation with line managers. Sviokla perhaps touches the vital nerve of acceptance when he states that, "In short, if an ES (expert system) application proves significant competitive advantage to a firm, this advantage may be defensible" [23, p. 16]. In other words, the line strategic managers are bottom-line oriented and a contribution to the bottom line will be clearly recognized and supported. Further, a successful system must recognize the possibility of disagreement in the decision-making process. Cosier [6], offers the Devil's Advocate Decision Program (DADP) and the Dialectic Method (DM) to accommodate disagreement. Cosier's programs appear a bit structured since people must be allowed to disagree.

Sabherwal and Grover [191 present an excellent analysis of matching a computer-based support system to the Simon's [20] intelligence, design and choice phases of the decision-making process. The work of these writers cited above offers an excellent base upon which the proposal of this paper is grounded.

A COMPUTER-BASED STRATEGIC DSS

From observations of the practices of strategic managers in business organizations in the beginning of the last decade of the twentieth century, it appears that in contrast to many earlier predictions [2], [7], [8], [11], [12], [15] and [18], the wide spread acceptance of computer-based strategic decision support systems has not been realized. The difficulty of implementation is the main thrust of this proposal.

However, after a meta-analysis of the research cited above, the following suggested characteristics must be addressed in any new proposal. These characteristics can be synopsized as follows:

-Seeks a clear understanding of the client's needs -Offered in a format useable by line managers -Recognizes a champion of the process -System provides the potential of a competitive advantage -Accommodates disagreement among decision makers -Allows for phases of intelligence, design and choice

Although Witte [26] found no support for the traditional five decision phases of (1) recognition that a problem exists, (2) the gathering of information, (3) the development of alternative, (4) the evaluation of alternative and (5) the final choice or selection, he did offer an interesting possible hypothesis that has influenced this proposal. Witte offers the following hypothesis: "An innovative decision process needs a relatively high level of activity in order to be started, and will come to its final conclusion with an even higher level of activity" [26, p. 178]. An attempt to accommodate this high level of activity is incorporate into this proposal.

The importance of the close coupled relationship of the decision maker to the decision support system is described by Wagner [25] below:

The process is not merely data compilation and reporting as in traditional mainstream applications; neither do users serve essentially as operators directing the system. Executive support is more--it is a system that achieves a coupling of an individual's intellectual resources with those of the machine [25, p. 209].

Wagner's statement may be an ideal goal to strive for, but at the present time, I propose that this coupling of man to machine be performed by an adept computer programmer as called for in this proposal to be described later. Another problem of Wagner's ideal state is a cultural phenomenon that was hinted at by Anthony's admonition to have managers learn touch typing [3] and will be addressed in this proposal.

The cultural phenomenon with respect to typing ability may at first glance appear trivial but is believed to be germane. Most top level strategic managers are of the generation that attended secondary school and college in the 60's. In that era, touch typing was not considered to be a needed or even desirable skill for persons anticipating positions in management. From that situation, there appears to be a negative relationship between age and typing skill among today's strategic managers. On that basis, the following testable proposition is offered:

Proposition 1

There will be a negative relationship between the age of strategic managers and their level of typing proficiency. In other words, the top level strategic manager has a low level of typing proficiency and probably also has an aversion to keyboarding as demonstrated in their social culture. This proposition can be tested by including a demographic question on "years since bachelor's degree" and a second question on use of keyboard instruments by strategic managers. These questions would be included with a number of other salient questions and mailed to a randomized sample of managers.

This proposal for a computer-based decision support system was called for in the "Future Research" section of Stone's dissertation [22]. Stone stated:

A possible application of the type of research reported here and elsewhere would be to provide a seminar-based program on the use of computer-based strategic decision support system. Following a period of preparation similar to the writing of the scenario-case used in this research, a meeting would be scheduled with the decision-makers of a business organization. During a Socratic type of dialogue discussion, the personal and organizational culture bases as well as specific planning assumptions would be developed. At the same time, an adept computer programmer would be listening to these planning assumptions. He/she would then incorporate them into a worksheet type of program licensed to be uniquely modified to represent the particular organization's assumptions and then developed into a user-friendly planning support system [22, p. 167].

On the basis of the above proposal cited by Stone [22], the following proposition is offered:

Proposition 2

A computer-based strategic decision support system that incorporates the six characteristics listed earlier and is uniquely formulated in accordance with the above proposal will be more widely used by practicing managers.

The only feasible method of testing this Proposition 2 is to implement systems in cooperation with practicing managers in organizations. Some preliminary testing is reported below. Additionally, new applications of the method are also planned.

In a recent Wall Street Journal article, Ferguson [10] captured the essence of the above type of interactive decision making. Ferguson who is a technical writer for Hewlett Packard Corporation describes a new management process in which represen- tatives of every department involved work as a team to make and implement product decisions in concert with internal and external needs.

This second proposition of the seminar and computer-based strategic decision support system is not as easily tested as the keyboarding proposition. However, the author has had experience in creating and using a similar type system to assist product managers to produce viable product plans for new products that incorporated engineering, market, and financial analysis data into a customized program reflecting the values and needs of a specific organization.

The next planned test of the proposed computer-based strategic decision support system is with a number of small colleges that face at least two major challenges in the decade of the 90's. As is well known, the number of college-age students will steadily decline into the mid 90's creating a declining supply of traditional students to be educated. Secondly, the number of college professors to retire in this decade will be high and the supply of new Ph.D.'s will be low. The proper match of these two phenomena will be critical to strategic managers in the academic arena.

If success is achieved in the academic environment, the procedure will be used in small to medium sized businesses. The lack of keyboarding skills of strategic managers who will be succeeded by younger managers will slowly be

alleviated since these managers will be succeeded by younger managers who have been typing onto keyboards since elementary school. On that basis, time will be the prime ally to both propositions.

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EFFECTIVE USE OF COMPUTERS IN SMALL BUSINESSES: THE NEED FOR TRAINING AND ASSISTANCE

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ABSTRACT

Computers have become an integral part of small business management in the last decade. The focus of this study was to gain a better understanding into the nature of computer use in small businesses and to assess the need for training in order to improve their overall efficiency. Small businesses have increased their usage of computers and computer applications. However, few companies have implemented training or have received outside assistance. The benefits anticipated from the results of this research may be useful to trainers, consultants, computer companies, colleges and universities, and Small Business Institute programs.

INTRODUCTION

In the past decade research has been conducted to determine factors which allowed small businesses to effectively implement management information systems. This continued emphasis on the small business sector as an integral part of our economy encourages an examination of methods to aid in its efficiency. Although efforts have been made in education, government, and the business communities, the need remains for a better understanding of computer applications in small businesses to help them increase their effectiveness. For instance, a computer system that is too sophisticated with complex features may impair rather than enhance the system (4). In fact, low-cost technology may provide complex systems as well as increase inefficiency due to maintenance, increased training and user resistance.

In a world which depends upon a high degree of efficiency, computer knowledge and applications appear necessary for small businesses to remain competitive in domestic as well as global markets. Research shows several benefits of using computers, such as increased productivity and reduced overhead (5). Small businesses have been using computers and software more readily in recent years. In 1985, over half of the companies surveyed had acquired computers and were using accounting systems, word processing, and other software packages (9). A recent study found the most frequently used microcomputer application areas were (1) word processing; (2) accounts receivable; (3) general ledger; (4) financial statement preparation; and (5) spreadsheets. However, none of the small business surveyed used certified public accountants for assistance when they had problems with employee training, disk capacity, and software defects. These small businesses appeared to rely most often on

computer consultants (2).

Small businesses may not always be able to afford the training and computer personnel as do large businesses, since they may lack necessary resources. In fact, one study found that a major reason why small business computer systems failed was the software design; i.e., software inflexibility, inadequate documentation, and program errors (1). Further, a large proportion of small business may not use accounting software and set it aside after the first attempt to implement the product (10). Another study found that as much as 75% of the money spent training employees on computer software was wasted. This inefficiency was attributed to the time employees had devoted to learning functions which they did not need in their work (8). A government agency failed to obtain the value of its computer systems due to lack of training by both in-house personnel and software contractors (3).

Many computer companies, educational institutions and consultants aim their educational programs toward these small businesses. Raymond (7) found that computer training and education had an important positive effect upon the attitudes and computer usage of small business managers. Further, small businesses should be made aware of the importance of initial training. As microcomputers play an integral part of computing, companies are addressing methods how best to train employees to use this technology (6).

PURPOSE OF THE STUDY

This research was undertaken to examine small business computer usage and, in particular, to examine the need for training and assistance. It is critical to understand the problems and computer needs of small businesses. This study, based upon survey data, provides a clearer definition of computer use in small business organizations. Current use,

types of computer training, and consulting needs were the focal points of the research. Information gained in this study and the benefits anticipated from the results of this research may be useful to trainers, consultants, computer companies, colleges and universities, and Small Business Institute programs.

METHODOLOGY

A two-page questionnaire was developed to obtain data from small businesses. Small businesses were defined in this study as having less than 100 employees. Predetermined and an "other" categories were included for each question to allow for unanticipated answers. The questionnaire was pretested and mailed to 500 small businesses in two cities in Texas in April, 1992. These companies were selected randomly from lists of Chamber of Commerce databases. A total of 158 completed

questionnaires were returned resulting in a response rate of 32%. The breakdown of responding companies segmented by the two cities was 52.5% and 47.5%, respectively. Data from the survey was transferred to Statpac Gold for analysis.

RESEARCH FINDINGS

The first portion of the findings include the types and sizes of the small businesses. Next, types of hardware and software use are examined. Finally, small business computer assistance and training needs are examined.

Nature of the Business Organizations The largest proportion of responding businesses, 61%, were found to be in the service category. Retail and manufacturing categories were represented by 13% and 10%, respectively, in Figure 1.

The sizes of the businesses according to number of employees are illustrated in Figure 2 with the majority, 54%, of the responding businesses employing less than 10 employees. However, companies with 11-100 employees were also represented.

Computer Hardware/Software Utilization

The majority, 83%, of the companies reported some type of computer system. Some 54.4% of the respondents indicated they had 1-5 computers, and 20.3% stated they had 6-10 computers; only 8.2% had more than 10 computers. As expected, when asked the type of computer system, the personal computer was mentioned by the largest percentage, 62%. However, 35%, of the respondents had a PC network, but fewer had mid-range and mainframe computers (See Figure 3). A high majority, 86.5%, stated they used IBM compatible software.

These firms had computer systems which were relatively new, since 88% of the respondents indicated their computer systems had an average age of less than 5 years. Only 12% of the companies reported their computer systems had an average age of over 5 years as shown in Figure 4. Many different computer applications were used by the small businesses. The largest percent, 57%, utilized word processing, followed by spreadsheet and database management applications. Figure 5 illustrates the proportion of small business who use many types of computer software programs.

Computer Assistance

When companies were asked, "How much time is spent each month developing or altering computer programs within your business?," a high 87.3% stated less than 10 hours as shown in Figure 6. Several methods were utilized by small businesses which enable them to develop their computer systems. Some 34% used in-house

personnel; also, 29.1% used an outside computer company as shown in Figure 7. The small businesses were asked to rate the degree of satisfaction with service from outside consulting firms. The average rating was computed to be was 2.5 on a 5-point scale (1 was satisfied, and 5 was dissatisfied). When asked where they would look to find a computer consultant, the majority of small businesses, 63.9%, stated if they needed a consultant they would seek referrals from others. Only 15.8% of the responding businesses indicated they would go to the computer store, and 14.6% mentioned yellow pages as a source (See Figure 8).

Table 1 shows areas where small businesses reported they desired computer assistance and service. A large portion

stated they desired a consultant to make recommendations, define their computer needs, write program specifications, and specify the type of computer system.

TABLE 1 COMPUTER CONSULTING NEEDS FOR SMALL BUSINESSES

Area Number Percent

Make recommendations 60 38.0% Define computer needs 58 36.7% Write program specifications 40 25.3% Specify computer system 34 21.5% Design a training program 29 18.4% Analyze the business 28 17.7% Evaluate vendors 12 7.6% Other needs 11 7.0%

Computer Training

The results were quite revealing in that only 18% of the companies stated they had some type of formal training program for their employees who used computers (See Figure 9).

When asked how many hours per month they spent on computer training, some 81. 1% reported fewer than 10 hours. Also, the majority, 52.5%, stated training was conducted by the employees, and only 17% of the responding companies reported training was conducted by outside consultants. The businesses rated their perceived satisfaction with outside consultant training on a 5-point scale (A rating of 1 was satisfied, and a 5 rating was dissatisfied). The average perceived satisfaction was computed to be 2.2 on the rating scale.

CONCLUSION

The objective of the research was to examine the nature and problems of computers in the small business sector and focus

attention on the need for assistance. The study, showing a widespread use of computers in small businesses, supports the literature that the majority of businesses had acquired a computer (9). Further, companies were using computer software in many aspects of their businesses. The personal computer was used most often, but some small businesses were utilizing main frame and networking their systems. Many types of computer software applications were used by small businesses. However, companies spent little time in developing or altering computer programs for their businesses. Also, little assistance from the outside had been used, and companies tended to rely on their own personnel for this activity. Further, only a small number of companies had training programs for their personnel. This training was conducted by their own employees.

IMPLICATIONS

These findings illustrate the need for increased support from trainers and consultants to provide needed assistance. Companies need assistance in making recommendations and defining their computer needs. Also, assistance is needed in writing program specifications and specifying computer systems. However, small businesses are reluctant to obtain training and assistance, since they may lack financial resources. Such assistance should allow the manager to examine computer needs as an integral part of long-range planning.

The results of this research identified areas where consultants and trainers may be a useful resource to enhance small business computer use. Perhaps one vehicle to assist these businesses is through the Small Business Institute programs. The SBI programs may be one vehicle to assist companies in designing management information systems and making recommendations. Future research should determine specific assistance in software applications which could benefit small businesses. Further work in this area should assess methods to provide effective training and assistance to the small business community.

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UTILIZING SCORE TO ENHANCE THE SBI PROGRAM

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ABSTRACT

The Millikin University Small Business Institute has a unique working relationship with the Service Corps of Retired Executives (SCORE). SCORE Chapter #296 is fully integrated into the SBI Program and has offices within the school of business. SCORE members screen the SBI cases, provide back-up support and advice to the SBI student teams, and continue to work with the client business after the completion of the SBI consulting project.

This mutually supportive, full-partner relationship provides a number of benefits to the SBI director, student teams, and the university. A few of the advantages include qualifying SBI cases, eliciting greater faculty ownership of the Program, and providing executive assistance and role modeling for students. These and other benefits of this unusual alliance are outlined in the paper.

BACKGROUND

Millikin University initiated the Small Business Institute Program (SBI) in the Fall of 1975. Shortly after the Program was established, it became apparent that referrals from the Small Business Administration (SBA) did not generate enough viable cases to fully utilize the resources of the Small Business Institute. The delivery of the SBI Program at Millikin was and continues to be through a separate course. Students work in teams and are assigned to a case by the SBI director.

The impetus and leadership for establishing a Service Corps of Retired Executives (SCORE) Chapter at Millilkin University came from the first SBI director and a business colleague who recognized that a coalition with the Service Corps of Retired Executives (SCORE) could be beneficial in eliminating or at least reducing the reliance on the SBA for good cases.

SBI/SCORE PARTNERSHIP

From the beginning, the SBI/SCORE association with Millikin at University has been viewed as an equal partnership with their offices in the Tabor School of Business. Organizing the effort to bring SCORE to the community and to the Millikin campus was supported by the business school dean. He was instrumental in securing the commitment of the university to provide adequate

facilities and clerical support. Today, the SCORE Chapter has office space adjacent to the SBI director, dedicated secretarial help and computer resources. All of the these resources are completely funded by the university. SCORE members staff the office Monday through Friday for half days.

After the SCORE counselor has worked with the client for a period of time, situations which are prime cases for SBI are identified. If the case is chosen for the SBI Program, the SCORE counselor ceases his/her effort as an active advisor to the client and takes on an advising role to the SBI team. The SCORE counselor is careful to serve as a resource person for the students but neither directs their activities nor "solves the problem" for the students. As the student's work progresses there are periodic meetings with the SCORE counselors, students, faculty and the SBI director to assess the progress on the case. At the conclusion of the SBI project, the SCORE counselor again resumes an active role with the client and encourages implementation of the student recommendations. Continued involvement by SCORE has proven to be effective in obtaining client follow-through on needed actions.

At the present time, the Millikin SCORE Chapter opens 30 new cases a month while providing counseling assistance to 40 ongoing clients. Of these, approximately 15 cases a year are considered for the SBI Program. Our experience continues to be that when SCORE does the initial screening and later recommends SBI involvement, there is a much greater degree of client cooperation. Students also have greater confidence that their work will be relevant and their recommendations implemented.

It is our belief that housing the SCORE chapter on the campus and the resulting close working relationship between SCORE activities and the SBI Program are unique.

With this alliance we are able to keep the needs of the client paramount and avoid looking at cases as being an SBI case or a SCORE case; rather it is OUR case and OUR opportunity to cooperate in the best interest of the small business client.

The following is a brief discussion of the advantages this partnership provides to the SBI Program. These advantages would not be possible with a SCORE Chapter whose membership was made up of mediocre individuals. This paper does not elaborate on the benefits to SCORE, but it is evident that affiliation with the university has helped create a level of prestige for SCORE which has permitted Chapter #296 to be very selective in the members it will accept.

BENEFITS TO THE SBI DIRECTOR

Prospecting and Qualifying Viable SBI Cases

Many SBI directors report that identifying good SBI cases and

eliciting the full cooperation of management is time consuming and frequently a frustrating task.

Because SCORE provides on-going counseling to clients and information about the suitability of a potential SBI client is shared, the need for the director to search for quality cases is greatly reduced. The director has more time to focus efforts on delivering good service to the client.

Encourages Faculty Ownership of the SBI Program

Involvement of respected former executives in SBI generates more creditability among the faculty. Further, faculty report they are more willing and enthusiastic about participating in the discussion of cases because they both enjoy and learn from SCORE member's observations.

Avoids Hopeless Cases

Most experienced SBI directors have encountered the difficult problem of accepting an SBI case, which, after further student investigation, is obviously unworkable. The involvement of SCORE in screening these cases avoids most of these problems. Assessing workable client situations such as willingness to disclose details, avoiding "death bed" cases, qualifying the candidate's management abilities and determining the "coachability" of the client are expected and routine for SCORE members.

Assistance in Handling Sensitive Situations

Because of the unique relationship that the SCORE counselor has with both the client and the student teams, sensitive issues such as questionable business practices, illegal operations, and suspect ethical behavior are easier to bring to the attention of the client.

Accommodates Unpredictable Enrollment

The Millilkin SBI Program is operated through a separate course- Small Business Consulting. Any upper division business major recommended by the faculty may enroll in this course. As a result of making this opportunity available to all business students there is often a need to find good cases on short notice. The fact that SCORE typically has a backlog of cases makes responding to student demand easier.

In summary, the involvement of SCORE in the SBI Program facilitates acquisition of good cases, supervision and management of student teams, and a good working relationship with the client. The result is higher quality education and a small business assistance program which is valuable to the client and creates fewer hassles for the director.

BENEFITS TO STUDENTS

The involvement of SCORE members in the SBI Program also provides some distinct advantages to the students in the Program.

Assignment to Workable Cases and Situations

Because there is more advance knowledge about the case there can be a better match of student abilities and client needs. In all but rare instances, clients have been counseled by a SCORE member for at least 5 or 6 months prior to being accepted as an SBI case. The usual result of SCORE screening clients is a high quality SBI case. While this has advantages to the SBI director there are, as well, substantial educational benefits to the student.

Frequently, students encounter some initial difficulties in establishing credibility and trust with the client due to their youth and relative inexperience. In the clients view, the SBI team is in effect, sponsored by the SCORE member. Many of the initial credibility and cooperation problems are alleviated as the clients' trust in the SCORE counselor is transferred to the SBI teams.

Executive Assistance for Students

The varied professional experience of the SCORE counselors provide a depth and quality of advice which is often different from that which is available from the faculty. The influence of these dedicated individuals is usually instrumental in causing the students to view the SBI project as a serious professional activity and not just another routine academic exercise. In this interaction, the students come to see the importance of their obligation to be of genuine assistance to the client. Additionally, the needs of the business become a major priority to which the students must subordinate personal convenience.

However, the SCORE members do not perform the work on the SBI case. In their role of offering guidance and support, they are extremely careful to let the students think through the problems and recommendations. They are careful not to "over advise" the students. Nevertheless, given the time constraints of a typical SBI case, students must not spend too much time exploring unfruitful approaches. The SCORE counselors have proven very adept at maintaining this delicate balance.

Helping Students Gain a Thorough Understanding of the Business

An in-depth understanding of the client situation will often include many factors rarely emphasized in textbooks. Gaining this understanding may include some awareness of the personality of the business, management's approach to problem solving, family involvement, and business succession issues.

Sometimes the clients' relationship with other area businesses either as a customer or supplier greatly impacts the case. Thus, on occasion, SCORE'S assistance enables students to recognize that important internal/external political factors impact business. They may, for example, identify a loan officer who can give additional background information on the company and its operations. This "oral history" can add subtleties, richness and depth to the student's understanding of the business; an experience difficult to duplicate in the classroom.

Assistance in Preparing the Recommendation and Report

Near the completion of the SBI case the student teams present oral and written reports to a SCORE "board of review". This process helps students prepare a better set of recommendations and a more polished report.

Executive Role Model for Students

A close working relationship has frequently given the students, for the first time, an executive role model. The impact of this mentoring is not inconsequential in terms of students improving their resourcefulness, thoroughness, commitment to quality work, obligation to the client, and demeanor, i.e. a sense of true professionalism. The students and their assigned SCORE counselor often develop a deep mutual respect. In more than one instance, this has resulted in the counselor being instrumental in assisting the student in finding employment after graduation.

BENEFITS TO THE UNIVERSITY

Educational Quality

Excellence in education is a major goal of the university. The involvement of SCORE in the SBI Program results in a higher quality educational experience for students, thus the Program is contributing to one of the primary goals of the institution.

Impact on Student Enrollment

Many perspective students and their parents are enthusiastic about a business school whose Program includes not only outstanding classroom education but has the additional bonus of a first rate "hands on" business consulting experience. This is especially important given the downward national trend of business enrollment.

Community Economic Development

An effective SBI Program adds to the viability of the small business community and is therefore supporting economic development. When the SBI project has been completed, a SCORE

counselor resumes his/her role as advisor to the client. This extension of the SBI Program helps insure that the recommendations will be implemented and increases the probability of business success by the client. Through the combined efforts of SBI and SCORE, the sponsoring university is adding to the economic development of the community.

Strengthens the University's Image

The individual SCORE members almost universally have established a pattern of success and a resulting favorable community reputation as former practicing executives. As business and community leaders, they are well known and respected. Their affiliation with the university through SCORE and the SBI Program brings added luster to the university's reputation and image. In particular, it brings to the school of business, a reputation for being capable of blending practical application with business theory.

Creating Community Ambassadors

Not surprisingly, SCORE member's affiliation with and participation in university activities produces SCORE members who are enthusiastic supporters of the school of business and the university in general. These respected community ambassadors have in subtle, and not so subtle ways been effective "citizen representatives" of the university with other influential citizens.

Enhancing University Advancement Opportunities

All universities, whether public or private, are in need of financial support. Millikin University is not an exception. By utilizing SCORE we have a better SBI Program than would otherwise be possible. As a direct and meaningful contributor to economic development and by creating a higher quality education experience through SBI, we are in a better position to successfully solicit financial support.

SUMMARY

In order for a full partnership model of SBI/SCORE to succeed, our experience dictates that the university must have a genuine concern for public service in addition to its primary goal of education. Coordinated SBI/SCORE service to the small business community must be delivered without concern for who is "getting the credit". Having an on-campus location and full university support for SCORE makes communication easy, reduces the time commitment of the director, improves the educational quality of the SBI experience, and breeds mutual respect. between the university, SBI and the students. An on-campus, full partnership with SCORE lends a certain prestige to SCORE that makes it easier to attract high quality clients. SCORE members also enjoy the

reputation and prestige of the university making recruitment of suitable volunteers easier.

Our past success suggests that when the university, SBI and SCORE share the same goals of high quality, noncompetitive service to the small business community, benefits accrue to the SBI director, students, SCORE, the university and the community.

THE IMPACT OF STUDENT CONSULTING PROGRAMS ON DECISION-MAKING, OPERATIONS AND FINANCIAL PERFORMANCE OF SMALL BUSINESSES

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ABSTRACT

An area of ongoing interest and concern for Small Business Institute (SBI) directors and administrators is evaluating the worth of their student consulting programs. In today's budget-cutting environment, it is critically important to provide ongoing evidence of the value added by these programs to small businesses if they are to continue to be viable in the future.

This research examines the economic impact of SBI student consulting programs on small businesses in an effort to document their value. A mail survey will be conducted for six different SBIs in the states of Arizona and Utah. This paper reports on a pilot study of one SBI in Northern Arizona. The survey instrument is designed specifically to 1) document any changes in decision-making and operations that occur as a direct result of the SBI consultation and 2) analyze the impact of the program on small businesses' financial performance and condition.

INTRODUCTION

The National Center for Small Business Advancement reports that approximately 20,000 students and 1000 faculty members at 510 universities are involved in SBI student consulting programs nationwide. These SBI's provide free assistance to approximately 7000 small businesses per year.

Efforts to measure the economic impact of SBI student consulting programs are complicated by two major factors. First, it is difficult to obtain reliable data to analyze changes in financial performance or condition before and after SBI consulting. Since most small businesses are not publicly traded, they are not required to 1) file financial statements with the SEC, 2) conform to FASB (Financial Accounting Standards Board) reporting practices, or 3) reveal any information to the public. Thus, financial information must be volunteered by the small business owner and gathered directly by the researcher. Secondly, even if reliable data is obtained, it is difficult to establish a causal relationship between firms' economic performance and their consulting experience. Taking these factors into consideration, the effort must be made to document any changes that occur as a direct result of the consulting experience. More specifically, we should ask whether the SBI consultation produces 1) changes in the way small business owners make decisions, 2) changes in the operations of small businesses by way of specific tasks or activities that are undertaken, and 3) changes in the financial condition of small businesses.

Several studies have attempted to assess the value of SBI or SBDC consulting programs for small businesses. Chrisman, Nelson, Hoy, and Robinson (1) examine the impact of SBDC consulting programs in Georgia and South Carolina. They conducted a telephone and mail survey of 84 Georgia and 19 South Carolina small businesses which had received in-depth counseling between October 1, 1980 and July 31, 1981. On average, they found that percentage sales, profits, and employment growth were higher for SBDC small business clients than for the average of all other businesses within a state.

Navahandi and Chesteen (3) surveyed 106 University of Utah SBDC clients that were helped during 1985. Their major findings were that 81% of the respondents were either very or somewhat satisfied with the services they received and 81% found the recommendations either extremely or somewhat useful. Additionally, in response to questions addressing whether the services they received increased, decreased, or had no effect on their business in terms of sales and profits, 22/63 (35%) indicated an increase in sales and 18/59 (31%) indicated an increase in profits.

Stephenson, Konarski, and Phillips (5) surveyed 537 SBI clients in the Pacific Northwest and found that 88. 5 percent of the 108 respondents reported receiving considerable benefit from student consultants. However, as they point out, "benefit" is not necessarily a quantifiable dimension. Many small business owners reported gaining valuable education

or training in small business management, but how such a contribution relates to firm performance or "bottom line" cash flows is extremely vague. Stephenson, et. al. (5) report, however, that of the 63 respondents who said they had experienced an increase in sales, 28 (44.4%) said that at least some part of the increase could be attributed to the consulting experience.

Kiesner (2) surveyed the satisfaction levels of 146 SBI clients in the Southern California area during 1985-1986. When asked if their business benefited from the program, 87 percent answered yes. Keisner also reports that 87 percent of the respondents implemented the student's recommendations to some degree.

Rocha and Khan (4) analyzed the impact of SBI student counseling for 17 small New England firms. They report that 36/50 recommendations were implemented by 14 of their firms; 75% of which had a positive impact on business performance as measured by increases in sales, profits, cash flow, or productivity. Additionally, 13 of their firms reported that their financial position was either better or much better since they had received counseling.

Although these studies lend support to the general perception that SBI and SBDC consulting programs are worthy, the reported findings, for the most part, are based on clients' perceptions and are not concrete, objectively determined facts or figures. While clients indicate that they benefit from the student consulting experience, we still do not know specifically how they benefit. This study seeks to assess the impact of SBI student consulting programs through a mail survey instrument that focuses on identifying changes that occur as a direct result of the consulting experience. More specifically, the questionnaire is designed to 1) determine whether SBI counseling affects clients' decision-making 2) what operational changes occur, and 3) what impact the program has on small businesses financial performance and condition.

METHODOLOGY

A questionnaire was sent to small business owners who received free assistance in the form of student consulting from one SBI in Northern Arizona for the years 1983-1991. The business and/or business owner was located in the appropriate phone directory to ensure that the survey would be received by the former client. If the business no longer appeared to exist, the SBI Director was questioned to see if he knew what happened to the business. Since the SBI Director cooperating in this pilot study maintains close contact with his former clients and the small business community he serves, in many cases, he was able to report what happened to the business (eg. changed ownership, changed name, owner had heart attack, owners got divorced and moved, etc.). Business owners/managers who had not responded within four weeks following the mailing of the questionnaire were contacted by phone. In most cases, the client indicated that they would return the survey or requested that another one be sent to them.

DATA

The SBI office in Northern Arizona handled 152 clients from 1983-1992. Questionnaires were not mailed to 31 clients, because the client or company could not be located. The SBI Director was questioned about these 31 clients and the following information was obtained:

10went out of business 1 didn't go into business 9 sold their businesses 4 went bankrupt or defaulted 4 reports were missing 3 clients were not businesses (they were govt. agencies)

The questionnaire was mailed to the remaining 121 clients (111 existing businesses and 10 who had requested feasibility studies).

Responses were received from 72 clients (a 59% response rate); 47 returned the questionnaires and 25 responded over the phone. The 25 people who responded over the phone indicated that 12 clients had sold their business, 4 went out of business (closed their doors), 4 couldn't remember the report, and 5 clients (managers) who had requested SBI counseling were no longer employed by the company.

Of the 47 questionnaires returned, five were blank and thus only 42 responses were useable (34 were received from existing businesses and 8 were received from clients who had feasibility studies done). The five blank questionnaires indicated that 3 businesses had been sold, 1 business had closed its doors, and 1 client said no counseling had been requested (even though we had a full report on file!).

A profile of the 152 clients handled by the Northern Arizona University SBI follows:

Didn't go into business 11 (feasibility studies) Client sold business 24 Client closed business 16 Bankrupt or defaulted 4

Thus, of 141 firms in business at the time of the SBI report, 97 clients (69%) are still in business and 121 firms (86%) are still in business (24 firms under different management).

RESULTS

Feasibility Studies

A separate questionnaire was mailed to 10 clients for which feasibility studies had been done, and for which the proposed business could not be located in the phone book. Five out of eight respondents indicated that their decision not to go into business was directly affected by their SBI consultation, primarily because of the information produced by that report. Of the three clients who indicated that the SBI consultation did not affect their business decision, two cited lack of funds and one cited illness as their reason for not going into business.

In light of the SBA's new policy of not funding feasibility studies, these results are very interesting. One could argue that preventing a small business from starting up and subsequently failing is just as valuable as helping an existing small business.

Existing Businesses

A profile of our 34 full survey respondents follows.

Type of Business: 52.9% Retail 38.2% Service 35.3% Other

Size of Business: Mean Median # Employees: 15.6 6 Sales: $1,244,663 $330,000 Assets: $ 854,743 $165,000

Years in Business: Mean Median 11.47 7.0

The functional areas in which clients requested and received help were 61% in marketing, 55% in accounting/MIS, 51% in finance, and 33% in management areas. Respondents also indicated that help received in marketing and accounting were the most beneficial.

Performance Measures

Sales growth and/or net profit margin were the predominant measures used to judge the success of the business (32 out of 34 respondents used one or both of these measures). The clients were then asked if the performance of their business (by these measures) was improved as a direct result of the SBI consultation. The results in Table 1 report on the degree of performance improvement measured on a Likert Scale from 1 to 5 (1 being No Improvement and 5 being Significant Improvement).

TABLE 1 DEGREE OF PERFORMANCE IMPROVEMENT

Likert Number of Percent of Scale Firms Firms 1 13 38.2 2 5 14.7 3 12 35.3 4 3 8.8 5 1 2.9

These results indicate that roughly 62 percent of the clients felt that counseling had a positive impact on performance measures. This percentage is somewhat higher than those obtained in comparable studies by Stephenson, et. al. (5), who reported 44.4% and Navahandi and Chesteen (3), who reported 35% for sales and 31% for profits.

In order to analyze the impact of the program on firms, financial condition, the questionnaire solicited firms' financial statements. Since only 7 firms responded to this request, there is not enough data at the present time to address this issue. Impact on Decision-Making

The SBI clients were asked "To what extent has the consultant's advice had a long term impact on the way you make decisions and/or conduct business?" The results in Table 2 report on the degree of change measured on a Likert Scale from 1 to 5 (1 being Very Little Change and 5 being Great Change).

TABLE 2 DEGREE OF CHANGE IN DECISION-MAKING

Likert Number of Percent of Scale Firms Firms 1 12 35.3 2 4 11.8 3 12 35.3 4 5 14.7 5 1 2.9

These results provide some evidence that SBI programs have a lasting effect on the businesses they help. Greater than half of the respondents indicated that a moderate to great (Likert Scale of 3 to 5) degree of change occurred in terms of the way decisions are made and/or how business is conducted.

It is also interesting to note that 11/12 clients who indicated that the SBI counseling had no impact on decision-making, are the same 11/13 folks who indicated no performance improvement. Thus, these 11 clients basically perceived that the counseling experience had no impact on their business.

Operational Changes

Two items on the questionnaire focused on determining what specific changes are made as a result of the SBI consultation. The first question asked was, "As a direct result of the SBI consultation, is there any task or activity that you now perform on a regular basis that previously you did not?" The answers were roughly equally split; 17 said Yes and 15 said No. In response to our request to specify the task or activity, we found that 5 tasks related to record-keeping functions, 6 to advertising, 3 involved some type of financial analysis or control, 2 related to preparation of a business plan, and 2 involved more general management functions.

Specific changes that occurred as a direct result of SBI consulting were identified by presenting the client with a checklist of items. The results of this checklist are presented in Table 4. The items on this checklist can be classified into four different categories: 1) performance improvements, 2) operational improvements, 3) personal improvements, and 4) improved knowledge or understanding. An impressive number of changes were made; for 32/34 firms responding to this item on the questionnaire, 117 improvements of some sort were made! The largest number of changes, 46, were made in operations, followed by 29 related to the acquisition of knowledge, 24 devoted to personal improvement, and IS involving performance improvement. The attainment of knowledge and personal improvements categories can be related to having an impact on the way decisions are made. Hopefully, providing small business owners with a greater arsenal of tools and knowledge will enable them to make better decisions in the long-run.

Also of interest is that only two clients failed to check one item on this list. Thus, even the folks who indicated both no performance improvement and no change in decision-making, still checked one or more items. Thus, these clients must have benefitted in some dimension, even if they perceived that it did not have any impact on their business.

TABLE 4 SPECIFIC RESULTS OR ACTIVITIES EMANATING FROM SBI COUNSELING

Number Percent Specific Change Made of Firms of Firms

Performance Improvements: 1. Improvement in employee morale 1 2.9 2. Increase in # of employees 3 8.8 3. Increase in sales 6 17.6 4. Increase in profits 8 23.5

Operational Improvements: 5. Improved inventory control 6 17.6 6. Prepared a business plan 7 20.6 7. Added new products 3 8.8 8. Obtained new financing 4 11.8 9. Penetrated new markets 7 20.6 10. Computerized operations 6 17.6 11. Improved accounting systems 6 17.6 12. Re-directed existing business 2 5.9 13. Secured new suppliers 3 8.8 14. Created or changed credit policy 2 5.9

Personal Improvements: 15. Became better organized 14 41.2 16. Personal improvement as a business person 10 29.4

Improved Knowledge or Understanding: 17. Obtained understanding of financial statement analysis 3 8.8 18. Obtained knowledge of financial statements/budget preparation 3 8.8

TABLE 4 CONT.

Number Percent Specific Change Made of Firms of Firms

19. Improved understanding of market conditions for your products or services 13 38.2 20. Obtained insights into public perception of your business 8 23.5 21. Other (had to do with knowledge) 2 5.9

CONCLUSIONS

The results of this pilot study of one SBI in Northern Arizona are very promising. The evidence indicates that SBI student consulting programs do have a long-term impact in terms of the way decisions are made and how business is conducted. Additionally, this study documented 117 specific changes or improvements made as a direct result of SBI counseling by 32/34 firms surveyed.

The results for clients' perceptions of the impact of counseling on measures of firm performance are comparable to those of prior studies. While both SBDC and SBI programs provide clients with free assistance, it does not appear that counseling provided by unpaid (student) consultants is valued any less than that provided by paid (SBDC) consultants. Navahandi and Chesteen (3) reported that 35% (31%) of their respondents indicated an increase in sales (profits) due to SBDC assistance. This study indicates that roughly 62% of the clients indicated some improvement in sales or profits as a result of SBI assistance.

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STRATEGIC PLANNING DEMOGRAPHICS FOR THE NATIONAL SMALL BUSINESS INSTITUTE PROGRAM

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ABSTRACT

The demographic research described in this paper was designed to give the United States Small Business Administration (SBA) and the Small Business Institute Program (SBI) a basis of information for decision making. Key demographic variables that were deemed to be important to the SBI program were compiled and analyzed. With this data now being made available, those working with the SBI program can more efficiently plan their strategies and provide a more effective SBI program nationwide.

INTRODUCTION

The research gathered in this paper reflects the demographics of the Small Business Institute Nationwide Program. SBI is a contract arm of the United States Small Business Administration. It is a contract between 504 colleges and universities in the United States and its protectorates. The SBI program involves approximately 20,000 students per year. A quote from recent research regarding the effectiveness of the SBI Program said, "Although SBI courses and consultations are sometimes approached differently among the participating schools, students who have participated in the program agree that they have benefitted from the experience." (2) Over 7,000 small businesses as well as 1,000 college and university faculty members are also involved in working with the SBI Program. The SBI Program has also worked in the area of community development. This is a much needed area according to previous community development research. "The majority of the communities had not looked at existing industries to see why they came to the area or what spin-off industries could be spawned by those existing industries." (1)

During the 13 months of collecting data, the researchers were able to obtain surveys from 394 SBI directors at 388 colleges and universities. This is out of a total population of 504 SBI schools. The response rate for the survey was 77 percent. Some of the colleges and universities that responded to the survey had more than one SBI director which explains the difference between the number of directors and institutions responding. The demographic data was collected from two mailings that were sent out in June and November 1991. The mailings were followed up with personal contact via the telephone.

Although the overwhelming majority of SBI directors were more

than helpful, a small number of the directors were unwilling to share private demographic information because they felt it invaded their privacy. In these cases, as much information as possible was gathered. Our future goal is to gather all possible information from every SBI school. This is an ongoing and continuing project to not only gather new information but to update previously gathered information.

FINDINGS

A listing of the respondents by Small Business Administration Regional Office is given in TABLE 1. The list is given in descending order by number of respondents in each region.

TABLE 1 RESPONDENTS BY SBA REGIONAL OFFICE

Region 6 (Dallas) 72 Region 5 (Chicago) 69 Region 4 (Atlanta) 55 Region 7 (Kansas City) 48 Region 3 (Philadelphia) 39 Region 9 (San Francisco) 29 Region 10 (Seattle) 23 Region 1 (Boston) 21 Region 8 (Denver) 21 Region 2 (New York) 17

Characteristics specific to each director's individual school were obtained. This data can give one an idea of how SBI schools compare with other colleges and universities around the country.

The first question asked was the type of term on which the school operates. The responses are shown in TABLE 2.

TABLE 2 TYPE OF SCHOOL TERM

Semester terms - 81.8% Quarter terms - 16.4% Tri-mester terms - 1.8%

Over 80 percent of the colleges and universities engaged in the SBI program are on the semester school year calendar. For the first time, this research study verifies what many have felt all along, that the schools on the quarter system were definitely in the minority. These schools represent less than 20 percent of the total number. Thus, the administrators of the SBI program must be cognizant of the special needs of these colleges and universities.

The overall attendance for each SBI college and university was obtained. On the average, 9,503 students attend responding SBI

schools. The results were also grouped into increments of 2,000 students to give an indication of the enrollment size in which the majority of SBI schools operate. The results are given in TABLE 3.

TABLE 3 NUMBER OF STUDENTS AT SBI SCHOOLS

0 to 2,000 - 66 schools 2,001 to 4,000 - 66 schools 4,001 to 6,100 - 54 schools 6,001 to 8,000 - 33 schools 8,001 to 10,000 - 21 schools 10,001 to 12,000 - 27 schools 12,001 to 14,000 - 24 schools 14,001 to 16,000 - 20 schools 16,001 to 18,000 - 6 schools 18,001 to 20,000 - 9 schools 20,001 and over - 48 schools No Response - 14 schools

Approximately 50 percent of the participating SBI colleges and universities are under 6,000 in total population of students. The researchers were surprised by the widely distributed enrollment size of schools participating in the SBI program. As can be seen by the chart above, a number of schools would be classified as major universities. This shows that the SBI program serves a wide variety of educational institutions as well as students from large cities to very small towns.

Each director was also surveyed regarding the degrees that their school offers. The findings are given in TABLE 4.

TABLE 4 * DEGREES OFFERED

Associate degree - 132 schools Baccalaureate degree - 386 schools Master's degree - 320 schools Doctoral degree - 111 schools

* Respondents could give more than one response

All but two of the responding SBI schools offered a baccalaureate degree, with the exceptions being those schools that offer just graduate degrees. Over 80 percent of the responding colleges and universities offer a master's degree. One hundred eleven universities who responded to the survey offered a doctoral degree.

The second section of the research was designed to gathered demographic information on the individual SBI director. This data is given in the remainder of the paper.

The average age of the SBI director was 47.76 years of age. Directors in their forties achieved the five highest responses with 17 at 45 years of age, 16 at 40 years, 16 at 49 years, 15 at 48 years, and 15 at 44 years. A listing of SBI director age by category is given in TABLE 5.

TABLE 5 SBI DIRECTOR AGE

Ages 70 to 79 4 Ages 60 to 69 39 Ages 50 to 59 122 Ages 40 to 49 135 Ages 30 to 39 60 Ages 20 to 29 8 No Response 26

The overwhelming majority of SBI directors fall into the 40 to 59 age bracket with 65 percent of the respondents fitting into this category. This gives a strong indication that younger faculty members are not being fully utilized as SBI

directors.

Each of the responding SBI directors was asked their gender. The results are shown in Table 6.

TABLE 6 SBI DIRECTOR GENDER

Male 77.9% Female 17.6% No Response 4.5%

As the statistics indicate, the Small Business Institute Directors are predominately male. If the futurists are right and more and more women are going to enter small business and entrepreneurship, then there definitely needs to be an effort made to bring more women into SBI counseling directorships. However, the number of female faculty members engaged in the SBI program is still much higher than the average for colleges of business across the country.

The SBI directors were surveyed regarding their veteran status with the following responses being tabulated.

TABLE 7 SBI DIRECTOR VETERAN STATUS

No Response 55.7% Veteran 20.9% Vietnam-Era Veteran 15.1% Non-Veteran 7.0% Disabled Veteran 1.3%

"No response" was the largest category under veteran status. For

some reason, a number of faculty members felt it was an invasion of their privacy to ask this question. The only fact that can be verified is that 37.3 percent of the responding SBI directors are veterans of the United States Military. However, the researchers feel that the actual figure is much higher.

The SBI directors were also asked their race and ethnic background. The results are given in TABLE 8.

TABLE 8 RACE OF SBI DIRECTORS

Caucasian 82.6% No Response 8.0% Asian or Pacific Islander 2.3% Black 2.0% American Indian or Alaskan Native 1.0% Other 0.5%

As is vividly illustrated, the SBI director's position is heavily dominated by Caucasians. More effort should be made to bring minorities into the SBI director position. A problem created for colleges of business is finding minority faculty with terminal degrees and business experience. If they can be found, their salaries are so high that the average college and university cannot afford them. This creates another problem as to which comes first the degree or experience.

The majority of SBI directors that responded held some type of doctoral degree. However, a substantial number of directors' highest degree obtained was a master's or baccalaureate degree. The responses regarding this question are given in TABLE 9.

TABLE 9 HIGHEST DEGREE OBTAINED BY SBI DIRECTORS

Doctoral 61.0% Master 32.0% Baccalaureate 3.0% No Response 4.0%

Well over half of the SBI directors hold a terminal degree in business or related areas. Ninety-three percent of those responding hold a master's degree or higher. This continues the tradition of the SBI program by mixing academic exposure with practical business experience to make a well rounded small business counselor.

Each SBI director was asked to give the major area of study in which they obtained their highest degree. This data is given in TABLE 10.

TABLE 10 MAJOR DEGREE FIELD FOR SBI DIRECTORS

Doctors Degree

Management - 82 Business Administration - 32 Marketing - 30 Economics - 26 Marketing, Business, and Higher Education - 26 Finance - 10 Other - 34

Masters Degree

Business Administration - 48 Marketing - 26 Management - 17 Finance - 11 Accounting - 5 Economics - 5 Marketing & Business Ed. - 5 Other - 10

Bachelors Degree - 10 No Response - 17

Among the doctoral degrees held, management was by far the most popular major field. This is followed by business administration and marketing. The findings also agree with previous research. "Most of the Directors' training and experience lie in the area of management, business administration, and marketing, all big 'problem areas' for small businesses." (3) As can be seen by the distribution of majors, the SBI director comes from a varied background with areas listed in the category 'other' such as public health, public administration, hotel administration, engineering, law, etc.

The major area of academic assignment in which the SBI director has taught was obtained from the survey. The findings are shown in TABLE 11.

TABLE 11 * AREAS IN WHICH SBI DIRECTORS TEACH

Management - 265 Entrepreneurship & Small Business - 172 Marketing - 120 Finance - 37 Economics - 24 Accounting - 22

Information Systems - 11 General Business - 10

* The respondent could choose more than one area

SBI directors' academic background is heavily weighted toward professors of management. One background change seen in the data was more professors with academic backgrounds in entrepreneurship and small business. This was shown by entrepreneurship and small business placing second with 172 responses. According to previous research, during SBI work "students indicated that they were exposed to entrepreneurial problem solving and decision making situations in management and marketing." (5) This is an important trend for future SBI activities to follow. The field of marketing placed third with 120.

Some of the SBI director respondents were involved with helping small business through their local SBDC program. The number of SBI directors involved with SBDC was tabulated and the findings are given in TABLE 12.

TABLE 12 SBI DIRECTORS INVOLVED WITH SBDC PROGRAMS

Yes - 48.5% No - 46.2% No Response - 5.3%

Just below 50 percent of the SBI directors have a working relationship with the Small Business Development Centers. According to past research, "Based on 59% of the responses, the location of the SBDC is housed in the same location as the SBI program." (6) Based on both past and present research, this is a good indication of two of the SBA's partners working together. The key to outstanding small business counseling is all three SBA entities (SCORE, SBDC, and SBI) having a good relationship and working toward the same goal.

The number of SBI directors involved with an incubator was determined from the survey. The research gave the results shown in TABLE 13.

TABLE 13 SBI DIRECTORS INVOLVED IN AN INCUBATOR

Yes - 21.1% No - 72.9% No Response - 6.0%

SBI directors involvement in incubators is just starting to evolve. At the present time, 21.1% of the directors are involved in incubator activities. Considering the small number of incubators in most states, this a remarkable figure in itself.

This activity is over and above their regular SBI case load.

It is important to be cognizant of the organizations in which SBI directors are members. This gives one an idea of other areas and activities that SBI directors have pursued. The findings shown in TABLE 14 gives the percentage of respondents that have participated in various organizations.

TABLE 14 * Organizations That SBI Directors Are Members of

Small Business Institute Directors Association.....64.3% American Marketing Association.....21.9% Academy of Management.....20.9% United States Association for Small Business and Entrepreneurship.....18.1% International Council for Small Business.....16.6% Other.....1.0% No Response.....21.6%

* The respondent could answer more than one organization

Of those SBI directors responding, the majority were members of the Small Business Institute Directors Association represented by 64.3%. The American Marketing Association and the Academy of Management were second and third among the respondents.

The amount of release time that each responding SBI director receives was obtained from the survey. The results are given in TABLE 15.

TABLE 15 SBI Director Release Time

0 hours - 207 directors 3 hours - 76 directors 4 hours - 1 director 5 hours - 1 director 6 hours - 11 directors 10 hours - 1 director No Response - 97 directors

This question resulted in being a deceiving one because many of the directors who answered no release time have their SBI class in such classes as small business management, entrepreneurship, business policy, marketing research, etc. The SBI director did not count these courses as release time. A number of SBI directors only do one to three cases per year; therefore, it is often difficult to justify release time. In the majority of the cases where a school had ten or more cases, there was release time or a designated course for the SBI program.

Each SBI director was asked the types of classes in which they

teach the SBI cases. The findings are given below.

TABLE 16 Classes In Which the SBI Program Is Offered

Small Business Management - 187 Business Strategy/Policy - 129 Business Consulting - 120 Marketing Research - 103 Entrepreneurship - 93 Special Project, Seminars and Practicums - 20 Advertising - 10 Accounting - 8 Finance - 7 Marketing Management - 7 International Business - 6 Internships - 6 Management Info. Systems - 6 Retailing - 4 Organizational Behavior - 3

* The respondent could make more than one choice

As this list indicates, the SBI program is taught in a wide variety of courses in colleges of business. Small Business Management was the leading course, closely followed by Business Strategy/Policy, Business Consulting, Marketing Research, and Entrepreneurship. One of the strong points of the SBI program is its individuality in each institution of higher learning. This gives a strong indication that the SBI program is meeting local needs as well as individual needs. Small business is definitely a diverse form of business and the courses where SBI is offered are indicative of this.

CONCLUSION

As the findings indicate, the SBI program is a diverse and localized entity. There does not seem to be one set way of delivering the SBI program. This is evident by the wide dispersion of school size, the number of SBI schools that offered a master's and doctorate degree, and the variety of business academic areas in which SBI is taught. Although the majority of SBI schools are in the small to medium size category, a substantial number of schools can be classified as major colleges. This is also seen in the average size of SBI schools which was 9,503 students. The researchers have developed an understanding of how each institution is meeting the local needs of their areas. Like anything else in life, the strength of individuality also causes problems when a national model is developed.

SBI schools should concentrate on bringing more females into the position of SBI director and giving younger professors the opportunity to become SBI directors. This is evident in the research with only 17.6% of the SBI directors being females and 17% of the directors being 39 or under. Today's ever-changing business climate will mean that more diverse business consultants will need to be brought into the SBI Program. This will include more women, minorities, different ethnic backgrounds, a wider range of age distribution, and religious backgrounds.

Also evident in the research was a need for added release time for SBI directors. Although this question was felt to be somewhat deceiving, it is evident in the research that the majority of directors have either zero or three hours set aside for teaching SBI.

The SBI program is alive and well with the overwhelming majority of SBI directors willing to do work over and above their regular case load.

One area of opportunity for future SBI endeavors could be to work with professional schools (4). According to the research, most of the SBI directors expertise was in business related areas and the majority offered SBI in business related classes. John B. Wallace of Marshall University said,

"It is somewhat ironic that SBIs reside in colleges of business where courses emphasize large organizations, and yet have little contact with professional colleges that prepare their graduates to become private entrepreneurs - architects, dentists, doctors, lawyers, and veterinarians, to name a few. One would expect many joint activities between SBIs and these professional schools, because as one young dentist pointed out, the need is great." (4)

There doesn't seem to be one mold as to what it takes to be a SBI director or SBI institution. Students, faculty, and colleges and universities are finding dynamic ways to meet the needs of today's small business community. This project of gathering information on the SBI program is ever-continuing because the SBI program seems to be in a mode of constant change. Change is definitely the name of the game.

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ASSESSING THE NEED FOR SHALL BUSINESS MANAGEMENT/ENTREPRENEURSHIP COURSES AT THE UNIVERSITY LEVEL

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ABSTRACT

University graduates were surveyed to determine their desire to have had an opportunity to take small business management/ entrepreneurship courses as a regular part of their curricula. A questionnaire was administered to a stratified random sample of 2,000 male and female graduates of the University of Central Florida.

Strongly suggested by the survey results and in confirmation with our many suspicions, there is a strong demand for small business educational programs. Increased course offerings in small business management/entrepreneurship classes will clearly benefit and fulfill the need for enhanced capabilities in dealing with the limitations and unique problems existing in the small business arena.

INTRODUCTION

Virtually everyone will agree that small business plays a crucial role in both the stability and health of the national economy. Approximately 97% of all business in the United States and Canada are categorized as "small." As a group, small business employs nearly 60% of the work force, produces 45% of the gross national product and creates two-thirds of the new jobs (4, p.3).

More specifically, the special contributions of small business include providing new jobs, introducing innovation, stimulating economic competition, aiding big business, and producing goods and services more efficiently. Data released from the Office of Advocacy, Small Business Administration, show clearly the special contribution of small firms in the expansion of employment. Small firms have been the leaders in adding jobs since 1980. Firms with fewer than twenty employees added more jobs between 1976 and 1982 than did firms with five hundred or more employees primarily because new jobs come from the birth of new firms and their subsequent growth (5, p. 63).

It is the purpose of this paper to report on the results of a survey conducted in an effort to ascertain data regarding the desire, on the part of university graduates, to have had an opportunity to take small business management/entrepreneurship courses as a regular part of their curricula.

LITERATURE REVIEW

History & Its Effects on Small Business

Unfortunately, the small business failure rate has been quite high in the United States. Research derived from the data base of the Small Business Administration indicates that 60% of all new firms do not survive six or more years (2). This is a significant factor since the costs of business failure involves not only financial costs, but psychological and social costs as well.

The owner of a failed business suffers a loss of invested capital, business creditors, and sometimes even an entire life's savings. These losses are further compounded by the injurious psychological effects associated with the blow to selfworth and self-esteem related to the failure of a business. Finally, and perhaps more importantly, social and economic disservice are being experienced by the community as a whole. These injuries include the elimination of goods and services that the public wants and needs, the reduction in the number of jobs available in the economy, and the resulting unemployment of the entrepreneur and his/her employees.

Numerous variables affecting the failure rate of small businesses exist. One of the primary areas which has been empirically shown to predict small business success and/or failure is management expertise. According to Dun and

Bradstreet's Annual Report, one of the major causes for all business closings, almost 90%, is directly related to poor management of the firm (3, p.45). Other factors affecting success and/or failure rates of small business include, "inadequate sales, insufficient profits, and heavy operating expenses," which often serve as aphorisms for inferior management (6, p.29).

The Art of Small Business Management

Managing a small business is simply sequencing activities and events so that these activities are accomplished in a manner which will permit the entrepreneur, or owner's business, to succeed. To achieve this sequencing, managers of small firms must understand the management process. Every organization, regardless of size, requires good management to survive and prosper. Management knowhow involves knowledge relative to setting goals and objectives, leading, planning, organizing, and controlling from a small business perspective (4, p.33). Small businesses have limitations and problems that differ from those of large concerns. Many of these limitations and problems accrue because of the small size of the operation (1, p.16).

The Value of Small Business/Entrepreneurship Training

Few students realize the high probability that they will someday become either directly or indirectly involved with a small business enterprise and its management. Such involvement may include: - ownership of their own business; - being an employee of a small business; - being an employee of a large organization (the majority of whose customers and suppliers are small business concerns); and/or - economists, bankers, legislators, lawyers, accountants, as well as others.

All of the above are concerned, for one reason or another, with the problems and opportunities confronting small business and the free enterprise system (1, p.1). A small business/entrepreneurship course can help prepare individuals for future small business relationships. What is unfortunate, however, is that many individuals, including entrepreneurs themselves, do not perceive entrepreneurship as a career. "Nevertheless, the creation and development of one or more new enterprises is a passage, a field of pursuit, a calling, a way of life that fits the basic notion of a career. For some the passage is brief, but for many it represents the bulk of their adult lives" (7, p.71).

Therefore, in the current age of the entrepreneur, small business management training is increasingly important. In ever increasing numbers, people are pursuing the Great American Dream of owning and operating an independent business. This resurgence of entrepreneurial spirit is the most significant economic development of the 1980s and the trend is continuing into the 1990s. The new entrepreneurs are rekindling an intensely competitive business environment that had all but disappeared for nearly three decades. The enterprises of these entrepreneurs are creating innovative products and services, pushing back technological frontiers, creating jobs and, in the process, keeping a sluggish economy from nose-diving (8).

Role of Small Business & Small Business Administration

In summary, small business plays a key role in moving our nation toward the basic economic objectives of increased employment opportunities, new technological innovations, economic growth, a higher standard of living, and supplying goods and services to U.S. and foreign consumer markets. Small business also has become an increasingly important factor in U.S. efforts to compete in the highly competitive, global marketplace.

Unfortunately, as stated earlier, small business suffers from a high failure rate, the result of poor management. Because the management of small business differs relative to the management of large business, the Small Business Administration has established many programs to aid small business. Examples of these programs include:

* SCORE - Senior Citizens or Retired Executives * SBDC - Small Business Development Center (s) * SBI - Small Business Institute (s) * OBD - Office of Business Development in the Small Business Administration

Hundreds of brochures and publications are distributed by the Small Business Administration. This data covers-subjects which are directly related to small business management, and include topics such as: * financial management and analysis * general management and planning * personnel management * new products, ideas and inventions

Role of Educational Institutions

In addition, entrepreneurship and small business education in universities has been consistently spreading, from a handful of U.S. universities in 1967 to approximately three hundred institutions today. Financial endowments behind the field have also grown as benefactors have contributed large sums for professorships at around two dozen universities. Currently, "some endowments are coming in levels as high as three million dollars (e.g., at Fairleigh Dickinson University) to seven million (e.g., at the University of North Carolina)" (9, p. 8).

This upward trend in support of educational programs is anticipated to continue and there have been virtually no situations in which schools have phased out entrepreneurship educational programs (9, p.8). Of great importance and significance is the increasing number of universities and colleges throughout the U.S. that are offering academic programs and courses in small business management and entrepreneurship.

METHODOLOGY

Notwithstanding the above, there continues to exist debate on the applicability of small business management/entrepreneurship research and teaching by universities to graduate and undergraduate students. Acceptance is increasing in view of the maturing U. S. market and changing global competition, as well as a greater understanding of the important role small business and entrepreneurship have played over the past ten years. There is, however, still some reluctance to incorporate small business/entrepreneurship courses into university curricula.

This study was conducted in order to investigate the university curricula issue from the point of view of the graduates. The questionnaire was directed to a stratified random sample of 2,000 male and female graduates of the University of Central Florida.

Graduates included in the sample must have graduated no less than five years and no more than twenty years prior to the date the survey was mailed. The sample group selected was based upon a desire to extract data from the experiences, since graduation, of a reasonable cross section of past students. Questions, were scored based on a five-point Likert scale, which included, but were not limited to: * Graduating Division (College) * Level of Graduation (Degree Level) * Gross Sales of Business-Initial Employer * Industry of Employer-Initial Job * Employee Population-Initial Employer * Management Level-Initial Job * Number of Job Changes * CEO Decision Making Patterns * Interest in Small Business Management/Entrepreneurship Courses * Teaching Level for Small Business Management/Entrepreneurship courses

The questionnaire was a closed, anonymous survey. It also solicited responses as to the course topics which respondents considered as preferential issues for inclusion in a Small Business Management/Entrepreneurship courses.

RESULTS

The overall response rate of 11.7% was strongly represented by those holding undergraduate degrees (92.7%) from the College of Business Administration (42.1%).

Upon graduation, the vast majority of the survey respondents (42.7%) secured initial employment at businesses with gross sales greater than $5,000,000 in the Service industry with organizations having a population greater than 100 employees.

Predictably, the majority (48.5%) of the respondents were originally employed at the entry/bottom level of management and have continued working with their first-time employers (33.1%). At almost one-half of the organizations (48.9%), the CEO made most of his/her decisions with the assistance of internal specialists.

When queried about the desire to take a Small Business/Entrepreneurship course during their educational pro- gram, seventy-three percent responded favorably to such courses being taught. Forty-five percent of the respondents felt that Small Business/ Entrepreneurship courses should be taught at the graduate and undergraduate levels (45.1%).

The respondents clearly indicate a distinct need and desire for programs covering topics such as Small Business Management Practices (91%), Legal Issues (85.8%) and Entrepreneurship Development (84.1%).

In spite of the practicality and business community need for these programs, the survey demonstrates that, with exception of the Business Administration College, the opportunity for Small Business/Entrepreneurship courses by other university divisions is minimal.

CONCLUSION

While the requirement for Small Business Management/Entrepreneurship courses at the university level is understood and appreciated by the members of the Small Business Institute Directors' Association, there still remains reluctance on the part of too many higher-education administrators and faculty to increase the number of class offerings in this field of study. Strongly suggested by the survey results and in confirmation of our many suspicions, there is a strong demand for these critical small business educational programs.

As the empirical evidence demonstrates, increased course offerings in small business management/entrepreneurship will clearly benefit and fulfill the need for enhanced capabilities of university/college graduates in dealing with the limitations and unique problems existing in the small business arena.

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FRANCHISING: A GOLDEN OPPORTUNITY FOR THE SBI

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ABSTRACT

The purpose of this paper was to explore the opportunity of SBI programs taking a more active position on using franchise operations as a client base. To accomplish this objective, a historical, as well as current, evaluation of the franchise system was presented. Also, specific needs of both SBI programs and existing or potential franchisees were recognized. Considering the impact this form of distribution has, and surely will continue to have in the future, it was recommended SBI Directors actively pursue franchisees as potential clients.

INTRODUCTION

Small Business Institute (SBI) Directors are continuously challenged in the administration of their programs. The Small Business Administration (SBA) is demanding (and rightfully so in some instances) better finished products. Inquisitive students want more "meat" in the case projects they are assigned. Case administrators desire greater diversification in the small businesses they work with. In many locations, however, the director is faced with an ever-declining population of available well established and long lived small business firms. Other than from a public policy position (program evaluation), recommended alternatives for improving this situation have been limited.

The purpose of this paper is simple. Plainly stated, it is to encourage SBI Directors to pursue a greater inclusion of the franchise system as a client base. This will be accomplished by providing a thorough, yet brief, description of the franchise distribution system. Background information on the franchise system is followed by a specific discussion of how this move fits with changes in the small business environment. Finally, implications of such a move are provided.

FRANCHISING AND THE SBI

Though there has been little or no debate over franchising's importance to the small business community, insufficient effort has been made to target this system for potential SBI clients. Some of this disregard may be linked to the philosophy that franchisees already have access to management advisory services

provided by the franchisor. Another possibility, however, may help to explain this avoidance.

Even though most SBI directors know the fundamentals of franchising, not all understand the intrinsic details. Therefore, before defending the position that franchisees should constitute a major segment of SBI clients, the system should be clarified. This will be done by examining characteristics of the system as well as looking at current trends and peculiarities of franchising that may affect this choice.

THE FRANCHISE SYSTEM

The original French translation of "franchise" meant "to be free from servitude." Over the last several decades the word has taken on new, and sometimes confusing, applications.

Franchising Defined

The sixties witnessed attempts to narrow the scope of the franchise system. Konapa (25), for example, suggested that researchers confine:

. . . the term "franchise" to its original application -that is, a system under which a manufacturer grants to certain dealers the right to sell his product or services in generally defined areas, in exchange for a promise to promote and merchandise the product in a specified manner. (p. 37)

Shelby Hunt [16], in an empirical examination of the franchise system sponsored by the SBA, preferred a broader idea stating that franchising is: (1) characterized by a contract; (2) characterized by a continued cooperative relationship; and (3) the franchisee operates the business under the tradename and marketing plan of the franchisor. This concept

would include manufacturer-retailer, manufacturer-wholesaler and the service sponsor retailer.

More recent definitions as consolidated by Justis and Judd [23], seem to support Hunt's broadening of the idea:

Franchising may be defined as a business opportunity by which the owner (producer or distributor) of a service or a trademarked product grants exclusive rights to an individual for the local distribution and/or sale of the service or product, and in return receives a payment or royalty and conformance to quality standards (p. 6).

Although each of these definitions demonstrate its own uniqueness, there are two common threads that hold them together. First, a relationship exists between two firms. Second, that, as

is common with most relationships, a give and take situation will naturally follow.

The broadening of the concept of franchising generated other definitional issues. An important area to address for this paper is a definitional clarification of types of franchises.

Definition of Types of Franchises

Similar to the problem of offering a uniform definition for franchising, defining specific types of franchise systems has also had some controversy. Most of the controversy has, however, only centered on semantics. Therefore, the types presented below as described by Hackett [13] and Vaughn [41] represent a consensus of most researchers. Hackett and Vaughn list four basic types of franchises:

Type I: Manufacturer-retailer (i.e., automobile dealerships, gasoline service stations). Type II: Manufacturers-wholesaler (i.e., soft drink bottlers). Type III: Wholesaler-retailer (i.e., hardware and drugstore chains). Type IV: Trade name-service sponsor (i.e., fast food chains, service groups).

By far the two types that have received the most attention in the literature (and subsequently in this paper) are Type IV (sometimes called business format franchising) and Types I and II combined (sometimes called product-and-trade-name franchising) [23]. This emphasis on Type IV may be due to the vast number of units, or by the fact the group represents the youngest of the franchise types. Type I and II have received significant attention due to their large sales volume and market visibility.

By examining statistics on business format and product-and-trade name franchisors (12), it is clear that these two groups represent most franchise sales. It is also interesting that while business-format franchising is represented by larger unit numbers (352,495 versus 146,000 business units in 1987), it is the product-and-tradename franchise type that accounts for the largest amount of gross sales ($420.6 billion versus $170.8 billion in 1987). Also interesting (and a point with significant implications for the emphasis in this paper) is the fact that within the Type IV group fifty-three franchisor companies account for forty-nine percent of the franchise units and forty-eight percent of the sales (12).

Research Efforts in Franchising

Academic research was prevalent during the seventies and early eighties concerning franchising. Several main veins of research can be identified. The major areas of interest included: advantages and disadvantages of franchising [34; 16; 9]; legal

implications [8; 44; 19; 20; 35; 30; 6; 5]; international franchising [42; 24;]; minorities in franchising [37; 18]; product life cycle [31; 28; 1]; and consumer and location identification [40; 3].

Even with the vast amount of research done on the subject, practitioner thought remains dominant. Many books such as the ones by Webster [43], Kinch [26] and Foster [11] represent cookbook how-to techniques for potential franchisees. Each is packed with blue prints of how to buy a franchise and numerous success stories to push you in that direction. A few of the books such as Justis and Judd [23] and Vaughn [41] present a blend of cookbook approaches and historical perspectives on the subject.

Managerial implications are discussed more often in the practitioner circles than in the academic literature. One only

needs to open almost any practitioner developed book on franchising to discover pros and cons of buying a franchise. Typical of the list advantages would include: recognized name/logo; proven marketing expertise; lower initial investment; assistance in getting financing; and, training. Negative aspects associated with being a franchisee include: need to conform; inability to make rapid changes; contractual agreement to pay royalties; or, the potential of getting a weak franchisor [26].

Franchisee Advantages/Disadvantages have changed significantly over the years. Hunt [17], suggested that in the early years "promises" made to franchisees (and society as a whole) had not been kept. He maintained that: there has not been a reduction of vertical integration by large corporations due to franchising; the reduced number of business failures cannot be shown to be lower with franchisees than with independent business owners; equal access for women and minorities has not materialized; promised benefits by franchisors to franchisees are not always delivered; profits have not always been adequate; and assistance has not always been provided. Many of the problems were identified by Hunt in an earlier article [16] when these implications first began to surface but could not be substantiated. Reflection on several of these problems would be appropriate.

There apparently did exist, at the time Hunt's article was written, a serious problem regarding the trend for franchisors to buy back their franchises. According to Hunt [17], the percentage of company-owned units had risen from 1.2 percent to 11.3 percent. A similar concern was shared by Oxenfeldt and Kelly (31) suggesting that franchisors would eventually buy back all their successful or potential successful franchises. The trend foreseen by these two authors has, however, failed to materialize according to recent figures [12]. The most recent figures suggest that this trend has stabilized ten years later at approximately 19 percent and has begun to decline.

The same source also seems to disprove Hunt's perception that franchises failed as frequently as independent businesses. Although no figures could be located to identify the current percentage of women in franchises, SBA data indicates that women participation in all small businesses has increased by 62.5 percent from 1980 to 1986 [39].

Though Hunt was probably accurate on many of his accusations about franchising, few subsequent studies have been accomplished to support his case. One conclusion that can be drawn is that legislation and consumer pressure has forced franchisors to improve their socioeconomic operations.

Positive reactions to advantages maintained by franchisees have appeared regularly in the literature. Doutt [9] provides empirical support that entry is made easier for franchisees. Oxenfeldt and Kelly (31) suggest that many franchisees take full advantage of positive opportunities made available by the franchisor. Cohen [5] stresses the positive benefits for strategic planning based on the access to the franchisors trademark.

Much of the past and continued negative reactions to franchising have centered on the legal problems that many franchisees have encountered. Most of the litigation occurred in the 50s, 60s and early 70s. As will be discussed shortly many improvements, from a legal point of view, have occurred over the past several years.

Legal trends in franchising have received the lion's share of attention in franchising [8; 44; 19; 20; 35; 30; 6; 5]. As outlined by Hunt and Nevin [19], this attention could be divided into three main areas:

(1) misrepresentations by franchisors (the disclosure problem); (2) restrictions by franchisors on sources of supplies (the tying problem); and (3) arbitrary termination of franchising relationships (the termination problem).

There can be no doubt that severe abuses of these three areas occurred during the late sixties and early seventies. From a lack of emphasis in current literature, a conclusion might be drawn that legislation and consumer pressures have curbed the problems. Therefore, instead of rehashing the problems identified by the above authors a review of existing legal precedent will be examined.

The disclosure problem has been addressed by the Federal Trade Commission's (FTC) "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" provisions. These provisions are intended to make sure that reliable basic information is given to prospective franchisees in a disclosure document and, if earnings claims are made, in an earnings claim document. Items addressed include: legal questions; franchising offer; degree of control; true cost of

franchise; source of supply; advertising arrangements; standards and supervision; territory; terminations; and, renewals

[23].

Although the federal rules set a standard, at least twenty-one states and some municipalities have enacted their franchise regulations [43]. In these situations, the most stringent of the two regulations will be adhered to. The states with such standards include: Arkansas, California, Connecticut, Delaware, Florida, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, Nebraska, New Jersey, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin. Nevin, Hunt and Ruekert [30], however, maintain that no difference exists between those states that have such laws and those that do not.

The Tying Problem is addressed by the Clayton Act as amended. This act makes it illegal to condition the purchase of one product on the purchase of a second if the effect is to substantially reduce competition [23]. The Supreme Court has gone on to identify three elements that must be shown to prove a tying arrangement is, in fact, illegal: (1) the existence of two separate products must be shown; (2) sufficient economic incentive must be proven; and (3) a significant amount of product must be involved.

The Termination Problem has been addressed in many areas by Unfair practice statutes [30]. Franchisors are now required to show "good cause" or "just cause," before terminating a franchising relationship or nonrenewal. This area is one that remains somewhat more ambiguous and more related to economics than the other two [6].

Trends in Franchising

There are several trends that have emerged in the franchising system that offer both opportunities and threats to U.S. small businesses. While the scope of this paper does not allow addressing these trends, a few have specific implications for the recommendations made for SBI Directors in this paper and will be mentioned.

Where once the number and types of franchises were limited, today's array of possibilities seems endless. If there is a market for a product or service, a franchise exists to serve that need. This is true whether the business idea is a new approach to serving hamburgers such as Central Park (low cost/no frills), or ventures catering to the educational well being of our children (Sylvan Learning Centers).

What this increase in market coverage has done is to not only increase the number of competitors, but also to encourage advanced sophistication of the "players." According to Michael Selz [33], one area of increased competition has come from foreign investors from such countries as Canada, Germany, and

Japan. In addition, within the U.S. many large and powerful corporations have used the franchise system to integrate various markets through mergers and acquisitions [14].

From a more positive perspective, two recent trends offer considerable leverage for small business development. One of these opportunities involves the encouragement of independent small business firms to add franchise services within their existing business [29]. Another possibility exists for franchisees to assume more of an entrepreneurial spirit by either developing ". . . an innovative advertising campaign, a new style of management, or a unique hiring strategy [15], or expanding territorial rights with combining unrelated (from a legal sense) franchises [10].

PURSUING FRANCHISES FOR CLIENT BASE

Two obvious reasons exist for increased involvement with franchising by SBI programs. The first is that this move has the potential for improving the SBI program. Second, due to recent trends in the franchise environment, these small businesses will need greater local support to ensure survivability.

SBI Program Needs

Considerable attention has recently been afforded the franchise system. As many researchers are quick to point out: franchising accounts for a significant portion of U.S. retail sales and Gross National Product [21; 46; 32]; franchisees are also considered much less at risk than traditional independent small businesses [2]; with benefits not within the financial capabilities of these same small independents [4]. In addition, according to data gathered by Justis and Judd [23], the SBA contends that as high as one-third of independently-owned businesses fail in their first year of

operations. Within the first five years up to two-thirds of these same nonfranchised businesses have discontinued operations. The Department of Commerce [12], on the other hand, has estimated that over the past sixteen years less than five percent of franchises have discontinued operations each year.

With the franchise segment of small business expanding, it is only natural that the number of independents are affected. It is speculated that the life span of this group will grow even shorter due to the enhanced competition provided by the franchise segment. In addition, many in this group will be forced to pursue an extremely narrow focus due to increased competition ill established markets.

This narrow approach to business may negatively influence the type and amount of information available to SBI team members. The lack of sophistication in business approach as well as

available alternatives for many marginal firms may discourage students from completing a comprehensive analysis.

On a more positive note, franchise operations may provide those clients possessing characteristics necessary for a complete case analysis. Generally, as pointed out above, franchise operations tend to stay in business longer. In addition, most franchisors require considerable reporting, by that requiring more comprehensive record keeping. These operations also generally reflect clearly established industry boundaries, and thus offer themselves for more environmental analysis.

Though it is important that SBI programs improve their operations, it is of greater concern that small businesses be provided quality assistance. The needs of the small business community, therefore, should be addressed.

Franchisees' Needs

Many individuals feel that franchising, in itself, represents the determinant for success. Although success rates are certainly reported as higher for this group, problems still arise (45). Whether these problems relate to franchise fees, operational consistency [7], maintenance of corporate image (38), or general business operations, franchising is not free from local management involvement.

While most authorities, such as Kinch and Hayes [26], have stressed that franchisors receive professional consulting services, few, until recently, have suggested the same for established franchisees. Meg Whittemore [45], however, recommends that franchisees should receive continuous consulting support considering the fact that franchisor support is only periodic and may or may not address the owners' true needs.

Another area of advisory need rests with those individuals considering purchasing a franchise. Several years ago the SBA recognized that need and published a check list for evaluating franchise contracts as well as existing franchise operations. Geraldine Stozier [36], a former director of the International Franchise Association, in recognizing this need for potential investors, outlined several areas that should always be addressed before purchasing a franchise. She recommended that the following areas be evaluated: the individual; the industry; the franchisor; the territory; the contract; and, the feasibility of success. Except potential legal requirements, SBI teams could offer valuable assistance in these areas.

IMPLICATIONS/CONCLUSIONS

This paper provides justification for SBI programs to take a more active role in recruiting franchise operations into their client

base. The franchise system was shown to be evolving into a much more complex environment, thereby, requiring a greater local role in continued success. In addition, it was suggested that there exists a true need for more emphasis not only from the SBI position, but from that of the franchisee also.

If the prediction that fifty percent of retail sales by the year 2010 will come from the franchise distribution system [23], it appears logical that the SBI must take a more active role in pursuing this segment. If directors do not recruit from this base, they may find themselves limited to a handful of successful independent firms and numerous marginally successful clients from which to draw.

The recommendations made in this paper should not be taken as advocating the exclusion of independent small firms to pursue more successful franchises. Rather, these recommendations are made only to help refocus our attention to a much ignored opportunity.

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DEVELOPING EMPLOYEE HANDBOOKS THROUGH THE SBI PROGRAM

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ABSTRACT

Based on one of the authors' experiences with live cases involving employee handbooks, communication between the company and the students should be encouraged. Students can visit the company site and talk to employees. However, students should communicate with each other to make sure that the same employees are not interviewed for the same reason often. Giving the students the entire employee handbook project would be difficult because of the length of a typical handbook. Student groups can assigned sections of the handbook.

INTRODUCTION

Employee handbooks provide basic information about company rules and policies. The handbooks discuss salaries, benefits, vacations, discipline, leaves of absence and other concerns that can affect morale (9; 15). Any small business with more than twenty employees (and some cases as few as six) should write a handbook (5).

The employee handbook should be clear to management, employees, and the legal system (lawyers, judges, grievance committees, etc.). The legal system is especially important because, in unfair labor practice cases, an employee handbook can be legally binding. In many states, courts have ruled that employee handbooks are employment contracts (10). Partly because of legal difficulties concerning discipline and discharge, human resource professionals and lawyers are more frequently drafting the handbooks (3).

College students also can provide expertise to help managers in developing employee handbooks. Student assistance can come through the Small Business Institute (SBI). The SBI helps organize live cases that have professors, students, and companies discuss or unravel problems in the companies.

We believe that live cases involving employee handbooks provide rewarding experiences for students. Students have the opportunity to see almost all the major personnel issues of a company. Students develop a handbook that deals with policies to be followed in the short and long-term. Furthermore, research has shown that live cases, in general, go beyond textbooks and

provide real world experiences. Students get excited about cases that can mean a difference to companies (6; 7; 8; 11).

PURPOSE

We believe that professors need to know how to handle live cases using employee handbooks. This report summarizes some challenges one of the authors had in coordinating SBI live cases involving employee handbooks. Challenges include recruiting these live cases, organizing students to write an employee handbook, increasing communication between the company and the students, and making the handbook legal.

We acknowledge that each live case has unique characteristics. Some of the learning experiences we describe hopefully can generalize to other university settings.

One of the authors has experience with three live cases involving employee handbooks. For brevity, one case is the focus of our discussion.

Four months after this case was completed, one of the authors conducted a personal interview with the top manager of the company. The lessons we learned are based on this interview, teaching evaluations, and our experiences.

SETTING

Live cases were used at a university with 14,000 students in the Western United States. The course was an introductory Human Resource Management class. The course met three hours each week. There were two hour-and-a-half sessions per week. The course ran from January through May of 1992. The live case accounted for a little over a quarter of the course grade.

About 35 juniors and seniors participated in the live case. About half were human resource management majors. Thirty-five percent were general business majors. The rest had majors in health sciences, construction management, accounting, and finance. All were working at least part-time in some business.

Human resource live cases were obtained through the Small Business Institute (SBI). The organization recruits live cases through advertising, provides funding for universities to support faculty participation, guides professors using live cases, and documents student efforts.

CHALLENGES

Obtaining the Live Case

Newspaper advertising helped provide the live case. The SBI requested general personnel cases through the local paper (in a city with a 125,000 population).

The small business involved was a carpet and tile store. It had 18 employees. It included a general manager, two assistant managers, two secretaries, four warehouse employees, and nine sales people. The company had no job description or written personnel policies.

During the initial contact with the SBI director, the company specifically asked for the development of an employee handbook. In the initial interview with the company manager and one of the authors, the manager pointed out that there were no formal personnel forms (e.g., performance appraisal, work rules) in the company. Few company rules (e.g., how to deal with customers, locking up) were formalized on paper. Students would be required to interview the manager and the employees to promulgate rules and regulations.

Just because a company requests an employee handbook does not mean students should develop the handbook. Employers must be concerned with drafting a handbook to prevent lawsuits and to make personnel policies clear (14). If the employer wants to visit with the students only once (with no student visitations with employees), we feel this indicates that the employer is not serious about the employee handbook. Proceeding with the handbook appears questionable. If the employer only wants one of the many canned, computerized employee handbooks available (4; 12), the employer might not want much help from students. The employer visited with the students at least four times.

Organizing the Students

An employee handbook is normally lengthy document consisting of many sections (13). The following eight sections were approved by the carpet store manager: History of the Company, Selection Policies, Discipline, Safety, Compensation, Security, Performance Appraisal, and Training and Development.

To develop the handbook, the students were divided into ten groups of three to four each. Every group except one was assigned to write two of the eight sections. There was sufficient overlap in the assignments so that at least two groups wrote on every section. The company wanted to have multiple opinions of every section.

Writing two sections took considerable time. This was the

biggest complaint students had in the professor's teaching evaluations completed at the end of the course. The average group (based on SBI timesheets) worked on the project 90 hours in the semester. About ten hours involved field research in which they traveled to the company site (six miles away from school on their own time) and interviewed employees. Five hours were spent during classtime to discuss the case within groups and to share employee interview information between groups.

One group analyzed jobs and wrote job descriptions. Job analysis and job descriptions provide information on what

skills and abilities workers need. Job analysis and job descriptions are an essential starting point for all activities in human resource management (2). Employee handbook writers can use these tools by seeing how jobs interact. They can find the persons responsible for activities discussed in the handbook. This group completed its task one month early so other groups could use their information.

Encouraging Communication

In our opinion, frequent communication between the students and the company helps keep the company satisfied with the students' work. To increase communication, company managers had at least four opportunities to attend class (see Appendix I). The last appointed meeting was especially important. It gave the managers a chance to respond to the final student reports. One of the authors got a complaint from a manager in an earlier live case because no time was reserved for the manager to respond SBI reports she disagreed with.

The top manager gave students permission to set up appointments with employees without notifying the top manager. This policy made it easy to develop job descriptions and write the employee manual because students received direct information from jobholders.

Near the end of the semester, each student group gave a five to ten minute oral presentation to the top manager. They summarized their work.

Students also submitted their work on floppy disks (WordPerfect 5.1) and hard copy. The top manager requested floppy disks so he could edit student work. Floppy disks are useful for the company because changes in the final product can be made quickly. Research has shown that the need for outside assistance in making changes is reduced with computers (1).

The best written sections of the handbook, (according to the professor grading the students' work), were combined on one floppy disk by the professor. Near the end of the semester, the company received all of the students' work and a sample employee manual that contained the best sections from the students.

Making the Document Legal

The materials supplied in the employee handbook might be plagiarized from other employee manuals. Students were required to receive formal written permission from their companies to take materials from company handbooks. About half the students had access to an employee handbook through their jobs. Three students took advantage of the formal process.

At the end of the semester, the professor warned the top manager not to take the final product at face value. The professor recommended lawyers and legal assistants to make any appropriate changes. The professor said that employee handbook are a potential employment contract.

The handbook included a statement that says it is not an employment contract. It is only a source of general information concerning work rules and procedures. This statement is a crucial disclaimer to cut down on lawsuits.

The top manager was interviewed four months after the live case was completed. A complete employee handbook was distributed to the employees in August. The manager received advice from a legal assistant during the summer. He thought the quality of output was excellent. In his opinion, the employees have accepted the employee handbook well.

Concerning the class, he thought the students treated his employees with courtesy. The time employees spent in interviews with students was valuable. He did not have anything negative to say about the experience with the students.

LESSONS LEARNED

Our experience with the live case concerning employee handbooks taught us a few major lessons. The top manager concurs with these points.

Students should maximize communication between the company and themselves. They can visit the company site to

talk to employees about their jobs. However, students should communicate with each other to make sure that the same employees are not interviewed for the same reason often.

Students should analyze jobs and write job descriptions if they are not available. These tools give managers a feel of what the employees do. Employees sometimes surprised the top manager by including items on their job description that the top manager was not aware of. Job analysis and job descriptions also specified who would do the discipline, who would enforce personnel policies, and who would be in charge in case someone else was

sick. As a result, it is very useful to have the job analysis and the job descriptions done before the employee handbook was done.

If there are many student groups working on the employee handbook, student groups should have overlapping duties. Giving the students the entire employee handbook project would be extremely difficult because of the length of a typical employee handbook. Companies often want more than one opinion on a particular section of the employee handbook.

All parties (students, professor, company) should focus on legal problems associated with the employee handbook. Students should know what is legal to do in developing employee handbooks (e.g., getting formal permission to plagiarize other handbooks). Employers should know that the handbook is a potential employment contract. A disclaimer saying the handbook is not a contract is helpful in cutting down on litigation. All parties must be aware of laws governing hiring, compensation, discharge, pensions, etc.

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APPENDIX I

Schedule for live case

Enclosed is the outline for course activities regarding Company X's employee handbook and job descriptions:

March 3, Tuesday, 1:40-2:55 p.m. Room 118

Company X manager will be in class summarizing the nature of the Company X problem.

March 10, Tuesday, 1:40-2:55 p.m. Room 118

Company X manager will be in class again answering questions students have of the company. Other class times may be needed to answer questions.

April 28, Tuesday 1:40-2:55 p.m. Room 118

Case due. Students will make an oral presentation at this time. Each presentation will last for 5-10 minutes. Company X has a chance to respond to the final reports. Company X will get a copy of the final reports.

May 5, Tuesday 1:40-2:55 p.m. Room 118

Cases are handed back to the students. If Company X wishes, a representative may respond to student papers. Students will be taking a final right after the Company X response.

APPENDIX II

Proposed Case Assignment

Students will be separated into groups. Minimum size is 3 students and maximum size is 6. Each group is assigned one paper and one oral presentation to complete.

The paper will consist of the following: I. Each group is expected to write a case that will be due Tuesday, April 28. II. Grading will be based on the following criteria: A. 20% Spelling and Grammar Writing well is crucial for successful managers. Have someone doublecheck this aspect of your paper. B. 50% Content 1. Did you do what the client wanted? 2. Did you keep the writing easy to read? 3. Did you go beyond the minimum assignment and provide the client more options (e.g., variety of performance appraisal forms to choose from)? 4. Did you at least do the items shown on the outline on the next page? 5. Did you go beyond the outline on the next page? 6. Did you thoroughly research your section. You may show me evidence of your outside research by citing your research or making copies of relevant articles, laws, or cases. You may also provide pamphlets. Copying employee handbook materials from other companies is ethically questionable. See me about this matter in private. There will be neither punishment nor reward for this discussion. 7. Are your recommendations legal? C. 20% Format Obeying directions is basic to keeping your boss (your professor) happy. Your boss in "the real world" might not be as forgiving. D. 10% Time & Effort 1. Did you completely and clearly fill out your time sheets? 2. Did you visit (if appropriate) the client? 3. Did you spend time working on this project? III. Do one of the following two activities: A. Help develop an employee handbook (do 2 of the 8 employee handbook sections shown in the last page) B. Analyze jobs and write job descriptions for the client. (only one group is allowed to do this project). IV. Submit four copies of your work on paper plus one copy of your work on Wordperfect 5.1 on a 5 1/4 inch disk.

REALITIES AND EMERGING REALITIES OF ADAPTING TO CHANGING GLOBAL ECONOMIC CONDITIONS: RETHINKING THE ROLE OF SBI/SBIDA IN ENTREPRENEURIAL EDUCATION

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ABSTRACT

One objective of small business assistance programs is job creation since job creation is viewed as key to an economic recovery. Realities and potential realities may suggest that economic recovery may be more difficult to achieve than previously assumed. We take a closer look at economic conditions and advance some potential scenarios that have not been fully articulated to date. By synthesizing those scenarios with realities and what is known about entrepreneurs and small business owners, an educational program emerges that has the SBI/SBIDA in a prominent role. The rationale and potential outcomes of this potentially cost-efficient and effective program are developed and presented.

INTRODUCTION

Traditionally, it has been the role of small business to create new jobs. Until recently new job creation by small business has resulted in net gains in the absolute number of jobs available to American workers. Currently, small business is not able to compensate for the jobs eliminated by larger corporations and there has been a net loss in the number of jobs and a rise in unemployment rates. Unemployment results in reduced government income, increased government spending, and an increased need for efficiency and effectiveness in government agencies and programs. The Small Business Administration, and especially its outreach programs such as SBI and state partnered SBDC's, are challenged in such economic times to lead the way with innovative, cost-effective programs that serve to maintain the existing base of small business jobs while creating new job opportunities in that sector of the economy.

In an ongoing effort to achieve cost effective programs, the SBI, although it will fund special projects in economic development, has discouraged individual small businessperson startup assistance. With increased pressure and need to create jobs, the relatively large number of contact hours required for start-up counseling, and historically minimal returns (in terms of job creation), SBDC's, SCORE chapters, and various state economic development agencies are also re-thinking their individual start-up assistance counseling. It is our opinion that SBI/SBIDA is uniquely positioned to play a major role in the delivery of successful start-up education programs in an

environment of changing global economic conditions. The purpose of this paper is to present a vision for that role that is based on existing theory, research, and emerging realities. First, we will discuss some potential client types and position them in the current environment of changing economic conditions. The relevance of an emerging paradigm of entrepreneurship education embedded in an educational process model to economic realities and emerging realities will then be reviewed. Using the foundation established by this discussion and review, a rationale for a new SBI role in entrepreneurship education will be introduced and that role and its implications presented.

FIGURE 1. TYPOLOGY OF ENTREPRENEUR STYLES

Level of Personal Financial Risk

LOW | HIGH MANAGER | CLASSICAL ENTREPRENEUR | HIGH Risk avoiding | Risk accepting Profit seeking | Profit seeking Level | of | ---------- | Profit | Motive Risk Avoiding | Risk Accepting LOW Activity seeking | Activity seeking | HOBBYIST | MISSIONARY

POTENTIAL CLIENT TYPES

Characterizing Entrepreneurial Styles

As the key figure in organization formation, the entrepreneur is the organizer of a new organization. Research about the differences in the organization and management of new organizations has resulted in several scholars developing different typologies about entrepreneurial approaches and styles (1;2;3;4;5; & 6). The typology of Monroy and Folger

(6) seems to provide some valuable insights for public policy implications such as the design of education programs. The authors focused on a unique factor of the context of entrepreneurship, namely the financial risk borne by the founder of a new venture. In the financial, accounting, and economic literatures, financial risk carries a precise and almost universally accepted construct definition (e.g., chance of non-payment of a debt (7; p. 398)). In the domain of entrepreneurship, financial risk takes on a specific role due to the newness of the business start-up, and in the Monroy/Folger typology, financial risk applies to the nature of the capital used to initiate, organize, and maintain a new and

independent business venture. Important aspects associated with such capital include its source, potential alternative uses, and the amount of that capital relative to total wealth or equity of the entrepreneur who provides it. These features of capital and financial risk in the entrepreneurship context provided the first dimension of a two-factor matrix for characterizing entrepreneurial styles (Figure 1). Using the extremes of each dimension (e.g., operationalized such as by conducting a median split on data used to index a given dimension), that matrix produces four cells, hence four distinct entrepreneurial styles. Although the use of continuous measures to index each factor allowed Monroy (8) to conduct analyses of his sample (n=542) that did not depend on assumptions about the existence of pure types for the validity of analysis, we will restrict our discussion of the typology to the four pure types.

As illustrations germane to classifications in terms of financial riskiness endured when undertaking a new venture, consider the following. If an entrepreneur funds a company exclusively through the sale of stock, personal financial risk is low, if it exists at all. Risk also subsides if the capital raised through an initial public offering includes amounts earmarked for the entrepreneur's salary for a period of time. On the other hand, entrepreneurs incur high levels of financial risk when they fund ventures with the sum of their life savings, especially if they limit the primary family unit's income to a portion of the sales revenue of the new venture.

Profit motive, the second factor used in the typology, is the desire for monetary gain or return from the business venture that acts as an incitement to create and implement that venture. Profit seems not to be primary, or uniformly high, as a motive in the creation of all new business ventures (9). Other typologies have also noted that not all entrepreneurs seem committed to high profit levels or growth (1; 10). Again, Figure 1 illustrates two levels such as those generated by a median split. This other two-level factor provides the remaining basis for a four cell matrix, with four entrepreneurial styles or orientations as entries. To summarize the typology of Monroy and Folger, below we describe four pure or ideal types, starting with the extremes along one diagonal. These descriptions, we emphasize, treat each level of a given factor as low or high only relative to an aver- age among entrepreneurs.

Risk avoiding -Activity seeking

This orientation reflects, in part, less interest in profit than the average for entrepreneurs, entailing some motive other than profit as the main reason for creating a new venture. Activity seeking implies not only less interest in profit but also that the activities associated with entrepreneurship other than profit seeking are relatively more important or fulfilling than profit per se.

Risk-avoiding implies a desire to avoid ways of funding the venture such as the following: (a) when the primary income of the immediate family unit is used directly for funding or is other- wise placed in jeopardy; (b) when the alternative use of the funds would be anything normally purchased out of the primary income of the immediate family unit; and (c) when the amount of capital provided by the entrepreneur in order to initiate, organize and maintain the venture, relative to the entrepreneur's total wealth or equity, represents an excessive proportion, so large that the entrepreneur finds it aversive. The primary income to the immediate family unit is not dependent on the financial success of the venture. If any of the family unit's income is used in connection with the venture, the funding is drawn from disposable income before primary income, and none of the latter is used if at all possible. Thus this orientation would characterize someone whose main source of funding for a new business venture involves either (a) outside investors, or (b) personal disposable income. Combined with the greater interest in satisfying motives other than high profits per se, this reduced willingness to accept risk characterizes someone whose business involvement is almost more avocational than vocational. Hence we might call such entrepreneurs hobbyists.

Risk accepting - Profit seeking

An above average desire for profit, relative to other entrepreneurs, indicates that the new business venture is conceived, initiated, and operated with large profits in mind, to the extent that other reasons for being an entrepreneur get

subordinated. The higher-than-average risk acceptance entails a greater willingness to fund the venture in ways antithetical to the style described above. The invested capital represents a significant portion of the individual's total wealth/equity, for example, or the use of the capital for the venture impacts significantly on the lifestyle of the immediate family unit. Earned income from the new venture represents the primary income to the individual and the immediate family unit. Thus this orientation, which might be called high stakes, represents those who assume at least the lion's share of the financial risk for a new venture by using personal wealth, small portions of firm equity, or personal indebtedness, with an attendant interest in maximizing the profit from that investment. From a stereotypical viewpoint, this type organization founder may be called a classical entrepreneur. The remaining styles fall along the other diagonal, thus they are the opposite of the first two and can be described more succinctly in those terms.

Risk avoiding - Profit seeking

As with hobbyists whose style avoids risk, this style entails a stronger-than-average urge to keep primary personal income out of jeopardy by using outside investors' funds exclusively and restricting one's own investment to the most disposable portion of personal income (i.e., so that primary income to the immediate

family unit is not dependent, at least in the short run, on the financial success of the venture). Similar to the classical entrepreneur style, on the other hand, this style involves conceiving, initiating, and operating the new business venture on the basis of a strong orientation toward maximizing profitability. This style might be called managerial in that it shares more in common with the orientation of ordinary managers than do the other styles of entrepreneurship.

Risk accepting - Activity seeking

This style entails great willingness to risk personal finances; yet, oddly enough, without so much concomitant attention to profit as might ordinarily be expected in business. Rather, as with hobbyists, the character of other activities associated with entrepreneurship (e.g., opportunities for autonomy) take priority over profit. Psychologically, however, the qualitative nature of the experience probably differs in kind from the hobbyist's because of the greater willingness to endure personal financial risk. Just as those who suffer greatly tend to like what they have attained more than do those who have not suffered so much (11), so those more willing to endure greater risks probably go about the acts of venture creation with greater intensity and zeal. We might even say missionary zeal, earning entrepreneurs with this style the sobriquet of missionaries.

The pure types articulated in the typology have important counterparts in the real world. Anyone who has devoted any time to working with small businesspersons and entrepreneurs can readily identify those types. For example, the Manager is frequently seen as the founder of a high growth firm that has equity financing; the Classical Entrepreneur attempts to develop a growth firm with debt financing; Missionaries often pursue personal passions or ideas with a high risk to personal wealth and/or debt financing; and, Hobbyists are represented historically by mid-life business owners who undertake the venture that "they always wanted to try". Recently, hobbyists have also been represented by displaced executives and managers, who, unable to find other employment, make a default choice to create a position for themselves in a small, single employee, service firm financed primarily from the proceeds of severance packages. More importantly, however, attention to the contributing dimensions that underlie the typology can spawn a reorientation in how we think about entrepreneurship and small business. Those dimensions, we note, suggest a new twist on one of the basic tenets in finance theory, namely the assumption of a positive relationship between risk and return. By arguing that entrepreneurs can vary both in the extent to which they seek profit as return, and in the extent to which they are willing to undertake financial risk, Monroy and Folger (6) and Monroy (8) have pointed to interesting cases that do not fall along the diagonal most likely to represent an economist's predictions. Stated alternatively, the entrepreneurial types presented in the typology highlight the need to explore styles of entrepreneurial

motivation that deviate from the styles most characterizing the rational person in economic theory. We hardly mean to imply that entrepreneurs are not rational; instead, we imply that entrepreneurs are more interesting than pure economic rationality might suggest.

REALITIES, EMERGING REALITIES, EDUCATION & PUBLIC POLICY IMPLICATIONS

Moreover, the pursuit of further discussion of the typology, in a context of potential educational roles of SBI/SBIDA in the current economy, suggests an agenda uniquely relevant to economic and public policy issues. By general consensus, the major agenda item for the developers of public and economic policy is to deal with the recession

through the creation of jobs. While the objective to create jobs is consistent, there are variations in the economic, political, and philosophical approaches to such a goal. For example, some arguments for reducing taxes on capital gains, for example, may rely on particular types of assumptions about the nature of motives most likely to drive economic development (12). The attempt to boost economic development through entrepreneurship by reducing the capital gains tax, in other words, seems to imply either that economic motives (maximizing a positive risk/return relationship) are the only motives worth pursuing, or that such motives are the most prepotent in the largest segment of the population capable of becoming successful entrepreneurs. Such a policy is implicitly directed at affecting the manager entrepreneurial types described above and the capitalists who would invest in such firms. Other parties to the political debate argue for assistance programs that would be more clearly focused on the classical entrepreneur. Such policy seems to be directed at assisting the business owner/manager with little attendant interest in fostering the growth of capitalists. Stated alternatively, such a posture might be articulated as directed at creating new wealth with little interest in adding to the existing wealth of a select few.

A participant in this ongoing debate is the SBA along with its partnership agencies. While the debate continues, SBA agencies are particularly focused on the small business owner/manager. With an emphasis on job maintenance and creation, the current thinking, described earlier in this paper, is to focus on existing independently owned firms that are growth oriented, i.e., classical entrepreneurs. When the political debate is over, whatever the outcome, the SBA agencies will be providing complementary and necessary support. For example, if the near term future policy is to have a structure that supports managers and capitalists, the SBA will provide assistance and support for classical entrepreneurs. Managers will not be denied the type of assistance that the SBA would provide, since ostensibly SBA type assistance is available to manager types of entrepreneurs from the capitalists. On the other hand, a public policy that supports classical entrepreneur types and not managers and

capitalists would be directly supported by current SBA philosophies. As always, and in either scenario, SBA assistance and education would be available to missionaries and hobbyists that are already in business. Recent trends would reduce the amount of assistance that is available to all start-ups, but especially to missionaries and hobbyists because of the high investment of resources applied to assistance and the attendant low returns. On the surface, the rationale seems reasonable enough since the primary consensus goal is to maintain and create as many jobs as possible and most hobbyists and missionaries create and maintain firms that result in self-employment, and, at best, employment of one or more family members. Once we scratch below the surface and examine emerging realities, however, there are some potential pitfalls and dangers in both current policy and the policy that might emerge from the ongoing political debate.

There does not seem to be any consideration being given to potential public and/or economic policy that provides for incentives and assistance for all four entrepreneurial types. We argue that if the consensus goal of existing job maintenance and new job creation is to be met, all four types need to be considered. For starters, a policy that provides incentives for managers and capitalists while at the same time providing funding for meaningful assistance programs for classical entrepreneurs comes closest to optimal since it at least recognizes the needs of two of the four types of entrepreneurs. We feel that emerging economic realities mandate that while supporting managers and classical entrepreneurs, more can and should be done to stimulate the creation and maintenance of hobbyist and Missionary led firms. Further, our argument, to be developed below, is that the best assistance we can offer is in the form of education programs aimed at startup and delivered through and by SBIDA/SBI.

Realities & Potential Emerging Realities

We must consider the potential outcomes of the current recession in the U.S. The expectation among the general population is that a cyclical historical recovery is possible and disagreements, where they exist, concern methods to stimulate the recovery and the length of time the recovery would take. Little attention has been paid to other potential outcomes of the current recession which are rooted in the causes for the current economic condition. Some facts are too obvious to ignore, yet they rarely seem to enter discussions about the current state of the economy. First, there is a direct relationship between the recession and the loss of jobs. Traditional middle class factory and production jobs have been lost to downsizing, merger, and off-shore manufacturing and outsourcing. Additionally, there has been a secondary loss of such jobs due to reduced consumer purchases that resulted from the first wave of job losses causing business exits and failures. The same factors have also caused a reduction in the number of available jobs for managers and executives. Second, the shift to a service economy has not occurred as anticipated. Service jobs, when they were created, have been primarily at or near the minimum wage level and in the retail sector. The major impact of these first two considerations has been felt deeply by the middle class.

A critical issue for any potential economic recovery and the middle class is the creation of replacement jobs that provide middle class wages. We may be aiming at a non-existing target. For example, we need to be reminded that there was no middle class to speak of prior to the industrial revolution. The prefactory era was comprised of societies based on agrarianism characterized by a two class system of rich and poor. Only with

the advent of the factory was movement to the city (and its suburbs), employment with a living wage, and titled property ownership available to the vast majority of the population, i.e., the creation of a middle class. It would seem then, that there are several obvious alternatives to the cyclical historical economic recovery that many of us expect.

Restructuring Society

Any discussion of a recovery and its alternatives must begin with a basic acceptance of a free market economy in some form. This assumption is based on the global failures of various forms of planned/controlled economic systems. The maintenance of a free market economy strongly suggests that lost U.S. manufacturing jobs will not return. In the absence of the creation of alternative industries, what then will support the maintenance of a middle class? The frightening response is "nothing." There is a distinct possibility that we are not experiencing a traditional recession at all and will not therefore experience a traditional recovery. Rather, we are experiencing a restructuring of the fabric of society. The major component of that restructuring is a major adjustment to the standard of living and a reduction in size, if not the elimination, of the middle class as we know it.

Brazilian Inflation

If the reduction/elimination of the middle class is in fact occurring, and in the absence of public policy that will substantially reduce the national debt, the recession will get much worse before it gets better. Unless there is a full realization that such an upheaval is occurring, misreading the signs might well result in public and economic policy "tinkering". Adjustments and changes in policy will occur. Such endeavors will be taken by politicians in a frustrated effort to stimulate a recovery in response to the public outcry. The need to respond to the demand for action must be attended to, for history teaches us that political revolutions are birthed in threats to the economic well-being of the middle class. When we study recent historical examples of the outcomes of poking about for solutions in a context of constituent unrest, especially when that unrest is fueled by high rates of unemployment in a context

of rising national debt, we discover outcomes that are potentially more damaging than the recession. Specifically, one cure for the recession is to push the combined set of buttons that sends the economy in motion with a distinct inflationary flair. The danger is that in the absence of a supporting economic infrastructure, the inflation becomes rampant and approaches or exceeds the recent Brazilian rates of 400%-500% per annum. The possibility of Brazilian inflation in the U.S., as an alternative to the recession, is an emerging reality that we cannot ignore.

Shoring-up the Middle Class

There are alternatives in our emerging potential realities to eliminating the middle class and runaway inflation. one alternative is explicit in the consensus mission to maintain and create jobs. There is a lot of catching up to do since small business has recently lost the battle to create a net job gain. Given types of industries available in which to create such jobs, it does not seem that the number of jobs needed now can be fulfilled in the short or medium term. We must have programs in place for all four previously cited entrepreneurial styles to maximize job creation. Meanwhile programs such as those offered by SBIDA/SBI and others continue to focus on maintaining existing jobs and adding to the job base in existing firms in the small business sector. The rationale for including hobbyist and missionaries in the target markets for start-up assistance is to provide, as a minimum, selfemployment as a viable means to many to retain middle class status. The self-employment of these two nongrowth focused entrepreneur types has the inherent capacity to provide middle class income to those small business owner/managers and their families. Again, we turn to history for our warrant to make such a declaration. We need to recall that Napoleon described England as "...a country of shopkeepers and merchants". While Napoleon used this observation to support his perception of England's lack of masculinity and ability to fight as a nation, the comment had been made earlier by Adam Smith in 1776 as an economic observation. We would be well served to remember that the England of the late 18th century was one of the few (if not the only) societies in history to sustain a middle class of merchants, shopkeepers, and tradesmen, without postindustrial revolution employment opportunities. A closer look at our own economy also reveals that the vast majority of businesses in the U.S. have historically employed no more than the owner and immediate family member(s). A synthesis of this available information would seem to suggest that (1) the largest pool of existing and potential business

owner/managers exists among the general population as no growth entrepreneurs or small business owners (missionaries and hobbyists); (2) currently unemployeds have the potential to move into self employment through the creation of a small business; (3) self employment in a non growth oriented firm can sustain a middle class lifestyle. These considerations seem to indicate that self-employment of many individuals may represent a significant component of

movement away from the current recession that does not involve a reduction of the middle class or runaway inflation. We also offer the suggestion that self-employment may represent the core of the service economy with living wage jobs that we have eagerly awaited.

POTENTIAL ROLE OF SBIDA/SBI

One cannot discuss self employment for too long without confronting two insidious realities embedded in the context of such work. First, many, if not most, self-employment decisions are made as default decisions, i.e., self-employment is pursued as a viable source of income only when attempts to secure other work have been fruitless. Second, the nature of self-employment is that much of the compensation received by self employed is in the form of cash payments and is not recorded as income. The implications Of such an underground economy are enormous. Gerald Anderson, a research economist with the Federal Reserve Bank in Cleveland, estimates that 2030% of M-1 (cash and coin in circula- tion) is unaccounted for in GNP. In real dollar terms $200-300 per capita represents money that is unaccounted for. Theoretical explanations include cash that has been lost or accidentally destroyed (we probably all have some coins secreted away in our cars, jars of pennies at home, a buck or two in an old coat pocket); currency that is in circulation overseas; and, currency that is used in illegal transactions and/or underground econo- mies. Estimates for the portion of unaccounted for M-1 that is in the underground economy of self-employeds range as high as $150-200 per capita.

We propose that SBIDA/SBI is uniquely positioned to assume an educational role that, in the immediate term, would stimulate movement to selfemployment as a career, rather than a default choice, and in the medium to long term be instrumental in the capture of untold lost government revenues by bringing out of the underground economy a significant portion of the revenues of self-employed. The role of SBI/SBIDA in such an undertaking would be to focus on job creation and the capture of government revenue as desired learning outcomes.

Educational Initiatives

Monroy (13,14) examined entrepreneurship and small business education programs and called for a more thorough look at delivery systems with a view toward identifying and measuring learning outcomes. He proposed viewing such education as a process model that included inputs such as attitudes, intentions, opinions, prior knowledge, instructors, and students. As process, Monroy urged that greater attention be paid to issues of pedagogy, materials used, etc.. While discussing outcomes, Monroy recognized that they are varied and include changes in intention to start a business, job creation, business startups, contributions to GNP, heightened interest to learn more, etc.. A

review of desired outcomes then led him to suggest that there are many potential points in a student's lifeline where educational interventions might be appropriate. So, for exam- ple, prior to starting a business, an individual must acknowledge and accept that the ownership of a business enterprise is a viable career choice and that ownership is feasible in a free enterprise system. Such an educational intervention might well be called education about entrepreneurship with attendant desired outcomes of heightened awareness of the possibilities of business ownership; a desire to start a business as other than a default choice; or, a desire to experience more education and 'learn more". This first stage of education could occur at any point in an individuals life when they possess basic communication skills and can take the form of traditional or non-traditional education. Some other possible types of intervention points include (chronologically) the presentation of additional information to, for, and with entrepreneurs as the business owner participates in pre start-up, start-up, and ongoing operational functions of the small business. To reiterate, in Monroy's terms, the current trend in SBA and partner agency activity that is designed to provide maximum returns to the current economic crisis, the focus is on providing education for and with entrepreneurs with an emphasis on classical entrepreneurs. As we have seen earlier in this paper we are left with an untapped potential to provide start-up assistance to and about entrepreneurship to hobbyists and missionaries who tend to become selfemployed when they organize a small business.

The vision that we have for the education role of SBIDA/SBI is both economical and efficient and, we believe, provides the type of innovative program that has been called for by officials such as the SBA's Chicago Regional

Director. We propose that SBIDA/SBI undertake an initiative to provide education about entrepreneurship. The desired outcome of such an educational intervention would be to develop in students a sense that self- employment is a viable career choice of first, and not, default choice. As a partnership agency of SBDC, SCORE, and other economic development agencies, SBI's are uniquely positioned to provide such education economically and with credibility for the educational effort. The unique positioning stems from the fact that SBI is the only partner agency that is entirely residenced on the college/university campus. Location suggests that free classroom space (economy) is available for presentations to groups from the community and instructional expertise exists to conduct the sessions on a college/university campus (credibili- ty). A carefully designed and standardized format of instructional material that could be presented in a 2-3 hour block would seem to be the optimal pedagogical tool to be em- ployed. Such pedagogy needs to include attention to the importance of accurate record keeping and reporting, to include the payment of applicable taxes, and the consequences of evading such responsibilities. We further suggest that SBI's be authorized to conduct two such offerings per year with each offering eligible for a one case reimbursement to cover the costs

of advertising, materials, etc.. on a selective basis, individual SBI's could be denied this alternative one case option for inability to draw students; additional sessions could be authorized in high unemployment areas where attendance is high; or, a sliding scale from $0-500 compensation could be developed that is based on attendance. Conservative estimates of the immediate and short-term results of such a program provide an insight to the significant contributions that such a program could make. If the 500 SBI's made this offering available twice a year to groups of 50 individuals and 30%-50% of the attendees were energized to self-employment the program could potentially create a minimum of 15,000-25,000 jobs in the first year at a net maximum cost of $20-$33 per job creation. We know of no other plan currently in effect that is as effective or efficient in the creation of jobs.

Having decided to start a business, many of these new self employeds may need additional assistance, i.e., in Monroy's terminology, education for small business ownership. We propose that the second stage of assistance be conducted by referral to the appropriate partner agency; as SBI case work (some self-employeds will grow by design, change in motive or serendipity); or follow-on classes for groups. We suggest that such classes not be funded by SBI, but instead serve as governmental and SBI profit centers and be offered by SBI operatives or other host institution employees as community outreach programs. The fiscal structure of this phase of education, similar to the first phase is that a free (to SBI) room and instructional expertise is available. There need not be advertising for this phase of the program because the target market is clearly identified as "alumni" of the initial course and SBI, SBDC, and SCORE clients, who on intake, are identified as appropriate students for such an educational effort. Registration for such educational offerings would be accompanied by either a cash payment (to the hosting college or university) or evidence that the client is not operating entirely in the underground economy (i.e., current quarter unemployment insurance receipt; quarterly estimated tax return, etc.). The presentation of such receipts would seem to serve as prima facie evidence that unemployment and other benefits are no longer being received and the firm is operating, at least partially, in the open as opposed to in the underground economy. The cash payment alternative should be high enough to 1) discourage attendance by those who are not committed to business development and 2) provide an incentive to choose the alternate payment method.

Information collected from alternative payment methods (tax and other receipts) could then be incorporated into MIS reportable data. By capturing data on new tax receipts contributed by self-employeds and combining that with data about unemployment and similar benefits no longer being collected, we would be able to track the fiscal impact of the program on state and federal government income and expenditures. To measure the impact of such a program, we need to consider that the target market would

be unemployeds. Some estimates are as high as 25%-60% fraud in unemployment and other assistance programs where the fraud is manifest by deriving an income from the underground economy. If we apply this figure to the conservative estimates of job creation outlined earlier, the potential is for as many as 12,500 individuals moving f rom a context of receiving some form of government assistance and not paying taxes on cash income to one of no longer receiving benefits and contributing to tax funds. We can only imagine that such a contribution would be significant, since last year the President touted the similar movement of 17,000 individuals as a major plank in his campaign.

SUMMARY AND CONCLUSION

We have presented the rudimentary components of a model of a potential SBIDA/SBI roles in entrepreneurship education. The proposal includes considerations of economic realities and emerging realities and is based on existing theory and research. We feel that the suggestions contained in this presentation do not require changes in policy, but

rather serve to optimize the inherent capabilities that exist within the current structure of SBIDA/SBI. The major contributions of this newly defined role include the creation of jobs through an awareness project of education for self-employment and an initiative that provides incentives for revenue reporting along with an additional disincentive to maintain status in the underground economy. Overall, the most significant impact is potentially derived by contribution to the maintenance of a societal structure that includes a strong middle class. Accordingly, we can only urge that it be given immediate and serious consideration.

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THE RESPONSE OF THE WORKING CAPITAL POSITION OF SMALL FIRMS TO CHANGES IN THE BUSINESS CYCLE

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ABSTRACT

This paper is a study of how the working capital position of small firms responds to changes in the level of economic activity. Current, quick, inventory to total assets and current assets to total assets ratios were used to evaluate changes in working capital position. The index of annual coincident indicators was used to measure the changes in economic activity. The findings showed that liquidity actually increased slightly for these firms during economic expansion with no noticeable change in liquidity during economic slowdowns. Their investment in working capital was relatively stable over the time period of this study.

INTRODUCTION

Financial managers allocate considerable time to the management of current assets and the short term financing of these assets. Current assets and current liabilities represent a significant investment by businesses and the liquidity position of the firm is determined by the composition and financing of these current accounts.

According to a study by Gitman and Maxwell (2) financial managers devote approximately 60 percent of their time on short term activities. The dynamic and highly volatile nature of short term markets, the constant need to replace current assets and to pay off current liabilities, and the fact that long term funds are raised infrequently help explain the larger time allocation to short term activities.

The relative importance of working capital to small firms can be observed in Table 1. In 1991, current assets made up 68.3 percent of total assets among manufacturing firms with assets under $5 million, while the same accounts made up only 35.7 percent of total assets for all manufacturing firms. Information in Table 1 indicated that the ratio of current assets to total assets among small firms was much higher than for larger firms. In 1991, current liabilities were 32.6 percent of total assets among small firms which is considerably higher than for all manufacturers taken together. Research in the late 1960s and 1970s and the information in Table 1 provided different results concerning the relative liquidity of small and large firms. Walker and Petty (14) and Gupta (4) reported that large corporations were more liquid as reflected by the current ratio while the data in Table 1 indicated that small firms in recent years have current and quick ratios that exceed those of large firms. Primary reasons for the differences between large and small firms with respect to working capital are: (a) large firms can devote more resources and expertise to manage current assets; (b) large firms have an advantage of economies of scale; and (c) large firms become more capital intensive (11). In essence, small firms have fewer alternatives than do large firms in raising funds and fewer safety nets on which to rely.

While recent research supports the view that smaller firms do tend to be more liquid than large firms, the availability of short term funds throughout the economy is affected by economic conditions that exist at a point in time. A commonly held view

TABLE 1 CURRENT ASSETS AND LIABILITIES AS A PERCENT OF TOTAL ASSETS FOR MANUFACTURING FIRMS FOR SELECTED YEARS, BY ASSET SIZE

All Mfg. with Assets All Mfg. under $5 million Accounts & Ratios 1981 1986 1991 1981 1986 1991

Cash & Marketable Sec. 5.10% 6.20% 4.50% 11.00% 12.60% 13.00% Receivables 16.80 14.70 13.60 27.60 28.60 27.90 Inventories 19.60 16.20 14.20 24.90 23.40 23.60 Total Current Assets 44.30 40.30 35.70 67.90 67.30 68.30 Total Current Liabilities 27.00 26.00 25.30 36.20 34.30 32.60 Current Ratio 1.64 1.55 1.41 1.86 1.96 2.03 Quick Ratio .91 .93 .83 1.16 1.28 1.32

Source: See Reference #12

is that short term credit is more readily available during periods of low economic activity in contrast to periods of high

economic activity. Also, business needs for working capital increase during expanding economic activity and decrease during contracting economic activity. According to Gup (3), the level of investment in working capital accounts should increase as economic activity increases and decrease as economic activity decreases.

Based on the above expected relationships and the relatively large investment in current accounts, small firms should respond to expanding economic activity by increasing their investment in the various components of current assets such as receivables, inventories, and other current assets. Also, firms would likely increase their use of short term financing but by less than the increase in current assets. The expected impact of such actions would be a decrease in the liquidity position of small firms and an increase in the percentage of assets held in the form of current assets during an expanding economy. The opposite impact would be expected during a downturn in the economy. In other words, the working capital position of small firms would be expected to change with a change in the business cycle. Readers should remember that the above expected relationships have generally been associated with large firms since little or no research has been done to determine if the same relationships exist among small firms.

A review of the literature indicated an increasing volume of research on the subject of working capital management, but very little published research was related to small firms (see citations in this paper) and no published research was found that addressed the subject of the relationship between changes in working capital position of small firms and changes in the business cycle. Since small firms make such an enormous contribution to the U.S. economy (9), research is needed that will provide insight into the behavior of small businesses. A better understanding of the working capital management practices of small businesses is especially beneficial because of the urgency of adequate working capital in the success of small firms. The purpose of this study was to conduct an historical analysis of how the working capital position of small firms has responded to changes in the level of economic activity. One would expect an inverse relationship between the liquidity of small firms and the level of economic activity. In other words, small firms were expected to increase their investment in receivables, inventories, and other current assets and their use of short term debt during economic expansion (3). The opposite would be expected during economic contraction.

This paper was organized in the following manner. First, research methodology was discussed. Second, an analysis of the historical data was discussed. Last, the paper presented conclusions and observations from the analysis of data.

METHODOLOGY

Financial statements of 50 small firms were selected from the 200 best small companies list published annually by Forbes (13). The initial intent was to randomly select 50 firms from the 200. Since the time period for this study was 1980 through 1991 and many of the small firms were relatively new (formed after 1980), the 50 firms included in this study included almost all the 200 firms that had been in business for the 12 year period. Annual balance sheets for each firm for the time period 1980-1991 were obtained from Moody's Industrial Manuals (10). This 12 year period was selected because it was long enough to indicate trends in working capital position. Also, this period covered two complete business cycles: (1) January 1980 - peak, July 1980 - trough, July 1981 peak (2) December 1982 trough, June 1990 - peak, March 1991 - trough

The index of annual average coincident economic indicators was used as the measure of economic activity. Coincident indicators usually reach the peak and trough simultaneously with business cycle peaks and troughs as reported by the U.S. Government.

Financial ratios were used to evaluate changes in working capital position. Ratios are especially useful as indicators of trends in financial position rather than as indicators of absolute financial condition at a point in time; therefore, they were considered an appropriate technique to use in this study.

Two aspects of working capital position were examined in this study. One was the liquidity of the small firms as represented by the current ratio and the quick ratio. Second, working capital was examined by measuring the total investment of the small firm in working capital as represented by the inventory to total asset and current asset to total asset ratios. In several related articles in the early 1980s, researchers found that financial managers reported that they did not consider ratios very important in managing corporate liquidity (5;7). These same studies indicated that managers considered ratios more important as their firms became less liquid. Another study in 1982 (6) reported that the primary tool used by responding financial managers to solve liquidity problems was to decrease inventory levels. A recent study (1) found that the current ratio ranked highest among respondents as a tool for monitoring working capital over time. While the above studies did create some concern about the use of ratios as a measure of liquidity, these

ratios continue to be accepted as liquidity measures.

The current ratio, quick ratio, inventory to total asset ratio and current asset to total asset ratio were computed for each of the 50 small firms for selected years from 1980 through 1991. An average of each ratio for each of the selected years was then calculated. Using the annual coincident economic indicators as independent variables and the average annual financial ratios as dependent variables, the correlation coefficient between the two variables was calculated to determine the relationship between changes in working capital position and changes in the level of economic activity. The t-test was used to measure significance. It was anticipated that the current and quick ratios vary in- versely with the coincident indicators while the inventory to total asset and current asset to total asset ratios vary directly with coincident indicators. The Statistical Package for the Social Sciences (SPSS) was used in analysis of data.

ANALYSIS OF DATA

Table 2 shows the comparison of the average financial ratios of the 50 small firms with the annual averages of the coincident economic indicators for the period 1980-1991. The period 1980-1982 was a time of relatively short term volatile movements in the economy in which two peaks and troughs occurred in the coincident indicators. For example, the economic indicators peaked in January 1980, reached a trough in July 1980, reached another peak in July 1981 and another trough in December 1982. From 1983 through June 1990, there was considerable economic expansion and more stability with the coincident indicators reaching a peak in June 1990. The 1990 recession continued until a trough was reached in March 1991 and a slow recovery began.

It was expected that corporate liquidity would decrease during economic expansion as firms increased their investment in receivables and inventories with considerable short term financing provided by spontaneous sources and short term debt. More specifically, it was expected that the current and quick ratios would trend downward reflecting a decrease in liquidity during expansion while the current asset to total asset and inventory to total asset ratios would trend upward. The reverse of the above was expected during a recessionary period. As firms were faced with declining sales, they would likely decrease their investment in inventory and receivables and their current and quick ratios would trend upward. Also, once an economic slowdown is certain the current asset to total asset and inventory to total asset ratios should trend downward.

Did the information provided by this study and shown in Table 2 support the above expectations? The answer was a surprising no. The current and quick ratios actually increased during the long expansion period in the 1980s, which is opposite expectations. The 1980-1982 period was relatively short and dominated by high inflation and interest rates; thus ratios probably did not respond appropriately during this short and erratic time period. Financial managers generally need a longer time period to adjust to changes in economic conditions.

The current asset to total asset and inventory to total asset ratios remained relatively stable during the period 1980-1991. It was expected that both of these ratios would increase during economic expansion and decrease during economic slowdowns.

The correlation coefficients between the current and quick ratios and the coincident economic indicators for this time period were .46 and .51 respectively. A negative correlation was expected. The correlation coefficients between the current asset to total asset and inventory to total asset ratios and the coincident indicators were -.57 and -.42 respectively. A positive correlation was expected.

The analysis of the working capital position of these 50 small firms showed that there was a very small relationship between

TABLE 2 COMPARISON OF SELECTED FINANCIAL RATIO AVERAGES OF 50 SMALL FIRMS WITH ANNUAL AVERAGES OF THE COINCIDENT ECONOMIC INDICATORS

Ratios and Cor. Indicators 1980 1981 1982 1983 1985 1987 1989 1990 1991 Coeff.

Current Ratio 2.47 2.75 3.16 3.26 2.85 3.23 3.26 3.21 3.34 .46 Quick Ratio 1.71 1.87 2.14 2.66 2.24 2.56 2.42 2.45 2.45 .51* C.A. to T.A. .63 .62 .63 .64 .64 .63 .61 .62 .60 -.57* Inv. to T.A. .19 .19 .18 .17 .17 .17 .16 .19 .17 -.42 Coin Ind. 102.9 107.1 100.0 102.3 117.6 124.5 133.5 133.1 126.2

*significant at .05 level

changes in working capital and changes in economic activity. The findings of this study were contrary to expectations. In another study, the author found that financial managers of large firms reacted to economic expansion as expected- decrease in liquidity (8). Expectations stated in this paper have been generally developed from observation of large firms. Since published research on this subject among small firms was non-existent, there was no empirical evidence that indicated how small firms were expected to react to changes in economic activity. This study has provided useful insight on this subject.

CONCLUSIONS AND OBSERVATIONS

The liquidity position of the 50 small firms included in this study, as measured by the current and quick ratios, increased slightly during economic expansion with no noticeable change in liquidity during economic slowdowns. This relationship was contrary to expectations that firms tend to become less liquid during expansion and more liquid during economic contraction. Also contrary to research cited earlier in this study (6), there was no evidence among these firms that they used inventory reductions as the primary means of correcting liquidity problems.

Their investment in working capital as measured by the current asset to total asset and inventory to total asset ratios was relatively stable over the time period of this study. This was contrary to an earlier cited source (3) which stated that business investment in working capital would likely increase during economic expansion. Since this study only included 50 small firms, one should not attempt to generalize that all small businesses would demonstrate the same characteristics with respect to the response of working capital to changes in economic activity.

The time period (1980-1991) included in this study did provide sufficient time and relatively stable economic conditions in which trends in working capital management should be adequately observed. Therefore, the conclusions of this study concerning small firms should provide useful insight into the behavior of small firms with respect to their management of working capital as changes occur in economic activity. The findings in this study suggest that working capital management practices of small firms in response to changes in economic activity may be quite different from larger firms. Further research utilizing a larger number of small firms and different time periods should help determine the validity of these results.

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HOW UNDERWRITING SPREADS ARE ASSIGNED: EMPIRICAL EVIDENCE FOR S.M.E.'s TO CONSIDER WHEN GOING PUBLIC.

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ABSTRACT

A misconception exists in finance that the percentage spread charged an initial public offering (I.P.O.) of common stock by an investment bank is a risk premium to the bank for underwriting the new issue in the market. This study examined how underwriters assign percentage spreads.

A random sample of 115 I.P.O.'s representing 1980 through 1989 was divided into three categories based on the dollar value of each offer, consisting of Small offers of less than $10 million (n-44), Medium offers between $10 million and $29.9 million (n-51), and Large offers of $30 million or more (n-20).

The distributions of percentage spreads across all categories were compared using an ANOVA, Scheffe's test, and Student's t- test. A regression related the size of the percentage spreads and the dollar values of the offers within each category. A separate regression compared underwriter compensation and dollar values for each offer.

The study found that the distributions of percentage spreads were dissimilar between all categories. It also indicated that percentage spreads were inversely related to.

INTRODUCTION

Companies progress through distinct stages over time as they grow from entrepreneurial start-up venture, to small business, to expanding privately held corporation, to public corporation. A majority of small firms initially finance with debt (1), and the lack of equity capital does not pose an entry barrier. Many S.M.E.'s secure long-term debt as a way to increase their return on equity (2). Nearly twenty percent of small firms acquired additional long term capital after just their first year in business, and that one quarter of such acquisitions were all equity (1). Evidence implies a dependency exists between financing decisions and investment decisions for small firms, and that small firms manage risk through the sale of long-term debt, while large firms tend to manage their risk through the sale of equity (3).

The initial public offering (I.P.O.) of common stock is a significant milestone in the life of a firm. There can exist changes in the decision-making processes and administrative structures of S.M.E.'s when they go public, and these firms can

tend to be more formalized once outside equity is raised (4). Firms making I.P.O.'s may use investment banks to underwrite a new issue (also called a firm commitment), where the underwriter purchases the stock from the issuer and then sells it in the market at an agreed upon offering price. The bank receives a percentage of the offering price, called the spread, and the issuer receives the proceeds (the difference between the offer price and the spread). Underwriting involves a risk transfer from the issuer to the bank.

Investment banks can also make a best efforts offer, where they agree to do their best to sell the stock on behalf of the issuer, but no risk transfer occurs. Underwritten issues appear to be preferred by I.P.O. firms, compared with best efforts offers, and the marketability of a new issue is the most important variable in deciding between these two methods (5). The cost of best-efforts offers are more than three times the cost of firm commitment offers when measured on a percentage basis (6).

VALUE AND I.P.O. INFORMATION

The pricing of I.P.O.'s has been described as a delicate art (7). Indeed, establishing an initial value for a common stock issue is difficult, in that it will soon trade at a market equilibrium price. Asset prices in efficient markets reflect all available information, and any new information is absorbed immediately, and is instantaneously reflected in the price (8). Values assigned to small businesses may vary greatly depending upon the valuation method employed, and certain components of value may have little to do with standard financial methodologies (9).

Various conduits for signaling information exist relative to I.P.O.'s. New issues rapidly adjust to the public disclosure of various accounting measures presented in the prospectus (10). When original owners retain a larger proportion of stock at the I.P.O., the price of the stock tends to be higher (11). In a similar scenario involving venture capital deals, the quality of a new firm's management team influences risk but not expected return (12). A positive relationship exists between a firm's age and the price levels of I.P.O.'s, such that firms with little organizational history are more likely to be underpriced (13). Issuers use information presented in the prospectus to signal expected firm value (14).

Underpricing Evidence

The field of finance recognizes a wealth of empirical work that shows I.P.O.'s tend to be underpriced and produce significant abnormal returns to investors who are able to obtain the stock at the offer price on the first trading day (15; 16; 17; 18; 19; 20). Evidence confirms this, in that acquiring a new issue at the post offering price, investors' returns are greatly reduced (15). Because underwriters learn about new issues during preselling activities prior to the offer date, they have superior information and convey that information in the offer price (21).

Small I.P.O.'s produced systematic short-run price appreciation (17). Underwriters underprice new issues so that the I.P.O. will be fully subscribed and rise in price immediately after the offer (22). There tends to be a downward bias in pricing I.P.O.'s, and the prestige of the underwriter appears to be inversely related to the degree of underpricing (23). Top tier underwriters tend to underprice new issues to a much lesser degree when compared with new issues offered by lower tier underwriters (24).

The mean initial performance of unseasoned new stock issues is

positive (16), and an equilibrium exists between ex ante uncertainty and expected underpricing of I.P.O.'s (25); however, in a study of 510 I.P.O.'s, a strong positive correlation between underpricing and ex ante uncertainty was found (26). Over seventy percent of I.P.O.'s in a ten year random sample produced positive price changes on the offer date, the day after the offer, and the fifth day after the offer (20).

RESEARCH QUESTION

How do underwriters assign percentage spreads to I.P.O.'s? In that investment bankers receive compensation for their underwriting risk through the spread, then I.P.O. prices should be set equal to the market equilibrium value (27). An industry adage states that the size of the percentage spread is directly related to the risk for each new issue. The reasoning is that greater uncertainty about the future equilibrium price induces underwriters to either underprice and charge a lower percentage spread, or accurately price and charge a higher spread. However, the percentage spreads in I.P.O.'s appears to be unrelated to the risk of the new issue, when risk was measured as a function of expected after market returns (20).

There exists a direct and measurable relationship between the price of an I.P.O. and the time involved in the distribution period, and that when the time to sell the issue is longer, the risk of an unsuccessful sale is greater, and the underwriter will request a higher spread from the issuing firm (28). In the specific case of Microsoft Corporation, the underwriter was willing to reduce the percentage spread if the issuer would agree to a lower offering price (29). The pricing of venture capital risk compensation is similar to the spread on I.P.O.'s (30) and is estimated to be determined by several risk factors including: the number of shares offered, the expected selling effort, the complexity of the offer, and the quality of the offer (2). The total costs of going public (including costs beyond the spread) were greater, on a percentage basis, for offers under $10 million than for offers over $10 million, and costs are relatively constant above $10 million (6).

EMPIRICAL ANALYSIS

Data and Methodology

A sample of 115 I.P.O.'s was randomly selected from the Dealer's Digest for the period January 1, 1980 through July 31, 1989. The sample was to represent one random offer per month for the entire decade, to include periods where the broader markets were up, down, and flat. These offers were reconciled with the company history outlined in Standard and Poor's Corporation Descriptions regarding the spread and the composition of each offer. The sample was comprised of all Regulation A public offers of common stock only (no warrants or units included). When a suitable

I.P.O. was unavailable in a given month, another was randomly selected from another month.

Twelve offers were selected for the years 1980 through 1988, and seven offers were selected for 1989. Each year from 1980 through 1988 included offers from at least eight separate months, and 1989 had one offer from each month through July. The sample was divided into three categories based on the dollar value of each offer. Small offers (n-44) were defined as I.P.O.'s of less than $10 million, Medium offers (n-51) as those between $10 million and $29.9 million, and Large offers (n-20) as those greater than or equal to $30 million.

A one-way ANOVA was performed comparing the range of percentage spreads within each quartile between each of the three categories of offer sizes, and was cross-checked with a Scheffe's test, as an initial examination of whether percentage spreads were assigned differently based on the dollar value of the offer. The three groups were also compared using a Student's t-test.

A regression was performed separately on each category of I.P.O.'s comparing the dollar value to the percentage spread (Equation 1.0).

$Si = b0 - b1\ Vi + ei$ (1.0)

where: S is the percentage change,

b0 is a constant,

b1 is a standardized coefficient,

Vi is the offer value in millions of dollars,

Ei is a random error term.

A second regression then compared the underwriter's dollar compensation to the dollar value of each I.P.O. (Equation 2.0).

$Ui = b0 - B1\ Vi + Ei$ (2.0)

where: U is underwriter compensation,

b0 is a constant,

b1 is a standardized coefficient,

Vi is the offer value in millions of dollars,

Ei is a random error term.

FINDINGS

Spread Ranges

The results of the ANOVA are presented in Table 1. 0. There is a significant difference in the range of spreads assigned to Small, Medium, and Large I.P.O.'s. Summary statistics for the sample are presented in Table 2.0, including the t scores between the groups. There is a significant difference between spreads for Large and Medium I.P.O.'s, Medium and Small I.P.O.'s, and Large and Small I.P.O.'s.

It appears that percentage spreads are dissimilarly assigned based upon the dollar values of new offerings. Issuers making Large offers should expect to retain greater proceeds (on a percentage basis) than issuers making Medium, and Small offers.

Table 1.0

One-Way ANOVA: Range of Spreads ---------- SOURCE: SS: df: MS: F: Between 2.7915 2 1.395 8.18 Within 1.0240 6 0.1707

* significant at .025 alpha.

Table 2.0 Spread Summaries and t Scores SPREAD --- t Scores--- GROUP: MEANS: O Lg Med Sm ----------

Large 6.703% .734 - - - Medium 7.128% .417 4.58* - - Small 8.365% 1.265 5.59* 13.24* -

* significant at .001 alpha.

Spreads and Dollar Value

The first regression describes Small offers in Equation 1.1, where the percentage spread is equal to a constant 9.595 percent minus .2544 times the dollar value of the offer in millions of dollars (F significant at p=.000065). This means that an underwriter would be expected to charge a base spread of almost 9.6 percent and then discount the spread 25.44 basis points for every million dollars of value in the offer (standard error of the estimate = 75.15 basis points in the spread).

$Si = 9.595 - .2544\ Vi$ (1.1)

Table 3. 0

Effective Compensation Rates and Expected Assigned Spreads.

(a) (b) (c) (d) (e) (f) OFFER FIXED VARIABLE EFFECTIVE EXPECTED GROUP: VALUE: PORTION: PORTION: TOTAL: RATE: SPREAD: Large $40 M $45,349 6.47% $2.633 M 6.583% 6.828% Medium $15 M $87,375 6.55% $1.070 M 7.132% 7.172% Small $ 5 M $79,404 6.61% $409,904 8.198% 8.323%

The first regression describes Medium offers in Equation 1.2, (F significant at p=.015104) where the underwriter charges a base spread of just over 7.5 percent and then discounts the spread by about 2.5 basis points for every million dollars of value (standard error = 39.94 basis points in the spread).

$Si = 7.548 - .02504\ Vi$ (1.2)

The first regression describes Large offers in Equation 1.3, (F significant at p=.173813) where the underwriter charges a base spread of approximately 7 percent, and discounts the spread less than one half of one basis point for every million dollars of value in the offer (standard error 71.56 basis points in the spread).

$Si = 7.010 - .00456\ Vi$ (1.3)

Underwriter Compensation and Spreads

The second regression describes Small offers in Equation 2.1, (F significant at p=.0000) where the underwriter's compensation is equal to a flat $79,404 plus 6.61 percent of the dollar value of the offer (in millions). This means that for every one million dollar increase in the value of Small offers, underwriter compensation is expected to increase by $66,100 above the fixed charge (standard error of the estimate = $37,001 in underwriter compensation).

$Ui = 79{,}404 + .0661\ Vi$ (2.1)

The second regression describes Medium offers in Equation 2.2, (F significant at p=.0000) where underwriter compensation is expected to increase by $65,500 on top of a fixed charge of $87,375 (standard error of the estimate - $74,022 in compensation).

$U_i = 87{,}375 + .0655\ V_i$ (2.2)

The second regression describes Large offers in Equation 2.3, (F also significant at p=.0000) where underwriter compensation is expected to increase by $64,700 on top of a fixed charge (standard error $596,449 in underwriter compensation).

$U_i = 45{,}349 + .0647\ V_i$ (2.3)

The marginal percentages on Small, Medium, and Large offers are similar (6.61 percent, 6.55 percent, and 6.47 percent respectively); however, the fixed dollar portion comprises a significantly greater proportion of total compensation in Small offers versus Medium and Large offers. Consider the examples in Table 3.0 which compare the effective rates of compensation and the expected percentage spreads for a typical Small, Medium, and Large offer. Using Equation 2.0, if the fixed portion (b) is added to the variable portion (c) they equal total compensation (d). This divided by the dollar value of the I.P.O. (a) equals the effective rate of the underwriter's compensation (e). The effective rates of compensation are similar to spreads (f) derived from Equation 1.0 for Small and Medium offers, but are dissimilar for Large offers.

SUMMARY AND CONCLUSIONS

There appear to be distinct ranges within which underwriters assign spreads, and these are segregated for offers less than $10 million, for offers between $10 and $29.9 million, and for offers over $30 million. The degree to which they are willing to discount their base spread compensation is apparently greatest for offers less than $10 million, but decreases as values increase, until it is nearly negligible for offers over $30 million.

The evidence suggests that underwriters assign percentage spreads based primarily on the dollar value of new offers, and that the size of the percentage spread and the dollar value are inversely related. When owners of an S.M.E. contemplate making an initial public offer of common stock, they should understand that as they negotiate the amount of the percentage spread, the underwriter will probably seek a spread based primarily on the value of the offer, and that the spread will not represent a risk premium to the investment bank based on the risk transfer of underwriting the new stock issue.

This study, and prior evidence concerning I.P.O. underpricing, suggest that percentage spreads are not risk premia, but simply a volume-based cost of doing business for investment banks acting as underwriters, and that underwriters may manage their risk through expected under-pricing and the degree of subsequent abnormal returns realized in the immediate after market. When an S.M.E. sits down with an underwriter to negotiate their I.P.O. , they should focus on optimizing the offering price (the value of the offer), knowing that the percentage spread will not represent a risk premium to the investment bank, but will most likely be assigned based on the offer's dollar value.

There are two distinct incentives for S.M.E.'s to secure a relatively higher offer price on their I.P.O.'s. First, their net proceeds (new capital raised) will increase as the offer price increases, and second, the marginal net proceeds due to higher offer prices increases as the offer price increases, as the proceeds equal a greater percentage of the offering price when they negotiate for, and settle on, a higher offering price. However, the underwriter does not wish to settle on an offering price that is relatively high, in that if it is too close to the expected market equilibrium price in the after market, there will be lower expected returns to the selling syndicate, and the I.P.O. may receive a less than enthusiastic reception at offer.

Ideas for Further Study

There is still a need to determine what, if any, risk premia exist in the investment banking underwriting function. It can be argued that the decision to underwrite a new issue is in itself a financial signal that the I.P.O. is expected to sell easily in the after market, and make available abnormal returns to those investment banks that comprise the selling syndicate. Also, a model is needed to empirically test for specific variables that determine how new stock offers are accepted or rejected by underwriters.

APPENDIX

Data Set: 115 Random I.P.O.'s January 1980 through July 1989. Offer Size in Millions of Dollars

ISSUING FIRM OFFER SIZE

1980 NIKE $52.294 GENENTECH $35.000 STORAGE EQUITIES, INC. $30.000 TACOMA BOATBUILDING $18.000 GENERAL NUTRITION, INC. $15.000 ISC SYSTEMS CORP. $12.850 SYSTEM INDUSTRIES, INC. $11.200

1980 CON'T

ISSUING FIRM OFER SIZE

TELLABS, INC. $ 9.300 HCC INDUSTRIES $ 4.750 DIMIS, INC. $ 3.443 GEOKINETICS, INC. $ 3.375 FINGERMATRIX, INC. $ 2.000

1981

L & N HOUSING CORP. $50.000 TANDON, INC. $31.606 SEAGATE TECHNOLOGY $30.000 PETROLEUM HELICOPTERS $26.750 CARL KARCHER ENT. $18.900 ALPHA MICROSYSTEMS $13.500 VISUAL TECHNOLOGY $12.000 ICO, INC. $11.000 SAGE DRILLING $ 8.250 SO.TEXAS DRILLING $ 6.600 THORATEC LABORATORIES $ 5.938 VENTREX LABS, INC. $ 4.625

1982

GENE CORPORATION $19.000 SYNTREX $15.000 LTX CORPORATION $12.969 ON LINE SOFTWARE $12.000 NORTH FORK BANCORP $ 8.750 INTERMETRICS $ 5.600 ATLANTIC SOUTHEAST AIR $ 5.200 REXON, INC. $ 4.520 RYAN'S FAMILY STEAKHOUSE $ 4.394 FARED SYSTEMS, INC. $ 4.000 SANDWICH CHEF, INC. $ 3.850 C.S.P., INC. $ 3.354

1983

MACK TRUCKS, INC. $205.500 GIBSON GREETINGS $ 96.250 NEW HAMPSHIRE SAVINGS $ 15.673 SELECTERK, INC. $ 12.150 E & B MARINE, INC. $ 12.000 ANDOVER CONTROLS $ 10.000 SALEM CARPET MILLS $ 8.125 GALILEO ELECTROOPTICS $ 7.000 CERMETEK MICROELECTRONICS $ 6.760 FIBRONICS INTN'L. $ 5.850 LASER PHOTONICS, INC. $ 4.000 DAIRY MART CONV. STORES $ 2.970

1984

BRANIFF $23.375 LIEBERMAN ENTERPRISES $18.000 AST RESEARCH $16.800 COMPRESSION LABS $12.762 GALOOB (LEWIS) TOYS $12.500 KING WORLD PRODUCTIONS $12.500 PONCE FEDERAL BANK $ 9.218 ALTRON, INC. $ 8.000 AMISTAR CORPORATION $ 7.500 FIRST INTERPHASE CORP. $ 4.800 AMFED CORP. $ 3.956 HOOPER HOLMES $ 3.000

1985

CITIZENS FINANCIAL $98.750 REEBOK INTERNATIONAL $68.000 MORGAN PRODUCTS, LTD $21.000 SALICK HEALTH CARE $16.800 SHARE BASE CORP. $16.200 MAXTOR CORPORATION $15.125 PACIFIC NUCLEAR SYS. $13.300 SBARRO, INC. $11.931 CIRCLE EXPRESS $ 8.313 DATA TRANSIATION $ 8.000 OLD SPAGHETTI WAREHOUSE $ 4.760 PERLE SYSTEMS, LTD. $ 3.600

1986

MICROSOFT $58.695 CALGENE, INC. $31.500 SYNERCOM TECHNOLOGY $30.000 INT'L DAIRY QUEEN $25.533 NAVIGATORS GROUP, INC. $21.600 QUICKSILVER, INC. $16.250 IFR SYSTEMS $10.688 OXFORD ENERGY COMPANY $ 6.500 NEW LINE CINEMA CORP. $ 6.400 FARRAGUT MORTGAGE $ 6.000 RUDY'S RESTAURANT GROUP $ 4.600 JOULE, INC. $ 3.600

1987

DALLAS SEMICONDUCTOR $33.750 DIGITAL MICROWAVE $27.750 ECOGEN INC. $17.100 SHARPER IMAGE, CORP. $14.450 INDIANA FEDERAL S&L $14.288 GENERAL BUILDING PRODUCTS $11.000

1987 CON'T

ISSUING FIRM OFFER SIZE

FIRST STATE FINANCIAL $10.430 CONMED CORP. $ 6.545 PENN TREATY AMERICAN $ 5.400 GROUP-1 SOFTWARE $ 3.750 STARSTREAM COMMUNICATIONS $ 2.500 INT'L YOGURT COMPANY $ 2.000

1988

US WEST NEWVECTOR $168.000 BECKMAN INSTRUMENTS $ 85.500 NATIONAL HEALTH LABS $ 50.000 McCIATCHY $ 39.600 CHARTER ONE FINANCIAL $ 34.359 DELL COMPUTER CORP. $ 29.750 RELATIONAL TECHNOLOGY $ 28.000 FRANKLIN FIRST FINANCIAL $ 27.933 ALTERA CORPORATION $ 22.000 CASUAL MALE CORP. $ 12.500 SILK GREENHOUSE $ 12.078 SOFTSEL COMPUTER PRODUCTS $ 12.000

1989

GIDDINGS & LEWIS $140.000 CHEMDESIGN CORP. $ 27.000 UNITED FEDERAL BANCORP $ 26.883 ARKANSAS FREIGHTWAYS $ 15.840 THERMO CARDIOSYSTEMS $ 15.300 COMPTRONIX CORPORATION $ 10.000 PREF. HOMECARE OF AMER. $ 4.250

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THE CHALLENGE OF SECURITIZING SMALL BUSINESS LOANS

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ABSTRACT

Asset-backed securities (ABS) could play a major role in financing small businesses for they alleviate the credit crunch and reduce reliance on federal agencies such as the SBA. Experience of ABS's in consumer and credit on "CARS" and "CARD" has proven to be successful. Guaranteed SBA loans have also worked up well, but need to go beyond guaranteed loans as investors do their own assessment of potential risk-reward trade-offs.

PURPOSE

Traditional sources of capital do not appear to be meeting the needs for finance among smaller companies. The Securities and Exchange Commission (SEC), seeking to ease the credit crunch among small businesses, proposed a package of rules designed to make it easier and less expensive for small businesses with annual revenues less than $15 million to raise money in the stock and debt markets. The new Regulation A allows small companies to gauge if they could find ready markets for their securities up to 5 million dollars without going through complicated red tape in the filing process.

An alternative major source of financing the capital needs of small businesses is the asset-backed securities market (ABS). The latter, offers securities backed by different types of assets and various maturity structures.

This paper discusses and explores the process of securitization and how it could be helpful to small companies' external financial requirements.

STEPS INVOLVED IN SECURITIZATION

Three steps are involved in assetbacked securities or securitization:

First, the process of origination consists of an original lender packaging loans for resale in the secondary market.

Second, the asset-backed securities need some credit enhancement which consists of guarantees against default provided by financial institutions, i.e. Insurance Companies, to add to the marketability of the issue. Rating agencies could play a significant role here.

Third, marketing asset-backed securities to the public and

setting initial pricing. This could be done through investment banking underwriters.

THE MARKET FOR ASSET-BACKED SECURITIES

Many of the financial innovations of the past fifteen years have involved the securitization of credit, turning non-marketable obligations into marketable ones acceptable to secondary markets investors. Securitization, which rose from negligible amounts in 1985 to over $90 billion in 1991, has encompassed both high and low quality obligations, usually for short-term purposes or as liquid instruments. The market for asset-backed securities (ABS)

includes new supply of mortgages, autos and cards as collateral which add breadth and liquidity to the assetbacked marketplace. The assets are commonly referred to as CMO's, CARS, and CARDS.

CMO's are AAA-rated collateralized mortgage obligations and offer competitive rates of return to investors.

CARS are certificates of auto receivables which represent new secondary market instruments with monthly payments to security holders and operate in the same way as mortgage pass-throughs. These pass-throughs consist of instruments, the payment on which flows through directly from the payments on the underlying assets which are deposited to a trust created for the benefit of investors. Thus, CARS represent typical auto receivables pass-through security in which all principal payments received on the car loans and interest payments up to a fixed yield, are passed through to investors. Any excess interest above the fixed yield is retained by the servicing bank as a service fee. Thus, CARS include securities with fixed payment schedules which resemble corporate bonds with sinking funds because their cash flows do not depend on prepayments.

CARS have monthly or quarterly payment schedules, weighted average lives of one to three years, and state final maturities of three to five years. These can be structured as grantor trust pass-throughs, as described above, or as pay-through notes which are short-term debt instruments supported by the cash flows from the underlying assets. As such, CARDS do not present significant refinancing risk.

Banks as well as non-bank banks are very active in the securitization of charge card receivables under the acronym of CARDS. Credit card securitization is made more attractive to investors through Citibank's efforts to come up with Master Trusts (MT's). These MT's pool numbers of accounts to make possible the creation of several groups of securities all based on the same cash flows to spread the risk of early payments of interest and credit risk of default.

CARDS represent participation in a fixed pool of credit card accounts. They pay "interest only" for a specified period, typically 18 months, because of the revolving nature of the asset. The stated final maturities of CARDS is about five years.

Cash flows of CARDS are certain during the "interest only" period, after which they depend on how fast cardholders repay their borrowings. Historically, monthly cardholders' repayment rates are fast.

Both CARS and CARDS account for two-thirds of securitized assets. Investment bankers, the Resolution Trust Corporation (RTC) which is charged to liquidate the assets of failed S & L's, the SBA and other financial intermediaries are now considering the potential to underwrite pools of otherwise unsalable small loans.

SECURITIZATION OF SMALL BUSINESS LOANS

Total SBA backed loans exceeded four billion dollars in 1990 with an average loan size of 244,884 dollars. Ninety percent of SBA loans are guaranteed up to $150,000 for start-ups and 85% thereafter. The SBA guarantees 60% of all term loans. These loans are distributed as follows:

64% for Corporations

10% for Partnerships
26% for Proprietorships

The above distribution takes into account different categories of borrowers such as women, minorities, service industries, retail, wholesale, transportation and manufacturing. The securitization of small business loans is based mostly on secured trade receivables backed by goods and machinery. This financing alternative available to small businesses is receiving the SEC's support to relieve the credit crunch.

Merrill Lynch is considering the securitization of a 200 million dollar small business loan issue for Freemont General, a California insurance company that lends to firms with sales of $5 million to $100 million using trade receivables as its asset-backed securities.

THE SBA GUIDE FOR SECURITIZATION OF POOLED SMALL BUSINESS LOANS

Recent legislative and regulatory changes now permit pooling of SBA guaranteed portions of a loan. A pool consists of four or more guaranteed portions combined.

Pooling small business loans presents the following advantages:

(a) SBA guarantees timely payment of principal and interest on pooled loans, but not on individual guaranteed portions.

(b) Since pools consist of larger denominations than individual portions, they have more appeals to institutional investors.

(C) The effect of prepayment is less in a pool than it is with an individual guaranteed portion.

The SBA guide explains, in detail, pool assemblers, pool characteristics, nature of the guarantee, delivery, settlement procedures, the pool security, and investment characteristics.

THE SECURITIZATION RECORD

Asset-backed securities, as described before, did not fail the test of recession as feared by some investors. Turning consumer debt into tradable fixed income securities proved to offer a non-traditional source of financing to small companies which have been experiencing a credit crunch. Both car loans and credit cards securities offer investors yields at least 50 basis points above equivalent government bonds.

The relative success of CARS, CARDS and CMO's encouraged the development of other asset-backed securities, such as:

* Medical Equipment Leases
* Insurance Premiums
* Time-Shared Mortgages
* Gas Reserves
* Computer Leases

ADVANTAGE OF ASSET-BACKED SECONDARY MARKETS FOR SMALL BUSINESSES

There is an emerging secondary loan market which might prove extremely useful to small businesses. This market creates new securities suitable for resale out of assets that would otherwise be held to maturity. Securitization transforms claims on intermediaries (secondary securities) into their own claims on borrowers (primary securities).

For instance, in the case of small businesses, the SBA can promise to continue payments on small business loans should the original borrowers default. The collection and servicing of loans need to be transferred out of the Federal sector at the time of sale, thus there is room for private debt servicing which enhances market efficiency.

Lower management costs of servicing asset-backed securities consist of:

* Lower Collection Costs
* Reduced Default Rates
* Aggressive collection of arrears which increases the likelihood of repayment.
* Improved loan documentation for packaged SBA loans.
* More careful screening of new loan applicants.

CONCLUSION

Asset-backed securities (ABS) promise improvements in asset management by offering new ways for commercial banks, credit unions, insurance companies and the SBA to sell pooled small business loans to increase liquidity and to diversify loan portfolios. ABS's allow financial institutions with strong loan demand but with insufficient capital to support growth of an enterprise by selling pooled small business loans to other investors. Commercial banks could attract back traditional customers from money market funds and others through the sale of ABS's which are substitutes for deposits.

Securitization is likely to improve with the help of technological innovations that speed up information gathering necessary to package and market asset-backed securities. With the spread of securitization of small business loans, both guaranteed and nonguaranteed, economies of scale develop which result in lowering costs and improve competition of those financial instruments in the secondary markets.

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MONITORING: SELF-MONITORING: DOES EXPORTING MAKE A DIFFERENCE?

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ABSTRACT

Small business research has explored the effects that self-monitoring behavior has upon various functional areas of the business. Self-monitoring has been identified as important to the successful operation of a small business that is highly involved in exporting. This research examines non-exporting small businesses and exporting small businesses to determine whether there exist differences in their level of monitoring their business environment and whether this difference affects the small business's performance in sales. The results indicate that small businesses involved in exporting are different from small businesses that do not engage in exporting. The analysis of the affect of monitoring on the firm's performance found a statistically significantly positive relationship between the level of monitoring and the performance but only for the non-exporting small businesses. Further research is needed to determine whether exporting firms are not performing business environment monitoring or whether there is a very different monitoring format requirement for those businesses involved in exporting.

INTRODUCTION

Self monitoring research has only recently been identified as having an important impact on the operation of a business. Fandt and Ferris (4), for instance, reported that high self-monitors are more likely to engage in the manipulation of information unless conditions of high accountability and high ambiguity are present. The affect of self-monitoring and type A personality as examined by Baron (2) found that organizational conflict was a function of these variables. Current literature, however, has not explored the effect of the level of self-monitoring as relevant to the successful small business operation within their business environment.

However, small business research related to exporting has been done by Sriram and Sapienza (7). They found that large firms are indeed different from small firms in the extent of exporting involvement. They noted that the small firm versus large firm differences exist in their use of marketing. The larger firms were found to have placed a higher emphasis on marketing activities. Sriram and Sapienza also reported that the small business which has a greater involvement in exporting will place a greater emphasis on marketing, customize their products and advertising, sell more to individual customers, and export to more countries than will those firms with a low level of involvement. Louter et al. (5) found that an important factor for exporting success was the factor directly related to product quality, where quality is defined by the offerings of competitors and the wishes of customers.

Past research has also shown a personality factor that has been posited as critical to the personality/business environment interaction. This factor is the recognition that individuals may vary significantly in their level of reaction to the various messages or signals that the outside world sends them. Individuals characterized as "high self-monitors" (Snyder, 6) are

very sensitive to these environmental cues and adjust their behavior according to the expectations of their relevant external environment; in contrast, individuals characterized as "low self-monitors" are often oblivious to these external data and therefore tend to maintain similar patterns of behavior irrespective of situational demands (Snyder and Campbell, 6). Since responsiveness to external demands is an important contributing factor to business success, (i.e. without satisfied customers there is little likelihood of survival) we would hypothesize that "high self-monitors" will be more likely to lead their businesses to higher performance levels than will "low self-monitors."

Previous research of "self-monitoring" has found that a business person who is simply aware of the potential problems involved in decision making should lead his/her subordinate managers to take action that reduces the need for opportunistic behavior (Fandt and Ferris, 4). There was less need for data manipulation or impression management for those persons operating under conditions of high accountability and high ambiguity. Baron (2) reported that the frequency of conflict would vary depending upon the individual's level of type A behavior pattern and the level of self-monitoring. The results supported the increase in frequency of conflict as a function of higher type A behavior and lower level of self-monitoring.

None of the previous research examines whether the performance of a business is dependent on the level of the owner/manager's self-monitoring behavior nor whether engaging in exporting changes the business's selfmonitoring behavior and therefore the business's performance. This research will examine the responses of small businesses located in Canada and in Missouri. The Canadian businesses represent a mix of non-exporters and exporters whereas the Missouri businesses were non-exporters. The question becomes whether the level of monitoring is related to the level of exporting and whether the level of exporting and monitoring is related to the level of the business's success.

Hypotheses to be Tested

Hypothesis 1: Small businesses that export will have a significantly different level of monitoring behavior of their business environment than those businesses that do not engage in exporting.

Hypothesis 2: Non-exporting small businesses located in Kansas City will not have a significantly different level of business monitoring or level of performance as compared with non-exporting small businesses located in five Canadian cities (Ontario Province, Canada).

Hypothesis 3: The level of performance for both exporting and non-exporting small businesses will be significantly and positively related to the level of business environment monitoring.

METHODOLOGY

Kansas City:
A stratified (by type of business), random sample of 1000 small businesses in the Kansas City area received a mailed survey. This small business survey assessed small business management practices, owner/manager personality, and business performance (Adams, 1988). Two hundred eleven small businesses returned the questionnaires, with 165 of these judged usable. The respondents reported an average of 25 employees. A comparison of the

response rates for various types of businesses with their prevalence in the original sample show that the responses are representative of the initial sample.

Type of Business	Initial Sample	Usable Responses
Retail	16%	19%
Wholesale	13%	7%
Construction	10%	6%
Manufacturing	16%	12%
Service	45%	52%

(1) "High/Low self-monitor" traits - The respondents responses to two categories of monitoring activity formed the basis for an overall assessment of the individual's tendency toward business selfmonitoring. The questions dealt with monitoring the business' customers and competitors. The areas of monitoring and the overall degree of monitoring were based upon the summation of standardized question responses (see Appendix A for categories/questions).

(2) Company Performance - The level of performance is based on the percentage increase in sales for their company for 1987 versus 1986 and 1988 versus 1987. The analysis created a performance variable that indicated the degree to which the 1988 percentage performance improvement was larger or smaller than 1987.

Canadian:

Cooperation was secured from Chambers of Commerce, in five Province of Ontario Canadian cities, to survey a representative portion of their small business members. The survey resulted in a total of 239 usable responses. The initial questionnaire and a follow up questionnaire was mailed to a random sample of each Chamber's small business members. This questionnaire was the basis for the Kansas City questionnaire.

The distribution of respondents by type of business was confirmed by the five Chamber Presidents as accurately reflecting the distribution of businesses within their Chamber area. The distribution is:

36 percent service
33 percent retail
14 percent manufacturing
5 percent wholesale
5 percent construction
7 percent other

RESULTS

A T-Test analysis of non-exporting companies against exporting companies examined whether there existed significant differences between the two groups for level of monitoring customer, level of monitoring competitor, and overall level of monitoring of the competitor/customer business environment. The overall level of monitoring was a summation of the standardized values for customer and competitor monitoring.

The T-Test results for 1) the exporting companies of Canada and the non-exporting companies of Kansas City and 2) the exporting companies of Canada and the non-exporting companies of Canada are:

TABLE 1 ABOUT HERE

The results of the T-Test indicate that there is a significantly different level of monitoring existing between those businesses that are involved in exporting and those businesses that do not export. Hypothesis 1 is supported for the overall monitoring variable but was not supported for the two individual subgroups for the overall variable.

The second hypothesis examined whether there existed a difference in level of monitoring and performance between those non-exporting businesses in the United States survey and the Canadian survey. A T-Test analysis examining monitoring customer, monitoring competitor, overall monitoring, and performance did not find a statistically significant difference between the two survey groups. These results indicate that the two groups of non-exporting small businesses are similar and Hypothesis 2 is supported. The results are:

TABLE 2 ABOUT HERE

The results of the correlation analyses between the level of performance and the overall level of monitoring for the three groups; Kansas City non-exporters, Canadian non-exporters, and Canadian exporters found the following:

TABLE 3 ABOUT HERE

For each non-exporting group the correlation relationship was positive. However, it should be noted that the nonsignificant relationship result for the Canadian exporters was a negative relationship between level of monitoring and performance. Hypothesis 3 is supported only for the non-exporting small businesses.

CONCLUSIONS

This research raises an interesting questions: If Sriram and Sapienza's (7) and Louter et al.'s (5) research findings are correct, then are small business exporters successfully monitoring and utilizing their business environment feedback? Possibly the extent of exporting by small businesses has so drastically changed in the past decade that the level of monitoring by these new exporters has not taken on the level of sophistication that the more traditional "home town" businesses have achieved. There may also be a 'Learning curve factor that necessitates a change in the monitoring skills: local versus international.

Further research should explore whether exporting small businesses in Missouri follow the same relationship pattern that was found in Canada. In addition, other Canadian and United States sites should be surveyed to determine if these results are generalizable. If there is a difference between the exporting and non-exporting businesses then there needs to be an analyses of what monitoring factors are different between these two business environments. In addition, monitoring skills should be identified that are critical to the successful performance of a small business in today's competitive business environment.

APPENDIX A

Customer Evaluation

1. Do you measure the number of customers your business attracts from outside your local business area?
2. Do you measure how many of your customers shop outside your local business area?

3. Do you measure or evaluate the number of unfilled customer requests?

Competitor Evaluation

1. Do you visit your competitor as a customer?

2. Do you phone your competitor as a customer?

NOTE: The overall selfmonitoring variable equals the summation of the standardized sub-variables for customer evaluation and competitor evaluation.

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1. This list was generated using Sorkin's Directory (a private company that specializes in maintaining a computerized, current comprehensive list of businesses in several major cities).
2. This project was supported by a grant from the Canadian Studies Program for faculty research during 1988.

3. The Canadian questionnaire formed the basis from which the Kansas City questionnaire was formatted. The results of this research are based upon similar questions asked of both research groups.

TABLE 1

	Monitoring	Monitoring	Overall

T-Test groups	Customers	Competitors	Monitoring
Canadian exporting with Kansas City:	t=1.258 n.s.	t=.735 n.s.	t=2.859 p<.05
Canadian exporting with Canadian non-exporting:	t=1.464 n.s.	t=.742 n.s.	t=2.513 p<.05

TABLE 2

T-Test groups	Monitoring Customers	Monitoring Competitors	Overall Monitoring
Kansas City with Canadian non-exporting:	t=1.192 n.s.	t=.332 n.s.	t=.399 n.s.

TABLE 3

RESEARCH GROUP

Correlation:	Kansas Non-exporter	Canadian Non-exporter	Canadian Exporter
Overall Monitoring with Performance:	r=.149 P<.05	r=.166 p<.05	r=.157 n.s.

CHALLENGES AND OPPORTUNITIES FOR SMALL BUSINESSES IN THE CHANGING GLOBAL ENVIRONMENT

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ABSTRACT

The $3.5 trillion global marketplace provides increased markets and profits for small business firms. However, there are many roadblocks and fears for the small firms as they view this vast complex global environment.

The purpose of this paper is to look at the factors that move the world (politics, money, and technology) and how they affect the small business sector of the American economy. Some strategies are proposed for small business firms to take advantage of the opportunities and challenges in the emerging global marketplace.

INTRODUCTION

The current recession has seen many bankruptcies in both large and small businesses, as well as with individuals. This has posed a major threat to the survival and well-being of the small firms. On the other hand, the rapid global political and economic changes offer immense challenges and opportunities for the small business entrepreneur.

Sir William Taylor, Chairman of the Nelson Publishing Company and President of Hull University, stated in a recent 1992 speech that there are three main forces that move the world. These are politics, money, and technology.

Political

The dismantling of the Berlin Wall in 1989, followed by the dissolution of the mighty Soviet Union, have unleashed powerful political forces that have created tremendous economic challenges for the former Soviet states. These are now being translated into opportunities for American Business. The 1992 Summer Olympics in Barcelona has focused the world's attention on Spain and its emergence as a growing economy within the European Community. Due to its proximity to Western Europe, Spain provides a strategic location for Americans to launch their marketing into the rest of Europe.

Following unprecedented growth as a newly industrialized country, Taiwan has embarked on its new national six-year plan to spend $300 billion to increase its global economic power and improve its technology base, as well as improving its environment and infrastructure for its citizens. All of these actions will provide broad market opportunities for small businesses interested in the Pacific Basin.

To round off this decade of revolutionary political change, the recently announced North American Free Trade Agreement will open wide the Mexican borders to its partners from Canada and the United States. This new Agreement will create a huge trade bloc consisting of 370 million people.

All of these global changes have been, and will continue to be, the result of the openness of the governments and their people in nations around the world. This openness of the governments involved has led to emulation of the U.S. free market economy. To fully develop their economies, the countries have moved hesitatingly to a market economy. Developing nations have to adopt a paradigm for change and economic growth. Using data from the World Bank's 1992 report, a paradigm for change has been constructed (see Figure 1).

This economic growth paradigm integrates the elements of government openness, capital investments, research, education, technology, and business. These coordinated elements, in turn-, make possible the development of a country's management, resources, its agricultural, industrial, and service sectors, as well as its infrastructure. When all of these capabilities are developed, the country will achieve social, economic, and political growth. As noted in the paradigm, business plays a major and dynamic role in making all of this possible.

Technology

Technology has, and continues to be, the engine for change and development of a nation's economy and well being. The ability of the United States to become the world's leading nation is attributed to the ingenuity of its inventors, scientists, engineers, and entrepreneurs. By maintaining the technological supremacy, the U.S. can continue to reap the rewards from marketing its goods and services around the world. Even some of our "obsolete" technologies can still be sold and used in the developing nations.

Webster's Dictionary defines technology as: applied science; method of achieving a practical purpose; and the totality of the means employed to provide objects necessary for human sustenance and comfort. In the following paragraphs, we will focus on small businesses with technological capabilities.

a. Products and Services

Small businesses are credited with being the technology pioneers of the nation, as well as employing two-thirds of the working force in the United States. Given that these firms have the technologies and products that can be used in foreign countries, how can these firms overcome the roadblocks and fears of entry into the international marketplace?

There are various methods of entry into the global marketplace. The simplest and least risky is through indirect exporting, where the firm uses an export agency to take care of the whole program. On the other end of the spectrum of complexity and risk is direct investment into a firm, or subsidiary, in the foreign country.

The typical small business has little or no knowledge of export, contractual, or financial processes required to enter the global arena. They also lack the capital and long-term commitment to compete in the international arena. To overcome these hindrances, we offer the following observations.

b. Information Sources

Computerized information sources are currently available for the entrepreneur who desires to enter the

global marketplace. Both the United States and California state governments have on-line, real-time computerized data bases that can be easily accessed for trade leads and developments. Supporting these data bases are professional trade development specialists that provide services at little, or no, cost for the small business manager (see Figure 2).

Current international trade data bases include:

(1) United States

The Department of Commerce District Offices have available in their computers the Export Information System (XIS) that provides data on over 2,700 Standard International Trade Classification product categories. It also provides lists of the 25 largest importing markets for the small business owners, the 10 largest markets for U.S. exporters and their products, the trends within those markets, and the major sources of competition. They also identify the major products being imported by selected countries.

The Commerce Department also offers for sale the National Trade Data Bank, which is a monthly report on compact Disc-Read only Memory. The NTDB provides public access to export promotion and international economic information, and draws upon the data from 15 U.S. government agencies.

(2) State of California

The State's World Trade Commission and the Agricultural Technology Institute has developed the Automated Trade Library Service (ATLS), which is a computer-based comprehensive information system available to California companies. The ATLS enables exporters to have immediate access to a network containing research, trade leads, and other valuable information.

ATLS can be accessed by firms in California by using the firm's computer modem and dialing a local access number. These numbers, or gateways, are located at all 19 campuses of the California State University System, and the system is available 24 hours a day, 365 days per year.

In addition to computerized data, local educational institutions have libraries that house textbooks, journals, trade magazines, and newspapers dealing with international trade.

c. Education

For the serious international trader, local universities and colleges have degree and certificate programs that will provide the necessary skills to enter the international competition. In addition, there are trade organizations that provide seminars and conferences on specific areas of opportunity.

Money

For most countries, even in the United States, this is a scarce commodity. Similarly, most small businesses have little, or no, money to spare for developing its international markets. This,

plus the perceived risks and limited knowledge relative to global markets, have been the primary barriers for small business entree into the larger markets.

Due to the lack of hard currency, many of the developing nations have resorted to barter or countertrade to obtain the needed goods and services. This is another perceived barrier for the small firms to overcome. Large firms have separate departments that are responsible for handling the non-monetary trade. This is unfortunately impossible for small businesses to staff.

To reduce the risks involved in international trade, the U.S. government and the state of California offer the following financing and insuring alternatives.

a. United States

The U.S. government, through its various agencies, offers loans to the small firms desiring to enter the export markets. The Small Business Administration offers loan guarantees through private banks, loans for acquiring fixed assets, working capital, and loans for small business to enable them to compete in the import/export markets.

The Export-Import Bank of the United States is the government agency responsible for aiding the export of U.S. goods and services through a variety of loan, guarantee, and insurance programs. In recent years the Bank has broadened its program to provide greater risk protection to lenders, and to be accessible to the widest variety of potential sources of export finance. The Eximbank's agent, the Foreign Credit Insurance Association, provides insurance for financing/operating leases, medium term insurance, new-to-export policy, insurance for service industry, an umbrella policy, a trade association policy, and multibuyer and single buyer policies.

b. State of California

The California Export Finance Fund Program was established to make it easier for the state's small and medium sized firms to increase export sales through financial and informational assistance. The program is designed to provide loan guarantees secured by the Export Finance Fund to commercial lenders on behalf of exporters. The California Export Finance office also assists exporters in the utilization of existing state and federal programs. Counseling is provided to assist exporters in qualifying for the most appropriate channel of financial support.

SUMMARY AND CONCLUSIONS

With the decline in domestic spending, small businesses should rise to the challenge of the changing global economy. The vast opportunities in the $3.5 trillion global market offer increased markets and profit potentials for the small business firms.

The risks and mysteries of doing business overseas have been greatly reduced through the support of the national and state governments, as well as private trade associations and educational institutions.

COVERING EXCHANGE RATE RISK EXPOSURE FOR SMALL BUSINESSES

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ABSTRACT

Due in large part to the "new world economic order" small businesses are finding many opportunities to sell their products and services in foreign markets. While these opportunities do present the potential for significant profitability, they are also subject to a type of risk virtually unknown to many small businesses owners/ managers. This risk is known as exchange rate risk. That is, the risk that the relative values between U.S. dollars and foreign currencies will vary in a way that erodes the profitability of international sales transactions.

Exchange rate risk, however, can be nullified with the use of "hedging" strategies that cover a company's exchange rate exposure. This paper defines exchange rate risk, presents an example of how fluctuating exchange rates can affect a particular international sales transaction, and explains three different hedging strategies a small business can utilize to offset the consequences of an unfavorable change in exchange rates.

INTRODUCTION

Due to the dramatic recent changes in world governments, small businesses are finding many opportunities to sell their products and services in the international marketplace. While these opportunities present a tremendous potential for increased profitability, there exists a risk that many small business owners/managers generally know little about. This risk is foreign exchange risk, or the risk caused by fluctuating exchange rates between two currencies.

Exchange rate risk is a natural consequence in a world of international trade where relative currency values move up and down on a daily basis. (Ross, Westerfield, & Jordan, 1991) These fluctuations in exchange rates create short-run risks for firms that have contractual agreements to buy and/or sell goods in foreign markets in the near future at set prices. The implications of this risk are a "double-edged sword." If the rates change favorably, the business will realize profits greater than those anticipated at the time of the sale agreement. If, however, the rates change unfavorably, the business will face the potential of smaller than anticipated profits - or even a loss - on the transaction.

The purposes of this paper are to illustrate the effects of exchange rate fluctuations on a typical international transaction and to present strategies that small business owners can use to eliminate this risk. The concept of "hedging" is discussed and several hedging techniques are illustrated.

TRANSACTION EXAMPLE

Suppose that J.T. Enterprises, a small manufacturer of wooden block sets, discovers an opportunity to sell 1,000 cases of blocks to a toy company in France. Under the terms of the sale agreement, the company will export the blocks to France and

receive payment in French francs in approximately 60 days. The company must then sell the francs in exchange for U.S. dollars.

The French company has agreed to pay all shipping costs as well as the going rate of $100 per case of blocks. On the day of the sale agreement (September 4, 1992) the exchange rate between U.S. dollars and French francs is .20777, which means that one franc is worth 20.777 cents U.S. Or, in another way, it takes 1/.20777 or 4.813 francs to equal one U.S. dollar. Thus, the French toy company agrees to pay J.T. Enterprises 481.3 francs per case (4.813 x 100) or 481,300 francs for the entire order (481.3 X 1,000).

The company enters into the agreement with great confidence. The actual cost of manufacturing the packing the blocks for sale is $75 per case. Thus, the company expects to realize a profit of $25,000 (($100 - $75) X 1,000). But, will the company actually realize this amount? Three possible situations can occur. First, the exchange rate may hold for the next 60 days. Second, the dollar could "weaken" in relation to the French franc within the next 60 days. And third, the dollar could "strengthen" in relation to the French franc in the next 60 days.

1. If the exchange rate between U.S. dollars and French francs holds at .20777, the company will indeed realize a profit of very near $25,000. When it receives payment for the order it can exchange 483,100 francs for $100,000 U.S. (with a slight amount of transaction costs).

2. If the dollar weakens relative to the French franc, it means that it takes less French francs to equal one U.S. dollar. This situation would be favorable to J.T. Enterprises. If, for example, the exchange rate was .26316 in 60 days, it would take only 1/.26316 or 3.800 francs to equal one U.S. dollar. Thus, the company could exchange 481,300 francs for $126,658 (481,300/3.800) and the profit realized would be approximately $51,658.

3. If, however, the dollar grows stronger relative to the French franc in the next 60 days, there will be a negative impact on the profit realized by J.T. Enterprises. For example, if the exchange rate fluctuates to .17241 on the day that the company receives its payment for the shipment, it will take 1/.17241 or 5.800 francs to equal one U.S. dollar. Thus, when the company makes the currency exchange it will receive only $82,983 (481,300/5.800) and the profit realized will be approximately $7,893.

Given the examples illustrated above it seems prudent for the company to take measures that will protect its anticipated profitability of $25,000 on the transaction. When a company fails to protect its profitability it has what is known as an "open" position, i.e., it is open or exposed to exchange rate risk. If, however, a company insures that it will receive the profit anticipated at the time of the sale agreement, it is said to have "covered" the exchange risk of the transaction. Covering risk is also referred to as "hedging." Methods of constructing hedges are discussed next.

HEDGING METHODOLOGIES

The basic methods available for J.T. Enterprises to cover exchange rate risk are a forward contract, a futures contract, and a put option contract. (Gitman, 1991) All three of these are different forms of an agreement to sell the expected French francs for dollars at a future date. We will consider them in

the above order.

The forward contract is an agreement negotiated between the company and an international financial institution. This is normally done through a correspondent banking institution in the company's home region. The agreement is personal between the two parties and it spells out the specific date upon which the company will deliver the francs, the amount to be delivered, and the rate at which they will be exchanged for dollars. It is the responsibility of J.T. Enterprises to insure that it will have the necessary francs at the specified date, so it must insure against possible transaction risks, such as loss of the product in shipment or the default of the purchaser. To find the probable rate of exchange the company can expect to negotiate in such an agreement, the rates used by major financial institutions are quoted daily on the currency exchanges. On September 4, 1992, the rate quoted for 90 day forward contracts in French francs was .20423. Using this as the probable exchange rate in the forward contract it would take 1/.20423 = 4.8964 francs to equal one U.S. dollar. The company would then exchange the 481,300 francs for a total of $98,296 resulting in a profit of $23,297 ($98,297 minus the costs of $75,000) on the transaction. The primary advantages of the use of this hedging method are that there are minimal transaction costs involved (charged by the financial institution), the company is protected against a strengthening dollar eroding its profits, and it is fairly uncomplicated for a first-time exporter. The disadvantage is that the company will forego any opportunity to increase its profits through an advantageous exchange rate at the time it completes the sale.

The other two methods, using futures and put option contracts, though much more complicated, do allow more flexibility because these are traded on exchanges around the world. (Pinches, 1992)

Just as there are futures contracts in various commodities there are also futures contracts in the various world currencies. They differ from forward contracts as they are of fixed denominations and maturity date and are traded on the major futures exchanges. A principal exchange available to the company would be the Chicago Mercantile Exchange.

The set denomination for French francs in a futures contract is 125,000 francs per contract. Thus, to assure full coverage of the 481,300 francs to be received, the company would want to sell four futures contracts totalling 500,000 francs. It would have to arrange to acquire the additional 28,700 francs needed to have the full amount available at settlement. Since these contracts have set dates, established by the international financial markets, the company would have to insure that it will have the francs in hand on the settlement date of the futures contracts it sells. While a perfect match is rare, the instrument does have an advantage over the forward contract in that the company can close out the contract before the settlement date by acquiring four other futures contracts in French francs which would cover its obligation. This could be done at any time prior to settlement if it appeared to be to the company's advantage.

The major disadvantage of such a contract is its complexity. The company must make arrangements through a broker to be registered to offer such a contract on the exchange and there are fairly sizable up front fees that must be paid in the transaction. To determine the effectiveness of the hedge these costs must be taken into consideration.

The final hedging method is the use of the "put" option. A "put" is an option to sell francs for dollars at a future date. Like

the futures contracts these options are traded on international exchanges, are for set denominations (125,000 francs per contract), and have final settlement dates. The major advantage of buying put option contracts (here four also would be needed) is that these are an "option," not an obligation, to sell the francs at the stated rate of exchange. This gives the company the advantage of being able to realize any exchange rate advantage that might exist in its favor at the time it receives the francs by choosing not to exercise its option to sell the francs under the rate in the option and instead exchange them in the "spot," or current, market.

The disadvantage of this hedging method is the cost and complexity of the transaction. Here the seller of the put option is paid a fee, which is retained. The company must deal with a broker who will charge a fee for arranging for the put options to be purchased. In addition, like the futures contract, the company must arrange to be able to acquire added francs to complete the needed 500,000 francs if the option is exercised.

For a small company like J.T. Enterprises entering into its first foreign transaction, it is recommended that it look to the forward contract as the basic method to hedge the currency exchange risk. It should be able to find, through its current financial advisor, a regional banking institution that can assist it in negotiating such a contract. The costs involved should be minimal in comparison to the risk that is negated, and it will introduce the company to the various aspects of hedging in foreign financial markets. If the company should embark on continued growth in its export business, it may then find it advantageous to develop contacts with a financial advisor that can assist it with such hedging methods as futures and put options.

CONCLUSION

If the world occurrences of the past several years are a true indication of the future potential for international opportunities for small businesses, it is imperative that small business owners/ managers become familiar with exchange rate risk. Small businesses must mirror the actions of international corporations which routinely use hedging strategies to cover their exchange rate risk exposure. Small businesses that master the use of the strategies presented in this paper will enhance their ability to realize the anticipated profitability from international sales transactions.

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THE UNIQUENESS AND CHALLENGES OF THE SBI PROGRAM IN ROMANIA

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ABSTRACT

After the failure of its socialist experience in 1989, Romania is trying to adopt the free market economy system. The emergence of the private enterprise sector, while encouraging and progressive, presents the need for numerous adjustments and changes from the prior system.

The patterns of management are radically different from those that are present in the western nations. While the government of Romania is rapidly moving the state-owned companies into privatization, the managers of these companies have been oriented in following directives rather than initiating them. On the other hand, in only a few years entrepreneurs have surfaced with their own ventures, resulting in significant opportunity for developing managerial skills and expansion among all managers and private owners.

This paper is a detailing of the process, challenges, and differences of establishing an SBI program in Romania as compared to the standard experiences in the U.S. While the foundation concept of the SBI program has been invaluable, it has been necessary to adjust the structure to accommodate the conditions and goals of Romania.

MACRO OPERATING ENVIRONMENT

Romania, a former East European Bloc country, is rapidly moving from 45 years of being a planned economy under the dictates of socialism to a country directed by enterprises in a market economy. This transition requires the development of a private sector which will be achieved in two ways: through government enterprises being privatized and through new private firms being established.

Private sector development depends to a large extent on the activities of entrepreneurs, who are a key force in market economies (4). The previous government which had led Romania since 1990 had made some important steps toward supporting entrepreneurship. The main reforms were focused on privatization, including legislation on the establishing of private firms (Law 54/1990), the privatization of state owned firms (Law 31/1991), and land reform (Law 18/1991). Even though the practical results are not impressive, the process has been started and now there are approximately 280,000 private businesses. However, as the data in Table 1 indicate, most of them are very small (3).

TABLE 1
SIZE OF PRIVATE FIRMS IN ROMANIA

Number of employees per business	Percentage of total
1-5	54.7
6-20	28.7
21-50	15.9
51-100	0.6
over 100	0.1

The current government was elected in September 1992. While there has been a declaration of support and encouragement of the private enterprise system, the programs or policy changes to date to encourage the individual owner and the private system have been extremely limited.

Romania has had a commercial code on its books since 1934 but it was non-operative during the years of communist influence. However, these codes have been reintroduced and are currently undergoing the processes of modernization. Given their original date, they are extremely liberal toward commerce and do provide a foundation for contracts and the transaction of commerce.

The conditions of the financial markets are discouraging. First, businesses report a very limited access to debt funds, even more limited than small businesses encounter in the U.S. Likewise, there are no fixed-rate loans. The loan rates fluctuate according to market conditions which are influenced greatly by the rate of inflation. It is not unusual for a business to have borrowed funds at 25% interest in 1991 only to find a demand rate of 75 to 80 percent in 1992. With an annual inflation of about 30 percent in 1992, the interest rates have been highly volatile. These conditions have made most businesses extremely cautious and borrowing is secured only when the very existence of the business is threatened. Growth is managed largely from internal fund generation and creative management of resources. In such a situation, case solutions of the SBI program cannot be dependent upon borrowed funds as a general solution.

Inflation, on the other hand, has been a positive influence for business activity. Consumers understand the effects of inflation and the erosion of the value of their savings. Therefore, the level of consumption through expenditures is very high and the rate of savings is extremely low. The result is a very active retail and consumer market condition and in many areas an actual shortage of consumer goods.

Rental leases are limited to periods of 1 to 3 years. With businesses highly dependent upon leased space for their operations, both retail and manufacturing, the limited length of leases have resulted in a seizing of space by those who are bidding rates upward and redirecting the space to higher levels of use. With limited space and the inability to have long term assurances, businesses are scurrying to purchase space that will be permanent. However, the conditions of the financial markets make this process of ownership very difficult and expensive.

The communications systems are basic and the core telephone equipment is old and antiquated. FAX transmission is difficult and the level of FAX penetration limited.

Romania has depended heavily upon its rail system for the movement of both goods and people. The rail lines are extensive and serve virtually every region of the country. While there is a pressing need for additional investment in the tracks and bridges, it does provide an adequate mean of internal transportation for the immediate future. Truck transportation is significantly more limited than one would find in the U.S. but again, the Romanian system has not been as dependent upon trucks as has the U.S. Romania also enjoys water access to the world through its seaports on the Black Sea which are relatively efficient if not the most modern.

There is a significant pent up demand for durable goods by the general Romanian population but the limited incomes of the people are restricting any significant growth of durable goods industries.

The transition to a market economy has resulted in a restructuring of the production labor force and an associated high level of unemployment. The actual level of unemployment, estimated at 15+ percent, provides an adequate supply of well-trained labor but limits the effective aggregate demand of the market.

The literacy of Romania is considered to be at 98+ percent, one of the highest in the world. The people have benefitted from a major emphasis on education and technical schools and universities have provided the people with a very sound foundation for production even if participation in the leading edge of all technologies has not been possible.

Information and Data

There is a scarcity of data and information at the individual firm level upon which to make decisions. While the macro data of Romania is reasonably good for the foundation sources such as employment, census, and industrial production, there is limited information available for the decisions of the individual business entity.

It must be remembered that with industries managed by a central government, data requirements were distinctively different than the requirement in a market economy. Romanian trade associations were organized primarily for production and technical reasons but not market or financial reasons. Even the accounting systems of a central planning economy are very different from standard accounting reports of the U.S.

Comparative analysis and measurement against industry standards is difficult given these limitations. Also, the change from a planned to a market economy raises the question of whether the historical data comparisons are even valid today. Furthermore, within the individual firms, it must be remembered that the longest history is only three years of operation, and consequently internal historical data is extremely short or nonexistent.

To complicate the situation, the Romanian environmental structure is radically changing. The macro determinants are highly dynamic and, while many of these are improving, the changes in themselves result in future data significantly different from the measured past. Accordingly, the limitation of data will result in students having to develop surrogate measures and insights to assess problems and make recommendations.

Business Owners and Managers

We have found that both the level of intellect and motivation are extremely high among first wave of entrepreneurs who developed businesses. In fact, most of them came from government enterprises where they gained experience in the production or selling departments.

Technically, the owners and managers are very well informed in production methods and the technology of the industry. This clearly is a reflection of the emphasis of the prior central government on production and the development of a technological efficiency.

The collateral areas of management appear to be less well developed and the owners less informed. Marketing is entirely a new concept. Even accounting for decision purposes is a challenge, and corporate financial management is a major departure from public finance which they used previously.

From our observation management is a blending of the patterns of socialism and the requirements of cost controls under capitalism. While incentive systems are only beginning to appear, the development of the individual employee appears to be progressing rapidly. As a result, it is our belief that the labor efficiency will improve dramatically giving the production a major advantage.

The reception of the SBI program is greater than one encounters in the U.S. In securing the first two sets of cases for class purposes, even without any record of accomplishment, there was a complete acceptance of having students and faculty as consultants. This attitude will undoubtedly facilitate the acceptance and development of the SBI program.

Students Characteristics

The Romanian universities have followed a traditional European format of instruction in which the students are taught primarily through lectures and examinations. In the past, there has been limited interactive discussion between students and the instructing faculty. Rather, the students have very dutifully taken the notes and thoughts of the professors for the basis of their studies.

This method of instruction has performed extremely well in the past and with subject areas where a passage of knowledge is the primary requirement. However, in the disciplines of business that require an integrative and collective structure of knowledge, the methods have been less successful. As a result, even before the introduction of the SBI program, the faculty was instituting change to bring the students into a more open discussion and involvement in their studies.

We discovered in the introduction of SBI programs that students' theoretical foundations are indeed sound and they could assemble this knowledge from recall with extreme ease. However, for them the SBI program was an entirely new exposure in the applications of theory and knowledge that was not part of their university culture.

We were exceedingly pleased by how quickly the Romanian students adapted to the challenges of the applied and interactive dimensions of the SBI cases. The enthusiasm and self-confidence moved them quickly into the process of "consultation" and a working relationship with their clients.

University Faculty

The faculties were educated and have practiced in a more traditional educational philosophy and behavior than one would find in an U.S. university. Furthermore, the core of economic education was the socialist economics which emphasizes macroeconomic decision making. Therefore, the faculty has not often been engaged with the business community and their rare involvement has been primarily in production and planning systems, not in market dynamics.

In a very short period of time the faculties had to prepare themselves in new areas as management, corporate finance, or marketing and finally to verify new ideas in the business practice. As a result, there is a nervousness among faculty who are not confident in their own abilities to move their knowledge from a theoretical to an applied orientation. This is, in my opinion, the greatest challenge in starting the SBI program.

It has been necessary to first provide a demonstration program engaging the faculty in the SBI interactive process. This program developed not only an understanding of the program but encouraged faculty to develop their individual courses using the SBI general model. However, the faculty have apparently polarized more dramatically than normally experienced in the U.S., between those who subscribe to an SBI model and those who remain focused on the traditional instructional methods.

Curriculum Differences

The U.S. programs of instruction have been interdisciplinary and rather broad in their subject materials. These programs, guided by the standards of the American Assembly of Collegiate Schools of Business, direct that the student has a foundation knowledge of each of the core disciplines of business and economics and also that there will be a substantial balance of instruction in complementary disciplines beyond business. This curriculum has enabled each student to have a familiarity and ability in a broad variety of industries and business situations, but without a technical depth of any specific business.

Romanian programs of instruction have been more focused than the U.S. counterparts. First, a student entering a university is expected to be competent in the sciences and arts and an extremely limited amount of university instruction is provided in these areas. The student enters the university expecting to receive a concentration of instruction in a selected discipline with a foundation of course work in the related business disciplines. As a result, a fourth or fifth year student will have a greater knowledge base in the selected discipline, be equally prepared in the collateral disciplines, but not as fundamentally integrative as the U. S. student.

Economics is another specific area that requires addressing. Economics of the past has been for purposes of planning and allocating as one might expect in a system of socialism. Microeconomic theory for decision purposes, as it is taught and practiced in the U. S. universities, is only recently being integrated into the Romanian curriculum. The next generation of Romanian student consultants will also have a greater facility with corporate finance and marketing decision application than the current generation of students.

A real opportunity for the SBI program implementation is created by the graduation requirements. In the last semester, the student must compose a report regarding an economic or business phenomena. This activity is done under the direct supervision of one faculty. It is expected that an SBI project will satisfy the graduation requirements of many of these students.

The instructional challenge is to assure that students will be integrative and comprehensive in their business analysis rather than narrowly confined to those areas in which they have their educational strengths. The instruction of consultation and analysis must recognize the curriculum differences and manage the SBI program to accommodate these differences.

CONCLUSIONS

The challenges and requirements of establishing the SBI program in Romania are considerably different from the experiences of the U.S. First, the SBI program is a major departure from the established instructional programs of Romania. That change gives a greater level of expectation by both faculty and students. As we observed, the excitement of engaging the students and businesses in the process is encouraging and will undoubtedly be highly rewarding.

Unfortunately, to date, there are no financial mechanisms to support the program. Therefore, those areas of a business consultation requiring expenditures will probably not be researched.

The contributions to Romanian businesses by the SBI program are undoubtedly greater than would be experienced in the U.S. The change to the market economy, the emergence of a new managerial group, and the rapid development of private owned businesses reflect an immense opportunity for the transference of knowledge and guidance. The initial receptivity of the businesses to the program is a clear indication of this. It is expected that a Romanian SBI program will mirror closely the character of its U.S. counterpart. However, the nature of the economy, the most insatiable demands of the businesses for assistance, and the dramatic educational change introduced through SBI program virtually necessitate that the SBI program will be radically different.

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INTERNATIONAL MARKET SELECTION FOR THE SMALL FIRM: A LITERATURE SYNTHESIS AND SUGGESTIONS FOR FUTURE RESEARCH

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ABSTRACT

Over the years, a large number of papers has addressed the concept of International Market Selection. Unfortunately, most of these studies have concentrated on the behavior of large firms and have ignored the special problems that stall enterprises are facing. Selecting the right markets for expansion is even more important for a small firm because it usually lacks the economic resources to try to correct early mistakes. This paper examines the International Market Selection literature and attempts to investigate how relevant are the approaches designed for large firms for the small enterprise.

INTRODUCTION

International Market Selection (IMS) has received an increasing stream of attention in the last two decades. However, past research has focused almost exclusively on large firms. The body of knowledge which has been accumulated dealing with smaller enterprises is very small and in dire need of further expansion.

The purpose of this paper is to examine the relevant IMS literature and discuss which methods can be used by smaller firms effectively in order for them to expand successfully abroad. IMS is a process of successful or unsuccessful market positioning in a physical,/ geographic sense (33). The managers of a company have to choose where to expand after judging several alternatives, according to certain criteria. A firm needs to consider five factors when making a decision to expand abroad: 1) market size and growth potential, 2) competition, 3) risk associated with operating in a foreign market, 4) factors associated with the costs of operating in a specific market and 5) the level of development of the channels of distribution (15).

In the past small firms, especially in the United States, were concentrating their attention in the domestic arena, ignoring the potential opportunities of overseas markets. However, due to the increasing globalization of markets and the saturation of demand in their traditional domestic markets, small firms in recent years had to seriously consider expanding abroad if they wanted to survive in the emerging "borderless" global economy (32). It is very important for a small firm to adopt a successful IMS method in the early stages of its expansion abroad because it appears that internationalization is "the product of a series of incremental decisions (19)." If a firm adopts an unsuccessful selection mode in its early stages, it might get discouraged and it will probably decide to abandon the international marketplace because of this negative experience. In addition Keegan (23) and Johansson and Nonaka (20) discovered a strong correlation between systematic planning in international marketing and performance among firms. Systematic approaches to international expansion can provide a firm with a very important advantage in global markets.

Empirical evidence shows that the majority of small firms do not approach IMS in a systematic way (6; 28; 47). The international involvement of a firm can be represented as a five stage

hierarchy comprising export awareness, export intention, trial, evaluation, and acceptance (38). It appears that most firms react to an external stimulus, in most cases an unsolicited order, before they become active in trying to generate export business (5; 1; 8; 47). Sheridan (43) in his study, of small and medium size Canadian technology firms discovered that 73 percent of them decided in which foreign market to export in an intuitive manner,
commonly as a response to an unsolicited order. In general most small firms combine the three first stages of the international involvement process into one, a "Go or not-Go" decision (33).

The business literature provides a wide array of definitions of what are the characteristics of a small firm. Most of the traditional definitions are utilizing either number of employees or annual turnover (16; 47; 43). However, a more accurate suggestion is provided by Papadopoulos (33). He defines business enterprises as small "those that fall between two extremes: large multinational firms that have access to substantial resources and that already extensively engage in international markets and very small establishments that, by virtue of their type or size, are and will likely continue to be de facto "domestic only."

Successful IMS has become more important than ever. The cataclysmic changes which are taking place in the international arena have forced even small firms to acquire an international outlook. The emergence of three powerful trading blocks in Europe, North America and the Pacific Rim, as well as the dissolution of the soviet Empire have made urgent the need for more careful selection of the wide assortment of national, regional and cross-country markets available.

OVERVIEW OF METHODS FOR IMS

The normative business literature has suggested several factors considered to be crucial in measuring the potential attractiveness of an overseas market. Market similarity and geographic proximity (5; 34; 10; 47), market size and market growth (11; 41; 14; 15), potential competition (25; 4; 3), and the political and economic environment of the host country (46; 26), among others. An excellent review of a large number of qualitative and quantitative methods for IMS is provided by Papadopoulos and Denis (33).

However, most of these methods apply to large companies and are not appropriate for smaller firms with limited resources. A closer scrutiny of the different approaches to IMS is required to discover which can be utilized successfully by smaller firms.

Qualitative Methods for IMS

Qualitative approaches to IMS are mostly based on secondary data. The economic potential of a prospective market can be evaluated through a number of specialized published sources. The managers of small firms need to have access to a plethora of such publications in order to make an educated decision. Douglas et al. (15), provide a whole list of specialized publications which can be very useful for the small firm. Wood and Goolsby's (49) study on the foreign market information preferences of established US exporters gives a list of what exporting practitioners prefer when analyzing foreign market alternatives. Pezeshkpur (36) provides some very useful practical suggestions of how to approach foreign distributors and make a decision of expanding abroad. Governmental agencies as well as transnational institutions can provide useful advice in the initial steps of a firm overseas. Although published secondary information can be

extremely helpful managers of small businesses have to always be aware of the potential bias included in secondary sources of information (34; 37). Piper (37) found that international consulting engineers were influencing their reports with biased opinions and therefore these were not accurately representing the actual conditions of the international market-place.

However, it does not appear from empirical research that small companies in their initial steps of their expansion to overseas markets try to collect specialized information. Most of them rely on general intelligence and the personal intuition of their managers (12; 47).

Quantitative Methods for IMS

Quantitative approaches for IMS have attracted most of the attention of researchers during the last two decades. Quantitative methods are more popular because they "use more formalized statistical analyses of various markets, thus making it possible to compare significantly larger numbers of countries" (34). Statistical analyses of potential markets by utilizing a wide assortment of secondary data are widely used in the literature (23; 20). Level of industrial development, infrastructure, social development and political stability are some of the most commonly proposed measures. The main concern with these methods is the difficulty in relying on secondary data due to their fast obsolescence. Small firms restrained by their limited resources cannot successfully search for the appropriate sources of information and subsequently most of these approaches to IMS are outside their reach.

Market Grouping Methods

Clustering countries into groups according to various types of perceived similarities has been very popular in the business literature. Industrial development, geography, climate and culture are some of the variables which have been used to categorize countries (41; 15). Small firms can employ these studies in trying to decide which nations to select for their initial incursions to overseas markets. The advantage of clustering is the possibility of entering a grouping of countries with a similar marketing mix. Johansson and Noinpour (21) state that a company can use a similar pricing strategy, the same advertising policy, the same product design and even function with just one distributor. However, some of this type information is old and it needs to be examined very carefully. A small firm cannot rely on it entirely to select foreign markets.

Vogel (48) suggests the use of a Delphi method through the polling of the managers of the different international divisions of a multinational corporation to classify nations into groups with similar characteristics. Of course a small firm does not have a large number of managers to poll, but it can follow Pezeshkpur's advice (36) and ask for valuable input from knowledgeable individuals in the community, either professors in the local University or even foreign students studying nearby.

Market Estimation Methods

Unlike the previous methods which try to select a new market according to some perceived similarity to a better known market, with market estimation methods "foreign markets are evaluated on the basis of one of several criteria, and those with the highest score are selected" (34). Six general techniques are identified in the international marketing literature as being appropriate to estimate market potential (41). These are: trend and regression analyses (31), annual sales formula (39), survey method (13),

coefficients of income sensitivity (9), input-output analysis (29) and multiple factor analysis (40). Most of the methods employed for estimating the potential market are fairly complicated and beyond the scope of the small firm. Econometric methods tend to be quite complex and require hard to find data (30; 2). Some researchers have devised multiple factor indices in order to calculate total demand in markets where is hard to find information. Samli (41) tried to estimate demand for two different products, one consumer product, coffee, and an industrial good, natural rubber. At the time that the study was conducted it was very difficult to obtain information concerning the demand for these products in the Eastern European market. Although his results seem to be useful for multinationals, it is doubtful that small firms can use his technique successfully.

The Shift-Share approach tries to identify relative changes in international trade shares for different countries (17). Again, although it looks promising for large firms it appears very unlikely that smaller companies can benefit from it.

The lead-lag approach to estimating market demand can be useful to a small firm due to its simplistic nature of extrapolating data from one country to project to other markets (15). This technique assumes that determinants of demand are identical in two markets, in most cases the home market of a firm and the market under consideration, and the only factor that separates them is time. A company can identify the potential demand for a product in Great Britain if it discovers the time lag separating this nation from the United States. Although this technique is not widely used because it is very difficult to estimate the tine lag between two nations small businesses can utilize it to make the first approach into trying to estimate the potential demand of a country.

A small firm venturing abroad is going to discover that a multitude of large domestic and foreign companies have preceded it in capturing large segments of the most attractive markets. Carr (7) offers an alternative of estimating demand in less developed nations in areas where competition from efficient multinationals is almost non-existent: the macroservey. Macroservey is a simple technique which can be utilized in many different environments. The managers of a small firm need to look for certain variables -a church, a village square, retail outlets- in an underdeveloped market to determine its potential. By entering a primitive market in its early stages a company can establish a very strong foothold and it can remain a major player in the region even after the market starts to develop. The problem with macroservey is that it tends to be very general and some small firms might avoid it because it lacks structure.

IMS IN CROSS-NATIONAL MARKETS

Normative business research in IMS in general tends to concentrate on national markets. It is a lot easier to study independent countries as autonomous units, instead of trying to discover common characteristics of consumers living in different states and categorize them into distinctive segments. Nevertheless, some researchers have identified common characteristics among consumers residing in different countries. Thorelli and Becker (45) attempted to segment the various national markets by the search behavior of their consumers. They state that the "information seekers of these countries constitute a truly cosmopolitan market, while the average consumers are the prime exponents of variation in local culture" (43). Most of these "cosmopolitan" consumers tend to live in large cities. For

example a resident of Milan might have more in common with a resident of Paris or New York than with his countryman living in the relatively underdeveloped South of Italy, who might have more common characteristics with Greek or Irish consumers.

Cross-national segmentation of consumers can be very effective because small companies almost always are niche players, trying to satisfy a small segment of a market. This is especially true when they expand abroad. In many cases it might not be economical to enter a national market because the target segment is very small, but if a company decides to adopt a regional strategy it can profitably market its products even to a small group of consumers. Managers of forward looking smaller enterprises have to identify cross-national market segments and satisfy their needs. Kale and Sudharshan (22) proposed an interesting framework for international segmentation by capitalizing on the inherent similarities across groups of consumers in different nations. With the emergence of the new trade blocks a company can serve consumers in several nations by only having a relationship with a distributor in one centrally located country. Of course a small company still needs the right IMS mechanism in order to identify cross national segments, a factor that brings the managers back to the necessity of systematic efficient methods for international market segmentation.

CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

IMS for smaller firms is a research area that has in general been neglected in the business literature. Small firms perceive it as too complicated and they tend to rely on intuition or personal connections, when expanding abroad. Papadopoulos and Denis (34) mention a Swedish firm that expanded to Switzerland because the top executive had relatives there and wanted to go often and visit then. In other studies it was found that the bulk of the Canadian exports to Italy were in the hands of Canadians of Italian descent.
The role of education and international travel need to be thoroughly investigated for their impact on a manager's decision to expand abroad and employment of IMS methods. Some preliminary studies by Simpson and Kujawa (44) and Keng and Jiuan (24) discovered a strong positive correlation between educational level and international involvement and successful usage of IMS.

In the future researchers need to concentrate on empirical studies on the actual practices of small firms and on the testing of models which describe the process. The pioneering work of Vargas-Carcamo (47) needs to be replicated in different circumstances to test its validity and generalizability. The role that governmental agencies and trade associations play in guiding the internalization of small firms needs to be further explored. Perry's (35) work on the role of the international trade intermediaries and Seringhaus (42) study of trade missions have to be further investigated to uncover what role they play in the IMS process of the small firms.
It is surprising that there are not any techniques utilizing the tremendous processing power of modern computers. In the modern business world the computerization of the work-place has reshaped the traditional economic concepts of scale, scope and structure. In addition tremendous improvements in telecommunications have reduced considerably the time and cost of doing business. The impacts of all these changes on the way small firms approach IMS needs to be studied.

From this paper it has become clear that is very hard for small firms to do systematic IMS. Governmental agencies and trade

organizations have to step in and fill the vacuum. Data-banks need to be created to provide small firms with a wealth of information. In general, practical approaches need to be developed to make systematic IMS feasible for small firms. Policy makers should never forget that today's inexperienced small businesses, can be transformed into tomorrow's export performers.

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ILLINOIS/MEXICO TRADE CONFERENCE

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ABSTRACT

The issue of increasing commercial activity between the states of Illinois, USA and Queretaro, Mexico is examined in this article. Small business activity in this endeavor is the focus of the article.

Objectives for the inaugural conference were established to increase interaction and communication exchange between and among small firms. Discussion of the accomplishment of the objectives is included.

Structure of the project was established as a six-phase endeavor ranging from the gathering of data to the establishment of "incubator" assistance programs. Potential funding for various aspects of the project is also discussed.

Opportunity for small business involvement and future implications for continued cooperative efforts is reported. Probability for increased business activity across international boundaries is highly likely. Therefore, planned and cooperative efforts will become the norm. This initial conference will serve as an operational guide for those who will seek to promote international trade among small businesses.

INTRODUCTION

On March 31 and April 1, 1992 we hosted a series of meetings on our campus which culminated more than a year of discussions, problem identification and planning designed to address the issue of increasing commercial activity between the states of Illinois, USA and Queretaro, Mexico. Much of the preliminary discussion was driven by the pending free trade agreement recently negotiated by the USA, Mexico and Canada. Our focus was on small business, based on the assumption they would be less able to assess and react to their changing business environments.

This paper briefly addresses the following components of the conference: Participants, Objectives, Project Structure, Potential Funding, Small Business Involvement, and Future Implications.

PARTICIPANTS

At these meetings, Mexican representatives from education, government and business interacted with their U.S. counterparts to explore the potential for increasing business activities between the two states. While meetings of this type must necessarily assume an air of formality, every effort was expended to induce as much informality as possible. There was no expectation of sales-on-site; rather, we wanted to get people together, face-to-face, so that we could begin to facilitate two-way trade.

As might be expected, a series of presentations by

representatives of the various organizations present, Mexican and American, ensued. Of course, these presentations served to operationalize the guiding vision of the project which was to promote socioeconomic exchange between the central states of Illinois and Queretaro.

OBJECTIVES

While major corporations can easily become well informed of opportunities and pitfalls during times of economic transformation, small- to medium-sized businesses do not usually have the resources to react to radically changing environments. Therefore, the objectives of the conference can best be identified as to:

1. Promote socioeconomic exchange between the two states;
2. Promote the initiation of two-way trade between small to medium-sized businesses in the two states;
3. Promote applied research concerning free trade; and
4. Provide market analysis and export/import logistical assistance to small- to medium-sized businesses.

Accomplishment of any of these objectives relies heavily on positive commitment to advancement of self as well as advancement of others. While prosperity for oneself is always a strong motivational factor, for this conference to attain even a limited measure of success, all participants had to be acutely aware of the need to consider the potential for the prosperity of others to provide a balancing factor. Synergist "win-win" solutions were bilaterally explored.

PROJECT STRUCTURE

The trade conference itself was merely one phase of the overall project concept. For an undertaking of this magnitude to have even the remotest opportunity for success, strong organizational planning and structure is an obvious necessity.

Our project environment encompasses six phases of operation leading to fruition in terms of business activities.

Phase One
Gathering of empirical information concerning attitudes toward socioeconomic issues in the two nations' environments.

Phase Two
Reciprocal Supply and Demand Analysis of small- and medium-sized businesses.

Phase Three
Assessment of potential opportunities and concerns inherent in the free trade process.

Phase Four
Delivery of Export/Import Exploratory and Logistical Seminars on potential revealed by information generated during preceding phases. Seminars will be delivered by researchers from both Mexico and Illinois.

Phase Five
Trade tours. Groups of business people from Illinois will travel with applied researchers to Queretaro and similar groups from Queretaro will travel to Illinois for meetings with preidentified

groups of potential purchasers/suppliers related to their industries.

Phase six
Export/Import incubator assistance
programs will be set up on campuses in each state.

These assistance programs will include continuing education programs through the two universities to provide ongoing assistance to businesses wishing to explore export/import activity.

POTENTIAL FUNDING

Funding for activities involved with various phases of the project were and will be sought from a variety of sources. During our conference, the group from Mexico provided for its own expenses while our university paid a nominal amount to host various lunches, dinners, etc.

Later phases of the project will require greater amounts of funding over an extended time period. Grant proposals have been and are being prepared for submission to appropriate government and business organizations in both the United States and Mexico. An initial $2 million is earmarked by Mexican banks to assist Mexican firms.

As each phase of the project produces identifiable outcomes and benefits, funding possibilities should be enhanced. The small amounts of seed money which have been expended have already generated increased interest across government and business sectors. Building on this increased interest and involvement will provide additional sources for funding requests.

SMALL BUSINESS INVOLVEMENT

Participation by small businesses must necessarily begin with an expression of interest. Following such expression of interest must come the sharing of information. Researchers from both states will contact area small businesses for pertinent information regarding those businesses and their products in order to establish information banks from which to create incubator assistance programs.

Continuing education programs will result from these "incubators." Ongoing assistance will be provided for small to medium-sized businesses wishing to explore export/import activities with Mexico.

Registering for and participating in these programs as well as attending reciprocal trade tours will be valuable and viable opportunities for small businesses to enter international export markets. Through the sharing of information and working with the continuing education programs, owners of small businesses will be better able to assess and access these expanded markets while establishing an affordable framework of expenditure.

FUTURE IMPLICATIONS

Change - In a single word, that is the future. All aspects of world activity suggest greater economic interaction across international boundaries. Large firms have known and taken advantage of this situation for years. For smaller business,

however, opportunities to participate in such markets have been limited at best.

Programs such as ours open not only avenues for increased business trade but also opportunities for increased and divergent research across company, industry, and cultural lines. As universities are to assist in the acquisition and dissemination of knowledge, so too are they to develop programs designed to enhance the standard of living. This enhancement should not stop at an international boundary.

Our program is in its early stages. However, we retain enthusiastic hope for its continued development. With dedicated hard work from many, we expect one day to have the entire project operating, helping, and, yes, changing.

SMALL BUSINESS AND HAZARDOUS MATERIALS

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ABSTRACT

The importance of understanding legislation relating to hazardous materials in the workplace is of critical importance to the small business employer. This paper examines federal regulation regarding definitions and employer responsibility. A questionnaire is presented which will help small business owners to assess their degree of compliance.

INTRODUCTION

Hazardous materials and hazardous wastes are a necessary product and by-product of an industrial society. Presently, more than 2,400 materials have been identified in Title 49 C.F.R. (Code of Federal Regulations) as hazardous by the Department of Transportation (1). To identifying these materials, the Department of Transportation defines hazardous materials as a substance or material that has been determined to pose an unreasonable risk to health, safety, or property when transported in commerce. The Occupational Safety and Health Administration (OSHA) uses this definition in focusing on employee health and safety in the work environment. In particular, OSHA has published standard 1910.120 that address the dangers hazardous materials pose in the workplace (2). The standard requires that employers evaluate the potential "health hazard" that hazardous materials pose in the workplace and communicate information concerning hazards and appropriate protective measures to employees. Under OSHA standard 1910.120, a "health hazard" is defined to mean "a chemical for which there is statistically significant evidence based on at least one study conducted in accordance with established scientific principles that acute or chronic health effects may occur in exposed employees" (3). OSHA has established regulations in which employers are required to develop and maintain a written hazard communication program for the workplace. This program will include lists of hazardous chemicals present; labeling of containers of chemicals in the workplace, as well as those containers of chemicals being shipped to other work-places; preparation and distribution of material safety data sheets to employees and downstream employers; and development and implementation of employee training programs regarding hazards of chemicals and protective measures.

The OSHA and DOT regulations are designed to reduce accidents and injuries to employees and hazardous materials handlers. In large plants, occupational health and safety staff address these issues daily. The staff maintain the required records, conduct training, and monitor hazardous materials handling with sophisticated equipment.

In the event an OSHA inspector comes to make a surprise inspection on a large firm, the inspector is usually met by four or five staff members and volumes of records to document safety activities. If there had been an accident, the staff provides evidence that proper safety techniques are in place and corrective measures have been taken. This type of protective, aggressive action demonstrates compliance with standards and may

lessen the severity of a fine if one is levied.

Small businesses and plants with fewer than 50 employees are especially vulnerable to these hazardous materials regulations and, unlike other federal regulations, they are not exempt from compliance. If a small business handles any one of the 2400 hazardous materials in predetermined quantities, they must comply with the same regulations as a large firm. Unfortunately, the smaller the firm, the less likely there will be a trained safety or health person employed to address the hazardous materials handling problem. In fact, there may be four or five employees who work around chemicals and do not know the hazards or dangers from exposure to these chemicals.

Small business owners who have been working in the same business for 10 or more years may not even regard a chemical as hazardous because it was not determined to be so 10 years ago. Hence, it is estimated by Bex that there are literally thousands of small firms where hazardous material risks go unrecognized or ignored and small businesses may be more hazardous than large ones (4). The lack of awareness to these safety issues may relate to both the costs of determining whether a hazard exists and fear of job loss. Bex reports that workers may fear firing or loss of their job if they report safety violations (5). The results from exposure to hazardous materials may be both physically damaging to the individual as well as financially damaging to the firm. The accident at Bhopal, India has raised the publics awareness to chemical accidents and the liability that a company may face from such accidents. The liability to a small firm from a hazardous material exposure or accident by an employee can be significantly damaging if not ruinous to the firm. Barney, Edwards, and Ringleb examine the legal liability from exposure to hazardous materials as they relate to both large and small firms (6). They also reaffirm that worker exposure to hazardous materials may lead to litigation that threatens the survival of small corporations (7).

Thus many small businesses face the basic question; do we have hazardous material chemicals in the workplace? That is, chemicals that are explosive, flammable, irritating, corrosive, etc. If the answer is, we do not know, the firm is probably in violation of either federal or state laws relating to hazardous materials and it would be in the best interest of the firm to evaluate the definitions of hazardous materials and health hazards to be able to answer the question with an affirmative yes or no. If the answer is yes, the following questionnaire audit is designed to help firms quantitatively evaluate the adequacy of their current status and plans regarding OSHA compliance to hazardous chemicals in the workplace. It is not intended to provide evidence of compliance with OSHA standards. Rather, it is a guide to help determine the kind of issues required for a risk management plan (RMP) and hazardous response training.

1. Employer Responsibility.

In this section of the questionnaire, small business employer is defined as a person engaged in a business where hazardous material chemicals are either used, distributed, or are produced for use or distribution, including a contractor or subcontractor.

For each of the following questions, record the value of your response, the number within the parenthesis ( ), and enter in the score at the bottom of the question.

1.Does your firm have a method for identifying hazardous material chemicals in the plant or worksite?

a.(0) No.
b.(2) Yes, through manufacturers labels.
c.(3) Yes, through manufacturers safety data sheets.
d.(4) Yes, through an ongoing safety evaluation of chemicals and manufactures safety data sheets imported by the firm for use in the workplace.

Score_____

2. Do you maintain a list of hazardous chemical materials known to be present in the workplace?

a.(0) No list exists.
b.(2) Yes, but only for the whole organization.
c.(3) Yes, but only for individual work areas.
d.(4) Yes, listing chemicals for the whole organization and individual work areas.

Score_____

3.Does your firm have a hazardous material chemical monitoring program that uses mechanical monitoring devices, visual appearance, or odor of chemicals when being released, etc.?

a.(0) No monitoring program exists.
b.(2) Some visual monitoring by employees exists.
c.(3) Mechanical monitoring exists.
d.(4) Regular mechanical and personnel monitoring exists with on site employee feedback and monitoring as appropriate.

Score_____

4. If hazardous chemical materials are present in the workplace, do you have a written hazard communication program?

a.(0) No program exists.
b.(2) A program exists and is available to managers and supervisory personnel.
c.(3) A program exists with limited availability to those employees directly involved with the chemicals.
d.(4) A program exists and is readily available to all employees in the workplace.

Score_____

5. Are there appropriate hazardous chemical materials warnings in the form of signs, placards, process sheets, operating procedures, etc., in the workplace?

a.(0) No.
b.(2) Yes, but limited to the immediate work area where the hazardous chemical is found.
c.(4) Yes, posted and readily accessible to all employees in the workplace.

Score_____

6. Does the firm have a policy regarding removal or defacing existing labels on incoming containers of hazardous

chemicals?

a.(0) No policy exists.
b.(2) A policy exists but no enforcement is specified.
c.(3) A policy exists and is known to all supervisors.
d.(4) A policy exists. It is published for all employees and enforced by all levels of management.

Score_____

7. Are the labels or other forms of hazardous chemical material warnings printed in English?

a.(0) No.
b.(2) Yes.
c.(4) Yes, and also in other languages which reflect the composition of non-English or limited-English speaking employees.

Score_____

8. Has your firm conducted an audit for hazardous material chemicals in the workplace?

a.(0) No.
b.(4) Yes, on going audits are conducted reflecting the changing use patterns of hazardous chemicals.
c.(2) Yes, within the past year.
d.(1) Yes, within the past two years.

Score_____

9. As an employer, do you understand/ feel comfortable with OSHA regulations concerning hazardous chemical materials in the workplace?

a.(0) No.
b.(1) Some awareness.
c.(2) Aware.
d.(4) Have studied the regulations and am thoroughly familiar with them.

Score_____

10. Have personnel been designated at the "first responder operational and technical levels" as defined by OSHA to provide additional information on hazardous chemicals and appropriate emergency procedures if necessary?

a.(0) No.
b.(2) Yes, but have no formal training.
c.(3) Yes, with formal training at the operational and technical levels and they are known to management.
d.(4) Yes, with formal training and they are identified to all levels of management and to the employees.

Score_____

11. Does your firm have a hazardous chemical material training program?

a.(0) No training provided.
b.(2) Yes, but limited to training supervisors and upper management.
c.(3) Yes, but limited to training first responders at the operational level.
d.(4) Yes a training program exists to train all employees beginning at the first responder awareness level through technician level.

Score_____

12. Does your firm have a medical doctor who is aware of the hazardous chemical materials in the workplace and their effect on the health and welfare of your employees?

a.(0) No.
b.(2) Yes, a local emergency facility that is generally aware of treating hazardous chemical emergencies.
c.(3) Yes, a contract physician who is generally aware of hazardous chemical emergencies within the firm.
d.(4) Yes, a contract physician who is regularly informed of the hazardous chemicals within the firm and consults regularly on emergency treatment protocols.

Score_____

13. Does your firm have an emergency first aid procedure in place for handling hazardous chemical material accidents?

a.(0) No procedure exists.
b.(2) An emergency first aid procedure exists but not specifically for dealing with hazardous chemical material accidents.
c.(3) An emergency first aid procedure designed for hazardous chemical material accidents exists.
d.(4) An emergency first aid procedure designed for hazardous chemical material accidents exists and all personnel are trained to deal with these emergencies.

Score_____

2. Employee Training.

The OSHA standards are specific about the need for adequate employee safety training. The following series of questions focuses on the issue of employee training. These standards require that the organization provide employees with training on hazardous chemical materials within their work area. If the organization is not providing training, they are in violation of the standards. If the response is yes, training may takes place in a number of alternative ways. The training time for each employee may vary depending upon circumstances in a particular workplace. According to the standard, it may be given to the employee during the first 90 days on the assignment. However, the best response would be to provide training to the employee at the time of their initial assignment to the work area.

The employee training on hazardous chemical materials needs to include identification of the location and availability of a written hazardous chemical material communication program which includes a required list(s) of hazardous chemicals and material safety data sheets. If the present training program does not include these materials, the firm is in violation of OSHA

standards. If the training does include these materials, it may be accomplished in a variety of ways such as, information posted on a common bulletin board, available through area supervisors. However, the best response would be to provide each employee in the work area with this information through regular safety training meetings.

If your firm has a training program, does it include:

15. Training regarding methods and observations that may be used to detect the presence or release of hazardous chemicals in the work area? (This may include monitoring conducted by the employer, continuous monitoring devices, visual appearance or odor of hazardous chemicals when being released, etc.)

    a.(4) Yes on an ongoing basis.
    b.(3) Yes at the time of employment.
    c.(2) Yes as time permits.
    d.(0) No.

    Score_____

16. Training with regard to physical and health hazards of the chemicals in the work area?

    a.(4) Yes on an ongoing basis.
    b.(3) Yes at the time of employment.
    c.(2) Yes as time permits.
    d.(0) No.

    Score_____

17. Training involving the measures employees can take to protect themselves from hazardous materials? (This would include specific procedures the employer has implemented to protect employees from exposure to hazardous chemicals, such as appropriate work practices, emergency procedures, and personal protective equipment to be used.)

    a.(4) Yes on an ongoing basis.
    b.(3) Yes at the time of employment.
    c.(2) Yes as time permits.
    d.(0) No.

    Score_____

18. Does your training program include an explanation of the labeling system and the material safety data sheet, and how employees can obtain and use the appropriate hazard information?

    a.(4) Yes on an ongoing basis.
    b.(3) Yes at the time of employment.
    c.(2) Yes as time permits.
    d.(0) No.

3. Score Totals.

Add the scores for questions 1 through 13 and record the total score below. Then add the scores for questions 14 through 18 and record that total.

Total Score for Questions 1-13_____

Total Score for Questions 14-18_____

Total Score for all Questions_____

Total number of questions containing a "no" response_____

4. Evaluation.

If your total score was between 54 - 72, your firm appears to be satisfactorily meeting the standards for both employer responsibility and employee training. The ideal, based on this self evaluation, would be to attain a score of 72. Although your score may be satisfactory, this does not mean that your firm is not vulnerable and diligence may be reduced. Look over your responses and evaluate where improvement could, or should, be made. Your firm appears to be moving in the right direction and doing a good job.

If your total score is between 36 and 53, your firm may be meeting the standards at a minimal level but is cause for you to examine each response where the question score is less than three (3). Any question where the score is less than three indicates a degree of vulnerability and corrective action should be undertaken.

If your total score is less than 35, you are in a vulnerable situation of not meeting the standards and should immediately take action to correct this situation.

If you have responded no to any of the eighteen questions, you are in violation of the OSHA standards in section 1910.120 relating to employer responsibility, employee training or both. It is suggested that you obtain a copy of the OSHA standards from the state or federal Occupational Safety and Health Administration office to review the requirements for handling hazardous materials in the workplace.

Lack of knowledge is no defense for failure to comply with the standards. Severe penalties will be levied in any case where an employee is injured from hazardous chemicals as a result of the employers failure to take action to train and inform employees of the dangers of hazardous chemicals.

After you have completed a copy of this self-appraisal, date it and keep it in your OSHA file. The questionnaire should be reviewed at least once each year to assure ongoing compliance.

Although this instrument is not a defense, it can be one more tool to demonstrate to OSHA inspectors your willingness and desire to maintain a safe business environment.

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LEGAL CHALLENGES FOR SMALL BUSINESS: FRIVOLOUS LAWSUITS

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ABSTRACT

A lawsuit brought by a small business against another party might be countered by a claim that the lawsuit is "frivolous." Frivolous law suits have a definition specific to the legal profession; a law suit is considered frivolous when there is no legal basis for the plaintiff to bring action against a defendant. No managerial perspectives are provided in such a definition. If a lawsuit is considered frivolous, court costs and penalties may be assessed against the party bringing the suit. This paper provides perspectives on the determination of a frivolous lawsuit by considering literature from several disciplines. It further proposes a working definition of frivolous law suits by use in small business.

BACKGROUND AND RATIONALE

The legal system in many parts of the world is an advocacy system in which parties unable to settle their differences by other lawful means, meet in a court of law in order that a decision can be made and they can then resume their lives. This right of the public to access the justice system is part of being a citizen of many geographic subdivisions. Settling business disputes in the court has been part of normal civil practice for many years. As more people become aware of their right to access the public court system, the number and diversity of matters settled within the court system has grown steadily (Manley, 1989). The court systems in many countries have become encumbered with cases for settlement by the legal system. Monetary damages for certain types of court awards have grown steadily. This steady growth in the size of awards has encouraged more suits that further clog the court system. Attempts to streamline the processes of justice in the court systems of the world, such as the Uniform Commercial Code in the United States, and specified damage/award calculation procedures, have had a minor effect on slowing the level of activity in the court system.

To counter this growth in lawsuits, many with little legal merit, the concept of a frivolous lawsuit was introduced into the law in certain jurisdictions. An example of a frivolous lawsuit might be a trademark challenge on a new product where no comparable trademark exist; the purpose of such a challenge would be to slow the introduction of the new product to allow the competitor to develop a competing product. Reference publications in the legal field provide definitions of "frivolous" as follows:

> "Of little weight or importance. A pleading is "frivolous" when it is clearly insufficient on its face, and does not controvert the material points of the opposite pleading, and is presumably interposed for mere purposes of delay or to embarrass the opponent. A claim or defense is frivolous if a proponent can present no rational argument based on evidence or law in support of that claim or defense. Liebowitz v. Aimexco. Inc., Colo, App., 701 P 2d 140, 142. (Black's Law Dictionary (1990), p. 668; West's Law & Commercial Dictionary (1985), p. 678.)
>
> "... clearly insufficient as a matter of law; presenting no debatable question. A claim is frivolous if it is insufficient because unsupported by the facts or because

> the law recognizes no remedy for the claim." (Barron's Dictionary of Legal Terms, (1983), p. 191.)

To implement the intent of the frivolous lawsuit definition, some jurisdictions have provided penalties for parties bringing suits judged to be frivolous. Typical of the these legal codes is the New Jersey general provision in the administrative code 2A:15-59 (Bird, New Jersey Law Journal, 1991) in the cost area under abuse of process paragraph.

> "Normally, when plaintiff files suit and only to embarrass defendant, court would be warranted in granting costs to defendant to indemnify him against expense of vindicating his right invaded by plaintiff. Kotlikoff v. Pennsauken Tp, 131 N.J. Super, 331 A. 2d (L. 1974)." (N.J.S.A. 2A:15-59.4, p. 270)

Thus there is a possibility of a penalty in bringing a lawsuit judged to be frivolous. This is over and above the plaintiff's costs and time already invested in bringing the lawsuits. In addition to the definitions above, the law provides precedent cases for guidance to determine when a lawsuit is frivolous. Such cases are usually only accessed by attorneys and as such provide little guidance to the small business owner considering legal action. While this paper does not pretend to be a substitute to competent legal advice, it does purport to give some perspective to the small business owner. Further, legal definitions of frivolous may not adequately consider managerial and other concepts. This paper may add to the consideration of those concepts.

PERSPECTIVES CONSIDERED

This paper takes a managerial and small business ownership perspective to view the situation faced by a business manager when bringing legal action and counteraction. Other related perspectives are considered including an economic perspective as related to the management of a business entity, a public policy perspective, and a strategic management perspective. Some perspectives not considered by this paper are:

- society's viewpoint towards the use of the court system to solve business problems,
- the taxpayers, as differentiated from the society,
- the court system, that is the judge and jurors. Thus the legal aspects of frivolous lawsuit determination are not considered by this paper.

Research limitations are noted at the outset to assist the reader in placing a perspective on the matter.

Small Business Owner/Manager Perspectives

Complexities in the small business owners' personality and behavioral traits have been the subject of many studies (Low & MacMillam, 1988; Gartner, 1988; Wortman, 1987). These studies stress independence in decision making, achievement orientation, and controlled risk-taking propensity. These traits could foster the initiation of lawsuits to support the profitability of their business. Yet small business managers' behaviors are the result of many competing and conflicting forces. A larger approach to small business manager behavior is best summarized by the "Stakeholder Approach" (Marx, 1985) and is one of the dominant views of small business management in the current literature. The stakeholder approach suggests the following as interested parties in the success of a business and therefore should be considered in the decision-making processes of a manager. These

parties are listed and grouped in Figure 1. Although numerous authors may disagree as to the relative weighting of each of these stakeholders' interests, they all agree that the primary responsibility of an owner-manager is to the stockholders/owners of the business (Hayes, 1970; Davis, 1975; Burck, 1973; Marx, 1985). When this theory is applied to small business lawsuits:

the behavioral view suggests a proclivity of the small business owner to engage in lawsuits,

the stakeholder view emphasizes the small business manager's responsibilities to the various stakeholders of the small business. This view stresses the responsibilities of the small business owner to serve the various stakeholders. To the extent lawsuits foster proper execution of those responsibilities, they are appropriate.

Conflicting responsibilities within the stakeholder view are those of government and the general public as taxpayers. These stakeholders would not like to see governmental (court time and expense) and taxpayer (tax monies) resources squandered on lawsuits that do not foster the good of all people. Thus, a small inherent conflict exists when applying the stakeholder view to the frivolous lawsuit question. Views from other disciplines may add perspective to this question.

Figure 1

SMALL BUSINESS STAKEHOLDERS

Inside Stakeholders

Executive officers, Board of Directors, Stockholders, Employees, Family

External To Organization

General Public, Consumers, Creditors, Governments, Unions, Competitors

Adapted from: Jeffrey S. Bracker and Angelo J, Kinicki, "Strategic Management, Plant Closings, and Social Responsibilities: An Integrative Model," Employee Rights and Responsibilities Journal, Vol. 1, No. 3, (1988), 201-13.

Economic Perspective

Milton Freidman, in what is regarded as a seminal article, provides economic perspectives on managerial responsibilities. In his September 13, 1970 article entitled "The Social Responsibility of Business is To Make A Profit" Freidman states that owner-managers primarily serve as agents of the stockholders, customers and employees, and as such should primarily defend and protect the continued existence and profitability of the business they manage. Concerns for other stakeholders in managerial decision-making, particularly the societal concerns, can only be justified in terms of "enlightened self interest," that is, business managers may wish to consider that the response to their actions by external stakeholders may be more hazardous to the existence and profitability of their small business and therein modify their actions.

The responsibility of a manager/owner bringing a law suit is therefore primarily to the owner(s) of the business. Such responsibility may be regarded as fiduciary since the business, as an asset is entrusted to the manager. Secondarily,

managers/owners of small businesses have responsibilities to stakeholders (i.e. creditors, customers, and employees) other than the owners who also demand appropriate managerial actions be taken in all situations including the filing of law suits. In describing the primary responsibility of a manager, the title and content of the Freidman (1970) article indicates continued existence and profitability are the goals to be pursued by responsible managers. Actions that enhance these goals are appropriate actions for managers; actions that detract from achieving these goals are not responsible actions of managers. This theme is found in many other textbooks in the field of management and economics. Examples of this include:

> "To make sure that business survives" - this is the most common responsibility of all managers, regardless of what business they are in. (Scott, 1987, p. 32)
> "The responsibility of an owner-manager is to make a surplus; to have additional resource (inventory, capital, personnel, finished goods, excess machine capacity) that can be reinvested in the corporation to assure continued success." (Koontz and Weihrich, 1988, pps. 6-8)
> "Beyond maintaining existence by avoiding continuing business losses, the small business owner-manager also has a responsibility to make a profit, funds that can be redistributed to the owners/stockholders to increase their personal wealth." (Smith, 1776)

The views expressed above are that profitability and continued existence of any small business are the primary goals for any small business manager. The actions taken in pursuing a law suit against any defendant are appropriate actions if they serve to impede a threat to the goals of the organization and thus enhance the primary goals of survival, surplus and profitability.

Managerial Perspective

To reach goals and be profitable small business managers also have a responsibility to act effectively and efficiently. Managerial effectiveness is a measure of the degree to which the goals of the organization are met. For example, pursuing goals that are not in the best interests of the organization managed, no matter how efficiently pursued, would not be considered effective management. "Efficiency" is defined as the capacity to produce desired results with a minimum expenditure of energy, time, and resources. Efficiency is measured by the degree to which inputs are used in relation to a given level of outputs. For example, air conditioner efficiency is measured by the cooling result achieved as compared to the energy utilized (Koontz and Weihrich, 1988, p. 8). Legal actions of a small business manager, therefore, must enhance the goals of the organization by efficiently employing the resources of the organization to pursue said goals.

Strategic Management Perspective

The field of strategic management/business policy provides a further perspective on lawsuits as strategic actions to be initiated or anticipated. It is curious to note that a review of the literature in this field finds that theorists have not considered the impact of strategic actions on society; that taking legal recourse has no negative or positive connotations, but rather, lawsuits are viewed as strategic weapons used to foster the achievement of organizational objectives. The field does, however, place positive values on monitoring various components of the organization's environment, such as competitors, and governments (Pearce and Robinson, 1991). One of the clear objectives of these actions is strategic actions

including lawsuits to preempt or prevent threats to their organization. A managerial function of a small business manager is to continually monitor the environment in which the business operates. These actions are commonly called "Strategic Scanning" (Aquilar 1967; Scheyogg and Steinman, 1987). Environmental scanning includes both the competition and would - be competitors, as well as the governmental agencies and industry associations that license and validate the actions of others in their industry. Lawsuits of alleged illegal trade and commercial practices and to prevent new entrants into the industry could result. From these actions,

> "analyses of the following should emerge: the critical threats to survival, the outstanding opportunities open to the firm, the potential allies in each critical decision area, and the potential opposition in each critical decision area." (MacMillan and Jones, 1986, pps. 72-73)

A small business manager appropriately looks outside his corporation for threats to the goals of the organization. This environmental scanning function provides the owner/manager with information on the competitive nature of his industry and the threats to the potential profitability of the company.

The level of competition in an industry (Porter 1980) is strongly correlated with the level of profitability of the companies in the industry (Sherman, 1991). It is widely accepted by economists that as the level of competition increases in an industry (as price approaches marginal cost) profitability of a company decreases (Samuelson, 1976). It is, therefore, imperative that companies understand the competitive nature of their industry and, therein, determine a strategy which will reduce competitive pressures or allow the firm to operate profitably. Chapter 16 of Porter (1980) discusses entry strategies and expected response from competitors such as lawsuits. Regulations are barriers to entry that serve to:

> ".... provide protection to business.
> For example, national security, police, fire, and others;
> assure an appropriate level of service quality to the consumer; and
> punish offenders who do not play by the rules." (Gray and Hay, 1981, p. 82)

TOWARDS A MULTI-DISCIPLINARY DEFINITION OF FRIVOLOUS LAWSUITS

Based on the above perspectives, a frivolous lawsuit is a strategic action which fails to enhance either the effectiveness or efficiency of a business. This definition limits societal considerations, except through small business owners' "enlightened self-interest" and concern for their stakeholders' views towards wasting societal and taxpayer resources. Thus, using these perspectives, can a lawsuit ever be viewed as frivolous? From the above discussions, an efficiency - effectiveness model is proposed for use by a manager-owner to determine whether a lawsuit may be considered frivolous. Lawsuits that fail the effectiveness criteria are those brought by the management of a company that are not in the best interests of its continued profitability and existence. For example, lawsuits brought to enhance the personal worth or position of individual managers, but not the corporation, may be judged to be frivolous from a managerial perspective. In a sole proprietorship or small business, law suits filed by the owner(s) for punitive purposes which do not meet long-term organizational goals may be considered "ineffective". Once actions pass the effectiveness test, a test of the efficiency of the actions is employed. Lawsuits that fail the efficiency criteria are those

that consume more corporate resources (time, expense and lost profitability or net worth) than the likely gain of the suit. The resources consumed are not only those of the initial suit but also of an anticipated response to the suit. Certain managerial assessments of the probability of the outcomes of the legal actions and other selected events need to be considered by managers making these judgments. Thus, for a lawsuit to be considered frivolous from a managerial perspective, the expected total cost (ETC) of the lawsuit must be less than the expected total result (ETR) of the lawsuit as measured in profitability and worth of the suing company. A frivolous lawsuit (FLS) may then be defined using the relationship:

$$ETC > ETR \text{ or as the ratio}$$

$$ETC/ETR > 1.00$$

Expected total cost (ETC) is the anticipated cost measured in terms of use of corporate resources worth of the corporation of not only the initial lawsuit but also the anticipated result of any counter action by the party being sued. This counter-action could be an additional lawsuit or other negative effect on the profitability and net worth of the corporation. Such counter-action may take the form of reduced business activity with the corporation bringing the suit, or other market free market actions, or counter legal actions. Expected Total Result (ETR) is the anticipated total result of bringing the legal action as measured by the profitability or net worth of the corporation bringing the suit. These results include: (1) the result awarded in a trial, and the effects in related regulatory processes (licensure, etc.) on the corporation being sued (for example, the lawsuit prevented a new company from entering the market), (2) the market effects of the notoriety of the suit, and the effects on the suing company's operations but only to the extent that these effects have a measurable impact on profitability and net worth of the company, (3) less any fines or other legal penalties imposed.

CONCLUSIONS AND OBSERVATIONS

Small business managers and owners who take legal actions against current and future competitors can justify these actions if these actions add to both the effectiveness and efficiency of their organization. Such "strategic" actions cannot be characterized as frivolous when viewed from this multi-disciplinary perspective because appropriate managerial behavior demands that such actions be taken in order to satisfy the owner/manager's responsibility to the organization's key stakeholders. Lack of action, in fact, could be characterized as representing irresponsible behavior by the owner/manager in question. Beyond the conclusion above, legal actions taken can be considered "strategic" in nature if they challenge both new entrants and existing competitors in an industry.

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ENTREPRENEURSHIP: A STRATEGY FOR RURAL DEVELOPMENT

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ABSTRACT

Rural communities suffering economic decline are initiating strategies for encouraging venture creation and growth. This paper reviews the literature associated with venture creation. From the current state of knowledge, a community-resource based model is devised. This model proposes the key variables and their relationships in a community that influence business start-ups. From this model, strategies are introduced for encouraging entrepreneurship in rural communities.

INTRODUCTION

This paper addresses entrepreneurship as a strategy contributing to rural economic development. A view of relevant literature identifies community variables that stimulate or constrain business creation and growth. These variables are summarized in a model suggesting interrelationships that lead to venture creation. From a review of development strategy proposals, the paper concludes by specifying elements to include in community efforts to encourage entrepreneurship.

Significance of Entrepreneurship to Rural Economic Development

According to the Small Business Administration (1988),

-twenty-four percent of the nation's population live in non-metropolitan communities;

-half of the nation's rural countries have unemployment rates of over nine percent;

-the U. S. will need 43 million jobs in the next twenty-five years;

- small business creates over 60 percent of the net new jobs in the nation and provides 55 percent of all employment;

- small firms employ 56 percent of non-metropolitan workers, compared to 47 percent for the U. S. as a whole; and

- small businesses are growing 30 percent slower in rural than in urban areas.

Communities and Entrepreneurship

Development strategies often are directed beyond the boundaries of the community, with the intent of enticing industries to relocate or encouraging outsiders to start business. Such strategies assume entrepreneurs select their environments, i.e., context follows business. Evidence more strongly supports the notion that entrepreneurship follows context: ventures are initiated within communities by original members. "Entrepreneurship then is to be seen as the outcome of a society bound choice (Johannisson, 1987, p. 1).

Community Variables

In recent years researchers have examined organizational births and deaths in communities and have attempted to identify environmental variables associated with the phenomena. Singer and Sarb (1982) proposed a relatively comprehensive model for application by small business owners interested in locating and developing their enterprises in rapid growth areas. They identified four subunits of variables purported to affect the attractiveness of a site for start-ups and expansions (p. 4):

1. Sociocultural environmental factors
2. Community functional differentiation factors
3. Socioeconomic environmental factors
4. Community structural differentiation factors

Holt (1987) conducted a Delpha survey among business owners to identify location factors that influence new ventures. He did not support economic theory that businesses locate near markets on primary resources. More important factors are sociocultural. These included:

1. Advantages of local wage and salary structures.
2. Business organizations; networked professionals.
3. Logistics: roads, rail, trucking, freight, air.
4. Patterns of business success and failure.
5. Subcontractor services, fabrication, supplies.

Infrastructure variables associated with the start-up and location of high technology firms in metropolitan areas were analyzed by Flynn (1988):

-- low relative hourly cost of manufacturing labor
-- high relative per pupil expenditure for education
-- high relative number of persons over 25 with four years or more of college
-- low relative taxes per capita
-- high relative income per capita
-- low relative cost of housing per capita

Venture Creation Model

The literature review has revealed a number of studies of varying levels of comprehensiveness, but striking consistencies. Hoy (1987) devised a model to describe the influence of community and macro-environment variables on business start-ups in rural America. An extension of this model is presented in Exhibit 1. Although this paper is devoted to the effects of the rural community on organizational births, the dominant focus of entrepreneurship research has been on the characteristics of the individual entrepreneur. There are millions of business owners active in the United States today possessing an extraordinary variety of personal characteristics. Nevertheless, researchers have found interesting patterns that should not be discounted (Vaught & Hoy, 1981). Demographic characteristics such as birth order and national origin appear to have some influence on attitudes such as need for achievement and behaviors such as willingness to work hard. These certainly affect some entrepreneurial decisions; yet it is also clearly evident that some communities spawn far more business start-ups than others. It is the ability to differentiate these communities that permits the formulation and implementation of a development strategy.

The model posits relationships among variables in a community that contribute to an environment supportive of entrepreneurship. Encasing the city is the macro environment. Critical elements in

this environment include the larger economy, particularly the regional growth rate. The legal environment encompasses not only regulatory activities at the state and federal levels, but also the propensity for the larger governmental units to provide leveraged support. This support normally takes the form of managerial and/or capital formation assistance, either directly to new enterprises or via community institutions. Cultural norms and trends influence venture creation. There is some evidence that the volume of entrepreneurship is cyclical (Porter and McKibbon, 1988). Specific industries have their own patterns and life cycles distinct from the general economy (Hoy, 1988). Communities are often dominated by single industries. This may be due to availability of resources (mining), geographic location (tourism), labor skills (textiles), or some other reason. The competitive nature and profitability of the industry are beyond the control of the local community. Technological changes also impact on community strategies. Innovations are frequently two-edged swords. They may cause a labor intensive industry to become capital intensive. This may increase unemployment within a community. Viewed alternatively as an opportunity, the laid off personnel may form a pool of prospective entrepreneurs.

The model shows micro environment, or community, variables influencing both the decision and the formation of the venture team. Several researchers have concluded that well balanced venture teams are more likely to succeed in creating a wealth producing venture than is the single entrepreneur (Wells, 1974; Tyebjee & Bruno, 1981; Teach, Tarpley, & Schwartz, 1986; Anderson Dunkelberg, 1987). The venture team need not all consist of individuals who invest in the company or who subsequently work in the company. Outside experts may be team members, including community assistance professionals. Among the micro environment variables that researchers have found to be significant are business and growth-oriented community leadership, public sector assistance and information sharing for new and growing firms, resources (particularly capital), population mobility (although immigration is correlated with organizational births, most new businesses tend to be homegrown), and networks of business people and professionals.

Johannisson (1987) argued that " ... the variations in local entrepreneurship are more dependent upon characteristics of the community than upon... sectors of industry." Evidence is inadequate to support that contention, but even if industry sector is not the primary factor, it does appear to exercise some influence on ventures success (Sandberg & Hofer, 1986). Important community factors specifically related to manufacturing firms are labor availability (including skill level) and cost, highway and rail transportation, ability of raw materials, and area business climate. For research and development ventures, availability of professional talent, air transportation, quality of life, and highway transportation are significant. Retail establishment variables are high wage rates, immigration, transfer payments, and availability of medical and other professional services.

Development Strategies

This paper has attempted to compile a consensus of opinion on the components of development strategies that target entrepreneurship stimulation objective. Efforts expressly designed to develop rural economies by increasing organizational births are relatively recent. Traditional strategies for rural development include (Sher, 1986):

1. Infrastructure development

2. Agribusiness
3. Industrial recruitment
4. Natural resource extraction and processing
5. Tourism and recreation

Entrepreneurship strategies are often derivative of industrial recruitment strategies. Communities expect economic development to occur as a result of enticing outsiders to an area to open a business. A typical set of steps to achieve this involves (Holt, 1988):

1. Creating a data base on these, labor, wages, etc.
2. Networking for capital and professional support; and
3. Preparing a facilities "locator" for new ventures.

Sher (1986) proposed what he labeled the "Three E's" as alternatives to traditional development policies:

1. Empowerment: "willingness and ability of rural people to more fully take charge of the development process" (p. 520).
2. Education: broadly defined, beyond basic skills.
3. Entrepreneurship: including "self-employed individuals, inventors, cottage industries worker-owned enterprises, cooperatives, community development corporations, family farmers, and the myriad of small owner-operated business" (p. 521).

Shapero (1975) recommended a four-pronged approach for community instigation of entrepreneurial behavior:

1. Educate the financial community to the needs and benefits of providing funds to new ventures.
2. Develop substitutes for the factors available to start-up businesses in larger communities.
3. Attract support services.
4. Obtain transportation support.

Friedman (1987) addressed rural development needs with a call for policy implementation. His first priority was for a heavy investment in education, including entrepreneurship education. He urged a more entrepreneurial agricultural system. He also proposed a combination of public and private sector financing strategies, including transfer payments to encourage venture creation. Finally, Friedman argued that efforts should be made to foment a cultural change toward a broad view of sources of entrepreneurs.

Alternatively, Hoy (1983) proposed a narrow strategy, specifically focused on establishing an extension consulting program for small business owners and prospective owners. Recommendations were directed toward training consultants, encompassing interview techniques, observation, patience, education, and perspective. Consultants were advised to analyze and define problems, deal with specifics, identify goals, and emphasize planning.

CONCLUSIONS

Assistance Receptivity

Entrepreneurship can be stimulated by broad governmental policies and by targeted community strategies. Government policies impact on the economy in general and address such issues as taxes, capital formation, transfer payments, regulatory compliance, labor cost and availability, etc. Community strategies are more proactive and tend to require a disposition toward assistance at

two levels: community leadership and the entrepreneur.

The success of regional development is likely to be contingent on the willingness of community leaders to implement local strategies. Many rural communities are controlled by coalitions who perceive their control of political and economic power to be dependent on maintaining the status quo (Gatewood, Hoy & Spindler, 1984; Gatewood & Hoy, 1989). It is arduous and time-consuming to overcome attitudes and structural barriers opposing development (Johannisson, 1987).

Although many small business owners are politically active and lobby for government action (Hoy, 1989), many others prefer no government involvement in the private sector at all (Heller, 1984).

Development strategies frequently consist of assistance programs directed toward the owner or prospective entrepreneur. If a minority of owners avail themselves of assistance (Hoy & Vaught, 1980), how much success can these programs achieve? An effective community strategy does not rely on direct assistance alone.

Critical Success Factors

From the literature reviewed in this paper, it is reasonable to conclude that multiple variables influence the effectiveness of a rural entrepreneurship development strategy. Some are beyond the control of community leader. Among the controllable factors, the most critical appear to be:

1. Community commitment: business and development oriented community leaders in the public and private sectors.

2. Public and private sector cooperation: willingness to work together, joint projects, quasi-public sources of business and venture capital.

3. Comprehensive strategies: recognition that single-focus programs neither have broad-based support nor provide adequate stimulation for entrepreneurial activity.

4. Education and training: basic life skills, job performance skills, an understanding and appreciation of economics and entrepreneurship in public school, vocational and technical institutes, and colleges and universities.

5. Capital: encouragement of increased involvement by financial institutions in small business lending as well as creation of innovation sources of funds.

6. Expertise: making available resources and specialists that small rural businesses may not normally have access to due to size or location, e.g., accounting, tax, marketing, personnel, procurement, etc.

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THE ADA REVISITED: SMALL BUSINESS AWARENESS AFTER ONE YEAR

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ABSTRACT

This paper examines the attitudes and perceptions towards the Americans With Disabilities Act (ADA). In this paper the authors will investigate the unique laboratory provided by the Kansas Act Against Discrimination (KAAD). The KAAD was patterned after the federal ADA, but was enacted July 1, 1991, one year prior to the ADA. The principal recommendation is for specific training regarding values. The data gathered in this study is offered as a basis for projecting national trends in the areas of attitudes and perceptions, as well as small business awareness and impact.

INTRODUCTION

A Brief Historical Perspective

The United States has approximately 43 million adults with disabilities. Of these adults, two thirds are chronically unemployed. The ADA was developed and passed for the joint purposes of both eliminating discrimination against the disabled, and assisting their transition into the work place. When successful, previously unemployed disabled workers enter the labor market. A secondary effect should be the easing of the current labor shortage.

Relevant Research

Historically, disabled individuals have been denied recourse for employment grievances.(5) Fundamental to the ADA is the creation of a remedy if an employer refuses to hire an otherwise qualified worker with a disability.(10)

The employer may be able to demonstrate the applicant hired is better qualified, but that determination would carefully review the criteria for hiring listed in the job vacancy announcement and the essential functions in the job description.(7) Essential functions may be identified by referring to the following:

* the amount of time spent on the job performing the function
* the consequences of not requiring the incumbent to perform the function
* terms of a collective bargaining agreement
* work experience of past incumbents in the job
* current work experience of incumbents in similar jobs

The basic goal of the new legislation is for employers to provide equal opportunities to qualified individuals with disabilities. This may include making a reasonable accommodation for known physical or mental limitations of an otherwise qualified individual.(8) Although the term reasonable accommodation was included in the 1973 Rehabilitation Act, the term was not defined with consistency.(4) More recent articles have attempted to better define the concept of reasonable accommodation.(3) An exception to this duty is the employer's ability to access the undue hardship defense.(9) The following estimates have been made regarding the expected burden on employers:

* the Dole Foundation anticipates that 85% of all

accommodations will cost less than $500.

* the U.S. Department of Labor reports that 50% of all accommodations will have no cost.
* a labor survey of federal contractors completed in 1982 determined only 22% of the disabled employees required accommodations.(1)

Employers may treat disabled workers differently, if providing a reasonable accommodation would be either a substantial burden, or require a significant expense. There are limitations to these defenses.(2)

Employer's are prohibited from asking whether or not an applicant is disabled.(11) During the pre-employment phase, the employer may inquire regarding the applicant' s ability to perform job-related functions.(12) After the offer of employment has been made, then the employer may provide its new employee an opportunity to identify whether the employee has any need of reasonable accommodation to assist in performing the job. (13)

The ADA places significant restrictions on both the gathering and retention of medical information about employees. Any medical information (post-hiring physical or employee drug testing) received must be kept confidential and be maintained in separate records.(14) This does not mean in a separate file folder in the same cabinet as all other personnel records. The employee medical records are only accessible to supervisors and managers, safety personnel, or enforcement officials who are responsible for the company's accountability. The employer may not ask if the employee is disabled unless the inquiry is shown to be both job-related, and consistent with the business necessity.(15) While this employer's right exists, it is likely to be very narrowly interpreted because it is contrary to the purpose of the act.

PROPOSED LEGISLATION

Legislation At The Federal Level

On July 26, 1990, Congress enacted the single most sweeping change in the civil liberties arena with the passing of the Americans with Disabilities Act (ADA). This legislation was effective on July 26, 1992 for employers of more than 25 employees, and will impact employers with between 15-24 employees on July 26, 1994. The legislation's effective date was deferred for two years to allow employers to both modify their buildings and develop appropriate policies and practices. It prohibited not just state and local governments, but also private employers, employment agencies, and labor unions from discriminating against qualified individuals with disabilities.

Legislation At The State Level

On May 9, 1991, the Governor of Kansas signed into law amendments to the "Kansas Act Against Discrimination" (KSA 44-1001, et seq.). The significance of this enactment is evidenced by both the start date and the number of employees that a company must employ in order to fall under the guidelines. In essence the Kansas law:

* went into effect JULY 1, 1991 (over one year before the ADA).
* It applied to any company that had FOUR OR MORE EMPLOYEES (as opposed to twenty-five for the ADA).

METHODOLOGY

A questionnaire was developed to ascertain the awareness of business students, business law students, business consultants, pre-business entrepreneurs, existing business owners, and individuals with psychiatric disabilities regarding their respective rights and obligations under the new disability legislation, and its impact on small businesses. In addition, inquiries were made to determine the nature of the respondents business experience, position description, level of education, supervisory responsibilities, as well as other questions of a demographic nature.

The total population for this study was comprised of one hundred fifty eight (158) business students, sixty nine (69) business law students, eighteen (18) business consultants, twenty-six (26) prebusiness entrepreneurs, twenty-eight (28) existing business owners, and twenty-three (23) individuals with psychiatric disabilities. The survey was conducted over a three month time frame with a total of three hundred twenty two (322) responses being gathered.

The business students were all business majors of senior standing or higher. The business law students were of junior standing or higher. The business consultants were comprised of the directors of the Kansas Small Business Development Centers (KSBDC). The nonbusiness owners were comprised of individuals attending pre-business workshops from around the state. The participating business owners were existing KSBDC clients. The individuals with psychiatric disabilities attended the 1992 Kansas Mental Illness Awareness Council State Conference.

FINDINGS

Historical KHRC Records

Research into data obtained from the Kansas Human Rights Commission (KHRC) covering the past five years indicated the overwhelming majority of discrimination cases filed, were against private companies, followed by government agencies, educational facilities, and unions. Major trends noted are shown in Table 1.

TABLE 1
HISTORICAL KHRC DATA

Case History	1991	1990	1989	1988	1987
Cases Filed	1098	1182	1349	1130	1182
Cases Closed	1115	1206	1107	1075	1367
Avg $ Award	$2298	$1462	$1220	$1597	$1270
Basis of Complaints					
Race	337	373	374	342	385
Sex	336	308	338	286	315
Age	227	190	255	167	150

Retaliation	153	89	94	78	71

Alleged Unlawful Employment Pratices

Discharge	603	572	564	441	498
Hiring	94	122	152	104	119
Maternity	50	38	NA	NA	NA
Terms Of Employment	384	344	434	464	440

Survey Results

Analysis of the results of the survey, regarding the relative ranking of both the positive and negative impacts of the ADA, yielded the information in Table 2 and 3.

TABLE 2
POSITIVE ADA IMPACTS

% Response	Category
23.6	Worker Productivity
20.4	Worker Morale
20.0	Workers Compensation
15.6	Insurance Premiums
12.4	Cost To Society
5.5	Long Term Profit
1.8	Short Term Profit
.7	Other

TABLE 3
NEGATIVE ADA IMPACTS

% Response	Category
45.7	Insurance Premiums
20.8	Short Term Profit
12.3	Cost To Society
6.3	Workers Compensation
5.9	Worker Morale
5.6	Worker Productivity
2.2	Long Term Profit
1.1	Other

Subsequent analysis of the relative ranking of the multiple response question regarding barriers facing the disabled in the work force, yielded the data shown in Table 4 below:

TABLE 4
IMPLEMENTATION BARRIERS

Category	% Of Respondents Marking This Category
Co-Worker Apathy/Fear	55.1
Few Jobs Available	53.6
No Incentive To Hire	49.8
Physical Appearance	47.1
Difficulty Interacting With Public	27.9
Lack Of Training	20.7

Lack Of Qualifications	19.8
Low Work Output	14.2
Low Quality Work	12.1
Unmotivated Workers	11.5

In addition to the above information, several other significant findings were developed from this survey instrument.
The following section compares the respective groups answers to the survey questions. The questions are rank ordered by the overall percentage of correct responses.

* Question #1 Do qualified people with disabilities have problems obtaining an appropriate job? The overall correct response to this question was 89.7%, with the consultant and existing business owner sub groups doing the best (100% and 96.4% respectively).

* Question #7 - Does the ADA require that an employer make modifications to their building to make it handicapped accessible to the public, even if they do not employ any handicapped-persons? The overall correct response to this question was 86.1%, with the existing business owner and business law student sub groups doing the best (92.9% and 90.9% respectively).
* Question #6 - Under the ADA, can an employer test an applicant for illegal drugs? The overall correct response to this question was 79.6%, with the business law student and pre-business entrepreneur sub groups doing the best (89.6% and 82.6% respectively).

* Question #2 - Does the ADA require employers to treat disabled applicants and employees preferentially? The overall correct response to this question was 69.5%, with the existing business owner and business student sub groups doing the best (75.0% and 73.5% respectively).

* Question #3 - Does the ADA require an employer to hire a disabled person if he/she is as equally qualified as the other applicants? Although the overall correct response to this question was 41.2%, the pre-business entrepreneur and existing business owner sub groups had the highest level of incorrect responses (75.0% and 67.9% respectively).

* Question #4 - Under the ADA, is an employer allowed to ask if an applicant has a disability (ie. bad back, or disease)? The overall correct response to this question was 36.2%, with the consultant and existing business owner sub groups doing the best (77.8% and 60.7% respectively).

* Question #5 - Under the ADA, can an employer refuse to hire someone with a contagious disease (ie. tuberculosis)? The overall correct response to this question was 30.0%, with no sub group getting more than 50% of the correct responses

IMPLICATIONS OF THE FINDINGS

Historical KHRC Records

The findings based on the KHRC data (Table 1), indicate that cases tend to hold over from one year to the next (thus the discrepancy between the cases filed and closed). Current predictions from KHRC are that they expect a 30% increase in the number of cases filed in fiscal year 1992 (the first year after the KAAD amendments went into effect). As indicated by the data, there has been a strong upwards trend in the average monetary award (per closed case involving settlement) over the past three

years. This trend is expected to continue. In addition, the number of claims based on retaliation (ie. firings based on whistle blowing, etc.) took an inexplicable jump in 1991. Citing discharge as a basis for alleged unlawful practices has shown an upwards trend over the past four years.

Survey Results

In analyzing the findings that made up Tables 2 and 3, two areas that are immediately obvious are that:

* Most respondents expect to feel the adverse monetary effect of the ADA in their insurance premiums. This would tend to indicate that there is a predominant belief that the "tab" is going to be picked up by insurance companies.

* There is a big discrepancy in the negative impact between long and short term profits. This would indicate that the respondents felt that there would be an initial negative impact on corporate profits in the short term, but that once past this initial hurdle there would be a negligible impact on long term profits.

Table 4 provided an interesting look into the individual perceptions of obstacles to the handicapped entering the work place. Analysis of these perceptions indicates that although the anticipated major barriers can be resolved, the supposedly minor barriers may provide the greatest problems to resolution. For instance, Co-Worker Apathy/Fear can be resolved through better education/training by the employer, as required under the ADA. The category Few Jobs Available is directly related to the current economy. The No Incentive To Hire category is largely attributable to employer ignorance. "Job Coaches" can be used to assist the handicapped, and partial wage reimbursement is available through the State Department of Vocational Rehabilitation. Physical Appearance is a matter of good habits that should be established through training, and reinforced through experience. Difficulty Interacting With Public and the Lack Of Training categories are again areas that are directly affected by employer training, as mandated under the ADA. The three least rated categories, Low Work Output, Low Quality Work, and Unmotivated Workers provide the greatest resistance to change. When monitoring changes in perceptions, these categories should be viewed over a longer time frame than the others.

When asked about accessibility to business premises, 56.5% of the respondents stated that their business was very or moderately accessible to customers, while only 51.8% felt that it was accessible to applicants. This suggests that there is greater recognition of responsibility to the public than to employees.

The high percentage of students in the respondents skewed the results of the questions regarding age, income, and education.

The finding that males were more likely to believe (that the disabled did not have problems finding jobs) than were females, might indicate a certain lack of sensitivity on the part of the males in the study.

An overall assessment of the level of awareness of the ADA and its impacts indicates that the existing business owners did better than the pre-business entrepreneurs, the two student groups were approximately equal, and the business consultants had the best overall awareness. The high level of correct responses by the consulting group may be attributed to the training and function of these respondents. As KSBDC consultants, over the past year they have received training on the ADA and its impact on small businesses, and they have had the opportunity to

practice this training on a daily basis within their regions.

CONCLUDING REMARKS

After one year under the Kansas enactment of the KAAD, it is apparent that there is still the need for a substantial effort to train both employers, employees, and the public in the mandates and subsequent impacts of the ADA. As seen by the high number of correct responses by the KSBDC consultants, training is effective if it is both directed at the key impacts of the act, and appropriate to the needs of the trainee. It is apparent that the issues of what you can and can not do during the applicant phase of the hiring process are not clearly understood. Drug testing., cost of accommodation, questions that may and may not be asked of applicants, are all areas that need to be clarified when dealing with the business community.

Three examples of the need for further education were identified from the survey.

* While 69.5% correctly stated that the ADA did not require preference in the hiring of the disabled, only 41.2% correctly stated that employer is not required to hire a disabled person who is equally as qualified as the other applicants. Respondents stated that although they felt that they are not required to treat the disabled preferentially (applicants or employees), they are required to hire the disabled if they are as equally qualified as the other applicants.

* The very large number of incorrect responses from the sub groups who had no experience in the supervision or hiring and promotion, suggests that including all employees in those activities in the work place may result in a greater total awareness of how the ADA impacts these areas.

* The need for education is especially evident considering the large number of respondents who incorrectly answered both "whether an applicant could be asked if they had a disability" (63.8%) and "whether an employer could refuse to hire someone who has a contagious disease" (70.0%). Either of these errors could result in liability and financial loss to a small business.

Given this general lack of understanding uncovered by this study of the KAAD, it would be the recommendation of the authors that the national SBIDA organization attempt to develop a series of training programs for SBI Directors, staff consultants, and the public. This training program would help ensure that other regions are prepared to answer questions and assist in the resolution of problems that will occur regarding the implementation of the Americans With Disabilities Act.

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Preparing For And Defending Against Claims Under The Americans with Disabilities Act

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ABSTRACT

This article does not summarize the Americans with Disabilities Act. Relying upon similar changes in Kansas law that are currently in effect, the article anticipates action that employers may take to be in a better position to prepare for and defend claims. Practical recommendations for complying with the new law are included.

Employers have recently begun to notice the obligations that will be imposed under Title I of the Americans with Disabilities Act. While effective July 26, 1992 for companies with 25 employees and July 26, 1994 for companies with 15 employees, the new civil rights law makes fundamental changes in the employment policies and practices of U.S. businesses.(8)

In an effort to anticipate how employers may successfully prepare for and defend claims under the new law, the authors will focus upon the Kansas Act Against Discrimination. This state act was amended to impose obligations similar to the federal legislation, but made effective as of July 1, 1991 for companies with four or more employees.(4) The first year has indicated some trends and responses which will better prepare all employers to defend against the new claims.(1)

It is important for employers to recall that Title I of the Americans with Disabilities Act requires equal treatment in all areas of employment, including: job application procedures; hiring; advancement; discharge or discipline; compensation and benefits; training; and all other terms and conditions of employment.(24)

MEANING OF DISABILITY

A considerable amount of discussion and writing has been directed towards defining the parameters of a disability. Individuals with disabilities are clearly covered under both the state and federal acts. Much less attention has been directed at the corresponding requirement that a person who is either perceived or regarded as having a disability is also covered. (12)

This may impose an obligation upon the employer to take affirmative action to assure that workers (whether or not they actually are disabled) are not harassed at the work place. Consider the following examples:

* If shop employees tease or harass a fellow worker as being either retarded or crazy, is that a sufficient perception of impairment to activate coverage under the new disabilities legislation?

The act may impose upon employers a duty to provide in-service or on the job training for staff and employees.(16) Passive reliance upon the good. intentions of workers is insufficient. Unlike affirmative action duties of existing civil rights laws that focus upon external efforts, the new disabilities legislation directs employers to discern and develop appropriate attitudes among their employees. Employers who fail to heed this

obligation may discover they are defending claims by able-bodied employees who were subjected to harassment by coworkers. More than any other provision of the new law, providing a proactive plan of employee education may reduce stigma and corresponding employer liability.

* Is it possible for an employee with severe migraine headaches to be disabled and protected under the act while a second person with a behavior disorder that causes chronic lateness is not covered?

The disability legislation is directed at physical and mental impairments. While the worker with migraines has a physical impairment, the behavior disorder (regardless of the chronic lateness), may not be a physical or mental disability.

* May the same condition be disabling to one employee and not to another?

It is intriguing that the existence of a physical or mental disability in one job setting may not constitute a disability in another job setting. The migraine headaches could be aggravated by excessive stress or pollution from the job of a dispatcher at a grain elevator. Conversely, the same person may be very able to handle migraine headaches by working in an air conditioned no smoking office reviewing claims for crop insurance. Evaluation of the extent of disability will be dependent upon both the employees specific medical condition and the demands of the job. The employer has an opportunity to set the framework for the position through the job description.

MANDATED EMPLOYMENT PRACTICES

The importance of considering prohibited employment practices is to be aware of potential pitfalls in the new legislation. Employers are still able to select the most qualified individual available. This basic employer right is only conditioned by the obligation to assure that employment decisions are not based upon the existence of an individual's disability. (20)

The basic goal of the new legislation is for employers to provide equal opportunities to qualified individuals with a disability. This may include making a reasonable accommodation for known physical or mental limitations of an otherwise qualified individual.(15) Although the term reasonable accommodation was included in the 1973 Rehabilitation Act, the term was not defined with consistency.(9) The exception to this duty is the employer's ability to access the undue hardship defense.(17) The following estimates have been made regarding the expected burden on employers:

* the Dole Foundation anticipates 85% of all accommodations will cost less than $500.00
* the U.S. Department of Labor reports that 50% of all accommodations will have no cost
* a labor survey of federal contractors completed in 1982 determined only 22% of the disabled employees required any accommodations(2)

If providing a reasonable accommodation would either be a substantial burden or require significant expense, employers may be able to treat disabled workers differently. There are limitations to this defense.(3)

PROHIBITED EMPLOYMENT PRACTICES

Employer's are prohibited from asking whether or not an applicant is disabled. (25) During the pre-employment phase, the employer may inquire regarding the applicant's ability to perform job-related functions.(26) After the offer of employment has been made, then the employer may provide its new employee an opportunity to identify whether the employee has any need of reasonable accommodations to assist in performing the job.(27)

Although the employer's opportunity to inquire regarding an applicant's disability is limited, some inquiry may be made during the course of the interview process. Employers may ask job-related questions about the applicant's employment background. This may include inquiry regarding how the applicant would perform particular functions of the job. One excellent method of determining an applicant's actual ability to perform the essential functions of a job involves the use of an Assessment Center. The Assessment Center is a concept borrowed from the field of Human Resources. It consists of a series of evaluative exercises or tests that simulate portions of the job which is vacant. The actual center might include an interview, pencil and paper test, individual and group simulation, or work exercises. The applicant's responses are evaluated by trained raters.(6) Including the actual interview as one part of the assessment center provides a more complete profile of an applicant's ability to perform a job than only relying upon the oral interview.

Historically, disabled individuals have been denied recourse for employment grievances.(11) The new legislation creates a remedy if an employer refuses to hire an otherwise qualified worker with a disability.(21) The employer may be able to demonstrate the applicant hired is better qualified, but that determination would result in a careful review of the criteria for hiring listed in the job vacancy announcement and the essential functions in the job description. 14 Essential functions may be identified by referring to the following:

* the amount of time spent on
  the job performing the function
* the consequences of not requiring
  the incumbent to perform the function
* terms of a collective bargaining agreement
  *work experience of past incumbents in the job
  *current work experience of incumbents in similar jobs

There has been a recent trend to reclassify jobs into a more limited number of classifications. The classification SECRETARY I might include the following jobs: receptionist, secretary, clerk, file clerk and typist. One of the impacts of the new legislation may be to increase the number of classifications, while decreasing the number of jobs under each classification.(10) While the previous practice tended to group multiple jobs into a single classification, the better practice now may be to develop individualized job descriptions for each job. As separate jobs are differentiated based upon essential functions, it may become necessary to develop different classifications. Consider the diversity of essential functions currently grouped under either the classification laborer or secretary. These generic labels may need to be divided into more discrete groups that only consist of jobs with similar essential functions. This process should include developing an advancement ladder to avoid dead-end jobs.

Consider the following example:

Two applicants have the same speed and accuracy on a typing test.

Is the employer free to select the applicant who has the most experience?

*Would it make any difference if experience was not an essential function listed in both the job vacancy announcement and the job description?

*Would it make any difference if the job description said employees needed two years of experience (one applicant had two years and the other had five)

This example is intended to illustrate the importance of developing and regularly reviewing both job vacancy announcements and job descriptions. If both applicants meet or exceed the employer's requirements, it may be difficult for the employer to articulate a nondiscriminatory reason for preferring able-bodied applicants in hiring decisions. However, if the employer's job description states that applicants will be credited with all prior clerical experience, the employer may have articulated a nondiscriminatory reason for distinguishing between the two applicants.

Is it as easy to understand that if an employer placed a disabled worker in a, "dead-end" job that had no opportunity for promotion, then the worker would have the basis to make a claim. Able bodied employees would never willingly accept jobs that had no future. If the employer segregates disabled workers into these positions, it would require justifying this treatment of members of a protected group.

If the employer is interested in the applicant successfully completing a physical examination, the inquiry must be reserved until after the offer of employment is extended. Employers may condition the offer of employment upon the applicant's successful completion of the medical examination. Medical examinations prior to commencing employment, must meet the following criteria: job related; consistent with business necessity; requested after the offer of employment is made; and required of all candidates offered the position.(22)

Employers are also obligated to keep all medical records confidential and maintain them in files separate from other business records.(23)

Work areas and break rooms must be accessible. If outings or trips are planned for employees, they must also be accessible. Disabled workers must be placed upon the same compensation, promotion and benefit schedules as all other employees. All insurance provisions and exclusions must be based upon actuarial data, not assumptions.

Consider the following example:

If an executive were to have a heart attack or stroke, would the company terminate the employee and reduce their medical benefits? Consequently, if a shop worker had a psychiatric breakdown, would they be treated any differently? According to the ADA, both are considered disabilities.

Employers may develop drug testing policies for all applicants. (28) This type of examination is not considered medical testing. (31) Employers may also adopt a drug policy that prohibits the illegal use of drug and alcohol at the work place.
However, if employers adopt job performance and behavior standards to regulate the use of controlled substances, the policies must apply to all employees.(30) If employees who had abused substances are residing in a supervised rehabilitation

program and no longer actively abusing controlled substances they may not be treated differently from able-bodied employees.(29) If the employee either leaves the supervised rehabilitation program before completing it or again begins using controlled substances, the employer may take appropriate disciplinary action.

PREVENTION AND DEFENSE

Essential Functions

An employer's principal defense involves a determination of whether or not an applicant is a qualified individual. The primary evidence for this issue comes from the employer's identification of essential functions. The employer has the initial opportunity to identify what are the essential functions. The employer may prepare or revise job descriptions to include essential functions. Thus, the first two steps in preparing to defend claims (identifying essential functions and revising job descriptions to include essential functions) are completely under the control of the employer. Regulatory agencies are also expected to look at administrative precedents and regulations to determine if an individual is qualified.

Two essential functions for a Secretary I classification position might include correctly using grammar and spelling. Identifying these two skills as essential functions means all successful applicants (and employees in the job classification of Secretary I) would be able to correctly use grammar and spell. By adding a criterion of performance (ninety percent), the expected standard of performance is articulated. It may be included in the job description, and also could become a component of the Assessment Center for applicants for the Secretary I classification positions. Repeating this process would result in identifying essential functions for each job, placing them in the appropriate job descriptions (including the criterion for success) and using them to screen applicants.

Threat

After a decision to hire an applicant has been made, the employer may confront a situation where an employee is perceived as a threat to the employee or others. The employer may exercise an exemption in the act allowing for the discipline of employees who constitute a threat. However, before attempting to remove an employee as a threat, the employer should be prepared to meet the following challenges:

* Does the person constitute a significant risk of substantial harm to the health and safety of the individual or others?
* Can the risk be eliminated or reduced by reasonable accommodation?(13)

Any employer's determination that an employee constitutes a potential threat must consider the following:

* an individual assessment of the individual's present ability to safely perform the essential functions of the job
* an assessment based upon a reasonable medical judgment that relies upon the most current medical knowledge or the best available objective opinion
* the risk must be valid and significant, not a speculative or remote risk
* the assessment must consider the duration of the risk, the nature and severity of the potential harm, the likelihood that potential harm will occur, and the imminence of the potential harm

This exemption will only be available to employers on a case-by-case basis. Previous decisions under the 1973 Rehabilitation Act suggest that the employer is probably not in a position to independently meet the burdens presented by the requirement for an objective assessment using the most current medical knowledge. A decision under this exemption may be more easily defended by the employer if it is based upon the expert opinion of an independent consultant. While this is a new cost for employers, it should be rarely needed. Further, it is a very inexpensive substantiation of the employer's decision in comparison to any subsequent legal challenge. The effect of this legislation is to allow employers to insure against any speculative loss or injury rather than to permit an allegation of "threat" to be used as a pretext for discharging otherwise qualified employees with a disability.

Reasonable Accommodation

Reasonable accommodation is again an area where the employer has the opportunity to take the initiative. Most accommodations for workers with psychiatric disabilities are inexpensive or free.

From this perspective, reasonable accommodation appears more manageable. Items of personal property that are not specifically related to the job (hearing aids, eyeglasses, or wheelchairs) are not reasonable accommodations. However, items for personal use may be a reasonable accommodation if left at work.

Reasonable accommodations that have no additional cost include:

* job restructuring
  removing non-essential elements
  exchanging assignments redesigning procedures
* reassignment
  avoid no work available retain experienced employees
* modify work schedules
* adjust training materials or exams

These types of reasonable accommodation make good business sense, are innovative and creative, and result in a more flexible work force. The best source for information about how to provide reasonable accommodations for an employee is to ask the employee. The employee is experienced in how to accommodate the employee's disability in question.

The authors have experience working with supported employment programs. Kansas provides partial funding for placing and hiring individuals with psychiatric disabilities. To develop job opportunities, it has been important to develop reasonable accommodations that have no cost to employers. Reasonable accommodations that have been successfully used in employing individuals with psychiatric disabilities include the following:

* prioritizing job duties
* scheduling job duties
* time shifting work
* job sharing
* allowing for leaves of absence
* reducing distractions
* providing timeout for workers
* allowing sabbatical or other leave
* allowing employees to change jobs (transfer)
* providing job coaches
* promoting programs that explain how coworkers can help
* promoting programs that encourage

communication
* promoting programs of disability awareness
* encouraging and modeling acceptance of the disabled
* modifying jobs when medication is being changed
* avoiding too rapid job/department change

Employers have numerous alternatives when seeking to develop reasonable accommodations for qualified individuals with disabilities.

Undue Hardship

The employer's last defense is the argument that providing a reasonable accommodation would constitute an undue hardship. Undue hardship does not require the employer to reach the brink of bankruptcy. This would result in fewer job opportunities, while the purpose of the act is to increase the availability of job opportunities for qualified individuals with a disability.

The ADA defines undue hardship as follows: "an action requiring significant difficulty or expense."(18)

Substantial difficulty or expense is necessary to reach the level of undue hardship. Factors that may be considered include:

* cost of accommodation
  influenced by unit cost
  influenced by the number needing accommodation
  focused upon a flexible approach
* nature of accommodation short-term restricted site job
* employer size, type and financial resources
* nature and type of business(19)

CONCLUSIONS

During the first year of the disability amendment under the KAAD, the authors have been successful in assisting small businesses prepare for, and defend, against claims. Through the effective use of the information presented in this paper, owners of small businesses will be better able to implement the obligations responsible under these laws.

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THE EMERGENCE OF ECO-ACCOUNTING AND ITS IMPACT ON THE SMALL BUSINESS OWNER

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ABSTRACT

Small business owners are faced with an increased level of compliance with various federal, state, and local environmental laws. The firm not only must incur the direct costs of compliance but also must be aware of the potential liability of hazardous waste cleanup costs. These latter costs could result in financial ruin for most small businesses.

Adding to the complexity of the situation is the increased awareness of the accounting profession concerning environmental matters. The accounting profession, suffering from the adverse affects of other financial crises (e.g., savings and loan bailout), is facing increased pressure to provide more stringent audit procedures. Thus, auditors will be required to investigate the potential liability related to environmental contingencies with greater scrutiny.

This paper presents the recent actions taken by the rule-making boards of the accounting profession to improve the accounting treatment and the auditing procedures concerning environmental matters. These actions will directly affect the financial statement amounts and disclosures of many small businesses. By alerting the small business owner to the changes being made by the accounting profession in this area, the manager can better understand and plan for the possible increase in audit procedures.

INTRODUCTION

Compliance and proactive responses to environmental issues have become a major factor in managing any business. Companies, both large and small, are faced with an increasingly complex legal maze which can only grow more complicated as the public's concern and regulatory demands for these issues heightens. The present and future condition of the global environment is now part of the national political agenda, and given the efforts of various environmental groups (e.g. Sierra Club, National Wildlife Federation, Nature Conservancy) this issue will likely receive an even greater share of the nation's concerns.

Prior to the enactment of federal, state, and local environmental laws, companies produced waste and disposed of this waste in the easiest and cheapest methods. For some firms this meant locating near a body of water in order to cheaply dispose of its waste. For others, burial either on site or in a landfill served the purpose. Companies routinely sent tons of waste into the air through smokestacks. In all these cases, the environment was treated as a free good which companies could use with no cost.

Today the situation is totally different. The public expects companies to be environmentally conscious and, for firms which were unwilling to comply voluntarily, federal, state, and local laws have been passed to force compliance. On the federal level, these laws include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Congressional Comprehensive Environmental Response, Compensation, and Liability Act (Superfund Act), and the Superfund Amendment and Reauthorization Act. In addition,

most states have enacted their own version of these Acts.

The costs of compliance with environmental legislation include the direct costs, curtailed job growth, reduced capital formation, and lower savings for firms. The Brookings Institute estimates the total cost of federal air and water legislation in 1990 at $320 billion. These reallocated resources reduced the Gross Domestic Product by 5.8% [9]. These costs are even more significant for the small business owner who often operates on a much leaner profit margin or a relatively smaller income.

Most small business owners do not have to be reminded of the costs of complying with the various environmental laws. The liability under the Acts (especially the Superfund Act) is very broad and far-reaching. The Superfund Act allows for joint and several liability for any Potentially Responsible Party (current owner, owner at time of disposal, waste generator, or waste transporter). Liability can arise from non-compliance, personal injury or damage, or remedial cleanup. The single most significant liability a small business owner may face in this area is the remedial cleanup of a hazardous waste site. Currently, the Environmental Protection Agency has identified 1200 "priority" sites with the estimated cleanup cost per site of $20-40 million [13]. Most small business owners facing even a fraction of these cleanup costs would face financial ruin.

Adding to the complexity of the problem is the increased awareness by the accounting profession of environmental liabilities and contingencies. Until recently, very little interest was given to this area by the accounting profession. Companies and their auditors simply applied Statement of Financial Accounting Standards No. 5 (SFAS No. 5). Accounting for Contingencies, and in most cases any future environmental liability was not recorded nor disclosed. However, the rule-making boards of the accounting profession have now begun to recognize the possible effects of these contingencies on most companies.

The purpose of this paper is to present the recent actions by the accounting profession to improve the accounting treatment of environmental costs and to strengthen the audit procedures in the area. These actions will directly effect the financial statement amounts and disclosures of many small businesses. An awareness of the steps taken to improve accounting for environmental issues will enable the small business owner to effectively understand the accounting and audit concerns and to plan accordingly.

Developments in Environmental Accounting

As mentioned in the previous section, the primary pronouncement used in accounting for environmental contingencies is SFAS No. 5. This Statement, issued in 1975, was never intended to be used in this manner but the lack of any other action by the Financial Accounting Standards Board (FASB) in the area has necessitated its use. SFAS No. 5, along with FASB Interpretation No. 14, require the auditor to determine the likelihood of incurring a material loss. This likelihood is classified as either remote, reasonably possible, or probable. If the occurrence of the loss is determined to be remote, no accounting treatment is required. If the loss is deemed probable and the amount of the loss (or a range) can be reasonably estimated, the loss contingency must be recorded as a liability and a charge against current earnings. For a reasonably possible loss, disclosure in the financial statement footnotes is required. Disclosure is also required by the Statement if the likelihood of the loss occurring is probable

but the amount cannot be reasonably estimated.

The application of SFAS No. 5 requires a great deal of professional judgement on the part of the accountant/auditor. In most cases, information to be used in the decision is gathered by contacting the client's attorney for his/her assessment of the contingency and by questioning management about the situation. The problem in the environmental area is not the probability of the occurrence of a loss but rather the determination of the amount of the loss. Thus, given the requirements of SFAS No. 5, most companies are required only to disclose in the footnotes the existence of an environmental contingency and are not required to record the loss. However, even the more liberal treatment of the contingency (disclosure vs. recording) does not guarantee adequate treatment. Freedman and Stagliano (10) found a broad range of diversity in environmental disclosures even within the same industry. The authors found the range of disclosures to vary between detailed discussions to little elaboration about the item. Thus, the use of SFAS No. 5 to account for environmental contingencies has led to inconsistent reporting practices and, in some cases, nonconformity.

One of the main tenets of the accounting/auditing function in the United States is the comparability of financial statement presentation. The FASB has continually stated its desire to have similar transactions recorded in comparable manners even though they may occur to different companies. Only through consistent application of financial accounting standards can comparability and reliability of the reporting process be assured.

This point was well illustrated with the accounting treatment of the costs incurred for asbestos removal. After federal, state, and local laws were passed which required firms to remove or contain asbestos in buildings, inconsistent accounting practices emerged. Some firms were expensing the costs as incurred, while others were capitalizing the expenditures.

The Emerging Issues Task Force, a group formed by the FASB to handle issues not deemed appropriate for full Board action, resolved the problem by releasing two EITF Abstracts. The first of these statements (Issue No. 89-13) dealt specifically with asbestos cases, and stated that in most cases the costs should be capitalized. The second Abstract (Issue No. 90-8) presented the accounting treatment for environmental expenditures for a broader spectrum of issues. These Abstracts do not have the standing of a Statement of Financial Accounting Standard which is issued after the FASB's due process procedure. However, the Abstracts are considered to be generally accepted accounting principles and must be followed by accountants.

The EITF Abstracts addressed only the costs which have been incurred in a known environmental cleanup situation. No mention is made of the potential cleanup costs given a possible environmental contamination. SFAS No. 5 still applies to the latter area, and the deficiencies of the Statement are recognized by members of the accounting profession.

Dennis Beresford, Chairman of the FASB, has indicated that SFAS No. 5 may not be adequate to allow for the proper financial statement presentation of environmental contingencies. Beresford has stated "Another issue that may receive greater attention is accounting for environmental matters" [14]. Continuing, Beresford adds that application of SFAS No. 5 "is not providing the right answer when it comes to environmental matters because the loss may not be absolutely probable or it is not possible to make a reasonable estimate." Given the remarks of the Chairman of the FASB, future action by the Board in this area is very likely

and will inevitably lead to stricter financial accounting standards. However, until that time (the Board is notorious for deliberate action), the basic treatment of environmental contingencies will continue to incorporate the requirements of SFAS No. 5.

The Impact on Small Business

Despite the fact that FASB action is not scheduled in the near future for environmental matters, the auditing sector of the accounting profession has taken steps to increase the awareness of auditors with regard to these contingencies. As the interest level of auditors is heightened, the impact on small business owners is apparent.
Auditors will be required to investigate the potential liability with greater scrutiny and to either record or disclose in more detail the financial effect of the contingent loss. Because of the negative impact of the savings and loan crisis on the accounting profession, the auditing sector is facing increased pressure to provide more stringent audits in accordance with generally accepted auditing standards. As a whole, the profession is very concerned with the image of independent, prudent, and objective auditors. Thus, small business owners will be faced with audits which are more carefully planned and executed and which focus on areas with a high level of inherent risks such as environmental contingencies.

The Auditing Standards Division of the American Institute of Certified Public Accountants has issued two Audit Risk Alerts in response to the growing concern about environmental matters and their potential impact on a firm's financial statements. The first of these Alerts, which was issued in December 1990, directs the auditor to consider asking management if the company has ever been named as a Potentially Responsible Party under the Superfund Act or otherwise has a high level of environmental exposure.

If so, the auditor is directed to consider the need to accrue the estimated cleanup costs and to determine the need for disclosure under the requirements of SFAS No. 5. Also, the auditor is instructed to consider environmental matters in the planning phase of the audit in order to properly examine the area for possible recording or disclosure.

In November 1991, a second Audit Risk Alert was issued which provides examples of environmental "red flags". These "red flags" are items which may indicate an increased risk of exposure to environmental liabilities. Examples of these items include:

1) Participation in a real estate transaction or corporate merger

2) The purchase of land at a price significantly below local market prices (a possible bargain price due to environmental risk)

3) Aborted transactions that involved the client as a seller of property

4) Piecemeal sale of assets

5) The acquisition of new or increased insurance coverage against environmental liability [4].

The auditor is advised to specifically look for any of these events and to be more professionally skeptical in their audit. Also, the auditor is cautioned against the possibility of a

client's inappropriate delay of recording and environmental loss until all information is known. FASB Interpretation No. 14 requires the accrual of a loss contingency when the estimated loss is within a range of amounts, and auditors are advised by this Alert to consider this possibility.

Another indication of the increased environmental awareness on the part of the auditing profession is the action taken by some of the Big Six accounting firms. Arthur Andersen has started an environmental management practice and has published a booklet on the subject. Gary Dominy, managing director of Arthur Andersen's Environmental Management Service practice, believes that "firms will have to become more aware that their clients in almost every industry will need some kind of expertise in understanding the environmental risk they face" [121. Small business owners can be assured that all CPA firms, large or small, will soon start similar practices for two reasons: the CPA firms see the area as a chance for increased consulting fees, and the CPA firms seek to reduce their liability in the area. The possibility of litigation given the issuance of a "clean" opinion to a firm with hidden environmental losses and the subsequent failure of the firm because of the cleanup costs does not appeal to CPA firms already facing significant liability in other areas.

SUMMARY AND CONCLUSION

The impact of environmental concerns on the small business owner is significant. Mere compliance with the various federal and state laws can result in the expenditure of valuable resources. However, the liability facing a firm which is determined to be a responsible party in an environmental case can be even greater.

Small business owners must be aware that the accounting profession has increased the attention to be accorded environmental areas in the conduct of a financial audit. According to Statement on Auditing Standards (SAS) No. 47, an auditor must assess environmental risk as part of the overall audit risk of a client. Also, if an auditor discovers an environmental matter that is an illegal act and has not been accounted for in accordance with generally accepted accounting principles, SAS No. 58 requires the auditor to qualify his opinion or to issue an adverse opinion. SAS 58 also requires an auditor to add an explanatory paragraph to his opinion which highlights the financial statement presentation of an environmental uncertainty in certain cases. Any type of audit report other than an unqualified ("clean") opinion could increase the difficulty a small business owner faces in raising capital, in particular when acquiring a loan from a bank.

As secured lenders, banks were specifically exempted from environmental cleanup costs under the Superfund Act. However, recent court rulings have increased the exposure which banks face concerning these potential liabilities.
Many banks are now requiring environmental audits as part of the lending process--a requirement which increases the cost of borrowing money for the small business owner. Lenders are also becoming increasingly reluctant to give loans to environmental "high risk" clients. Although the EPA has recently issued regulations which lessen the burden of banks in these cases, many in the banking profession are still hesitant to make loans to certain types of firms [11].

Small business owners should be prepared for increased auditor attention to potential environmental losses. Managers should evaluate their firm's exposure in this area and seek expert

advice if necessary. Never before has the phrase "the auditor is coming" meant more in terms of environmental exposure. Auditors are being alerted to the possible problems in the area, and they will be reluctant to ignore the financial statement impact of environmental liabilities.

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THE INTERACTION OF MOTIVES AND COMMUNICATION:

EMERGENCE OF EXPRESSIVISM IN HUMAN RESOURCES MANAGEMENT

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ABSTRACT

The inconceivable is now happening. Managers are beginning to realize that employees are interested in more than wages and other financial perks. The materialistic side of employees is basically satisfied and now the key elements of communication, acceptance and overall input to the job is a priority issue. This change is taking place throughout the organization not just at the upper level of management. Managers now must become involved in practices that will enable them to retain employees with the necessary qualification and train those individuals that lack the basic qualifications.

PURPOSE

This research project was designed to explore human resources management in small business through a series of interrelated activities designed to determine how employers decide how many and what kind of employees the business will need; develop a dialogue pattern with employees; include employees as an integral part of the organization; recruit; select; train; retrain and retain needed qualified personnel. Expressivism is a newly coined phrase that has a bearing on how employees and employers interact within an organization. Expressivism is an action or practice whereby the employee puts forth his/her opinion, feelings, ideas or suggestion in a verbal or non-verbal. It is an unexpressed thought whose existence is plainly shown although its precise nature is left to conjecture. Expressivism involves a humanistic approach to interpersonal communication. This paper looks at critical research and how the new workforce is affecting management style and success in the world of small business.

INTRODUCTION

The productive and creative power of people can never be fully appreciated. In a small business, each employee has a dramatic impact on the firm's overall performance. The growth and development of the business is inevitably tied to the ability of the owner and manager to surround herself/himself with the proper combination of employees. Researchers have found that the attitude of employees continue to change in relation to the job. It has been predicted that in the future, employees will see themselves as primarily working to fulfill their expressive needs, rather than their needs for survival or material success. With this in mind employers must find ways of structuring work so that it appeals to the job-holders' expressivists needs to reevaluate the rigid hierarchies and sharp status differences that characterized the low discretion or traditional workplace. (2,58)

This era of quality employee is extending its demands to the small business firm; now all employees must be active and intelligent participants. Traditional management is not prepared for this change. They lacked the conceptual and theoretical abilities to grasp the magnitude of coming upheavals from a group of doers who were not considered thinkers. Many managers still

cannot see the need for dramatic shift in management philosophy and the concept of work and the worker. (5,185)

Today's management must recognize that manpower is the most important resource of a business; that efficient performance of employees is crucial to the success of an enterprise in our competitive environment. Every manager has to be concerned about getting the best person for the job. He/she has to keep in mind, "there are more good jobs to be filled than good persons to fill them." (4,9)

Today, many small business owners/managers have developed the ability to listen; develop a dialogue; encourage initiative and personal commitment of the employee. The small business/organization has become a place where the employee can feel and act as a thinking, speaking, and questioning subject. This is the place where the employee can find his or her essential availability, interest, and creativity. The employee can now express his ideas, offer his opinions without thoughts of retribution.

REVIEW OF THE LITERATURE

In his book, THE BIRTH DEARTH, Ben Wattenberg spoke of the decline of the birth rate in the United States. Individuals in academics and national policymakers have been aware of this change by the number of young people entering the workforce. The major concern is the same degree of understanding has not filtered its way through the business world, especially the small business world.

Managers and business owners preoccupy themselves with raising capital and fending off the challenge of competitors, while totally disregarding a dramatic crises that exist in the business world and the local community. The United States will face the greatest shortage of workers, in the 1990's through early 2000's since the great depression. There will be far more jobs available than qualified people to fill them. As the decade progresses the problem will only grow worse. (5,123)

In addition to the shortage of workers, employers will have to cope with another, more perplexing problem, that of a shortage of qualified workers, that is individuals possessing the skills needed to fulfill the basic requirements of the job. Individuals entering the workforce during the next decade will be much less skilled than in the past thirty or forty years. Many of these individuals entering the workforce will lack the basic skills or abilities, such as reading, simple mathematics, and communication skills. They will have to be schooled or reschooled before they can be trained. Large firms or major businesses can more readily absorb this situation or problem. The small business will suffer in every respect just to survive.

David Salzberg in his article titled, "Focus Before You Interview" stated that preparation is key to making your job interview a successful one. Self-knowledge and ones own preparation as both an interviewer and interviewee are of equal importance. Being mentally prepared as an interviewer or interviewee requires taking a close look at oneself, the job, and expectations of both. Both parties must listen aggressively, remembering that communication is both verbal and non-verbal, and recognizing the concern that each has. (24, 1)

Managers today must be able to interpret the expressions of the potential job seeker be it verbal or nonverbal. The job seeker or interviewee is trying to sell his/her worth to the employer and must articulate what he/she will bring to the job and what he/she expects from the job and the overall business.

Hornsby and Kuratko in order to better understand the human resource challenge confronting small businesses in the 1990's, surveyed 247 businesses to investigate the personnel-human resource issues to be dealt with during the next decade. Using a

database of firms with fewer than 150 employees, three distinct size categories were devised in order to examine current practices and perceived trends for small businesses as they grow in size. The results indicate that, while the size of a firm does affect the sophistication of the personnel practice employed, issues of concern for small businesses in the human resources management realm are consistent regardless of size. Critical issues, such as wages and benefits, training, and availability of quality workers, government regulations, and job security, are of great concern. (18,14)

Wingate and Helfant in a research project for the U.S. Small Business Administration found that to the majority of employees, wages are not the chief benefit they derive from a job. What they want most of all is recognition as a human being. Managers think they can improve morale and productivity through salary increases, but often it can be stimulated even more by simple communication like commending an individual for a job well-done, an award in the presence of his fellow workers or openly discussing an idea, opinion, or suggestion. (11,38)

Small business human resource managers (HRM) often face more personnel challenge than do their counterparts in larger organizations according to Martha Finney. C. Marlene Fiol of New York University believes that small entrepreneurial businesses with HRMs are cheating themselves if they fail to acquire outside help. Management consultant Theodore Cohn believes that small business HRMs need to ask employees what HRMs can do to help employees improve performance. Some organizations have even gone further. Rafael Collado, founder of Protocom Devices, manages a committed and loyal group of 30 employees who identify with the company and its mission.

Writing in Nation's Business, John F. Collins, supports the idea that owners and operators of small businesses tend to believe that human resources management is only for big companies. His idea is that greater attention to employee motivation can be a primary factor in helping small businesses make real improvements in productivity. He feels most employees must realize a great deal of satisfaction from their jobs if they are to be motivated and productive. They must also believe their salaries, benefits, working conditions, and job security are reasonable and that they are treated fairly by management. Human resources management implements these concepts through employment decisions, wages and salary administration, management, training and communication. The most important factor in building and maintaining a productive workforce is recruitment and selection of employees. Except for certain highly skilled positions, the employee's personal attributes, such as positive attitude and conscientiousness, are more important than technical qualifications. (15,49)

In the article "The Personnel Professional in the Small Organization," Deborah R. Hagar states, "the effective personnel professional must have the characteristics of the industrial engineer, the lawyer, the counselor, the arbitrator, the teacher and leader. All plans must be formed in the context of what the chief officer communicates as the organization's future plan. The personnel professional must take his or her own advice and be a good leader, willing to part with the dream personnel plan for the sake of things which are of value to others. This is the part of assessing the needs of the people in the organization. Combining the organization's goals and the information gathered from assessment of the personal needs of the workers, the personal professional can help create a more satisfying work environment."

The human resource manager must be willing to invest the time and effort required to understand cultural myopia, garbled communication, culture clash, and the need for common ground. This effort will take energy and commitment, it will result in significant long-term advantages for those organizations willing

to make the necessary investment. A few of the long-term advantages will be: Reduced interpersonal conflict; full utilization of the organization's human capital; enhanced work relationships based on mutual respect between employer and employee; greater and flexibility as others participate more fully in key decision-making and problem solving; and improved productivity as more employee effort is directed in accomplishing task and less energy is spent managing interpersonal and culture clash. (6,130)

Currently, the literature on expressivism is limited. Since the topic is relatively new and is not associated with any one discipline, references are scattered among a wide variety of books, academic journals, newspapers and magazine articles.

METHODOLOGY

The determination and selection of the method of data gathering which would best serve this research effort resulted from a consideration of two factors: (1) Time and (2) Availability of a representative group of the businesses being studied or researched. The factor of time limited the research to a period of approximately three plus months. Availability consideration was based on the economic situation in the area and the fact that the summer months are the busiest time for many of the businesses involved in this research.

The required contact was made through the local city and county chambers of commerce. Directors/Chairperson of Chambers of Commerce were of valuable assistance in making contact with SCORE Chapters, Association of General Contractors of America, Minority Business Association, National Business League, Home Builders Association, National Food Processors of America, State Business League, and several other groups of small business persons.

The most appropriate method of making contact with the participants was determined to be structured questionnaire. The questionnaire could not be mailed due to time constraints, that is, lack of time for a possible second mailing to obtain sufficient representation. A properly structured questionnaire could reflect attitudes of employers toward what has been determined to be the most critical items in this study. The population sample had to be narrowed to a workable size in order to accomplish the desired task. A questionnaire was prepared containing six items considered to be applicable to all employers. From a listing of small businesses obtained from the above organizations contact was made with selected respondents. The essence of the questionnaire and the reason for conducting research was discussed with each. Being invited to attend several of the selected group meeting greatly simplified the administering of the questionnaire. Specific questions could be asked and discussed in an open forum.

A combined group of 248 employers agreed to participate in this research. They represented the following types of businesses:

1. Beauty and Barber Supply
2. Auto Parts Supply
3. Auto Repair
4. Taxi and Limo Service
5. Restaurants
6. Convenience Stores
7. Video Stores
8. Styling Salons (Male & Female)
9. Construction/Home Repair
10. Landscaping
11. Computer Programming and Repair
12. Bakery
13. Real Estate

14. Custodial Maintenance
15. Florists
16. Electrical Contractor
17. Plumbing Service
18. Laundry/Dry Cleaners

Data from the questionnaire were segregated by the type of business, number of employees, years in business and the responsibility for human resources management. The respondents were offered a wide choice in giving their opinions of suggestions from: strongly agree, agree, partly agree, disagree, strongly disagree and no opinion. The possible breath of response produced opportunities for quantitative judgements. Additionally respondents were given an opportunity to make further comments as they desired.

The response rate or participation totaled approximately 45% of the small businesses in the local area. This in itself was a good representation of the small business in an economically depressed area. An area that is also experiencing a tremendous demographic change not only in population but in the practice of business and community affairs. Cultural clash is very prevalent in areas surrounding and throughout the major cities involved in this research project. The aforementioned statements are reinforced by the comments entered on the questionnaires by the respondents. A limited listing of comments are enclosed at Appendix B. These comments were transcribed as written. No corrections were made in an effort to tone them down or to further explain the intent or meaning.

RESULTS OF THE STUDY

As was stated previously, 248 employers participated in the study. The following chart is a breakdown by business type and percentage of the total:

Type of Firm	Number	Percentage of total
Beauty and Barber Supply	4	1.88
Auto Parts Supply	6	2.83
Auto Repair	9	4.24
Taxi and Limo Service	4	1.88
Restaurant	22	10.38
Convenience Stores	14	6.60
Video Stores	12	5.66
Styling Salons	12	5.66
Construction/Home Repairs	42	19.81
Landscaping/Lawn Care	40	18.86
Computer Progr. & Repair	10	4.71
Bakery	6	2.83
Real Estate	32	15.09
Custodial Maintenance	8	3.77
Florist	3	1.41
Electrical Contractors	7	3.30
Plumbing Service	10	4.71
Laundry/Dry Cleaning	7	3.30

FINDINGS RELATED TO THE QUESTIONNAIRE

Statement 1: Individuals responding to this statement had an average of 12.8 years of business experience, 20 or more employees, some college, employed at least a part-time human resources manager and had some training themselves. Two-thirds of the respondents either strongly agreed or agreed with the statement. The combined total of these two categories was 90 percent. The combined total of those who disagreed or strongly disagreed was 6 percent. The others were determined to be

insignificant.

Statement 2: Individuals responding to this statement closely paralleled those in statement 1. The exception being those who disagreed and strongly disagreed totaled combined for a total of 20 percent. More than 50 percent of the respondents had been at their present location for less than five years.

Statement 3: Respondents to this statement support the findings that changes are definitely taking place in the world of management and managers as well as with employees. More than 93 percent of the respondents strongly agreed or agreed with this statement. Four percent partly agreed an no one strongly disagreed. Other characteristics of the employers also increased significantly.

Statement 4: Forty plus percent of the respondents strongly agreed with this statement. Those that strongly agreed were in three basic types of firms, construction/home repairs, landscaping/lawn care and electrical contracting. It is assumed this or these training programs are rather evident due to the nature and technical requirements of the job.

Statement 5: Response to this statement again support the idea of the emergence of expressivism. More than 90 percent of the respondents strongly agreed with this statement. Eight percent agreed and less than two percent partly agreed. Managers or employers are putting the "personal" into personnel or human resources management.

Statement 6: Eighty two percent of the respondents had no opinion on this statement. This finding supports Felts (1989) idea that there is a lack of reciprocity and mutually in the exchange of information. He states, "the creation of more symmetrical relationship involves the ability to communicate more freely without fear or one-sided privileges that inevitably arise in settings that emphasize hierarchical status." Ten percent of the respondents partly agreed with six percent strongly agreeing.

Statement 7: Forty percent agreed with another forty-two percent partly agreeing. It was noted that individuals who are human resources managers in their firms or have been the human resources manager comprised the 40 percent that agreed. A large number of comments were included with this statement. Many of the comments related to the volumes of regulations that a human resources manager or employer has to be aware of to comply with local, state and federal governments.

DISCUSSION

All professionals must become aware of the state and practices in the environment in which they live and work. The average skilled worker will have to increase his/her knowledge and skills to compensate for those who are not qualified or under-qualified. Although there is an economic crisis in our nation there is still a surplus of jobs. Representative Lee Hamilton, Chairman of the Joint Economic Committee of the United States Congress stated "We are in the economic fight of our lives and we badly need a workforce that is literate in basic areas such as reading, writing, and mathematics if we are to survive." Marc Tucker, chairman of the National Center on Education and the Economy in Rochester, New York insists, "Over the long term, basic skills only give you the right to compete against the Third World for Third World Wages." In the future, employers will have to apply 20/20 Management to the labor market with the same vigor as they now do to the product market. As they have long competed for customers, firms increasingly will have to begin competing for workers. (5,43)

Not only must the employer be concerned about the lack of or under qualification of the future employees, he/she must involve the employee in the activities of the organization. This involvement must be a total commitment. The employer must be

aware that people are a source of power for his organization, and himself. The involvement of these people is the key to success.

CONCLUSIONS

Although the workforce of the 1990's and beyond will be less qualified than we are accustomed to having in previous years they are still an integral part of all organizations. Training and retraining will be the big thing of the future. Who is to be trained and how well they can be trained will be of utmost importance to the employee. The employer has to develop a trust and understanding with the employee in order to survive. Intense development of communication skills especially the ability to listen is not only an item of the future it is necessary now. A new attitude and practice has come to the forefront-that practice and attitude is called EXPRESSIVISM- simply put it means listening, observing, and analyzing what is stated verbally and non-verbally by others around you. Making each person a part of the whole is the organization of the now and in the future.

As the 1990's progress we will see more research being done on expressivism and the activities of the expressivist. Employee ideas can be verbalized and performance enhanced when there is an attentive ear.

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BEFORE STARTING A BUSINESS CONSIDER REASONS BUSINESSES FAIL AND HOW TO AVOID FAILURE

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ABSTRACT

The primary audience for this article are people who are considering starting their own business. It contains two distinct parts. The first part of the article is descriptive while the second part is prescriptive.

Part 1. Identification of the reasons business fail. A review of the literature was conducted to determine reasons for business failure. Based on prior studies, six major factors associated with success vs. failure were identified: operating capital, experience, education, planning, industry, and age. To determine if these factors were in fact contributors to failure, the authors conducted primary research based on responses of chief executive officers of Chapter 11 companies. The findings rank the contributing factors as high (capital and experience), moderate (planning), and low (industry, education, and age).

Part 2. Advice for avoiding failure. Based on the reasons for business failures the authors recommend gaining experience, developing a business plan, and obtaining adequate operating capital.

INTRODUCTION

If you are considering starting your own business, your chances of failing are high. During the past five most recent years, Dun and Bradstreet (1989) reported an average annual U.S. business failure rate of close to 58,000. The percentage of business failure rates reported vary. Approximately half of the failures reported by Dun & Bradstreet consist of firms which started within the previous five years. The US Bureau of the Census found that 34 percent of the small businesses in existence during 1982 had discontinued operations by late 1986. Reynolds (1987) found an overall annual discontinuance rate of about 10 percent, with businesses two to three years old being less likely to "not survive" than either new businesses or those four years or older. Cooper, Dunkelberg, and Woo (1989) found a yearly discontinuance rate of approximately 11 percent. However, knowing the reasons business fail and how to avoid failure can increase your chances of success.
Dun & Bradstreet defines business failures as companies involved in court proceedings or voluntary actions involving losses to creditors. Chapter 11 companies are involved in court proceedings with the intent of making arrangement for payments to creditors and continuing in business. Chapter 11 and Chapter 7 (bankrupt-liquidated) are considered business failures.

A Review of the Literature

In this section some of the relevant material on business failures will be listed, more important studies will be discussed, and consistency across studies will be presented.

Wood (1989) reported that SCORE- a national organization of retired business executives- identified the nine most prevalent causes of United States business failures to be: 1. lack of business records; 2. lack of experience; 3. insufficient stock turnover; 4. excessive accounts receivable; 5. inventory shrinkage; 6. poor inventory control; 7. inadequate financing; 8. improper markup; and 9. lack of sales. Lack of education, training, and knowledge may be probable causes for most of these problems.

Sommers and Koc (1989) reported a study of about 100 high growth-rate firms. One of their recommendations was to upgrade management ability.

Bruno, Leidecker, and Harder (1987) studied ten failed high technology businesses. Two of their eight reasons for failure are: an unclear business definition, and ineffective management.

O'Neill and Duker (1986) surveyed 32 successful and 11 unsuccessful small businesses. Among other things, the study showed the importance of planning.

Hoad and Rosco (1964) conducted a study comparing success and failure among new small manufacturers. The results showed that managerial experience was less important than a variety of experience and that education (one or more years of college) and experience was associated with success.

Reynolds (1987) conducted a longitudinal study of 548 firms. He found non-survivors were more likely to be younger and in retailing and less likely to place emphasis on financial management and planning.

Vesper (1980) reviewed a number of studies and concluded that the industry selected seemed important. Success was more likely to be achieved by those entering a business they knew well. In addition, greater initial capital was often associated with better performance.

Dun & Bradstreet (1989) has identified ten causes of business failure:

1.neglect; 2. disaster; 3. fraud;
4.economic factors; 5. experience;
6.sales; 7. expenses; 8. customer;
9.assets; and 10. capital.

Cooper, Dunkelberg, and Woo (1989) conducted a three-year longitudinal study of 2,992 entrepreneurs and their firms. The companies represent all industries (nine classifications) and all geographic areas of the United States. Surviving entrepreneurs tended to be less likely to be women or minorities, but more likely to be older and to be college graduates. They become larger in size than discontinued businesses by assembling more capital and partners. Successful entrepreneurs tend to purchase rather than start businesses. Industry experience, rather than managerial experience, increased probability of survival.

Consistency Across Studies

Overall, there is primary research evidence that the following six factors are associated with success vs. failure in business:

Operating capital (SCORE, Bruno, Hoad, Reynolds, Vesper, Dun & Bradstreet, Cooper)

Experience (SCORE, Sommers, Hoad, Vesper, Dun & Bradstreet, Cooper)

Education	(SCORE, Hoad, Cooper)
Planning	(Bruno, O'Neill, Reynolds)
Industry	(Reynolds, Vesper)
Age	(Reynolds, Cooper)

A Survey Study

To determine the reasons business fail in New England, the authors developed a questionnaire, with 56 questions based primarily on the six factors in the literature review, which was sent to the chief executive officer of all 558 Chapter 11 companies in New England during the most recent year and a half.

The questionnaire was mailed twice, two weeks apart, to 558 Chapter 11 companies in New England. The breakdown is as follows Massachusetts 390 (70%), New Hampshire 56 (10%), Rhode Island 48 (9%), Connecticut 33 (6%), Maine 18 (3%), Vermont 13 (2%).

A low response rate was expected because a large percentage of the companies that file for Chapter 11 convert to Chapter 7 and cannot be located. Approximately 60 percent (337) of the questionnaires were never delivered to the companies because the business had no mailing address. Of the 40 percent delivered (221), 40 questionnaires were returned; however, two of the questionnaires were not used because too many questions were unanswered. The response rate was 17 percent.

The researchers would like to have surveyed Chapter 7 companies. However, once a business has been liquidated, it is very difficult to locate its CEO. As the next best alternative, the researchers decided to mail the questionnaire to Chapter 11 companies. A low response rate was anticipated.

Descriptive Information of the Sample

Industry Representation. The sample is a well-balanced representation of the industry population. A comparison of the respondent industry percentages are relatively close to those reported by Dun & Bradstreet for 1988. The average difference across industries is 2.9 percent. The Dun & Bradstreet figures also include Chapter 7 industries, which this study does not.

Age. The sample includes all age groups in eight incremental categories from 21 to over 51.
Education Level. The sample has diverse educational representation; all but the small doctoral group are represented.

Years of Management Experience Prior to Running this Business. The sample includes representation of all levels of management experience in eight incremental categories between 0 to 26 years of experience.

Years of Experience in this Industry Prior to Running this Business. The sample includes representation of all levels of experience in eight incremental categories between 0 to 26 years of experience.

Average Number of Hours Worked Per Week for this Business. The sample includes wide representation. None of the respondents

worked less than 30 hours a week. Average hours worked categories ranged from 31 to over 80.

Type of Plan Developed Prior to Starting this Business. None of the businesses responding had detailed plans, 28.9% developed specific plans, 44.7% developed general plans, and 26.3% developed no plans prior to starting the business.

Amount of Starting Capital. Only 5.3% of the businesses were started with more than enough capital, 21.1% started with about the right amount of capital, and 71.1% started with less than enough capital.

The Largest Number of People Ever Employed. The sample gives diverse representation. The number of employees range in categories from 1500+, all but the 100-499 employee category was represented. Over 90% of respondents are small businesses employing fewer than 100 people.

Current Business Status. Status includes: 23.7% filed for Chapter 7 (liquidation), 57.9% are still under Chapter 11 protection, and 18.4% have successfully emerged from Chapter 11.

Ranking of Factors Contributing to Business Failure

The above findings rank the contributing factors as high (capital, experience and planning), and low (age, education and industry). See Table 1 for rank order of reasons businesses fail.

TABLE 1

1. Capital
2. Experience
3. Planning
4. Age
5. Education
6. Industry

Support For Prior Studies

Capital. Recall from the review of the literature, seven studies stated lack of operating capital to be a reason for business failure. Seventy-one percent of the Chapter 11 respondents started their business with less than enough operating capital. This study supports prior studies stating that businesses that are started with less than enough operating capital have a greater chance of failing than those that are started with adequate operating capital.

Experience. Six studies identified each of experience as a factor in business failure. In this study 66 percent of the respondents had less than seven years of management experience (23.7% 0-1, 21.1% 2-4, 21.1% 5-7 years experience) and 69 percent of respondents had less than seven years of industry experience (26.3% 0-1, 21.1% 2-4, 21.1% 5-7 years of experience). The survey study supports prior studies stating that people who start business with limited or no experience have a greater chance of failing than those with greater experience.

Planning. Three studies identified the absence of planning as a factor in business failure. In the survey study 71 percent of the respondents had general or no business plans. None of the respondents had a detailed business plan. This study supports planning. Businesses with well developed plans may have a greater probability of business success.

Age. Two studies identified age as a factor of business failure. In this study 69 percent of the respondents were between the ages of 31 and 45. Only 13 percent were under thirty years of age. The survey study cannot conclude that older people have a greater probability of business success than younger people.

Education. Three studies stated education as a factor of business failure. In the survey study 66 percent of the CEOs had two or more years of college education. The study cannot confirm or refute that a college education leads to greater probability of business success.

Industry. Two studies identified industry as a factor of business failure. In the survey study 50 percent of the failures were in the retail and service industries. Retail and services are considered high risk industries. However, these two industries are very large and noticeable to the public. Before concluding that retailing and services are higher risk industries, one should determine the percent of failures of the entire industry in his or her region. As a percentage, retailing and services may not be significantly more risky.

AVOIDING BUSINESS FAILURE

Advice for avoiding business failure is presented in reverse rank order of contributing factors.

Industry

Some industries tend to be more risky than others. Determine industry trends in the desired location of your business. Talk to people who run businesses in this industry.

Four important questions to answer:

1. Is there a long term need/ demand for my products/services not being met by existing businesses? Just because you like a product/service doesn't mean everyone else does. Do some research to determine demand.

2. Why should people come to my business rather than competitors? If there isn't a strong demand and you don't plan to differentiate yourself from the competition, your chances of failure may be high.

3. Can I make a living at this business? What are the potential profits? If you can make more money with better benefits, by working for someone else, it may be wise not to start this business. How much value do you place on being your own boss? How much are you willing to risk and sacrifice?

4. Is the industry currently in the growth stages of its life cycle or is it in decline? For example, starting a corner drug store would not be a good endeavor in most locations. Competition from many other sources is forcing corner drug stores out of business and your venture would likely be short lived and unprofitable.

Education

Some college education may be helpful. Many colleges offer courses to train people how to start and operate a business. The Small Business Administration and SCORE can also provide you with information and assistance.

While some college education is helpful, running a business requires a good grounding in the technical aspects of the industry and a good understanding of its market. This knowledge is the "nut and bolts" of running a business and only comes from experience. It is not wise to enter into any business undertaking unless you understand the fundamentals. This knowledge cannot be found in books.

Age

If you have a college education and some industry and management experience, you are probably a little older and better prepared to start your own business. In general though, age is a secondary factor to desire and ability. Remember that running a business requires long, hard hours. The typical business owner is the first one to arrive at work and the last one to leave. He or she generally brings work home, too.

Experience

If you have no experience in the industry you want to start a business in, it may be wise to work for someone else in that industry until you understand what you are getting into. You may find out you really don't like the industry.

Another option that may be possible is to start the business part-time. If you like the business, and determine it has potential, you could than quit your job and go into business full time.

Gaining management experience before starting your own business is also helpful.

Though not a substitute for industry experience, you may be able to hire people with the experience to help you run the company. You must, however, learn from these people and/or other sources so that you become an expert yourself.

Planning and Operating Capital

Remember, development of a business plan is the single most important thing any business person can do. This doesn't mean that your plan will always work. It does however, give you a yard stick for measurement so that you can measure accomplishments against the plan and make the necessary corrections.

While planning is important, business survival depends upon having adequate cash flow. Bills must be paid. Cash flow is the single most important concept to understand before starting a business.

There are no guarantees to starting a business. However, if you consider the reasons business fail and how to avoid failure, your chances of success should be increased.

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EXTENDING TQM TO SMALL MANUFACTURING COMPANIES: THE BATESVILLE EXPERIENCE

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ABSTRACT

This paper presents a case history of how TQM was introduced in one company, Batesville Casket Company. The case discussion chronicles their actions and plans, as well as their disappointments and achievements. It is hoped that the lessons learned here will prove useful for small business counselors and consultants, as well as small manufacturing companies who seek to integrate TQM.

THE BATESVILLE EXPERIENCE

George W. Haufler joined the Batesville Casket Company in April of 1989 as Plant Manager. Prior to joining this division of Hillenbrand Industries, he had worked in industry for over seventeen years. He arrived at the Manchester, Tennessee-based plant to find that the TQM program that purportedly had been in place for some time, was not providing the kinds to overall results normally associated with TQM. What follows is a recount of the process he used in converting the dubiously functioning TQM system that was in place to the present system.

Initial Action

The first two months were spent conducting an analysis of the situation that existed at the Manchester plant. I refer to this process as an audit of the 5P's, plant, personnel, process, product and policies. That assessment brought into sharp focus problems in all these areas. The questionable status of each "P" was significant in that all are contrary to the tenants of an effective TQM program. How could that be? Quite simply, the TQM system that was in place existed largely in name only. Consider the following conditions or states that were found:

Quality was perceived by the customer as good. However, quality achievements were inspected in only after considerable rework; Production performance goals were never attained due to unit rework; Costs were high due to excesses in labor, material usage, maintenance and utilities; Low worker morale existed due to poor performance and work schedule uncertainty.

These problems existed because the TQM program that was in place demonstrated few of the characteristics or requirements of an effective TQM system. Extant conditions included the absence of a continuous quality process, lax production tolerances, virtually no intraorganizational teamwork or commitment to quality, minimal worker participation and poor overall communication.

TQM Program Implementation

Our initial response consisted of a four-step plan for creating a TQM system and environment that would support and foster the level of performance necessary. Those four steps were the following:

1. Management Restructuring - The management structure and style

that existed was extremely top heavy and authoritarian. All decision-making authority was manifest at the very top of the organization. As might be expected in such an environment, there was very little opportunity or initiative for lower level managers or workers to suggest changes, voice concerns or change behavior.

Management restructuring consisted of the formation of four cross-functional teams and a redefinition of staff positions. Cross-functional teams were set up to run their respective areas. The teams' boundaries were set up to encompass similar work skills (e.g., press, fabrication and paint). Each team or Business Center (BC) contained representatives of all disciplines and each was treated as a separate factory supplying the next in line.

The first of four BC's was in place 6 months before the next BC was established. The reason for this slow rate of change was the belief that if the system was going to work, it must grow at a natural pace, so all involved can get up to speed and endorse the approach.

The first BC consisted of 7 members, 3 production foremen and 1 each from tool/machine engineering, maintenance, quality engineering and management. Initially, no leader was appointed to direct the team's efforts. They were instructed to work as a team and make consensus decisions. This approach was followed for approximately two months during which time it was expected that a team leader would emerge to guide the team's activities. This did not happen. Production performance within the team's area went from bad to a total breakdown.

After two months of ineffective effort, two members of the team were replaced, a group leader was appointed, leadership and human relations training were provided to all team members and specific goals were assigned to the team and individual members. The results bordered on the mercurial.

Staff positions were redefined. Instead of being directive, they became business consultants. They helped teach BC members and kept the plant on the right track as the TQM concept matured.

2. Workforce Involvement - Once BC members were trained, the hourly workforce was brought into the picture. BC goals were established and all levels of employees were put on the team to solve problems. Ultimate production, quality, and process decisions that were made were their responsibility. They now had a vested interest in making their decisions work. A trust grew between the workforce and management because all knew what the goals and objectives were, how the decisions had been made and who was responsible.

3. Communication - One of the major keys to an effective TQM program is that you must know what to fix in order to solve the problem. However, without an effective, company-wide communication system you don't know what the problems are.

We instituted two communication tools to create the kind of awareness necessary to bring all problems to light. A series of charts were introduced to communicate all major defects as they occurred down the line. Frequent meetings with team members also were introduced to provide feedback and plan corrective action.

Chart information is derived from the inspection station where a simple "tick sheet" is used to show how many defects of each kind occur. The tick sheet gives the quantity of each defect and establishes the priority of importance. To gain control, a

priority list of major defects was created. Because it was impossible to work on all problems at once, major issues were resolved, many minor problems simultaneously disappeared.

To better insure that all team members understood what was happening and why, daily production meetings were established. Each department's representative would present what that department had done and its planned activities. It is important to note that these meetings were not problem-solving, but informational in purpose.

Each department presents what defects occurred in their department as a percent of their production, as well as the defects that occurred prior to arriving in their department. Team members then went back to their departments and developed a corrective plan of action. The plans are presented at the next day's meeting and the results are charted. Because the resulting plans are made at the lowest level, execution doesn't get "hung up on bureaucracy" and the people who do the job believe it before it happens.

4. Process Changes - Arguably, the focal point for most TQM programs is designing processes that will yield the level and quality of output desired. Following the formation of the initial BC and allowing team members adequate opportunity to identify and evaluate their core problems, it readily became apparent that substantial process changes were required. One of the most salient observations made by management during this stage of the TQM conversion was the zeal with which team members attacked process problems.
Four process areas were addressed by team members. Those areas consisted of machines, layout, material and manpower.

Machines. Are the machines capable of producing at the desired tolerances and speeds? Every machine was given a reliability check. Parts were analyzed by both hourly and management personnel. Initially, priority was given to the BC's process, from beginning to end. A plan of action resulted that included everything from rebuilding machines to simply checking fixtures. All deviations were analyzed for root causes with associated corrective action plans resulting.

Layout. Is the layout of each section conducive to producing error free products? Team study determined that many of the defects that plagued production quality emanated from poorly designed work stations, areas and layouts. In many instances, the changes that were made consisted of minor facilitation improvements (e.g., adding guides to conveyors). In other instances, more substantive layout design changes were necessary to alleviate production bottlenecks and correct production process weaknesses.

Material. Is the right material being used, both direct and indirect? How should we evaluate the cost of purchased material? In addition to performing a value analysis on all purchased material to ensure its suitability for purpose, a total cost approach was instituted for evaluating alternative sources and types of purchased goods.

For example, in the past, material was purchased on the basis of price alone. While 10 cents may have been saved in fabrication on the purchase of sandpaper, that same purchased product caused 50 cents in paint damage. Recognition of this problem lead to a shift from departmental costing to a total cost approach.

Manpower. Is our manpower being used properly? By tracking the defect by operation, it could be determined if the defect was

caused by overloading an employee or if they were doing something wrong. In most instances, employees were expected to do too much. Addition hourly employees were added and the hours per unit went down due to higher quality and reduced rework.

TQM Results

The results achieved from the Batesville's TQM program took two forms. In addition production accomplishments such as direct savings, increased productivity and better quality, much was learned by management about the design and implementation of an effective TQM program.

Production Accomplishments. About a month and a half after the revisions in the original TQM program were made, quality results started appearing in virtually all areas. Most apparent was the 15 percent increase in machine up-time. Management believes this achievement is directly related to a commensurate increase in employee involvement at that level. For example, machine operators were trained in machine maintenance and made responsible for total machine operation rather than having to rely on tool makers for machine maintenance.

Because of the introduction of process control throughout the manufacturing process, a 17 percent reduction in scrap was realized over the same period. Worker productivity increased by a similar amount during this period for two reasons. Workers had control and received frequent performance feedback that allowed them to address issues before they became problematic. Workers also received performance feedback that noted their accomplishments, an action which further contributed to an increase in worker morale.

Management Accomplishments. In addition to turning a situation around, Batesville's management learned several lessons about TQM. First and foremost, TQM works, but only if you let it! To do so requires the following:

* Management must be committed to the TQM concept and accept its role as a team player;
* An organization structure that meets everyone's needs must be put in place;
* Cross-functional teams require dynamic leadership. It should not be assumed that this individual will "rise to the occasion."
* All participants, management and hourly, must be trained in TQM, its objectives, operation and their role(s) in achieving such;
* Goals must be established and clearly communicated to all. It is preferable for those involved to participate in this process;
* Control processes must be established for each step in the manufacturing process. This will require that management accept short-term declines in productivity while the process system is established and implemented, as well as some capital investments;
* Effective communications systems must be established. This includes information on positive and negative achievements;
* The TQM learning curve becomes dynamic as soon as all of the above are in place!

CONCLUSIONS

Batesville's TQM program has been in operation for over three years. During that time, this division has seen its overall performance rise from one of the poorest performing divisions to

become the company's quality leader. This turnaround was achieved by dedicated employees who were introduced to a better way of doing business and by a management staff that committed itself to its employees and a philosophy that promised much if much was invested.

While the ultimate benefits are still being enjoyed, the change was not without its bumps and bruises. New ways of doing things had to be accepted, learned and implemented. In many instances, traditional roles were abandoned and new ones adopted. Short-term performance had to give way to long-term survival. The "us against them" and "what's in it for me" attitudes of all had to be eliminated and replaced with one term, "TEAM TQM."

Batesville's program is still in an evolutionary state. They recognize and espouse the belief that even though their performance is high, it can always be higher. Continual improvement through perpetual change and improvement is the driving force in the organization today.

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AVAILABLE UPON REQUEST

SMALL BUSINESS STRATEGIC ALLIANCES

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ABSTRACT

Big businesses are increasingly forming strategic alliances with their major resource partners as a major method of increasing their access to resources, technology, markets and distribution channels (3;14). Though this strategic tactic has proven very successful, few small businesses use the concept. This paper explains strategic alliances, gives examples, discusses the mutual benefits, and presents relevant issues for small businesses.

INTRODUCTION AND PROBLEM STATEMENT

Many large businesses are creating strategic alliances with their major resource and distribution partners to provide stability, reduce uncertainty, and coordinate their mutual long term development (3;14). Few small businesses use the concept and consequently are in a competitive disadvantage with those businesses developing alliances. In addition, no adequate theory base currently exists that helps explain how this positive two-way process works, or how benefits are derived from it. This article proposes a definition and a theoretical model to guide small business use.

DEFINITION

In order to develop a theoretical foundation the following is proposed as a guiding definition of what a strategic alliance is. This definition emerges from the strategic planning activities organizations engage in to help better assure their survival and increase their competitive positions. Definition: "A strategic alliance is the mutual coordination of strategic planning and strategic management between businesses that enable the organizations involved to align their mutual long term relationships to the benefit of each organization."

EXPLANATION OF STRATEGIC ALLIANCES

Historically, businesses have developed partnerships, joint ventures, contractual, and other relationships with each other in order to help assure a necessary flow of resources and access to markets, technology, and clear distribution channels (footnote). However, the distinction between these relationships and the notion of a strategic alliance is the development of a long term strategic relationship. In creating a strategic alliance, organizations move their business partnerships more closely together and begin to coordinate strategic planning and strategic planning together. These new relationships are generally defined during each organization's strategic planning process by sharing

current and proposed goals and objectives. Subsequently the partners coordinate their on-going strategic management to ensure that the strategic development of each partner furthers the individual goal achievement of each.

THE THEORETICAL MODEL

The concepts of strategic planning and strategic management have been developed since the 1960's and are now utilized by many large and small businesses (8;11). Generally, strategic planning involves the following steps: development of a values statement, external analysis, internal analysis, establishment of an organizational mission with appropriate long-term goals and objectives, and then a scheme for structural implementation of activities to accomplish those goals and management of the process so that it continues (9;7).

The following explains how the strategic planning model can be adapted to include strategic alliances (figure 1). The values statement is written to reflect the existence of strategic partners, particularly the need to develop such alliances (step 1). At the next step, the organization analyzes its external environment to determine those unique threats and opportunities to which it needs to respond (1;7;10). If the organization concludes that its current and future environments lack necessary stability and that a strategic alliance may provide the stability, possible partners are explored (step 2). Coincident with step 2, the organization must perform an internal analysis to objectively determine its true strengths and weaknesses (12). The organization should then determine what complimentary skills and or resources are needed from a partner. These skills are listed and included as a part of the strategic plan (stop 3).

By the time a firm has begun step 4, it has a realistic assessment of its internal and external situation. The firm can now create (or adapt) its mission statement taking into account its commitment to strategic alliances. Most strategic planning texts place development of the mission statement with the values statement (9,p.12). However, the internal and external appraisals allow more information with which to draft clearer and more concise mission statements that accurately reflect what an organization will do in the future.

As the enterprise begins to develop a corresponding set of long-term and operational goals and objectives, a review can be made of possible partners (step 4). In implementation (step 5), one or more partners are chosen and a strategic alliance developed with each.

A special iterative feedback loop must be established between implementation and development of goals (and further back in the strategic planning process if needed). Here, each partner shares the relevant portions of its goals with the other partner(s) and requests feedback concerning coordination of each partner' s current and future goals. This loop allows each partner to adjust its current and future goals before they become difficult to change. Each may have to move back to steps 4 and 5 and adjust Its goals or adjust what it expects from the alliance (Figure 1).

When the partners agree on mutual goals that fall within the strategic alliance framework, they may solidify their individual relationships into the usual business relationships with various contractual agreements. These written documents may specify what each will provide, expected results, standards of measurement, time lines and non disclosure agreements. If, in steps 4 and 5,

the parties cannot align their goals, each would have the option of discontinuing the negotiations and returning to step 2 to determine other possible partners.

During the strategic management phase (5), each organization implements and monitors the strategic alliance. Strategic management provides a continual review of the strategic alliance to determine if it is providing what the organization wanted and expected. If not, the feedback loop suggests that the parties correct, adjust, or seek new partners for relationships.

In summary, the theoretical model of strategic planning and management can be adapted to include the concept of strategic alliances. The adapted model provides a useful explanation, a theoretical relationship, and a practical guide for small business development of strategic alliances.

DIFFERENCES BETWEEN STRATEGIC ALLIANCES AND TRADITIONAL BUSINESS PARTNERSHIPS

The model also explains the key difference between strategic alliances and historical "business partnerships." With usual joint ventures, business partnerships, and other contractual relationships, the relationship exists for a specific time and for specific projects or purposes (4, pp. 217-236). They are limited with respect to future expectations.

Strategic alliances can be more fluid, more future-oriented, lead to longer-term relationships, and provide greater amounts of ambiguity reduction while they increase resource and distribution flow stability. Such relationships are also developed much earlier in the strategic planning process, not at the end during the tactical implementation of a goal or objective.

MUTUAL BENEFITS

There are seven benefits to each partner. First is the development of longer term relationships with critical partners. These could include suppliers, vendors, distributors, and retailers. All partners obtain some reduction of uncertainty and added stability which is derived from each other's experience or resources. A major advantage is the ability to reduce risks by reducing investments in new products, services, or technology. Because each partner shares expertise, one firm does not have to be proficient in all aspects of a venture. The partnership allows each to expand its technological base without as much expense.

The alliance enables the partners to expand into new markets that would have been too difficult, lengthy, complicated, or expensive for an individual firm. The firms also share or coordinate research and development.

Finally, because the coordination comes sooner in the strategic planning process, considerable time and expense are avoided in adapting to a partner's critical needs. These savings are considerable where planning and production require long example a strategic alliance of a computer hardware manufacturer and its software developers allows each to respond to the other(s) early in the strategic planning cycle with respect to future technological developments, computing platforms, hardware and software capabilities, and specifications. The discovery later in the planning cycle of a critical partners incompatibility or change in technological direction could be devastating to its partners.

ADDITIONAL ADVANTAGES FOR SMALL BUSINESSES

There are additional advantages for small businesses to develop strategic alliances. These include the ability to achieve greater economies of scale and access to additional resources such as raw materials, finished goods and financial assistance. The alliance can compliment the small business's particular weaknesses by providing a wider breadth of expertise. For example, most small businesses cannot not afford to hire highly paid specialists particularly those needed irregularly. The alliance can expand the customer base particularly where geographical, international, or other cultures present formidable barriers to the small business.

DISADVANTAGES OF A STRATEGIC ALLIANCE FOR SMALL BUSINESSES

The major disadvantage for small businesses is the possibility of becoming subservient to a large business and the loss of autonomy and control. In addition, a recurrent problem for small businesses is the dependance on a few major suppliers or a few major large customers. If a strategic alliance is pursued with only a few customers, the process could lead to a decrease in the number of customers. A danger also exists with becoming dependent on a dying industry or company or a partner lost to a catastrophic occurrence.

ELIMINATING THE ABOVE DISADVANTAGES

Many of the above disadvantages can be solved by careful selection of stable, healthy partners. As in more conventional, non-strategic business relationships, the small business owner can carefully screen out those potential partners that are not credit worthy, trustworthy, healthy, financially sound, or exist in dying industry. The selection of more than one strategic partner lessens their dependence on any one partner. The only unsolvable disadvantage may be an attitudinal one on the part of the entrepreneur (2;13). He or she will have to relinquish some independence in order to achieve long term stability and this may very well challenge the value system upon which the business has been based.

WHY SMALL BUSINESSES HAVE NOT FORMED STRATEGIC ALLIANCES

Entrepreneurs are noted for their desire for freedom from control, drive for independence, and the benefits of autonomy (6;13,pp 159-179). The myth of being "in business for themselves and by themselves" and their view of themselves as "rugged individualists" may prevent many from utilizing strategic alliances (2;13). One author notes the reluctance of entrepreneurs to develop trusting relationships with subordinates which causes many small businesses to fail after the death of the owner/founder (2). Unfortunately, university entrepreneurial education perpetuates this myth. In addition, many businesses, large and small, distrust other businesses and are reluctant to develop the trust necessary for a strategic alliance. All of these issues must be addressed by a business in the construction of its value system and strategic mentality as it seeks the best method of prosperity and growth during increasingly turbulent times.

SUMMARY

The concepts of strategic management and strategic planning can be designed to include the concept and process of strategic alliances in small businesses. While the creation of strategic alliances present several potentially beneficial advantages, careful planning is essential to eliminate most of the disadvantages that can also accompany the process. But overall, networking by small businesses, in creating strategic alliances, may very well increase the viability and profitability of more small businesses, thus, helping to insure greater survivability.

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SMALL BUSINESS MANAGEMENT: RIGHT BRAIN OR LEFT BRAIN?

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ABSTRACT

Is small business management a right brain activity? Then, left brain approaches may be of little value, and other methods of helping small businesses would be in order. A normal "right handed" approach to small business education may not yield much payoff. We suggest a "left-handed" approach to put the "unconscious" to work.

SMALL BUSINESS MANAGEMENT: RIGHT BRAIN OR LEFT BRAIN?

Even without recessionary pressures, small businesses have a tough fight for survival. Then, when the economy stumbles, so do many small businesses. Those in government and academia concerned about the state of small business exert extra effort to help keep the ships of small business afloat. A common theme of those extra efforts is that the entrepreneur needs extra education to meet extraordinary challenges. We see stepped up educational efforts from any number of sources, for example from SCORE, Small Business Development Centers, and those running Small Business Institutes.

But there may be a problem. Is extra education needed, and even if so, what kind and how? Some clues to this issue may come from quite a different field. Studies in the area of brain hemisphericity, seldom applied to questions of small business management, may have relevance. What if small business management is essentially a right brain activity? Then, left brain educational approaches may be of little or no value, and other methods of helping small businesses respond to recessionary pressures would be in order.

This paper will suggest that a straight ahead, normal, "right handed" approach to small business education may not yield much more payoff. Rather we suggest a "left-handed" approach, that we try to put the "unconscious" to work.

First, we will look at hemispherical differences, differences between the right and left sides of the brain. In conclusion, we will look at present thinking about small business management in general, and the process of teaching small business management in particular.

THE BRAIN

The brain appears to have two identical halves, two hemispheres. The right hemisphere looks just like the left hemisphere. But we have known for over a hundred years that they don't both do the same job. In 1836 a French doctor named Marc Dax made a presentation at a medical society meeting. The left half, left hemisphere, handles speech, Dax reported. Dax documented 40 cases where individuals had lost the ability to speak coherently because of accidents involving brain damage. In each of these 40 cases, it had been the left side of the brain that had been damaged. Dax could not find one single case of a person losing the ability to talk because of injury to the right half of the

brain. (1, p1-13)

By the 1860's the idea became widely accepted. Speech was almost always handled by the left side of the brain. The notion also gained wide acceptance that the right hemisphere had few if important functions. However, we now know the situation is more complicated than first thought. The left hemisphere does control speech, in most cases, but it is incorrect to call it "the dominant hemisphere".

The next breakthrough came in response to a serious medical problem. In Southern California, doctors were studying problems of individuals with severe epilepsy.

One approach used an electro encephalograph -- EEG -machine to monitor brain activity. It seems that an epileptic seizure is not unlike an electrical storm. The EEG would show heightened activity, a minor electrical disturbance, as it were, in the brain. Only when the disturbance grew in magnitude to cover an entire hemisphere, and then crossed over to the other half, did the seizure occur. If the electrical disturbance was contained only in one hemisphere, no seizure occurred.

Then the idea, which had been tried in the 1940's with varying success, surfaced again: What if we disconnected the two halves of the brain? (21 p346-355)

The left half, and the right half, are wired together with a bundle of nerve fibers called the corpus callosum. The idea occurred to medical doctors working with the severe epileptics to cut the corpus callosum.

The epilepsy was cured in almost every case. In addition, the post operative patient could apparently talk, walk, think, just as before the operation. For all practical purposes, the split brain operation left the patient with no behavioral changes. In published case histories of split brain patients, the reports specifically stated that there was no change in these patients' mental abilities. (3, p.13)

But, in fact, there were changes -- subtle, hidden, but significant. A group of researchers at California Institute of Technology in the late 1960's did follow up tests with split brain patients. The results were interesting.

From a long series of experiments with split brain patients, patterns emerged. While the left hemisphere could do best at verbal, sequential, and logical tasks, for tasks involving spatial relationships, holistic imagery, creativity, putting picture puzzles together -- the right hemisphere did best.

If this is true in split brain patients, the assumption is that it could also be true in whole brain individuals, those who still have that bundle of nerve fibers, the corpus callosum, tying left and right together.

There seemed to be a pattern of somewhat overlapping strengths and weaknesses. In general, however, it seemed that the left hemisphere played the more important role in the following fields: (4, p40)

Left hemisphere mode

Verbal:	Using words to name, describe, define
Analytic:	Figuring things out step-by-step and part-by-part.
Temporal:	Keeping track of time, sequencing one things

after another: Doing first things first, second things second, etc.

Rational: Drawing conclusions based on reason and facts.

Digital: Using numbers as in counting.

Logical: Drawing conclusions based on logic: one thing following another in logical order -- for example, a mathematical theorem or a well-stated argument.

Linear: Thinking in terms of linked ideas, one thought directly following another, often leading to a convergent conclusion.

The right hemisphere seemed to be most important, strongest, in a different set of areas. Although overlap and complimentary functioning make clear cut hemispheric distinctions incorrect, the following traits and tendencies seem more characteristic of the right hemisphere:

Right hemisphere mode

Nonverbal: Awareness of things, but minimal connection with words.

Synthetic: Putting things together to form wholes.

Analogic: Seeing likenesses between things; understanding metaphoric relationships.

Nontemporal: Without a sense of time.

Nonrational: Not requiring a basis of reason or facts; willingness to suspend judgment.

Spatial: Seeing where things are in relation to other things, and how parts go together to form a whole.

Intuitive: Making leaps of insight, often based on incomplete patterns, hunches, feelings, or visual images.

Holistic: Seeing whole things all at once; perceiving the overall patterns and structures, often leading to divergent conclusions.
And the right mode, it seems, has the ability to see the big picture, put it all together.

Both right and left hemispheres seem to have valid roles to play. However, those of us helping small businesses, especially those of us from academia, tend to exhibit a bias towards the left brain. We have been taught to suppress, ignore, or deny the intuitive, the creative, the nonverbal. "If you can't state it clearly, obviously you haven't thought the issue through logically." We act very much as if ideas, or thought, exist only if they are put into words. We want to see figures. We want to see a logical orderly plan. We want all the feasible alternatives analyzed so we can make the appropriate decision. After all, business is business.

However, as more and more observers are noticing, the logical, sequential, orderly, rational approach can get you blindsided in a hurry when the entire world around you is in upheaval. It is worth reflecting on the blue chip firm holding the U.S. record for the longest continuous payment of quarterly dividends to stockholders. The firm was the Penn Central Railroad, and they paid dividends every quarter for over 100 years -including the quarter immediately prior to going bankrupt. They didn't even see what hit them. (5, p.114) Ask Braniff Airlines, Continental Illinois Bank, Chrysler, or any of a hundred other firms hit by the turbulent deregulated business environment of the 1970's and 1980's -- and you will find that today's business leaders truly need to rely on both halves of the brain. The logical, sequential, analytical, rational is absolutely required.

Clearly, however, the left hemisphere approach alone is not enough. There are so many things going on that they can't all be verbalized, much less used as inputs for the computer. Business requires the right brain too. (6, p30-40)

If this applies to firms the size of Continental Airlines or Olympia and York, would it not apply even more strongly to small firms? The small business manager must of necessity be a jack of all trades. The crisis of the moment may involve personnel, finances, operations and marketing simultaneously. A logical sequential approach may neither be advisable nor possible. Small business management seems to fit much more closely with the adjectives in the "right brain" list above as compared to the "left brain" list.

Yet, the training offered to small business managers and would be entrepreneurs stresses the verbal, the left brain. With this brain hemisphericity issue in mind, the small business consulting programs offered across the country by Small Business Institutes look to have added advantages. Certainly, as training for would-be entrepreneurs, the SBI program is exactly what a right brain approach would call for. In a typical small business consulting project, students are used as consultants solving real multi-dimensional business problems, for real entrepreneurs, in real time. Students typically have no tests, no textbooks, and little or no lectures. The real world, with all its complexity and unpredictability, is the teacher.

At the same time, this SBI business consulting program may offer a right brain approach to helping the existing small business manager as well. Rather than offer a lecture series or a pile of written (verbal) materials, the SBI consulting program provides hands on interactive tutoring with the student consultants working side by side with the entrepreneur, to solve real problems.

Additional education and training to help small businesses through the recession is probably a good idea. But now, maybe we have to see if the unconscious - the intuitive - the habitual - might be the place to concentrate.

Today, a number of the problems we face do not lend themselves so well to rational analysis. For example, crisis management is not a left brain activity. When we need to operate quickly, we need to operate automatically, much as we drive a car automatically. We probably don't do it rationally or logically as much as we just "do" it. It is a right hemisphere directed activity. If the problem is with the right hemisphere, is the solution to present people with rational, logical, sequential reasoning? Maybe not. The rational, sequential appeals to the left hemisphere.

Should we tell small business managers, in words, how to survive recessionary pressures? No. Verbal is left brain. What might you do? For one thing, when formal training programs are offered, pictures and other visual media could be used whenever possible. Pictures would be processed in the right hemisphere. You could also conduct training session where people used role play, or other case approaches, ideally with actual physical activity. Get them out of their chairs somehow. That motion, that kinetic orientation, that physical approach, seems likely to impact the right hemisphere.

Consider the list of left and right brain attributes, with left first:

Verbal: Using words to name, describe, define management

rules and principles. This is a left brain activity and the typical academic approach.

Analytic: Figuring things out, step by step. "If you fail to plan, you are planning to failing," the left brain message goes. A favorite left brain approach is "The Business Plan." Certainly, every successful business started with one,, and nor firm beginning without such a written plan succeeded, right? No. that is a left brain's answer. But, how much planning is needed, or even possible in the small business? Each hemisphere may answer this question quite differently.

Logical: If we think this through logically, determining cause and effect, we can take care of the cause and thus eliminate the effect. Will this apply to typical small business problems?

It is not immediately appealing to suggest that we start encouraging illogical management for small businesses. But,, it might be possible to include aspects of the right mode characteristics shown above in any training for small business people.

Nonverbal: As described above, the SBI program fits nicely with the nonverbal right hemisphere idea.

Analogic: By moving from place to place, or by going through the actual motions involved in the running of a small business, individuals will see relationships involving time, space, materials, and personnel.

Nonrational: Not figuring things out step by step, but developing a "feel" for the reality and/or the seriousness of the situation, and a "feel" for workable pragmatic solutions. This is a classic right-brain approach.

In each of these cases, the attempt is to train, or to reach, the right hemisphere. We are so attuned to think of training in verbal terms that it almost seems impossible to break out of the left hemisphere mode.

But it is possible to show people pictures, and to walk through a problem, and to have the small business manager go through the correct motions. It is possible to walk people around, to physically move them to where they can see and sense opportunities.

The goal is to have good business practices become automatic, to have good management begin to appear "intuitive," just like driving a car. And, the right brain can master very complex assignments, and seems the hemisphere to help out when an assignment needs the holistic approach, seeing the whole picture at once.

An illustration from football may help show the role of the nonverbal, spatial, hemisphere. In a Superbowl a few years ago, the Los Angeles Raiders emerged as National Football League champions. One of the most memorable plays of the game was a broken play. Marcus Allen did what the play called for, saw nowhere to go, and should have been thrown for a loss.

But instead, he reversed his field a couple of times, and looking a little disorganized, sauntered some 84 yards for the longest touchdown from scrimmage in Superbowl history.
After the game the TV announcers asked Allen to describe how he did it. Allen started to answer, logically, sequentially,

rationally -- and then cut himself off and said, in effect, "I don't know what I do out there. I just do it." It didn't make sense to try to have the left brain verbalize it. It was right brain all the way.

And so it is with people running small firms. Of course you want them to be able to verbalize, to explain their business ideas and goals. But more importantly, you want them to "just do it" -- to have good business habits -- intuitive, automatic, habitual.

How do you do that? A quote from an issue of Business Week provides insight in a letter to the editor by Bob Waterman, co-author of In Search of Excellence. Waterman wrote: (7 p.9)

> "Recalling dimly my days as a ski instructor, I would look at it like this. When I took my class on the hill and said, you're falling down too much and here's why, they would learn something. But they would learn only half the lesson. They'd learn the rest when I showed them what it looks like when it's done right. It's that second half we're searching for in management."

Maybe it's that second half we now need in training for small business management. We've used a left brain, right handed approach -- and it works -- half way. Maybe what we need now is a left handed, right brained look at small business survival. It's worth a try.

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COMPETITIVE INTELLIGENCE FOR SMALL BUSINESS MANAGEMENT IN THE GLOBAL ENVIRONMENT

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ABSTRACT

The importance of competitive intelligence information for small business management has grown in the 1990s because of the increased complexity of the environment and tougher competition due to globalization of markets. Small businesses can purchase the competitive intelligence from outside experts or have its own competitive intelligence system. The internal system can be informal or a formal competitive intelligence system. The formal intelligence system can be analyzed in terms of its aggressiveness, which is the scope, time frame and the focus of threats/opportunities of the system; capability, which is the personnel, C.I. technology, and communication resources in the system; and the budget of the competitive intelligence function. The sources of the competitive intelligence data can be internal or external, field data or published data. Each have its own benefits.

INTRODUCTION

Many of the prime origins of threats and opportunities in the current complex and unpredictable business environment are from the firm's competitors, and because of the increased globalization of markets small businesses are at risk of having their markets taken away from them by either domestic and foreign competitors. An effective competitive intelligence system is an important tool for dealing with this business environment.

IMPORTANCE OF COMPETITIVE INTELLIGENCE IN THE 1990s.

Ulrich and Wiersema (33) argued that in order for small business organizations to succeed in turbulent environments, they must be constantly aware of their competitors' moves, products, strategic directions, and strengths. So they can anticipate and respond to competitors' strategic moves before discovering that competitors have made their products and procedure absolute.

The larger companies in the U.S. are aware of this fact, and they have recently developed competitive intelligence systems to anticipate and counter act strategic moves made by domestic and foreign competitors, and to evaluate their own strategies (28;9). Many academic researchers acknowledged the importance of competitive intelligence in small business (10; 8; 12; 25; 29). MacAvoy (23, pp. 192) acknowledged it when he wrote, "...It [competitive intelligence] is a vital and growing influence on the manner in which many firms position their businesses, spend their resources, and determine the level of performance that is reasonable to expect from their business units."

Some researchers went even further and claimed the analysis of competitors' marketing strategies to be the central aspect of small business policy making (2; 1; 17; 20).

Garsombke (11) concurred on the importance of competitive

intelligence in a global market place. Garsombke contributed the need for global competitive intelligence to the increased competitive intensity in the U.S. market, resulting in the need for competitive intelligence to defend against the strategic moves of foreign competitors, and aimed at weakening their home base. He thought offensive competitive intelligence was also needed for the purpose of exploiting export opportunities and markets abroad.

Another indication of the value and importance of competitive intelligence in the 1990s was the refocusing of the U.S. Central Intelligence Agency (CIA) and other U.S. intelligence agencies away from emphasis on intelligence on the political and military activities of the former USSR and its allies to intelligence on foreign competitors and their economies.

The future job of the CIA will be according to Mr. Gates: "to understand the [economic] plans, intentions, and strategies of foreign governments, as well as the economic pressures and opportunities faced by foreign leaders." In other words, to do competitive intelligence. This new assignment is because, U.S. policy-makers wanted to know about foreign penetration of U.S. markets and technologies, and because, "they place clear importance on understanding economic developments among our key competitors." The budget of the CIA will reflect the new mission of the Agency. In the 1993 budget, two thirds of the $30 billion budget were used for intelligence on economic and business issues (18).

The importance of competitive intelligence in the 1990s presents a challenge for small businesses with limited resources, and small business management's struggles to build effective and efficient competitive intelligence systems.

THE SMALL BUSINESS COMPETITIVE INTELLIGENCE SYSTEM

After recognizing the need for competitive intelligence, the Management's first decision on the competitive intelligence system is a make or buy decision (13; 24). The management must decide if the firm is to have an internal competitive intelligence systems or buy the services from outside experts. A combination of both is also plausible.

The advantages of buying competitive intelligence is the outside expert's expertise and economies of scale. The experts may specialize in a certain competitive intelligence environment resulting in the leaning curve effect, and less overhead.

The disadvantages of buying competitive intelligence include: a loss of responsiveness, its often generic, and its not scarce. Other companies can purchase the same competitive intelligence. Hence it does not meet Porter's (26) scarcity test and it looses its value as a source of competitive advantage.

INTERNAL COMPETITIVE INTELLIGENCE SYSTEMS

The internal competitive intelligence systems can be an informal or formal system (21).

Informal Competitive Intelligence Systems

Informal competitive intelligence systems have no structure as to

scope, time frame, focus of threats/opportunities, or management's prime source of competitive intelligence. This is left up to the individual manager to decide on, and the manager's sources of competitive intelligence are mostly external to the organization, based on informal communication with colloquies and competitors, documentary sources such as the Wall Street Journal, and occasional observation by field trips and tours (19; 16).

Formal Competitive Intelligence Systems

The formal competitive intelligence system involves formal analysis of the firm's competitive intelligence needs and objectives, competitive intelligence aggressiveness, competitive intelligence capability, and competitive intelligence budget.

Competitive intelligence needs are determined by the small business environment; it should be analyzed in terms of its complexity, speed of change, and predictability (3). In stable simple environments there is little need for competitive intelligence systems. Competitors are going to be the same and they pose little threat to the small business. However in complex changing environments the importance is high and an effective competitive intelligence system will lead to a competitive advantage (21; 6).

Competitive intelligence objectives determine the purpose of the competitive intelligence system, it should be analyzed in terms of the contribution of the competitive intelligence system to the firm's competitive advantage and success (26).

The prime objective of the competitive intelligence system for the small business is to provide management with information on:
1) What business should the small firm be in, and how to gain a competitive advantage in that business (26).
2) What business the small firm should not be in, and if it is in the wrong business when and how should it get out (26).

Secondary objectives of the competitive intelligence system for the small business include providing information to improve decision making on operations, production, marketing, strategy, and R&D (22). As well as securing the small business's proprietary information from its competitors (27; 30).

Competitive intelligence aggressiveness indicates the scope, time frame (31), and focus of threat/opportunities (15) of the competitive intelligence system.

The scope is the primary focus of the firm's competitive intelligence activity in terms of competitor's behavior, market dynamics, economic, technological, or ecological environments (21).

The time frame is the focus of the time horizon of the competitive intelligence activity in terms of past 0-5 years, present and next year, or future five years or more (21; 4). The time frame refers to the question if the competitive intelligence activity is primarily focused on historical behavior i.e. financial data, present behavior i.e. competitor's advertising, or plausible future behaviors i.e. strategic potentials of a particular environment.

The focus of threats/opportunities is what the competitive intelligence is trying to contribute to. Is it:
1. improvement in productivity
2. increase in market share

3. product improvement, market expansion, new marketing concepts
4. product innovation, new market entries
5. creation of novel markets, technologies, marketing concepts, entry into or exit out of businesses.

Competitive intelligence capability indicates the personnel, competitive intelligence technology, and communication resources, that are devoted to the competitive intelligence activity in the small firm.

Personnel is the of number of personnel or man hours devoted to competitive intelligence activity, and the competence of this personnel.

Competitive intelligence technology is the scanning technology used to collect competitive intelligence data, and the interpretation technology used to process this data into actionable information.

Communication resources refer to the resources devoted to disseminating the competitive intelligence information. The information can be disseminated by presentations, news letters, bulletin boards, directly to decision makers computer data bases etc.

Competitive intelligence budget is the budget exclusively earmarked for the competitive intelligence activity of the small firm. Some smaller businesses may not have a specific budget but, regardless of the competitive intelligence system applied, competitive intelligence costs money. If it is not in terms of direct cash outlays then in term of management's time. Figure 1 illustrates the components and the process in the internal competitive intelligence system.

THE SOURCES OF COMPETITIVE INTELLIGENCE FOR SMALL BUSINESSES

The sources of competitive intelligence data are internal or external to the small firm (32), this data can be field data or published data (26), and some of it is free for the taking and some needs to be paid for (11).

The small business needs to maximize its investment in competitive intelligence data and utilize the sources which have the highest marginal utility per dollar. Hence the use of exiting internal sources and free public sources are very important to the small business.

Internal field sources are a very valuable sources of competitive intelligence (26; 12; 14). Branch managers are knowledgeable about what is happening in their area, accountants talk to accountants and share information, purchasing is often in contact with the competitor's suppliers and know how they are doing, R&D staff and engineers are often up to date on advances in their fields, and the sales force has the pulse on new products in the market (7). These valuable sources of information are the first place the small business can use.

Competitive intelligence
need
Recognized
|
| Buy

```
                      Make ---------->Outside
                       or               Experts
                      Buy
                        |
             Make       |

   Informal          Formal          Formal
          |<-------- or ---------->|
          |          Informal      |
-----------          System   -------------------------
|Informal |                  |Competitive Intelligence|
|System   |                  |                        |
|---------|                  | Aggressiveness         |
    |      \              /  |                        |
    |        \         /     |   Scope                |
    |          \     /       |   Time frame           |
    |         ---------      | Focus of Threats/Opp. |
    |         | Data   |     | Capability             |
    |         | Sources|     |   Personnel            |
    |          --------      |                        |
    |                        |   C.I Technology       |
    |                        | Communication Resources|
    |                        | Budget                 |
    |                         ------------------------
    |                                 /
    |                               /
    |                      ______/______
    |                     |Competitive |
    |                     |Intelligence|
    |                     |Information |
    |-------------------->|--------------
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FIGURE 1.

Internal printed sources such a previous competitive intelligence reports, files on competitors, and situation reports by managers are another valuable source of competitive intelligence for the small business.

External published sources are valuable and often free. The U.S. government and its various branches, including embassies collect all kinds of competitive intelligence which is mostly free. The International Trade Commission and other entities of the Department of Commerce provide valuable international competitive intelligence information. So do libraries, court records, patent information, filings with government and regulatory agencies, and millions of government documents on almost every conceivable topic. Moreover articles in the, media are valuable sources of competitive intelligence and it is often free or inexpensive.

In addition, there are computerized data based such as D & B International, Dun's Market Identities, Reuter's TextLine service and Moody's Corporate News-International that provide competitive intelligence for a fee (11; 5).

External field sources are another source of competitive intelligence. The competitors often give information about their products, markets, and intentions freely and this source should be used. Moreover competitors can be observed, they can be talked to at trade shows, their products and promotion material examined, and their trade associations often provide information.

Consultants, bankers, security experts, advertizing agencies, and competitors' customers are sources of valuable competitive intelligence (19; 26).

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ESTABLISHING AN EFFECTIVE SELECTION PROCESS WITHIN A SMALL BUSINESS

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ABSTRACT

This paper describes the process used by a small business to hire eight employees. A consultant was brought in to use a "coaching model" to help establish the approach to be taken and to provide the training needed to effectively transfer the skills required. The procedures used to develop the selection process are explained. Specific issues designed to increase predictive validity, such as content validity, the use of testing and the development of job-related structured interview formats with benchmark answers are described. The results, of the selection methods used and the costs and benefits of a carefully designed selection process are discussed. Insights gained from using a coaching model within a small business are also discussed.

INTRODUCTION

Significant progress has been made in increasing the effectiveness of the selection process; however, little has been written as to how these principles have been applied in the small business environment. This paper describes the process which a small furniture manufacturer developed and applied to help ensure the people they would be hiring would be best suited to both the job they would be performing and the company.

To put this study in its proper context it should be noted that the Canadian government established the Canadian Labour Force Development Board (CLFDB) as part of its support for Human Resource Development for small and medium size' businesses. A central strategy of the CLFDB is to involve the major labour market partners (business, labour, education and training and equity groups) in a common effort to develop the labour force. As part of this initiative, Canadian Employment Centres are providing small and medium size businesses with partial funding for programs involving Human Resource Planning. This paper describes an intervention where the firm was coached to improve its selection process to reduce turnover and better develop and plan its human resources.

DESCRIPTION OF THE FIRM

Furniture Couches Inc. (not its actual name) employs 31 people, consisting of the owner, the Director of Operations, the Buyer and 28 production employees. They have generated sales of four million dollars Canadian (approximately three and a half million dollars U.S.) in its last fiscal year. It manufacturers sofas and couches for major furniture distributors. The manufacturing process is set up in four people teams, with each person on a team having to perform their own specific job function. They are expected to work together and as a group were responsible for the units they produced.

The company has been experiencing strong sales, despite a generally poor economy. The decision was made to expand the work force by two teams of four people each. The responsibility for hiring was assigned to the buyer, because, to quote the owner, "being a woman, she would be more intuitive." Before embarking upon the hiring of these eight people, she had determined that

she would "do it right."

This meant that in addition to finding people with the technical skills necessary, they would identify those who could work without supervision, have good hand/eye coordination and work well with others. They also wanted to make sure that the people they hired would stay, as they had previously experienced people quitting after working only a short time.

The selection method they had been using consisted of selecting a resume out of those received through an advertisement in the local newspaper. The person selected was hired quickly, on an emergency basis, to fill an opening. The buyer met briefly with the person selected to describe the job to be done.

This approach was not providing the results desired and the buyer, who we will call Louise, decided to bring in a consultant to help her set up the process to help them establish their selection procedures. She did not want to use an agency or other service to recommend candidates to her, but wanted to work with someone who would transfer the skills needed to create and implement an effective selection process. That is, they wanted someone who would use a "coaching model," which is an approach to consulting that emphasizes a transfer of knowledge and skills from the consultant to the client.

Louise's longer term objective was to be capable of developing and implementing their own selection procedures in the future. She therefore decided to work with one of the authors of this paper, who she knew had the expertise in the area of human resource management and was both competent and comfortable working with the "coaching model".

THE SELECTION PROCESS

The process started by determining what specifically each of the employees to be hired were expected to be doing. They had job descriptions that stated what had to be done for each of the four job categories. These were validated by having representatives from each of the job categories specifying every aspect of their job in the order in which they performed the tasks. They then examined the existing job descriptions and made whatever modifications were necessary.

The up-dated job descriptions were reviewed by the Director of Operations who determined that they fully describe the content of the jobs (i.e. it possessed high content validity.) The content validity was thus determined by systematically reviewing the work activities performed and applying the expert judgement of those most familiar with the jobs. The job descriptions, however, did not include a breakdown of the skills required to perform each of the jobs. To address this, profiles were developed that specified the skills necessary for each job.

Based upon these profiles a motor skills test was identified that assessed the skill level of the applicants. The use of skill tests may be considered as a type of work sample test when the skills being assessed are an integral part of the job to be performed. In a review by Hunter and Hunter (1984), work sample tests were reported to have the highest average validity amongst 18 alternative predictors of job performance. The predictive validity of work sample tests was reported to be .54. (It should be noted that the predictive validity of the interview did not examine the structured interview as distinct from interviews in general.)

The specific predictive validity of the motor skills test used

would need to be determined in the setting in which it was applied. However, based upon the work of Hunter and Schmidt (1983) and by Schmidt, Pearlman, Hunter and Hirsch (1985) a validation study done in one place can be generalized to another provided that the jobs in the two settings are similar. These findings, combined with the test's fit with the skill profiles developed for the jobs resulted in a reasonably high confidence level in the validity of the test selected.

The decision was made to use the motor skills test and Louise learned how to administer, score and interpret the test. In addition to the motor skills test an interview format was developed. A structured interview format was developed based upon the job description and the knowledge, skills, abilities and other characteristics (KSAOs) necessary for the job. The questions developed were consistent with both the Situational Interview approach put forward by Latham, Saari, Pursell and Campion (1980) and the Behavioral Description Interview format specified by Janz (1982).

Both approaches identify critical incidents relevant to the position for which the applicant is to be interviewed. The Situational Interview describes a situation and asks the interviewee what he or she would do. The Behavioral Description Interview focuses on how the interviewee handled a specific situation. This form of questioning asks what one did while the former asks how one would do something. Both forms of questioning were deemed appropriate given the limited work experience of the applicants.

Janz (1987) argues that applicants who are verbally skilled can create favourable impressions when a Situational Interview is used, while responses to the Behavioral Description Interview is less subject to the interviewee giving the correct sounding answer. However, Latham and Saari (1984) and Weekley and Gier (1987) report high reliability and validity of responses with the Situational Interview.

A structured interview format consisting of nine questions was developed and consistent with the recommendations of Latham et. al., benchmarks indicating poor, average and good answers were developed. The questions were job related and were based upon the job description and skills necessary to perform the specific jobs. The questions were constructed in a manner that asked the applicants what they would do in specific situations (i.e. situational questions) and how they actually behaved in previous circumstances (i.e. behavioural description questions.)

These questions were then asked of all the applicants who were interviewed. Their responses were rated by an interviewing team consisting of the buyer and one of the employees who performs that job. Training was provided to help these people be more comfortable and effective in conducting interviews. The use of a structured interview, with benchmark answers and a team of interviewers reaching decisions by consensus is consistent with that recommended by Campion, Pursell and Brown (1988).

The establishing of a structured interview in the manner described should result in obtaining a predictive validity of at least .64. This was the average predictive validity for the 7 structured interviews in which teams reached consensus on their hiring recommendations, as reported by Wiesner and Cronshaw (1988) in their meta-analysis. In this study a total of 150 studies were analyzed. In the 32 studies involving structured interviews conducted individually, the mean validity was .63. In comparison, the mean validity for 19 studies involving individually conducted unstructured interviews was .20.

The selection process at Furniture Couches Inc. was thus expanded and seemingly improved. Previously, applicants were recruited from the local Junior College, which had a program in furniture making and from the general community. Those seeking employment completed the company's application form, which were screened and the selected candidates were interviewed and those selected would be subject to a reference check. These steps remained, but now a motor skills test and a structured, job based interview was included. The interview was conducted by two knowledgeable employees who discussed each candidate after the interview and reached agreement upon their hiring decisions. Prior to discussing the candidates, they had decided at if they could not agree, then they would not hire the applicant.

RESULTS

A key question is how effective was this process. It has been nine months since the hiring of the eight new employees. Based upon the anecdotal evidence provided, all of the employees are still employed, are reportedly doing a good job, are being well integrated into the company and are expected to continue to work there. This is in comparison with their previous experience in which the three people they hired before using this selection process all left the company within fourteen months of being hired.

Those involved in the selection process at Furniture Couches Inc. strongly believe that the use of both the motor skills test and the structured interview format that they helped develop and are using has significantly contributed to a more effective hiring process. The research previously reported regarding the predictive validity of work sample tests and structured interviews lends support to their beliefs.

An interesting question, however, is whether both the test and interview are necessary to increase the predictive validity of the selection process. According to Campion, Pursell and Brown (1988), they found that the interview did not improve the predictive validity over a battery of aptitude tests.

Based upon these results it could be argued that the structured interview format that was developed may not have added to the predicted validity beyond that which was contributed by the motor skills test. However, all of those involved in developing the selection process believe that the interview is a critical part of selecting the "right person." They felt that they needed to meet, speak with and get to know the candidates. This is probably consistent with how most people feel. That is, even though the validity of the unstructured interview has been shown to be limited, yet, almost all organizations make use of the interview in their selection process. Since the interview will probably continue to be used by almost everyone involved in hiring, it may be argued that the interview format that should be used is that of a structured, job related interview.

DISCUSSION

The use of work sample tests and structured interview format, based upon job descriptions may be readily applied to small businesses. A critical question is whether the costs of setting up such a procedure justify the expenses. To try and answer this question, the incremental productivity gain over a more traditional approach should be considered. Campion, Pursell and Brown (1988) determined in their study, involving the hiring of 149 applicants, that the increase in productivity in one year was $168,000. from using the structured interview. This increase in productivity, which amounted to $1,127.52 per person hired, would

seem to go a long way in justifying the investment of time and expense that may be required to develop an effective selection process.

The additional benefits of hiring the "right people" include the less measurable aspects of having a competent workforce that works well together. How disruptive and costly is it to have to fire someone who is not working out? What are the costs of someone who quits and how expensive is it to keep someone employed who is not really doing the job well, but is performing it at a marginally acceptable level? These considerations, which in part were considered by Campion, Pursell and Brown, may make their figures seem conservative.

There are many demands for the limited resources and management's time in a small business. Perhaps, one of the best allocations of these scarce commodities is to use them to ensure that the "right people" are hired. The 'technology' exists and is being successfully applied in numerous large organizations. The results achieved by Furniture Couches Inc. demonstrates that it is possible to establish an effective selection process in a small business environment. The potential return also appears to warrant the investment required of the small business to develop a selection process that meets its unique needs.

In addition to the potential value of providing consulting services in the area of selection, as described above, there are a number of general insights that may be obtained from using a couching model while working with a small business. These include the following:

- At the entry stage it is important to have definite contracting procedures to ensure that there is a clear understanding of the various roles and responsibilities. This is because the client may not fully recognize the commitment necessary to ensure the transference of knowledge.

- The consultant needs to be highly adaptable to the learning styles of entrepreneurs who often have very limited time to deal with Human Resource issues. Further they may not be used to, or willing, to sit down and learn something when they have many other things to do.

- The tools developed for the employer and the intervention designed to transfer the knowledge are equally important. In small businesses the tools, procedures or systems that are created are the bases which facilitate capacity-building.

- The couching model is cost effective as it requires less of the consultant's time. There is less out-of-pocket expense for the client, although there is a greater time commitment required from the client's employees. The client should recognize this from the outset.

- The couching model significantly facilitates the transfer of knowledge and thus builds competence within the firm. Employees are directly involved in the development of the service or product and have a more thorough understanding of what is entailed.

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EXTENDING TQM TO SMALL MANUFACTURING COMPANIES: THE BATESVILLE EXPERIENCE

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ABSTRACT

This paper presents a case history of how TQM was introduced in one company, Batesville Casket Company. The case discussion chronicles their actions and plans, as well as their disappointments and achievements. It is hoped that the lessons learned here will prove useful for small business counselors and consultants, as well as small manufacturing companies who seek to integrate TQM.

THE BATESVILLE EXPERIENCE

George W. Haufler joined the Batesville Casket Company in April of 1989 as Plant Manager. Prior to joining this division of Hillenbrand Industries, he had worked in industry for over seventeen years. He arrived at the Manchester, Tennessee-based plant to find that the TQM program that purportedly had been in place for some time, was not providing the kinds to overall results normally associated with TQM. What follows is a recount of the process he used in converting the dubiously functioning TQM system that was in place to the present system.

Initial Action

The first two months were spent conducting an analysis of the situation that existed at the Manchester plant. I refer to this process as an audit of the 5P's, plant, personnel, process, product and policies. That assessment brought into sharp focus problems in all these areas. The questionable status of each "P" was significant in that all are contrary to the tenants of an effective TQM program. How could that be? Quite simply, the TQM system that was in place existed largely in name only. Consider the following conditions or states that were found: Quality was perceived by the customer as good. However, quality achievements were inspected in only after considerable rework; Production performance goals were never attained due to unit rework; Costs were high due to excesses in labor, material usage, maintenance and utilities; Low worker morale existed due to poor performance and work schedule uncertainty.

These problems existed because the TQM program that was in place demonstrated few of the characteristics or requirements of an effective TQM system. Extant conditions included the absence of a continuous quality process, lax production tolerances, virtually no intraorganizational teamwork or commitment to quality, minimal worker participation and poor overall communication.

TQM Program Implementation

Our initial response consisted of a four-step plan for creating a TQM system and environment that would support and foster the level of performance necessary. Those four steps were the following:

1. Management Restructuring--The management structure and style that existed was extremely top heavy and authoritarian. All decision-making authority was manifest at the very top of the organization. As might be expected in such an environment, there was very little opportunity or initiative for lower level

managers or workers to suggest changes, voice concerns or change behavior.

Management restructuring consisted of the formation of four cross-functional teams and a redefinition of staff positions. Cross-functional teams were set up to run their respective areas. The teams' boundaries were set up to encompass similar work skills (e.g., press, fabrication and paint). Each team or Business Center (BC) contained representatives of all disciplines and each was treated as a separate factory supplying the next in line.

The first of four BC's was in place 6 months before the next BC was established. The reason for this slow rate of change was the belief that if the system was going to work, it must grow at a natural pace, so all involved can get up to speed and endorse the approach.

The first BC consisted of 7 members, 3 production foremen and 1 each from tool/machine engineering, maintenance, quality engineering and management. Initially, no leader was appointed to direct the team's efforts. They were instructed to work as a team and make consensus decisions. This approach was followed for approximately two months during which time it was expected that a team leader would emerge to guide the team's activities. This did not happen. Production performance within the team's area went from bad to a total breakdown.

After two months of ineffective effort, two members of the team were replaced, a group leader was appointed, leadership and human relations training were provided to all team members and specific goals were assigned to the team and individual members. The results bordered on the mercurial.

Staff positions were redefined. Instead of being directive, they became business consultants. They helped teach BC members and kept the plant on the right track as the TQM concept matured.

2. Workforce Involvement--Once BC members were trained, the hourly workforce was brought into the picture. BC goals were established and all levels of employees were put on the team to solve problems. Ultimate production, quality, and process decisions that were made were their responsibility. They now had a vested interest in making their decisions work. A trust grew between the workforce and management because all knew what the goals and objectives were, how the decisions had been made and who was responsible.

3. Communication--One of the major keys to an effective TQM program is that you must know what to fix in order to solve the problem. However, without an effective, company-wide communication system you don't know what the problems are.

We instituted two communication tools to create the kind of awareness necessary to bring all problems to light. A series of charts were introduced to communicate all major defects as they occurred down the line. Frequent meetings with team members also were introduced to provide feedback and plan corrective action.

Chart information is derived from the inspection station where a simple "tick sheet" is used to show how many defects of each kind occur. The tick sheet gives the quantity of each defect and establishes the priority of importance. To gain control, a priority list of major defects was created. Because it was impossible to work on all problems at once, major defects were addressed first. As these major issues were resolved, many minor problems simultaneously disappeared.

To better insure that all team members understood what was happening and why, daily production meetings were established. Each department's representative would present what that department had done and its planned activities. It is important to note that these meetings were not problem-solving, but informational in purpose.

Each department presents what defects occurred in their department as a percent of their production, as well as the defects that occurred prior to arriving in their department. Team members then went back to their departments and developed a corrective plan of action. The plans are presented at the next day's meeting and the results are charted. Because the resulting plans are made at the lowest level, execution doesn't get "hung up on bureaucracy" and the people who do the job believe it before it happens.

4. Process Changes--Arguably, the focal point for most TQM programs is designing processes that will yield the level and quality of output desired. Following the formation of the initial BC and allowing team members adequate opportunity to identify and evaluate their core problems, it readily became apparent that substantial process changes were required. One of the most salient observations made by management during this stage of the TQM conversion was the zeal with which team members attacked process problems.

Four process areas were addressed by team members. Those areas consisted of machines, layout, material and manpower.

* Machines. Are the machines capable of producing at the desired tolerances and speeds? Every machine was given a reliability check. Parts were analyzed by both hourly and management personnel. Initially, priority was given to the BC's process, from beginning to end. A plan of action resulted that included everything from rebuilding machines to simply checking fixtures. All deviations were analyzed for root causes with associated corrective action plans resulting.

* Layout. Is the layout of each section conducive to producing error free products? Team study determined that many of the defects that plagued production quality emanated from poorly designed work stations, areas and layouts. in many instances, the changes that were made consisted of minor facilitation improvements (e.g., adding guides to conveyors). In other instances, more substantive layout design changes were necessary to alleviate production bottlenecks and correct production process weaknesses.

* Material. Is the right material being used, both direct and indirect? How should we evaluate the cost of purchased material? In addition to performing a value analysis on all purchased material to ensure its suitability for purpose, a total cost approach was instituted for evaluating alternative sources and types of purchased goods.

For example, in the past, material was purchased on the basis of price alone. While 10 cents may have been saved in fabrication on the purchase of sandpaper, that same purchased product caused 50 cents in paint damage. Recognition of this problem lead to a shift from departmental costing to a total cost approach.

* Manpower. Is our manpower being used properly? By tracking the defect by operation, it could be determined if the defect was caused by overloading an employee or if they were doing something wrong. In most instances, employees were expected to do too much. Addition hourly employees were added and the hours per

unit went down due to higher quality and reduced rework.

TQM Results

The results achieved from the Batesville's TQM program took two forms. In addition production accomplishments such as direct savings, increased productivity and better quality, much was learned by management about the design and implementation of an effective TQM program.

* Production Accomplishments. About a month and a half after the revisions in the original TQM program were made, quality results started appearing in virtually all areas. Most apparent was the 15 percent increase in machine up-time. Management believes this achievement is directly related to a commensurate increase in employee involvement at that level. For example, machine operators were trained in machine maintenance and made responsible for total machine operation rather than having to rely on tool makers for machine maintenance.

Because of the introduction of process control throughout the manufacturing process, a 17 percent reduction in scrap was realized over the same period. Worker productivity increased by a similar amount during this period for two reasons. Workers had control and received frequent performance feedback that allowed them to address issues before they became problematic. Workers also received performance feedback that noted their accomplishments, an action which further contributed to an increase in worker morale.

* Management Accomplishments. In addition to turning a situation around, Batesville's management learned several lessons about TQM. First and foremost, TQM works, but only if you let it! To do so requires the following:

--Management must be committed to the TQM concept and accept its role as a team player;

--An organization structure that meets everyone's needs must be put in place;

--Cross-functional teams require dynamic leadership. It should not be assumed that this individual will "rise to the occasion."

--All participants, management and hourly, must be trained in TQM, its objectives, operation and their role(s) in achieving such;

--Goals must be established and clearly communicated to all. It is preferable for those involved to participate in this process;

--Control processes must be established for each step in the manufacturing process. This will require that management accept short-term declines in productivity while the process system is established and implemented, as well as some capital investments;

--Effective communications systems must be established. This includes information on positive and negative achievements;

--The TQM learning curve becomes dynamic as soon as all of the above are in place!

CONCLUSIONS

Batesville's TQM program has been in operation for over three years. During that time, this division has seen its overall performance rise from one of the poorest performing divisions to

become the company's quality leader. This turnaround was achieved by dedicated employees who were introduced to a better way of doing business and by a management staff that committed itself to its employees and a philosophy that promised much if much was invested.

While the ultimate benefits are still being enjoyed, the change was not without its bumps and bruises. New ways of doing things had to be accepted, learned and implemented. In many instances, traditional roles were abandoned and new ones adopted. Short-term performance had to give way to long-term survival. The "us against them" and "what's in it for me" attitudes of all had to be eliminated and replaced with one term, "TEAM TQM."

Batesville's program is still in an evolutionary state. They recognize and espouse the belief that even though their performance is high, it can always be higher. Continual improvement through perpetual change and improvement is the driving force in the organization today.

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AVAILABLE UPON REQUEST FROM AUTHORS

FILENAME: 93SBI236.TXT

THE IMPACT OF DIVERSITY IN THE SMALL BUSINESS WORKPLACE: A TEST OF THE ASSUMPTIONS OF THE WORKFORCE 2000 AND TOWER-PERRIN REPORTS

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ABSTRACT

The purpose of this paper is to report upon a two-stage investigation of the impact of work-force diversity on small business owners. In particular, its focus has been on comparing the predictions of management writers with the predictions and experiences of small business owners. The results of the study are reported below.

INTRODUCTION

The publication of the Hudson Institute's Workforce 2000 and the follow-up report, Workforce 2000: A Survey Report on Corporate Responses to Demographic and Labor Force Trends, by Tower-Perrin, have stimulated serious academic debate, with numerous articles written about the impact of the new diverse workforce on management practices.(1)

Demographic projections cited in this research indicate that in the future the American workforce will be older, as well as more heavily female, black, Hispanic and Asian. In addition, higher levels of education and training will be required to prepare new labor entrants for the skills needed for tomorrow's jobs. These reports conclude that, as a result, management practices in all businesses, large and small, will have to change in response to the needs of this new workforce.(2)

Are the demographic projections being realized? Are these practices in fact changing in small businesses? Are small business experiences and practices consistent with those of larger companies? While there has been a substantial amount of research on large businesses, there are no published studies which examine diversity issues in the context of small businesses.

METHODOLOGIES

The research team has used two survey instruments to investigate the impact of diversity on small business owners.

Face-to-Face Interview

The first instrument was a survey guide which was used to conduct twenty half-hour personal interviews during June and July 1992 with a diverse group of small business owners, including females and blacks, as well as white males. The objective of this research was to find out the priority which small business owners gave to the issue of diversity and whether their business practices reflected the trends projected by the Hudson Report. The sample was diverse, ranging in size from businesses with less than ten employees to as many as 500. Service, construction, and manufacturing businesses were included in the sample.

The respondents were first asked a series of general questions about issues affecting their businesses and then asked specific questions about diversity, including the supply of labor; recruiting, promotion and retention practices; their evaluation of governmental and academic assistance; and their evaluation of hiring quotas and affirmative action programs. The interview guide is available from the authors upon request.

Telephone Survey

The second instrument was a telephone survey used to interview 248 small business managers in November 1992. The businesses were drawn randomly from a list of companies belonging to Cincinnati Institute of Small Enterprise, a group affiliated with the Greater Cincinnati Chamber of Commerce. Each of the respondents were asked to evaluate five statements about the nature of the American workforce and two statements about their awareness of and response to the changing demographics of the workforce. The statements each tested a major assumption of the Tower-Perrin report.(3) Small business managers were asked to agree or disagree with the following statements: 1) There are fewer entry level workers today; 2) The workforce has more older workers today; 3) there are more women in the workforce today; 4) We have a more culturally diverse workforce today; 5) The US is in a national labor shortage; 6) Most business owners I know are aware of and concerned about the changing demographics of the workforce; 7) Many business owners I know are formulating new approaches to recruiting ethnic minorities, women, and older workers. A copy of the survey instrument is available upon request.

RESULTS OF THE FACE-TO-FACE INTERVIEWS

1. When asked what key issues faced their companies, none of the business managers mentioned diversity as a key issue facing their company.

By far and away the largest number of respondents identified the state of the economy and the quality of their products or services as their most pressing issues. None volunteered diversity. When asked to rank diversity on a scale of 1 to 10, with 10 being the highest score, only one ranked it higher than a 5, and most lower.

2. None of the survey participants reported experiencing problems with finding good workers.

This contradicts predictions that there will be fewer applicants to choose from because there will be fewer workers in the workforce. In fact, a number of the survey participants not only reported they had found good employees in ample supply, they also reported that they were employing better qualified people than they had historically recruited. Almost all attributed this fact to the recession and to the impact of total quality programs, which they assert led to large scale layoffs of highly qualified employees by large companies.

3. Most, though not all, of the participants did not report that they had hired more ethnic minorities.

For example, one manager of a service firm asserted that "the quality of our workforce would suffer if we had to hire minorities." Another in construction pointed out that no blacks or women had ever applied to work in their company because it was located in a relatively rural area where few blacks lived and

because no area women appeared to be interested in heavy construction work.

A third pointed out that the highly affluent, almost all white, neighborhood in which his retail store was located required that he hire similar people to work in his store. A fourth claimed he did not see any business advantage to hiring minorities.

This view was not unanimous. A beverage distributor pointed out he hired a significant number of blacks, claiming "we want a mix of color because we sell a lot to the black community." He also hired a female wine sales representative so his sales force would better mirror the consumers of this product. A software company manager pointed out that she has hired blacks in every area, but that it was not something her company set out to do. Another had not yet hired any minorities but planned to when -business grew larger in order to get a wider number of perspectives on his customers and suppliers.

One respondent indicated her company employed a disportionately high number of Asian engineers because the supply of them was so abundant.

4. A number of participants indicated they were hiring an older workforce, confirming a trend identified in the Workforce 2000 report.

One manager of a service organization claimed there was an unstated rule that managers they hire not be under forty - this to assure maturity both in appearance and in action. Another claimed he hired older women "because they don't get pregnant." A third hired older workers because he believed younger people "do not understand the work ethic."

One exception to this result was a construction manager who preferred hiring men in their 20's, largely because the work requires strength and agility.

5. Consistent with the Workforce 2000, a number of businesses also reported hiring more women.

A company that conducts market research hires a large number of women because most of the respondents to their surveys are women. As a manager there pointed out, they could "easily do business with an all white female staff," but not with a black male staff, because only the former would have sufficient empathy with those the business surveys. Another said recruiting women was not an issue because their staff employed lots of aggressive women.

One interviewee reflected what appears to be unconscious sexism when he pointed out that he had hired a number of "gals" to be bookkeepers.

6. None of the businesses had the kind of recruiting, training, development and promotion policies advocated by management experts.

None reported active recruiting of minority candidates; most used networking and newspaper advertisements as tools for recruitment.

None offered training in diversity. Most reported training being conducted on the job. Many offered additional training by purchasing video tapes or sending employees to meetings and conferences.

Only one company had a development program in which it agreed to pay for part of the cost of pursuing a college degree, but this

same respondent reported the experience was not entirely positive because a number of employees left the company after receiving their degrees.

Virtually all the companies used higher salaries and benefits as a means of retention. None had programs specifically aimed at retaining ethnic minorities, although a software company owned by a women developed specific benefit programs to retain female employees, including flextime scheduling, work at home and pregnancy leaves.

7. The managers interviewed typically looked for little help from the government or academic institutions in planning their businesses.

Only the construction manager, whose firm did a lot of business with the government, saw the value of government-business relationships.

Two of the firms indicated they had received some valuable assistance from area colleges in planning and training.

8. Few of the managers were in favor of quotas or affirmative action programs.

One pointed out she was "playing for survival, not social welfare." Another said "diversity is b_llsh_t," and another that "I'll hire certain people when the government guarantees that I won't lose money. otherwise they shouldn't tell me who to hire." A third said she discriminates on the basis of intelligence, and not race or gender.

A common view was expressed by a computer manager who said that an empty seat was preferable to hiring the wrong person.

Two interviewees asserted that affirmative action is required to eliminate the inherent racism of society.

RESULTS OF THE TELEPHONE SURVEYS

1. Sixty percent of small business managers interviewed do not believe there are fewer entry level workers in the workforce today.

Most small business owners are not experiencing a problem in finding young applicants for positions in their companies, contrary to a demographic prediction of the Hudson Report, that competition for hiring young workers would intensify because the number of people retiring from jobs will outnumber the number of new entrants.

Table 1
"There are fewer entry level workers in the workforce today."

	Number	Percent
Strongly Agree	37	14.9
Agree Somewhat	46	18.5
Disagree Somewhat	63	25.4
Strongly Disagree	93	37.5
Don't Know	9	3.6
Base =	248	100.0

2. Ninety-four percent of respondents agreed that the workforce

contains more older workers today.

This was the most strongly affirmed finding of the study, with 71.8 percent of respondents "strongly agreeing" with this statement. This shows that small business owners are experiencing the aging of the workforce, projected to increase from a current average age of 36, in the mid-1980s, when the Hudson Report was issued, to 39 by the year 2000.

Table 2
"There are more older workers in the workforce today."

	Number	Percent
Strongly Agree	178	71.8
Agree Somewhat	56	22.6
Disagree Somewhat	7	2.8
Strongly Disagree	3	1.2
Don't Know	4	1.6
Base	248	100.0

3. Eighty-three percent of respondents agreed that the workforce contains more women today.

About one-third of respondents "strongly agreed" and over half "somewhat agreed" with this statement. This shows that small businesses have directly experienced the growing "feminization of the workforce," a major assumption of the Hudson Report.

Table 3
"There are more women in the workforce today."

	Number	Percent
Strongly Agree	77	31.0
Agree Somewhat	130	52.4
Disagree Somewhat	30	12.1
Strongly Disagree	4	1.6
Don't Know	7	2.8
Base	248	100.0

4. Sixty-one percent of respondents agreed that the workforce is more culturally diverse today, while a third disagreed with this analysis.

Only 21.8 percent agreed with this statement strongly. This confirms the results of the earlier interviews, which suggested that small businesses are experiencing the impact of the growth of ethnic minority populations differently. Significantly, the Tower-Perrin report indicated that only businesses which showed a strong awareness of and interest in the changing ethnic mix of the workforce were likely to take steps to respond to this workforce trend.

Table 4
"We have a more culturally diverse workforce today."

	Number	Percent

Strongly Agree	54	21.8
Agree Somewhat	97	39.1
Disagree Somewhat	67	27.0
Strongly Disagree	14	5.6
Don't Know	16	6.5
Base =	248	100.0

5. Only one-third of the respondents agreed that there was a national labor shortage.

In fact, only 16% agreed strongly with this statement, while two-thirds disagreed. This suggests that small business owners are not experiencing this prime motivator for changing management practices, the importance of creating a welcoming workplace for the increasingly multi-cultural workforce as a means of recruiting workers in a highly competitive "seller's market."

Table 5

"There is a national labor shortage today."

	Number	Percent
Strongly Agree	39	15.7
Agree Somewhat	44	17.7
Disagree Somewhat	68	27.4
Strongly Disagree	87	35.1
Don't Know	10	4.0
Base	248	100.0

6. Almost three-fourths of the respondents are aware of the changing demographics of the workforce.

This high level of awareness indicates that information on the changing demographics of the workforce has reached small business managers, suggesting that small business owners are at least likely to be scanning their environments to see if their experiences with the workforce match those predicted by experts.

Table 6

"Most business owners I know are aware of and concerned about the changing demographics of the workforce."

	Number	Percent
Strongly Agree	70	28.2
Agree Somewhat	111	44.8
Disagree Somewhat	49	19.8
Strongly Disagree	9	3.6
Don't Know	9	3.6
Base	248	100.0

7. Almost 60 percent of the respondents agreed they knew business owners who were formulating new approaches to recruiting minorities, women, and older workers.

One-fifth agreed strongly and one-third disagreed. This shows

that many small business owners are beginning to respond to the new workforce imperative, although a significant number are not.

Table 7

"Many business owners I know are formulating new approaches to recruiting ethnic minorities, women and handicapped workers."

	Number	Percent
Strongly Agree	50	20.2
Agree Somewhat	96	38.7
Disagree Somewhat	71	28.6
Strongly Disagree	11	4.4
Don't Know	20	8.1
Base =	248	100.0

SUMMARY

The results of these two surveys point to two conclusions:

1. Most small business owners in Greater Cincinnati have experienced some of the effects of a changing workforce, especially in employing older workers, and to a lesser extent, women and ethnic minorities. They are aware of projections that the workforce is changing, but only a few have begun taking initial steps to adapt their businesses to the changing workforce.

2. In spite of the above, most small business owners in Greater Cincinnati do not hold diversity as a high priority, have not had trouble recruiting employees, and are not strongly behind government efforts to promote a more diverse workforce through laws. This indicates small business owners are likely to move slowly and reluctantly in response to changing demographics.

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2. See interview format.

3. Tower-Perrin, p. 7&8

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HOW TO COMPETE WITH DISCOUNTERS

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ABSTRACT

Discounters are rapidly expanding in small towns. This is creating intense competitive pressure on small retailers. The purpose of this study was to: (1) determine the impact of additional new discounters on small town retailers; (2) find out what retailers have done to compete with discounters; and (3) find out which actions have been most successful. A total of 127 retailers in five northern Minnesota towns were surveyed.

The intensity of discount store competition varies by type of store, ownership, location and market. Overall, service is the best way to compete; however, the success of actions varied tremendously by type of retailer. Almost three-fourths of the retailers believe they can compete successfully with discounters in the future.

INTRODUCTION

Discounting is one of the most important trends in retailing since World War II. Early expansion was concentrated in major metropolitan areas while more recent expansion has occurred in smaller towns.

Discount stores are characterized by low prices, broad merchandise offerings and large stores located on the outskirts of town. Specialty retailers are characterized by higher prices, narrow merchandise offerings and small stores located downtown or on major highways. This places small town specialty retailers at a distinct disadvantage.

PREVIOUS RESEARCH

Trade centers in the Upper Midwest have been extensively studied over the past three decades. (2, 1) Another study investigated the diffusion of discount stores and evaluated the market potential for additional discount stores in 37 small towns in Minnesota. (5)

Two additional recent studies looked at small town discounting in-depth. The first analyzed the impact of discounters on small towns and alternative responses for retailers and community leaders. (3) The second analyzed consumer and retailer attitudes and behavior toward discounters, retailers and retail communities. (4) This article draws from this latter research.

This research found dramatic changes in discounting taking place. The number of discount stores increased 41 percent while discount store square footage surged 79 percent in the past five years in 26 small towns in Minnesota. Discount store square footage per capita is now greater than the Minneapolis-St. Paul metropolitan statistical area. This is causing intense competition among discounters as well as between discounters and specialty retailers. (4)

OBJECTIVES

The objectives of the study were to: (1) determine the impact of additional new discounters on small town retailers; (2) find out

what retailers have done to compete with discounters; and (3) find out which actions have been most successful.

RESEARCH DESIGN

Five towns in northern Minnesota were included in the study: Bemidji, Brainerd, Detroit Lakes, Fergus Falls and Grand Rapids. They were selected because of their comparable size, geographic proximity and the addition of one or two new discounters in 1991.

Retailers in these towns were surveyed by mail in the following areas:

*Rating of competitive impact of discounters.

*Determining which of the following competitive actions they took.
- Offering more services - Offering better quality products
- Improving customer service
- Changing retail mix
- Changing store hours
- Dropping lines carried by discounters
- Increasing advertising Lowering prices Increasing sales/ promotions

* Rating which of these were most effective.

The survey was mailed to 302 retailers surveyed in 1991. Of that sample, 13 were returned as undeliverable and 127 were completed and usable. This was a respectable response rate of 43.9 percent after undeliverable surveys were excluded. The number of completed surveys for each town and retail category was comparable to last year's survey which was deemed to be representative. The data was then analyzed using the CRUNCH statistical package.

SURVEY FINDINGS

Impact of Discounters on Retailers

Discounters impact on retailers sales has been mixed. On a whole 42.1 percent say they have had a negative impact on sales. Another 25.2 percent and 32.7 percent respectively say they have had either no effect or a positive effect. These results parallel last year's survey findings. (3)

Franchise businesses (63.6 percent) have been most negatively impacted by discounters. Independents have been least impacted (37.6 percent) followed by chains (44.4 percent).

Pharmacies (70.0 percent) were most negatively impacted by discounters. This was followed by miscellaneous stores (46.7 percent), furniture and home furnishings (45.0 percent), general merchandisers (42.9 percent) and building supply stores (36.4 percent). Apparel and accessory stores (31.3 percent) were the least negatively impacted by discounters.

Retailers with freestanding stores were least (32.1 percent) negatively impacted by discounters. Perhaps this is because most are located near discounters and can benefit from the additional traffic. Retailers in shopping centers were most impacted (50.0 percent) followed by downtown (42.9 percent).

Negative impact varied widely from town to town (66.7 percent to 30.4 percent). Retailers in Brainerd which added the most discounters and space saw the impact of discounters most positively (45.5 percent). Retailers there thought that discounters helped extend the town's trade area and increase its retail market penetration.

Actions Taken to Compete With Discounters

The most frequent competitive action taken by retailers was improving customer service (85.8 percent). Offering better quality products (74.8 percent), offering more services (71.7 percent) and changing the retail mix (70.1 percent) were the next most frequently cited actions taken. Increasing sales/promotions (57.5 percent), increasing advertising (55.1 percent), lowering prices (49.6 percent) and dropping lines carried by discounters (47.2 percent) were actions taken by approximately half the retailers. The least frequently taken action was changing store hours (29.9 percent).

Improving customer service was the most frequently taken action by all types of retailers surveyed. The three most frequently taken actions by building supply stores was improving customer service, better quality products, and changing retail mix. General merchandisers improved customer service, changed inventory mix and increased sales. Apparel and accessory stores used improving service, better quality products and offering more services than most. Improving customer service, better quality products and offering more services were the most frequently taken actions by furniture and home furnishings stores. Pharmacies competed with improving service, offering more services, increasing advertising and lowering prices. Miscellaneous retailers improved service, added better quality products and offered more services.

Success of Actions Taken to Compete With Discounters

Retailers rated improving customer service as their most successful action taken. It rated 4.17 on a five point scale with five being most successful. In fact 81.7 percent rated it either somewhat or very successful. Offering more services (4.03) and offering better quality products (3.97) were also rated highly successful. Changing retail mix (3.52), dropping lines carried by discounters (3.42) and increasing sales/promotions (3.37) were rated moderately successful. Lowering prices (2.89), increasing advertising (2.99) and changing store hours (3.07) were rated the least successful actions taken.

The success of actions varied significantly by retail category. The priority ranking of actions by building supply stores was:

4.50 More services
4.50 Improve services
4.18 Better quality
3.82 Change retail mix
3.78 Delete lines
3.40 Change store hours
3.29 Increase sales
2.57 Increase advertising
2.43 Lower prices

General merchandisers compete most directly with discounters. Their most successful actions were product oriented as shown below.

4.31 Change retail mix
4.25 Better quality
4.07 Improve services
4.00 Increase sales
4.00 Delete lines
3.73 More services
3.70 Increase advertising
3.63 Lower prices
3.29 Change store hours

Apparel and accessory store sales focused most on quality and service and less on changing their inventory.

4.41 Better quality
4.39 Improve services
4.23 More service
3.60 Increase sales
3.56 Lower prices
3.36 Change retail mix
3.25 Delete lines
2.86 Increase advertising
2.00 Change store hours

Furniture and home furnishing stores' successful actions parallel apparel stores. On a whole their actions were not nearly as successful as apparel stores.

3.88 Improved service
3.82 Better quality
3.76 More service
3.13 Change retail mix
3.09 Delete lines
2.83 Change hours
2.42 Increase sales
2.42 Increase advertising
2.20 Lower prices

Pharmacies found services and advertising the most effective way to compete. Because the products are the same, changing inventory and improving product quality were not particularly successful actions.

4.22 Improve services
4.00 More services
3.80 Increase sales
3.38 Increase advertising
3.17 Change retail mix
3.00 Lower prices
3.00 Change store hours
2.75 Better quality
2.60 Delete lines

Miscellaneous retail stores include a wide variety of specialty stores including book stores, card shops, record stores, craft stores, etc. Service was rated the best way to compete.

4.06 Improve services
4.04 More services
3.66 Better quality
3.55 Delete lines
3.23 Change hours
3.19 Increase sales
2.95 Increase advertising
2.93 Change retail mix
2.60 Lower prices

IMPLICATIONS

Small town retailers are under intense competitive pressure from discounters. The intensity of the competitive pressure varies considerably by type of retail store. Pharmacies appear to be most negatively impacted because drugs and health and beauty aids are very standardized products. While service and better quality are the most frequent actions taken by retailers, the success of the action varies markedly by type of retail store. Thus, there is no cookie cutter solution to compete with discounters. On a whole retailers are optimistic about being able to compete with discounters in the future. In fact 74.3 percent felt they would be successful.

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POST-PURCHASE COMMUNICATION: A STEP TOWARD TOTAL QUALITY MANAGEMENT IN SMALL BUSINESSES

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ABSTRACT

Total Quality Management (TQM) is a quality movement tied closely to the marketing concept. Since TQM relies on close monitoring of customer needs and satisfaction, post-purchase communication becomes a topic of increased importance. This paper examines use of post-purchase communication by small service firms (veterinary practices) and offers recommendations for promulgating TQM philosophy and post-purchase communication techniques through the SBI process.

INTRODUCTION

Growing reliance on Total Quality Management (TQM) as a competitive tool has led to new emphasis on the marketing concept. Since TQM depends heavily on customer relationships, post-purchase communication with customers is worthy of increased attention. This paper reviews the TQM movement, examines data on post-purchase communication from a recent survey of small service firms, and recommends ways that SBI Teams can assist clients in benefiting from TQM philosophies.

Definitions:

Quality: That which makes something what it is, a characteristic element or attribute; excellence or superiority (Webster).

Value: The right combination of product quality, fair price, and good service (7).

Total Quality Management (TQM): A participative management style which focuses on satisfying customer expectations by continually improving the way business is conducted.(13).

Post-Purchase Communication(PPC): Formal communication directed by the seller to the buyer, after the purchase has been completed (5).

THE WAVE OF THE PRESENT DAY: TOTAL QUALITY MANAGEMENT

During the 1980s American industry became increasingly aware of the "quality crisis" and began to pay renewed attention to the quality philosophies and teachings of Drs. Deming and Juran, who for many years had advocated company based quality education, cultural transformation, and development of the TQM management style (13). Although some TQM efforts have fallen by the wayside, innovative firms with long-term commitments to customer satisfaction have been able to overcome bureaucratic and economic obstacles and use TQM to gain a competitive edge (4).

Although concern exists about lack of assistance and slow adoption of quality and technology improvements by small US firms (11), only a few writers have addressed the topic of TQM for small companies and service firms (8, 14).

TOTAL QUALITY MANAGEMENT FOR SMALL BUSINESS

Small firms in consumer industries are under increasing pressure to improve quality because of increasing customer sensitivity to quality issues plus improved customer monitoring and process control by franchised competitors. Small vendors are under pressure to meet industrial customer quality specifications and even to become part of their customers' quality networks; TQM may be a contractual requirement for vendor eligibility. TQM is no longer only for large companies, but a necessity for small ones as well.

As economic pressures build, large companies are forced to decide whether to invest in structural changes and other long-run commitments required to make TQM work. Although small companies are more flexible than large ones and have fewer bureaucratic problems, they may find it difficult to devote sufficient manager and paid employee time to quality education and training for successful implementation of TQM. If small firms are to adopt TQM to survive, assistance from sources such as SBI will be needed (11).

TQM TECHNIQUES

From Deming and Juran to the latest TQM proponents, all cite customer satisfaction as the key company orientation without which TQM cannot flourish. This means quality can no longer be defined merely in producers' terms (e.g., component tolerances, mean time to failure), but must be defined in terms of what quality means to the customer. Quality thus becomes a company-wide responsibility involving marketing people as well as purchasing and production people. At the same time, marketing becomes a company-wide responsibility and not just an isolated function. When quality is defined as a satisfied (or better still, enthusiastic) customer, company structure and communications are put to the test immediately. First, customer needs, likes and dislikes need to be continually monitored and hopefully predicted. Second, customer inputs (often subjective) must be translated into concrete terms useful and understandable to production and procurement people. To consistently produce quality outputs, the company has to know its customers, know their needs, then DESIGN AND CONTROL PROCESSES to produce products and services which meet those needs and are responsive to market changes. For small companies, this means new philosophies for owner/managers and new responsibilities for employees.

REVIEW OF THE LITERATURE

In addition to the need for customer orientation, (2, 9, 15) and the flexibility and commitment needed to benefit from TQM (4, 10, 15), some authors point to TQM as essential to survival in a tough market economy (1). However, other reports (4) indicate that TQM may be first to go during downsizing efforts because of costs associated with TQM training and paperwork.

Although marketing experts such as Levitt have for years stressed the importance of process control in services and the special need for continuous marketing, especially when outputs are

intangible, "talking to customers" is currently receiving new attention in the business press (6, 7). Value and quality, coupled with "smart selling" whereby the entire company is focused on the customer, is seen as the key to survival in the global economy as well as the local market. Customer orientation has clearly become king in both quality and marketing circles.

Since post-purchase communication is known to be a key factor in maintaining contact with customers, and because little information is available about the role of post-purchase communication as a tool for TQM in small service companies, it was decided to examine data from a recent survey of veterinary practices to see whether a quality orientation existed and to examine the role of post-purchase communication in remaining responsive to market demands.

THE STUDY

A study was designed to examine the use of post-purchase communication by veterinary practices. Post-purchase communication can be an important marketing technique as well as an instrument for total quality management. As a marketing technique it provides opportunities to assure client satisfaction, suggest additional products and services, and build a reputation as a caring and concerned provider of services. Post-purchase communication becomes an instrument of Total Quality Management when it gathers information from the customer regarding satisfaction with the product or service.
The veterinary industry was selected for this study because veterinary practices are service providing small businesses. These businesses operate in a very competitive environment in which client satisfaction is extremely important. These businesses are personalized in the sense that the veterinarian and staff are tending to animals that in many cases are considered to be members of the family. Client satisfaction is important, and post-purchase communication is a means of assuring this satisfaction.

This study examines three dimensions of post-purchase communications by veterinary practices. The first is the reported use of post-purchase communications appropriate for use by veterinary practices.

Many veterinary practices are using consumer related communications as part of the marketing mix. A recent unpublished study of veterinary practices in the yellow page sections of local telephone directories revealed 64.2 per cent of the veterinary practices are using display ads, both listing and display ads, or an expanded listing to advertise the business. As post-purchase communication can be a part of the marketing mix, this study examined the relationship between the type of telephone yellow page entry and the use of post-purchase communication by the veterinary practice.

An argument favoring post-purchase communication might gain strength if research could show an effect on income. The relationship between gross income and use of post-purchase communication was also examined.

This study of post-purchase communication was part of a larger study of management and marketing issues in veterinary practices. The topic of post-purchase communication and the selection of specific types of post-purchase communication are from managers of veterinary practices.

Participants in the study were the managers of veterinary practices in the ten largest cities in Texas. A list was made of

all veterinary practices in the current telephone directory of each city. After the elimination of duplicates from the list, a random number table was used to select 600 veterinary practices that were asked to participate in the study.

A cover letter explaining the study and a questionnaire were mailed to the 600 veterinary practice managers. Five were returned as undeliverable for a net mailing of 595 questionnaires.

Completed questionnaires were received from 118 veterinary practices for a response rate of 19.8 percent. Fifty percent of the businesses were organized as sole proprietorships, 10 percent were partnerships, and 40 percent were corporations. The average gross income was $346,618 and ranged from $55,000 to $2 million.
Findings

Veterinary practices differ in the use of post-purchase communication. The most popular and widely used type of post-purchase communication is the message of condolence for the client on the loss/death of a pet. other widely used post-purchase communications are the welcome letter to new clients and the letter of appreciation for referrals.

Although the telephone provides immediate and direct verbal communication as well as an opportunity to express emotion, concern, and appreciation, it is not a widely used by veterinary practices for post-purchase communication. As can be seen in Exhibit 1, telephonic post-purchase communication is the least often used.

The use of post-purchase communication appears to be related to the use of display advertisements in the yellow pages of the telephone directory. A relationship was found to be significant at the .04 level of significance (Exhibit 2).

The use of post-purchase communication does not appear to be related to the gross income of the business. The results of statistical analysis greatly exceeded the .05 level of significance (Exhibit 3).

CONCLUSIONS AND RECOMMENDATIONS

TQM and customer-oriented marketing are of great current importance and should be stressed during pre-project classroom preparation of SBI Teams.

When performing marketing, promotion or planning projects for clients, SBI Teams should be aware of the importance TQM and post-purchase communication and provide appropriate recommendations to clients.

Data from this regional survey of practitioners in a single industry support further study of PPC as an instrument of TQM. Future studies should focus on selected service industries on a national scope.

Exhibit 1

REPORTED USE OF POST-PURCHASE COMMUNICATIONS

TYPE OF COMMUNICATION	Percent of Respondents Indicating: ALWAYS	OFTEN	SELDOM	NEVER
Letter of appreciation for referrals	44.2%	12.4%	15.0%	28.3%
Telephone appreciation for referrals	1.8%	14.2%	43.4%	40.7%
Gift as an appreciation for referrals	9.7%	8.0%	26.5%	55.8%
Same-day-of-visit telephone follow-up by the vet.	5.9%	14.3%	42.0	37.3%
Welcome letter to new clients	52.2%	6.1%	7.8%	33.9%
Holiday greeting card for the patient	10.4%	19.1%	16.5%	53.9%
Birthday card for patient	0%	0%	8.8%	91.2%
Newsletter for clients	15.7%	9.6%	21.7%	53.0%
Client satisfaction survey	3.5%	8.8%	21.9%	65.8%
Messages of condolences to a client on the loss/death of a pet	71.8%	17.9%	4.3%	6.0%

Exhibit 2

USE OF YELLOW PAGES AND POST-PURCHASE COMMUNICATION

Relative Amount of Use of Post-Purchase Communication

	VERY LOW	LOW	HIGH	VERY HIGH	TOTAL
Display Advertisement and Expanded Listing	13	10	19	23	65
Listing	16	16	12	9	53

Level of Significance: .04003

Exhibit 3

POST-PURCHASE COMMUNICATION AND GROSS INCOME

Post Purchase Communication

Very Low	Low	High	Very High	Total

Income	Very Low	11	6	9	10	36
	Low	4	9	10	4	27
	High	9	7	4	7	27
	Very High	5	4	8	11	28

Level of Significance: .23771

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MARKETING ORIENTATION IN SMALL BUSINESSES: DEVELOPMENT OF A DIAGNOSTIC INSTRUMENT

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ABSTRACT

Despite a growing body of professional literature dealing with marketing in small businesses and entrepreneurial endeavors, acceptance of the marketing concept by the owners or managers of these organizations remains spotty. Student SBI teams frequently need to help their small business clients develop marketing skills. To do so effectively, a benchmark measurement of marketing knowledge and use-level is necessary. This paper describes the need for and development of a measurement instrument that SBI teams can use for diagnosing marketing problems to provide appropriate recommendations for small business clients. The questionnaire can also be used by academics to measure the adoption of the marketing concept in small business as well as the effectiveness of marketing activities.

INTRODUCTION

Although marketing as an academic discipline is at least as old as the first university courses taught at Illinois, Michigan and Pennsylvania in 1901-2, historians generally trace general acceptance of the marketing concept to publication of the 1952 General Electric Annual Report. However, in spite of a 40-year history of the discipline of marketing, the acceptance of the marketing concept remains spotty and is often completely absent in small businesses. The fact that small businesses that follow a marketing orientation are often more successful than those that follow either a production or sales orientation has not trickled down to the majority of small business owners and managers (13; 20).

Small Business Institute (SBI) programs were designed to improve the viability and promote continued growth of all types of small enterprises. However, the widespread lack of awareness by small business operators of the effectiveness of a marketing orientation suggests that not enough emphasis has been placed on marketing in SBI-managed business education programs. In addition, students often have difficulty diagnosing critical marketing problems. In other words, they lack "diagnostic marketing" skills (5).

This paper describes the development of an information gathering tool about marketing for use by SBI directors and student counselors so that operators of small businesses might benefit from more effective counseling on marketing problems. The questionnaire can also be used by academic researchers to learn more about the adoption and effectiveness of the marketing concept by small businesses.

PRIOR RESEARCH

A growing body of literature addresses the role and extent of the

adoption of marketing in all types of small businesses. Typically, that research has followed one of three main directions: 1) whether owners and managers of small business have a marketing orientation; 2) which, if any, of a selected list of marketing activities or processes small business operators use; or 3) a review of assistance programs with marketing programs used or needed by small business owners and managers.

Marketing Orientation.

Peterson (14) found little acceptance of the marketing concept among a nation-wide sample of nearly 500 small business owners and managers. Instead, more than half of the respondents reported following either a production or sales orientation. While Houston (7) reported acceptance of the marketing concept was almost universal among successful large businesses, Carson and Cromie (4) found that for small business operations, marketing expertise is often the last of the business disciplines to be acquired (if it is acquired at all). Savitt (19) identified marketing as one of the five key factors that affect survival of the small business, and the most difficult for the operator to deal with. He reported that marketing was not understood by most owners and managers of small businesses, who typically defined marketing as either sales or physical distribution. Meziou's (12) study of 176 presidents of small manufacturing firms reported that small firms are generally far more reluctant than larger firms to adopt the marketing concept. Unless the small business managers or owners have attended a formal marketing course or seminar, the marketing concept is still foreign to many of them. Kinsey's (10) study of a sample of small businesses in Scotland indicated a nearly universal lack of a marketing approach to business operations. Among others, marketing segmentation and product positioning activities were singled out as being little used by the manufacturing firms.

Marketing Techniques.

Stephenson's (21) investigation of the use of specific marketing techniques revealed that promotion and sales were critical problems for many small business owners and managers. Ram and Forbes, (17) small-sample study reported small business operators have high levels of difficulty with developing distribution outlets, packaging, the right product/service mix and creating awareness in their target markets. Peterson's (15) in-depth study of 519 former SBI client firms reported that more than 60 percent of the small businesses were using techniques considered to be target marketing which included marketing segmentation. Van Auken, Doran and Rittenburg (22) studied the use and perceived effectiveness of selected advertising media by small businesses, both in the first year of their operations and in the most recent year. Weinrauch, Pharr, Mann and Robinson (23) studied small business operators, marketing problems and their use of a selected list of low cost marketing techniques. They found that the most frequently occurring problems were 1) lack of a marketing plan, 2) insufficient follow-through with marketing ideas, 3) poor controls and lack of accountability over marketing programs and 4) lack of understanding of how to use marketing to reach their business goals. Sriram (20) found that small firms that customize their products to meet the needs of their primary overseas markets enjoy higher market share than firms that do not customize.

Marketing Assistance.

Joniak's (8) study of 530 Small Business Development Center cases concluded that marketing and sales assistance programs are necessary early-on for service, wholesale and manufacturing clients. Requests for marketing assistance increased with the number of years a firm remained in business. Reilly, Wyckoff and Brock's (18) study of rural entrepreneurs reported marketing assistance was the single most requested program received by chambers of commerce and economic development corporations. Kinsey (10) concluded that a program is needed to help small businesses gain understanding of the marketing concept and guidance on how to use the market function in their operations.

STUDY OBJECTIVES

The lack of a single big-picture point of view has made diagnosing small business operators, marketing problems a difficult process for SBI consulting teams. As noted in the preceding section, most current research takes a piece-meal approach to marketing in small business since only parts of the marketing puzzle have been addressed by any one study. A method which addresses all aspects of the problem is needed.
The primary objectives for this research are 1) to develop an instrument that measures whether small business owners and managers know what the marketing concept is; 2) whether they use the marketing concept as a guiding philosophy for their operations; 3) to construct a scale that measures the use of specific marketing techniques; and 4) to provide a means for determining whether knowledge and use of marketing principles is related to success of small businesses.

DEVELOPMENT OF THE INSTRUMENT

Since knowing about marketing and using marketing strategies and techniques are two very different things, an instrument is needed that taps into both concepts. Additionally it needs to measure whether knowing or using marketing is related to small business success as well as whether there are similar characteristics of marketing oriented and/or successful firms.

As a starting point to the development of the instrument, we turned to Peterson (14) and Meziou (12). Peterson asked respondents which of the four business philosophies presented was the one most familiar, while Meziou asked respondents to report which of a number of marketing activities they engaged in.

The four business philosophies described by Peterson (14) were the Marketing concept, the Production concept, the Sales concept, and the Societal concept. We rewrote these business philosophies to be more in line with the way we felt small businesspeople might describe their underlying philosophy of business, and added a fifth description dealing with strategic alliances. In addition, we added questions asking respondents whether they were familiar with the marketing concept and, if they were, to describe it.

We studied reports measuring the use of marketing by small businesses. In particular, we examined the scale developed by Meziou (12) that asked about various marketing techniques used in the business and used this as the starting point for our scale. We wanted to capture the entire concept of marketing including research and planning, factors in the environment of the firm,

target marketing and market segmentation, as well as the marketing mix, so we added items and reworked the scale. We also added questions asking whether the firm has a business and/or marketing plan and how often it is updated.

To tap into whether the business is successful or not, we developed a number of questions asking about success, including what the respondent feels the most important success factors are, how their firm compares to others in the industry, and what the stability of the firm is. We also composed questions asking about characteristics and make-up of the firm.
No questionnaire is perfect, but we had three concerns about ours. First, was the instrument user-friendly to small businesspeople? In other words, did it speak their language and was it easy to fill out? Second, did the instrument capture the marketing concept in its entirety. And third, was the instrument methodologically sound and a good research tool. To address these concerns, the questionnaire was sent to small businesspeople, marketing scholars and marketing researchers asking them to critique it. Each individual was phoned prior to sending the questionnaire asking for their cooperation, then a personalized, signed letter was sent to each individual along with the questionnaire and a one dollar bill as a token of appreciation. When their responses were returned, a personal thank you note was sent to each of them.

We were most pleased with the results: we had a ninety percent response rate and each individual provided extensive comments and suggestions. We incorporated the suggestions by rewriting some of the questions, changing the scales, reordering some questions and reformatting others. We then administered the questionnaire to a small sample of small business people and asked for their suggestions. This resulted in further changes which we made to produce the final draft.

IN CONCLUSION

We will be using this instrument with our SBI cases, and will be administering it to a sample of small business owners. However, in response to the plea by Meziou (12) that more extensive research of the adoption of the marketing concept is needed, as well as the frequency and effectiveness of marketing programs by small business, we encourage those who are interested to request a copy of the instrument from us. Meziou has also noted that comparisons of marketing orientation by small businesses in various regions of the country would be interesting. Additionally, if anyone would find this questionnaire useful for their SBI program, we would be happy to send them a copy.

ENDNOTES

1. We wish to thank the marketing scholars, marketing research professionals and small businesspeople who assisted us in this project by evaluating and critiquing the instrument.
2. We will have copies of the instrument at the SBIDA conference for anyone who wishes one.

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BIG IDEAS FOR SMALL BUSINESSES: THE STRATEGIC MATRIX AS A GENERIC CONSULTING FRAMEWORK

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ABSTRACT

The lower formal educational levels of some small business owners can sometimes create challenging communications climates for both clients and student consulting teams in the SBI process. Student SBI teams, ideally, are bursting with newly acquired insights and knowledge, but as "business beginners" may lack the depth of understanding to restate their newfound knowledge in straightforward "client friendly" terms.

The client, on the other hand, may forego opportunities to clarify discussions or recommendations that use marketing and business terms that the client may recognize, but has not mastered in any depth. Some depth of understanding, however, may be required later for proper strategy implementation. Unfortunately, the need for clarification or further discussion often occurs only after team members have departed (graduated) from the academic setting.

This article offers a framework for analysis -- the Strategic Matrix -- that provides a focus for SBI Director and student team instructional sessions, as well as a common reference framework for student team and client discussions. This common focus should lead to discussion, clarification, and client (and student) growth. The matrix also provides a convenient structure for positioning readily understood business articles that can serve as clarifying examples for concepts important to both client and student. Small businesses clearly can benefit from "big ideas" if they are appropriate and clearly communicated.

INTRODUCTION

About seven of every ten businesses in the U.S. are very small (1 - 9 employees), independent, and typically family-run (14) (p. 82, Table A-7). About half of the owners of these businesses have a high school education or less, and only about one third have completed four or more years of college (13) (p. 139, Chart 4-14). Frequently in this business size category (typical of many small towns, and even urban enclaves) a business person may be engaged in a successful "start up" venture, having launched an excellent product or service concept, but may have only a minimal knowledge of basic principles of business or marketing required to transform initial ideas and enthusiasm into sustainable, long-term, competitive advantage.
Such formal educational gaps with these (and even larger) small businesses often create the potential for communications difficulties at the interface between a business and the graduate (MBA), or more frequently, the senior undergraduate consulting team in the Small Business Institute (SBI) context. New ideas and terminology, recent research, and sophisticated marketing concepts may exactly suit a client's needs, but may never be effectively transferred to the client as a useable tool.

This can result from the very context of the SBI consulting relationship, and at the same time, ironically, could well be the cause of apparently ineffective SBI experiences revealed by clients when former clients are surveyed.

The SBI Context

Owner profiles in the university SBI environment, such as those described above, are frequently encountered by student consulting teams providing services under the auspices of the Small Business Administration's (SBA) SBI programs. Student teams, under the tutelage and guidance of an SBI Director (SBID), usually a senior professor with consulting or applied work experience, review client requests for counseling assistance, determine the nature of their problem(s), and, after thorough evaluations, traditionally offer primary or secondary research, strategy, process change, and/or implementation guidance to their clients.

While more sophisticated medium- and larger-sized clients (top end of the "small business" spectrum) are served by SBI, the smaller client is much more common. For example, in the present author's(home and four contiguous) five-state area, typically less than 1/10 percent of some 656,000 businesses have 500 or more employees, and only one percent have 100 or more employees. This leaves about 650,000 "smaller" businesses, of which almost 80 percent, some 510,000 businesses, are in that very smallest size category noted above (1-9 employees) (4) . While it may be that these Southern, less populous states tend to exceed the national proportions of smaller businesses, small client size and limited business and marketing sophistication would tend to be distinguishing characteristics affecting SBI counseling strategies in any geographic area when a serious effort is made to benefit as many student teams and clients as possible per academic term.

The Small, Entrepreneurial Business

These initial observations are in no way intended to denigrate small business clients -- not their resolve, nor their intelligence, nor their wisdom. Small business history clearly shows that many such business entrepreneurs doggedly hammer success from even modest opportunities, often with only intuitive business sense, wisdom acquired over time (sometimes from earlier failures), and sheer determination.
These successful small businesses, however, are unlikely to be the ones that need or ask for assistance. Quite often they do not remain small very long, as in the saga of Sam Walton, starting so small that shippers would not even offer him service in Arkansas (leading to his decision years ago to build his own distribution organization and fleet)(11).

Intent of the Article

More constructively, the intent of this article is to flag an often subtle, sometimes unrecognized cause of breakdowns in the effectiveness of the SBI student counseling encounter -useful concepts not effectively communicated. And as a part of the remediation, another intent is to offer a consulting framework that can not only organize and position student consulting efforts, but also can provide a "leave-behind" framework for the client's reference, orientation, and strategic planning success.

The author contends that the use of this framework, both by consulting team and by client, will force a narrowed, area--by-area business discussion focus. This increases the probability that effective communication takes place, and more often leads to feasible strategy formulation, clearly articulated by the consulting team and clearly understood by the client.

CRITICAL COMMUNICATIONS SOMETIMES FLAWED

Clients ideally exit from the consulting experience with increased knowledge, a specific plan, enthusiasm, and the wherewithal to carry on through successful implementation of the recommendations. In fact, clients typically are well briefed, usually in a formal final presentation. Sometimes, however, implementation bogs down and hoped-for results prove elusive. It is as though the client just "didn't get it," which may be precisely the problem.

Complexity Difficult to Communicate

It is a simple fact that increasingly complex business and marketing concepts, some represented by egnamatic acronyms (e.g., JIT, TQM, target pricing, product differentiation, demand modification) , continue to be introduced to students in the various curricula of schools of business. This is as it should be. Clearly, consulting team recommendations to use newer concepts and research outcomes, and recommendations centered upon sophisticated concepts, may be appropriate in specific counseling situations. Student teams often do introduce more sophisticated concepts when appropriate. However, they are often learned by students in a case study context involving much larger enterprises, which sets the stage for difficulties in introducing perfectly legitimate concepts into the smaller consulting setting. Whether in "wrap up" presentations or in routine counseling sessions, complex concepts or sophisticated terminology introduced into the very small business settings can lead to communication "misfires" and downstream client implementation problems that are difficult to pin down as to cause. The SBID, as an obligatory function in working with the team, has to be careful to verify that any recommendations to be made are appropriate. Even so, the effective communication of critical ideas sometimes never properly occurs at the "cutting edge" of the process -- full client comprehension at a knowledge level enabling effective implementation of the ideas.

Typically, the student team has great confidence in and derives much satisfaction from a sophisticated final, formal recommendation. The client leaves with a "warm fuzzy feeling," confident that the written proposal will clarify any shortcomings in understanding lingering after the presentation. Not uncommonly, a client assumes that, if there is fault, it lies in their own lack of sophistication, an uncomfortable topic to surface in the student presentation setting. On the other hand, sometimes a client will criticize a presentation (usually privately to the SBID) as too theoretical, or irrelevant to the client's business, perhaps due entirely to the client's unadmitted failure to overcome the sophisticated semantic overlay imposed upon the presentation by the students. But they are simply keying on material they have only recently mastered themselves in their business programs.

More often it is as though the counseling is a success, the parties go away mutually pleased, but down the line the "patient" becomes ill again. Careful, tactful probing some days or weeks afterwards may reveal apparent understanding between client and counselors at the time that the recommendations were made, but a subsequent misguided implementation based upon a different understanding of what a particular recommended course of action actually required in terms of specific implementation tasks over time. A purchased mailing list may not fill the requirements set

forth for an accurate re-examination and redefinition of the target market as suggested in a final SBI recommendation. On the other hand, in this author's experience, the addition of a simple customer service and telemarketing function to the catering activities of a restaurant, both to verify satisfaction with just completed work and to solicit future contracts from past customers, actually survived repeated identification as a "hybrid marketing channel" in a presentation (SBI confidentiality precludes specific customer identification). It probably would not have survived without clarifying discussions with the SBID after the presentation.

SBI Student "Presentation" Motives Logical

Student motives for inadvertently fostering miscommunications vary, but foremost among them are usually: (1) a fascination with newly introduced business and marketing concepts, research, terminology, and insights, (2) a perceived need to appear to the client as competent and professional, (3) a sometimes overpowering perceived need on the part of one student, or the team, to demonstrate mastery of new concepts to the SBID, who typically views the final presentation alongside the client.

SBI Legitimacy At Stake

Failed long-term outcomes -- again, possibly from such subtle, often unrecognized causes -- may seriously challenge the legitimacy of the SBI process in the long run. The mandated SBI outcome is client assistance and empowerment. When all of the documents are in place, all of the presentation text is accurate and clear, and good outcomes do not result -- either the client takes no action on the recommendations, inappropriate action, or the actions taken meet with indifference in the marketplace -- a prime suspect should be an ineffective client "connection" with what was probably a great idea.

Client Sensitivity to Shortcomings

The author has noted a tendency of clients to avoid identifying their own shortcomings with regard to a lack of comprehension of newer business and marketing concepts and terminology when used by "experts," even "student experts." It likely is a fear of being thought to be unsophisticated, which, in the concepts presented, they often quite honestly are, without any need for apology.

The SBID must be sensitive to this and attempt to sensitize the student team to this aspect of being effective in their work. However, it is common, even after SBID advice to tailor the presentation level to the "audience," to still have marketing jargon, concepts and theory surface in the presentation. Actually, the SBID should avoid any strong inference of some lower level of client comprehension to avoid setting a patronizing tone for the presentation. In simple fact, the SBI program clearly does utilize "beginners," both in effective communication and in business concepts. While they have proven to be very effective "beginners-, in many cases, they are only rarely experienced, straight-talking business people, and they tend to reflect the conceptual, academic environment that has nurtured them to their present level."

A Legitimate Criticism Within the Discipline as Well

The problem of misinterpreting or mistaking a concept most emphatically is not limited to clients in SBI settings. For example, professional marketers themselves confuse specific meanings and proper usages of marketing terms as basic and critical as "market segmentation," and others (3). Within the confines of a discipline, it is problematic but correctable over time; it can be fatal in a single professional encounter, in which clear communication and solid understanding must precede and guide subsequent strategy creation and implementation. In the SBI setting, successfully communicating information critical to firm survival or growth is not an option, but, to repeat, is a mandate.

The Academic Settings

Opportunities for miscommunication are rife in any dialogue between individuals who do not share the relevant common core of concept., experience, and language, which quite often defines many team-client relationships in SBI settings. Also, the potential for failure may be effectively compounded by calendar-imposed constraints.

The counseling project assigned to a team probably represents an effort covering but a single academic term in a research or strategy class. As these projects are often assigned to the most advanced students, the counselors usually are either final year graduate students or undergraduate seniors, hence they are frequently gone when client implementation stalls or misfires, and revisits and redirection may be most critical to the client.

The SBI Director's efforts are by then, in all likelihood, refocused on a new client set. He or she may well be quite pressed for time, and unable to fully reconnect with the client, although it is common to offer suggestions and briefly review findings when time is available.

Answer is Focus on Basic Process

This article suggests that the answers to these problems lie in initially focusing both client and consulting team on basic process. If both the team and the client are schooled in a basic analytical and creative process used during the course of the consultation, invariably they remain focused and discuss ideas with more thoroughness. The key is to settle upon a process that is not only useable in the SBI context, but, more importantly, re-useable independent of the SBI process.

In sum, the focus and objective is to present a complete, and mutually understandable, analytical and strategy framework suitable for the smallest (or any) firm. The framework should provide a guiding framework for all student team-client discussions. Of particular interest is the potential reduction in miscommunication between the client and team when they share such a framework.

Client mastery of the marketing planning process itself may become the greatest overall benefit derived from the SBI consulting encounter. Even very good specific recommendations, given life as "leave-behind" presentation folders, may suffer from any number of ailments over time, e.g., waging out" as the operating environment changes.

Making clear the process of survival, if used by the team to frame all discussions, hence learned by clients, can empower the client far beyond any set-piece strategic recommendation. A powerful ancillary benefit is that the process enables identification and documentation, step by step, of what "is" and what "needs to be," today, and again tomorrow.

A FOCUS ON BASIC PROCESS

The Need for Scholarship Remains

The consulting situation, often for legitimate purposes of student growth, may require a fairly "scholarly" presentation of quite advanced business and marketing concepts by the SBID if the team has not yet mastered them, since the facts in the consulting situation may be complex. In addition, SBI consulting teams are often drawn from "capstone" courses, a level at which the SBID much impart some sense of organization, direction and coherence to the modular components of marketing and business obtained in the academic class structure.

As an example, the total cost concept in logistics often entails quite complex quantitative trade-offs, and frequently requires evaluating a number of different product movement and product storage combinations in arriving at the best level of customer service at a given cost. This logistics portion then must be related to external (to logistics) economic trade-offs in R&D and engineering (e.g., product design), purchasing (e.g., material quality), marketing (e.g., pricing and discounting policies), and so on. This level of student and client development requires a map -- a framework. This bridging and integrating function falls to the tutorial role of the SBID, and is properly a basic component of the overall SBI consulting process.

The Reality of the SBI Director's Challenge

The need to train the counseling team in complex analytical situations occurs more frequently than SBI Directors might prefer, but is a reality of the SBI counseling process. Such a situation creates at one and the same time the need to satisfy the requirement for student team growth and to ensure quality client and consulting team relationships, communications, and consulting outcomes.

The SBI Director, in reviewing and expanding concepts already known to the students, or in introducing new ones, must impart concept, detail, and subtleties to the "student aspect" of the consulting team. At the same time, it is likely that there will be a clear need for the "consultant aspect" of the consulting team to communicate these newer insights and problem-solving frameworks to the client.

The key, again, is to cast the entire consulting experience into a framework that provides a place for everything, which ensures that no problem-finding opportunities are overlooked, and which makes a more direct "journalistic approach" (who, what, why, when, where, how) central to the process from sheer necessity. In sum, it effectively moves students away from brilliant, vernacular-bound solutions looking for problems toward an approach involving meticulous, straightforward questioning leading to accurate problem definition, and well thought out and clearly articulated recommendations.

THE STRATEGY MATRIX

The Basic Assumptions

There are four assumptions underlying the Strategy Matrix (Figure 1): (1) the pervasive availability of technological advancements, (2) the pervasiveness of economic change, (3) the pervasive need for ethical considerations, and (4) all other concerns are satisfied within the Strategy Matrix. Also, the issue of quality is integral to the matrix. Simply put, use of the matrixconstitutes the highest quality in problem identification, analysis, and subsequent strategy formulation and implementation.

Expanding the above, technological breakthroughs often permeate entire markets in short order. Likewise, the "tides" of the economy, to use an analogy, tend to make all of the "boats in the harbor rise and fall together." (Obviously one must acknowledge those exceptional firms that adroitly manage finances through economic hardships, and use that advantage in their market approach, e.g., holding the line on prices.) Ethical concerns, in the best of worlds, should be an element of concern no matter which conjunction of strategy element and environmental fact is being evaluated for "fit." That is why these aspects of the environment are considered to be pervasive.

Evolution of the Strategy Matrix

The strategy matrix builds upon the strategic "meshing" framework of Dickson (2), in which proposed marketing strategy, cast in the framework of McCarthy's "4 P's" (9), is compared critically, and at great length, to behavior limiting constraints existing in the environment of the firm. Tsurumi (12), in a compelling, embarrassing, commentary on current American marketing practices, makes a cogent argument for expanding McCarthy's classic "4 P's" to a total of ten. He suggests coupling Procurement to Placement, considering the motivation of People, devoting appropriate attention to Productivity, attending better to Public Relations and Political concerns, and other considerations as a matter of firm strategy.

The Strategy Matrix permits systematic, critical fitting of an "emerging draft copy, of potential firm behavior in the marketplace to the limiting constraints identified in the environment. It encourages iterative revision, culminating in a feasible plan to create a sustainable, customer-driven, competitive advantage.

The process suggested for evaluating environment-strategy fit with the Strategic Matrix involves the same process as offered by Dickson (2), but the level of useful detail in the Strategy Matrix is greater, and more appropriate for student and client guidance in the SBI context.

The Strategy Matrix Explained

The Strategy matrix is composed of recently research and evaluated constraints imposed upon the firm by the environment that are "crossed" with proposed strategy elements for critical evaluation. Each intersection, or cell, defines an evaluative domain: the evolving or already-planned market behavior is compared to known or newly researched constraints in the environment to detect flaws in the fit of one to the other.

The Constraints

Seven constraints in the firm's environment are depicted across the top of the matrix. The first six are constraints that are external to the firm (C1-C6). The first of these six, the characteristics and behaviors of both consumer and industrial customers (C1) , is the lead concern, followed by current and emerging competitive challenges (C2). Channel concerns then follow (C3), after which any constraint imposed by the target country (obviously including the U.S.) is evaluated (C4), and this then leads into a single but critical aspect of the pervasive economic picture extracted for special attention -- currency constraints (C5).

Currency exchange trends and the current picture clearly influence export and import, and off-shore production, distribution, and supply chain strategies. (Recall that this offered structure is generic, and that the very smallest firms may be able, in short term, to ignore the implications of currency patterns and changes. It may not be appropriate in a specific consulting situation to discuss this constraint, but the entire framework is offered for critical consideration.)

Compliance issues (C6) include all governmental issues, as well as those of firm reputation, and the social image of the firm and its products. Governmental issues could be administrative agency compliance at any level (e.g., an executive order on technology transfer), legislative (e.g., Americans with Disabilities Act) and regulatory requirements, and changes suggested in market behavior to track with judicial rulings (e.g., a small student counseling service trying to decipher the effect of the U.S. Supreme Court's Ayers decision on the future structure and programs of all Mississippi universities).

Again, one might argue that the very smallest firms do not have such concerns. But the author would argue that these events reverberate through markets and reshape the environment, eventually for all. Finally, the sole internal constraint, the firm itself (C7), is defined by its own essential character, behaviors, ideas, and resources competencies, its leadership's attitudes, and its (written or unwritten) mission statement? What is the cash flow? Credit? These define realistic future possibilities.

The Strategy Elements

Strategy elements represent areas of planning set forth at levels of precision that enable task definition and tracking in the eventual strategy implementation phase. Not only must each strategy element satisfy the constraints of the environment, it also must not clash with other strategy elements.

Target Market

Honoring the primary constraint, first must come a clearly defined target market (S1, from Cl) , for which the product (or service) is designed (S2) . Without solid congruence of the defined target market to identifiable and reachable clusters of customers, the rules of chance instead of the rules of reason tend to prevail. The uncovered market needs of these customer clusters must drive all further effort. (A significant amount of SBI consulting energy is absorbed by marketing research and segmentation efforts at this very juncture.)

Product Design

Product (and service) design (S2) properly hinge first upon the constraint of customer demand, as embodied in the careful selection and targeting of a group of consumers in the market who respond homogeneously to the perceived benefits of some unique form of the offering. The engineering design also must accommodate, for an optimal profit, all lateral strategy elements, from ease of packing, to cube/density concerns in distribution, to ease and cost of production (and does the design use existing or require some or all new production equipment?).

Procurement Planning

Obviously, without elaboration, the design and demanded benefits dictate the quantity and quality of inputs required (S3). Here even a small firm of modest production clearly must make choices.

Production Planning

Here is the heart of a product manufacturing firm, the transformation of inputs (S4), and at what cost. In terms of the synergism of the Strategic matrix, return momentarily to the "Currency" environment constraint, seemingly not relevant to the small producer. If a significant investment in capacity is not supported by domestic volume, and the dollar is "cheap" abroad, an astute firm, even if very small, should evaluate the possibility of export to engage their idle capacity.

The Remaining Strategy Elements

Hence, in this manner, the power of the Strategic Matrix in the SBI consulting framework lies in its comprehensive attention, by design, to every interaction of environment and strategy. Who is to say that when an SBI client firm states their initial perceived problem as the "need to increase market share in a specific domestic area, that the final answer, after proper problem finding, will or will not involve a first export venture even for a small firm? Clearly the client's answer may actually be a better definition of that very domestic target market mentioned as the team walks in the door, the identification of better media channels to it, and more persuasive messages directed along those channels. If the export option emerges as feasible, can linkage be made with an appropriate partner abroad? For some firms, yes.

Ohmae (10) makes clear: (1) that a variable cost approach (essentially cost containment and reduction) frequently is no longer a "best fit" strategy in a global economy, and that (2) a need to more widely allocate fixed costs has emerged, whether by sharing a foreign distribution system with another firm, or by allocating fixed costs over additional volume created by satisfying a foreign market segment. New technologies, abetted by almost hemorrhagic technology transfers (often in spite of containment efforts), are increasingly replacing the variable costs of labor with the fixed costs of these new technologies on a world-wide basis.

When is such a concern appropriate? Only by "working" carefully through the matrix, discussing the client within the student group (and with the SBID, or other advisor), and identifying "unasked questions" and "unstated problems" can a quality consulting job be done. Realistically, these aspects of the case

may never be discussed with the client, but the possibilities will have been considered, and in a coherent framework.

It is left to the reader to explore critically and patiently all 70 cells, recalling a recent consulting experience, or a situation in his or her own firm. It then becomes clear that many cells, if not all, interact. It should be equally clear that even for some small clients, cells are ignored at the risk of sacrificing quality in the consulting experience. The matrix is an outstanding interactive "problem finder" and "possibility identifier."

THE USE OF EXAMPLES

Popular business magazines and journals such as Forbes, Fortune, Business Week, The Wall Street Journal, and the Harvard Business Review offer the SBID a cornucopia of articles that amply illustrate relationships in the matrix, and the foundations upon which the matrix is built. As a basic starting point, Henderson (6) discusses the Darwinian concept of "fit" to the environment that can illuminate for the student the concept of "any firm fitting the environment to survive" as a premise underlying the entire Strategic Matrix idea.

Charbuck (1) discusses high technology, Geographic Information Systems (GIS) as a tool in the S1 x C1 cell. Holstein and Kelly (7) detail several illustrative small business export ventures, among them vita-mix Corporation's export of blenders, which more than doubled the size of the firm, and Midwest Tropical's export of aquariums to Japan. The latter company is literally "ma-and-pa," run by a husband-and-wife team.

Clarifying sources abound, e.g., Lessard and Lightstone (8) offer a thorough discussion of currency exchange rate concerns in business operations (C5 x S4, C5 x S9, etc.) . Gomory and Gustka (5) clarify the idea of continuous improvement (e.g., S2 x C2), and worthy (15) discusses Japanese success with target pricing techniques (C2 x S10).

With such clear examples available and incorporated into the "student aspect" of the SBID's instructional process, the SBI student team can better understand business concepts, address them in plain English, and use cogent examples in presentations. There is no dearth of such sources.

CONCLUSIONS

There can be problems in bridging the verbal and conceptual gap that may prevail in many SBI consulting situations, most especially those involving the very small, often unsophisticated client. Misunderstandings at this juncture can taint the success of the overall SBI program, because apparently good recommendations by astute teams can wither and die if there is not a full and coherent transfer of knowledge to the client. To this end, an organizing construct is employed -- the Strategic matrix. The counseling process must include careful attention to the dynamic represented by the interactions of the cells of this environment analysis and strategy screening tool.

The use of this creative, evaluative tool, especially with appropriate examples from popular business and marketing sources, can lend much greater clarity and thoroughness to the SBI consulting process.

It is imperative that student SBI consulting teams and clients focus in an organized manner and clearly communicate during the dynamic of creating feasible marketing and business strategy. The framework of such an approach is offered here.

Probably there are few ideas too big for small business, only tools too small to consider the richness of possibilities.

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BARTER: A SMALL BUSINESS STRATEGIC OPTION IN A WEAK ECONOMY

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ABSTRACT

This paper probes the currently growing phenomenon of barter as a small business strategic tool. This development, and its relationship to current economic trends, is analyzed. From the findings of a research study, guidelines are presented for small business owners contemplating membership in a barter exchange.

INTRODUCTION

Humans have always engaged in barter, and the first prehistoric "small businesses" certainly existed before the invention of "cash." Yet the past few years have seen a significant rise in the use of barter by businesses in this country and in others. Specifically in response to the currently weak economy, many businesses (and primarily small businesses) have implemented the use of barter as a strategic tool.

Information on the growth and extent of barter in our economy varies by source but the general consensus is that somewhere between 200,000 and 400,000 small business firms have joined about 400 to 500 barter exchanges throughout, United States. While growth of these exchanges averaged about 8% per year in the 1980's, it has increased to about 12% per year in 1990-1991. The total retail value of these barter transactions in 1991 was about $6 billion.

Simply stated, a small business that belongs to a barter exchange is able to trade its goods and services with all of the other members of the exchange- typically several hundred businesses. The exchange acts as a clearinghouse and "bank" of barter debits and credits, and thus obviates the need for one-to-one barter: Member A can barter goods to Member B and then obtain services from Member C at some future date, without any obligation to take goods from Member B. The barter exchange typically charges an entry fee to new members, as well as an annual membership fee. Also, the exchange collects a commission (typically 5% to 10%) on each transaction, paid by the buyer and/or the seller.

In return for these various charges, the barter exchange does more than simply act as a clearinghouse. It will work to develop a minimal duplication of specific types of businesses. Directors of members are regularly published, as are newsletter and other publicity mailings to keep members informed of available goods and services and to encourage them to barter. Exchanges also monitor members' prices and other practices to assure fair and ethical conduct. Many businesses belong to more than one exchange, and most members use their trade credits to buy not only goods and services for their businesses, but also for their personal and families' use. Barter sales are conducted at full retail prices. For tax purposes, a barter sale is a taxable sale. Sales tax must be collected if appropriate and the sale must be reported with all other sales.

The primary benefit of barter exchange membership to the member firm is the potential to increase sales volume. This has the direct effect of greater inventory turnover. The other major benefit is the ability to obtain goods and services for the business and the owner without paying cash, and this reduces the pressure on cash flow. For the typical business with both fixed

and variable costs, barter sales reduce fixed costs per unit and can be considered validly profitable to the firm. Barter exchanges also argue that barter sales lead to greater awareness of the business, and thus in turn lead to more cash sales. As the currently weak economy has had a negative impact upon many small businesses' sales volumes and cash flows, these benefits of barter have increased in their attractiveness, and more small businesses have joined barter exchanges.

REVIEW OF THE LITERATURE

There have been many articles about this phenomenon written in the past few years, primarily in practitioner oriented business magazines and in the business sections of newspapers. These articles are largely similar in content and provide a summary overview of the recent growth of barter exchanges and membership and the mechanics of how they work. Usually a few highly satisfied businessperson members are profiled. A listing of some of these articles is provided in the References section at the end of this paper.

However, a search of the literature shows no academic business journal coverage of this topic, and no scholarly empirical research having been conducted.

RESEARCH OBJECTIVE

In response to this lack of empirical research and academic-level analysis of barter exchange membership, a research study was conducted. The objective was to develop a listing of specific guidelines for small business owners contemplating membership in barter exchanges (or for those who simply wish to know more about such exchanges). Furthermore, these guidelines would be of equal value to consultants who advise small business clients.

RESEARCH METHODOLOGY

After undertaking a review of the existing literature, a two-stage series of in-depth telephone interviews was conducted with owners and managers of barter exchanges and with barter exchange members on the East Coast, in the Mid-West, and on the West Coast of the United States. The first stage of general questions led to a more focused set of interviews in the second stage. Most exchange owners/managers and members were very cooperative and very willing to speak openly and fully.

RESEARCH FINDINGS

The respondents' comments, opinions and attitudes proved to be highly consistent. As the interviews progressed, it became apparent that the responses could be used to generate a valuable set of guidelines for the small business owner. These guidelines can be structured for three stages of advice to the small business owner: Will barter be applicable and beneficial for your company? How should a barter exchange be chosen? How can you fully benefit from barter exchange membership?

Some small businesses can benefit more from barter exchange membership than can others. A service firm will benefit if there is unfold service time available. Extra service (ie. owner or

employee hours) that is not being sold for cash can thus be used to create barter or "trade" credits. For a business selling products rather than services, the critical issue becomes gross margin. There must be sufficient spread between the cost of the product and the retail price. The greater this spread, the more valuable the trade credits become. Of course, there should be no limits or constraints on the availability of service time or of products, since it is not beneficial for barter sales to in any way conflict with or limit cash sales.

Issues of supply and demand should also be considered. If a company's product or service has very limited or specialized demand (glass eyes or nuclear reactor repair) then exchange membership will have little value. A company's product or service should be useable by a good portion of the exchange's members. Ideally, the demand for a company's barter sales should approximately equal the owner's demand for other exchange members' products and services.

The degree of importance of a company's cash flow and inventory turnover are also major issues. Barter exchange membership can be more valuable to a company with cash flow problems than to a company without such problems. Barter credits may allow a cash-starved firm to obtain needed supplies that it could not otherwise obtain. Similarly, barter sales add an extra benefit for the company that needs to turn its inventory more frequently (if its products become dated or stale, etc.). Conversely, barter sale are less valuable for firm with a stable, non-aging product and rising supplier costs. Of course, barter can still be of value to an owner whose business has strong cash and inventory positions.

Once a small business owner determines that barter exchange membership would be of benefit the issue becomes which exchange to join. In smaller cities only one exchange may exist, but in most localities a choice can be made.

The business owners should investigate the alternative exchanges carefully. The goal is to join an exchange that serves its members well. The business owner should talk to the exchange's managers and staff, and not simply to the person selling exchange membership. A good exchange will provide a sampling of current members who can then be spoken to. One should also obtain current directories to determine the number, variety and geographic location of the members. There should be a good mix of useful goods and services available through the exchange. A good exchange should also provide a wide variety of assistance to members, such as help when looking for specific needs. Does the exchange send out frequent newsletters and other mailings, does it have membership meetings and activities, and are exchange staff members available to help members when they ask?

Other measures of an exchange's quality are its longevity and its membership in such national organizations as the International Reciprocal Trade Association and the National Association of Trade Exchanges. Such membership tends to foster higher ethics and greater services on part of the exchange. Of course, the business owner should also determine the various fees, charges, rules and regulations of the exchange being considered.

After a small business owner chooses a barter exchange and joins it, the guidelines center on conservatism and control. Although the exchange will encourage the member to sell and buy (that is how it generates an income), a new member should start slowly and carefully. Barter sales should be kept under control so that they do not interfere with cash sales nor become too great a percentage of total sales. Generally, only in-stock items should

be sold and only at full retail prices-never at discount or at sales prices. A new member's trade balance should be kept moderate until the member has a clear feeling for his or her barter purchase needs and expected levels. Exchange rules vary, but most exchanges allow members to limit or refuse barter sales when they wish to and this option should be used as needed.

Similarly, barter purchases should be kept under control. Because cash is not being used, it is easy to get carried away (as it is in Las Vegas using tokens or chips instead of "real" money). The exchange member should set quantitative and qualitative purchase limits and guidelines for him or herself. Should trade credits be used for personal, nonbusiness purchases? Would owner spend cash on this product or service? Is it really needed? Perhaps a monthly budget would be of value. The on-going question is: What was the true cost of the trade credits earned by barter sales and is this barter purchase worth that cost?

CONCLUSIONS

Barter as a small business strategic tool is a growing and significant phenomenon in our economy, and small business owners should consider this option as part of their total strategy package. Such a strategy can serve to offset some of the negative impact of a weak economy-especially the impact on sales volume, inventory turnover, and cash flow. This paper has presented a series of guidelines which can assist the small businessperson in determining whether his or her firm will benefit from barter exchange membership, in choosing an exchange to join, and in making the most out of exchange membership.

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EFFECTIVE PARADIGMS FOR SMALL BUSINESS IN THE CHANGING GLOBAL ECONOMY: A CASE STUDY OF A FLEXIBLE MANUFACTURING NETWORK

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ABSTRACT

Business is shouldering the responsibility to thrust the U.S. into the productivity leadership role globally as the 21st century approaches. Corporate America is responding in part by spending close to an estimated $14 billion dollars on outside advice in response to global competition, rapidly developing technology and changing work force (12). How is the small business sector responding? Realizing that the survival rate of small business is somewhere between 20% to 50% in the first 5 years, there is a need for new models to enhance small business success. A case study of one such model, a flexible "manufacturing" network, is described. Effective utilization of emerging models will enable small businesses to compete in the changing global economy.

INTRODUCTION

The standard small business/venture creation training program, current text books, trade manuals or collegiate curricula have common themes for starting and running a business. Strategic alliances, partnering, mentors, networks, information technology, flexible manufacturing network systems, enterprise zones, business improvement areas usually are not grist for the challenge. Most views of the entrepreneur or small business owner still portray the once stereotypical lone "Cowboy." However, changing global economic conditions are dramatically impacting the environment of entrepreneurship necessitating significant paradigm shifts about the way business is done. These forces are not going unrecognized. In a recent issue paper, the U.S. Small Business Administration noted the need to support the small business sector as a critical ingredient in the nation's ability to remain a competitive force in the global marketplace (19).

The independent "cowboy" entrepreneur of yesterday will have an increasingly difficult time in today's interconnected interdependent competitive environment. This paper focuses on the options which have the potential for a significant impact--the strategic alliance-connectivity models. One variation, a flexible manufacturing network, is described. The network, "DownHome Washington@" implemented by the Snohomish County Private Industry Council for small businesses in timber dependent communities of Washington State demonstrates a potential direction for the future.

STRATEGIC ALLIANCE-CONNECTIVITY MODELS

Connectivity models are collaborative opportunities of two or more individuals representing different organizations. The collaboration is designed to enable each organization to be better off as a result of working together for a common goal. The process is designed to have synergistic effects. Connective models range from rather elaborate public-private partnerships of many to ad hoc short term one project undertakings between as few

as two individuals. Such models run the gamut from business, labor and government social partnerships or tripartite systems in which the effective worker training policies and practices in Europe are designed and executed (20) to the Japanese Keiretsu "group companies" with an equity stake of 3% to 5%, or International Computers Ltd.'s collaborative arrangements with Fujitsu in Japan, to Nissan distributing Volkswagens in Japan, to hybrid arrangements of Research and Development partnerships (1), and to Japan's funding for $500 million annually of 170 technology extension centers (4).

The Strategic Alliances--Connectivity Models, include but are not limited to multi-agency network entrepreneurial support systems of Singapore, the flexible manufacturing network systems in Europe and the U.S. There are service brokering, technology extension centers, AD HOC Flexible alliances to accomplish a specific short term goal, alliances with suppliers or just a sales function or networks to utilize technology transfer.

Tom Peters refers to the temporary alliances and networks as connection power (16). Peters observes that temporary alliances "the ability to tap, and then work with a shifting away of participants for a finite period of time is perhaps the premiere skill called for in the emerging economy."

In the U.S. over 50 networks of firms stimulated by public actions have been identified operating in at least 14 states. Though firm independence is heavily ingrained, there is increasing awareness of the limits of individual firm resources. "As the prospects of gains from joint activities increases, so does the willingness to participate, (5, p. 10). The strategic alliances are called by various terms, represent diverse economic fields, have a wide range of members, and have a diversity of activities. In Minnesota there is a Tri-State Manufacturing Association, New Jersey a Patterson Textile Center, in Washington a Wood Net, in Ohio a Southern Ohio Wood Industry Consortium in Massachusetts a Needles Trades Action Project (5, pp. 4-5). From metalworking, general manufacturing, apparel, boat building, machine tools, wood products to furniture many different industries are represented. The activities represented are diverse: marketing, production research and development, training, technology transfer, buyer supplier contracting, total quality management, niche marketing. Roy L. Harmon in Reinventing The Factory II (7) writes about creating "partnerships-in-profit" with customer-vendor relationships.

Dramatic opportunities from strategic alliances have been documented in Denmark and the Emilia-Romagna area in Italy. C. Richard Hatch reflecting on experiences in North-Central Italy in Emilia-Romagna region (9) noted that rather than building big businesses networking enabled small firms to perform like the best of big sized businesses. The small interlinked enterprises in Italy are brought together around shared services such as purchasing and market forecasting. Large numbers participate in Italy, Denmark, and Europe, "because networking contributes visibly and immediately to the bottom line, to profits" (10, p. 14).

In Singapore the intricate multi-agency network involves government agencies, the private sector, and academic institutions to help face and solve issues identified as being vital to growth and development of Small and Medium Sized Enterprises. The issues involve finance, human resources, technology transfer, productivity and business development (6). In the basic model (Figure 1), small firms are able to perform like big ones via network cooperation (9; 13).

FIGURE 1
NETWORK MODEL
BASIC

```
FIRM A                SERVICE
                      FIRM A

FIRM B     BROKER     SERVICE
                      FIRM B

FIRM C                SERVICE
                      FIRM C
```

The firms may be using the network to get better prices from a supplier (represented as a service firm), international marketing services from a marketing provider, and employee training from a training provider. In the more complex networks or alliances forming around shared services Hubs or service centers (Institutes in Italy) are formal to manage the affairs of the networked firms (Figure 2).

FIGURE 2
NETWORK MODEL
(INSTITUTE/HUB)

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                 ----------------
FIRM A -   |   HUB/STAFF    |    - FIRM I
           |                |
FIRM B -   |       R&D      |    - FIRM H
           |                |
           | MARKET ANALYSIS|
           |                |
FIRM C -   |     BROKER     |    - FIRM G
           |                |
FIRM D -   |     OTHER      |    - FIRM F
           ------------------
                    |
                 FIRM E
```

Firms are usually related in some fashion as all part of the same industry. There is a broker (or brokers)-knowledgeable individual champions or institutions capable of bringing the various parties together to solve problems and determine directions. There is usually a staff with the broker function being performed by staff or including the broker.

The European "flexible manufacturing network," almost a rebirth of a craft guild on an international scale, is an even more recent and technological response to international markets. American examples of industry cooperation, both formal and informal do exist such as the Puget Sound Electronics Training Foundation (Snohomish County Private Industry Council, Everett, WA). Originally an informal network of electronics related businesses in Snohomish and King Counties formed to develop, maintain and share a quality workforce, the Puget Sound Electronics Training Foundation incorporated as a nonprofit to

train entry level and other manufacturing personnel in the rapidly changing electronics field.

Strategic alliances are not inherently easy to form and academic study of the field is limited (14). Yet, advice abounds on how to make alliances work (15; 8; 11; 17; 3; 2). In the U.S. the application of such connective power is resisted for various reasons: a history of antitrust in the U.S. makes a business person hesitant, strong individualistic pride in own innovation and creativity, the desire to answer to no one. Competition not cooperation has been the model. The "cowboy" owner-manager needed to be in control. Too, in general there is a basic distrust of those involved in commerce. Since, successful alliance occurs where each organization fulfills its mission and turf issues are at a minimum or nonexistent education and training on the use of the models is called for.

The benefits for developing and nourishing connectivity are such to compel action. From enhancing technology transfer, blocking and co-opting competition, participating in broader economic development, spreading risk and cost, developing trained new hires, finding and developing international or inter continental or inter country markets, reduce purchase costs, enhance management development, sharing specialized services, developing information technology i.e. being able to survive and compete, strategic alliances are a critical option for small business.

Though various models exist, a more in-depth look at one network, "DownHome Washington@" is an example of issues, challenges and possible benefits of a current application for small enterprises. "DownHome Washington@," is a response to the need for cooperation among small businesses, in this case to get goods and services to market and to provide technical training where needed most.

"DOWNHOME WASHINGTON@" A FLEXIBLE MANUFACTURING NETWORK CASE STUDY

Background

Snohomish County in the northwest part of Washington State represents a microcosm of Washington's two economies. While the southwest portion of the county is flourishing with rapid business diversification and expansion, rural parts in "the other Snohomish County" have yet to fully adapt to, or recover from deep economic structural changes that have been occurring since the late sixties. Labor markets are not diversified; worker skill levels do not match increased needs for precision production, computer skills, managerial and professional jobs in growing air-craft manufacturing, high technology and professional service fields. Timber and wood products workers are far more strongly attached to their occupations and typically more resistant to and resentful of what they perceive as "outside changes" to their way of life. These factors call for innovative methods to help workers, their families and their communities adjust.

Both log-export restrictions and reductions in federal timber supply will impact communities such as Darrington, Gold Bar, Granite Falls, Index and Sultan. These communities are faced with significant long-term job loss and subsequent economic hardships due to a decreased tax base and increased demand for services.

Specific Need

In 1987, DCD (Department of Community Development) through the Washington Partnership conducted a survey of homebased businesses located in Okanogan and Grant Counties. In these sparsely

populated areas, more than six hundred homebased businesses were identified. These business owners have no effective means of product marketing their skilled artisan crafted items and little access to technical assistance geared to very small businesses.

The PIC is a private non-profit organization of which there are 600 similar organizations nationally. Its mission is joining people and resources to meet employment needs (18). The PIC developed a program which creates a "manufacturing"/(marketing) network which is a voluntary association of individual producers who agree to joint marketing to reduce costs and gain access to wider markets. The network is coordinated by a marketing professional. In terms of the Network Models in Figure 1 and 2, the Snohomish County model is a developed variation of the Basic Model with the PIC actually providing the broker functions along with training, technology transfer and a professional marketing person for national and international market development. Each business owner produces marketing materials for his/her product(s). These materials are assembled into a standardized format for each business as a loose leaf catalog. Unlike craft coops or individual producers, the network affiliated producers will sell product at wholesale through a distributor network developed by the marketing professional.

This design allows the marketplace to determine the acceptance of the product. Businesses receive the proceeds from their own products only, and no company structure is needed to operate the network.

The network provides rural producers access to urban, regional, national and international markets at minimal cost, thereby enlarging their markets. As product demand exceeds the production capacity of the business owner, new jobs will be created.

The plan builds its base of support at the grassroots level, i.e., with small product producers, typical community members. While past efforts, including initial planning done by the PIC, focused on retail sales, this project focuses on creating a wholesale distribution network to build product and sales volume. Finally, and most importantly, innovation rests in the simplicity of the proposed idea, i.e., connecting small, homebased businesses, without the need for a large management structure, into a network that provides immediate return on investment.

The process for the Snohomish County pilot (see Figure 3) is applicable to other rural communities statewide, nationally, and internationally. This is one example of a strategic alliance connectivity model. Different goals and different resources will affect the alliances and how they are adapted. The models exist, the need is now for small business to utilize connectivity concepts.

SUMMARY AND CONCLUSION

The Snohomish County model of a flexible manufacturing\marketing network serves to give a clearer focus to the possibilities that exist in strategic alliances. The need for application of connectivity, networks, and partnerships to small business is demonstrated. Indeed there are countless options for small business to compete in the changing global economy in the 21st" century. A flexible network that focuses on marketing and production has been explored as a step in that direction.

FIGURE 3
"DOWNHOME WASHINGTON@"-
SNOHOMISH COUNTY
FLEXIBLE MANUFACTURING NETWORK

1. Initial needs assessment. Community, PIC, other groups, indicate need and support. Form working agreements with local PICs and Economic Development groups from each community. Select Marketing Professional.

2. Develop program operating plan including network membership, marketing plan goals and objectives, marketing budget, potential seed funding sources, target markets, product inventory and technical assistance for homebased businesses.

3. Develop a household survey instrument to identify products and producers, past product marketing efforts, sales history, sales and goals, technical assistance needs and other perceived needs.

4. Disseminate survey to local households through school children packets home, community clubs and social groups in each of the communities. Expected return of 10- 15 %. Surveys to be sent and completed.

5. Review survey findings to determine feasibility of project. Implementation based on producer capacity and ability/willingness to change/update product lines, produce at wholesale and participate in the network.

6. Develop product inventory for capsule product descriptions.

7. Identify and establish professional affiliations with trade associations and tradeshows necessary for conducting a marketing campaign. Build credibility through networking.

8. Identify, select and plan wholesale marketing strategies, develop prototype catalogue, tools to effectively promote awareness and identity of the DownHome Washington program and products within the state, region and beyond.

9. Identify technical assistance needs, such as product cost analysis for homebased business owners. Develop response plans to meet their needs.

10. Follow up and ongoing evaluation.

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ADAPTING TO CHANGE: PREPARING FOR THE DISASTER RESPONSE

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ABSTRACT

The past few years have been plagued with disasters which are disruptive to business activity. In addition to hurricanes, typhoons and earthquakes, man made disasters such as the post Rodney King Looting, have a negative impact on small businesses in the communities involved.

This paper covers the disaster experience of the University of The Virgin Islands SBDC and the post disaster programs developed to assist small businesses. Organizations such as SBI's, MBDC's and SBDC's should plan for disasters in order to maximize community service during the post disaster period. Efforts to coordinate the activities of these organizations will help to maximize community benefit.

INTRODUCTION

Nothing can change economic conditions and the business environment faster than a disaster. In September, 1989, Hurricane Hugo hit the island of St. Croix and destroyed many small businesses. In the post storm period, there was pandemic looting which destroyed even more businesses. Damage to the community was so severe that only one out of five major food stores survived intact. This low survival rate was characteristic of most business activity. Those businesses which survived and those who responded fastest and quickly reopened were able to make windfall profits due to increased market share.

In addition to the damage to business, half of all homes lost most of their roofs and 95% suffered significant damage. While the University Of the Virgin Islands Small Business Development Center on St. Croix was not severely damaged, there was water damage, broken windows and the loss of electricity, water, phones and air conditioning.

The staff did not fare as well as the office. The Associate Director lost the roof of his house and subsequently all of his personal belongings. His vehicle was dented on all sides. The administrative assistant also suffered losses due to the hurricane. Her dwelling was damaged, belongings lost and her vehicle damaged.

Despite the personal problems, the SBDC was open two weeks after the storm and assistance was once again being offered to the small business community. One significant difference between St. Croix and the U. S. Mainland is that we are 1,500 miles from the continent and not highly visible. It is unfortunate but "out of sight - out of mind" holds true in multiple disaster situations. When Hurricane Hugo hit South Carolina and was followed shortly thereafter by the San Francisco earthquake, the burden of educating businesses and residents to the potential disaster aid available to them fell upon the local community. Hence, the SBDC and the local branch office of the SBA accepted the burden of educating and counseling local businesses.

In addition to Hurricane Hugo, the St. Croix sub-center had to face a second disaster in January 1992, when there was a fire in the anchor store of the shopping center which houses them. Services rendered to the 30 businesses in the shopping center paralleled those offered all businesses in the aftermath of Hugo, but on a much smaller scale.

In the aftermath of Hurricane Andrew in Florida and Louisiana, Mark Hosang of the Florida Atlantic University, SBDC contacted us for information on responding to a disaster. While there are articles on small business planning for disaster (Hirsch, 1990 & McElveen, 1990) and also on businesses coping with disaster (Hector, 1989; McElveen 1990 & Coon, 1992), there is nothing on the role of a small business counseling organization offering post disaster assistance. In response to the request from Florida, we compiled a list of problems and programs that can be handled by an SBI, SBDC or MBDC.

POST DISASTER ACTIVITIES

In the aftermath of a disaster, there are two major problems which must be faced by the business community; access to information and handling the mountain of paperwork that federal agencies require for disaster assistance or insurance companies require for claims processing. One local investigator reviewed FEMA records and found that the agency does not necessarily give all the benefits an organization is entitled to - unless the applicant is completely familiar with the programs. Hence, two of the biggest SBDC efforts in the post Hugo period were to act as an information center and to help people with the paperwork. All of the following were done at the St. Croix sub-center and should be considered in a post disaster plan.

1. Develop a business task force of University faculty and business students. This would best be coordinated by the SBI if one existed in the community. Faculty and students can be used to isolate local problems and also act as volunteers to help business people fill out forms for their SBA disaster loans.

2. By far, the biggest manpower commitment was assisting businesses with disaster loans. Businesses who were uninsured and those who were under insured will be eligible for disaster loans. These are actually low interest business loans based on collateral and ability to repay. Hence, forms will include lists of business assets and pro forma income statements along with prior year tax information. Many people will have to be counseled on acquiring duplicate records and filling out the forms. Almost continuous seminars were offered at varying times and locations using SBA speakers to educate the business community. In the 90 days following Hurricane Hugo, the St. Croix SBDC sub-center assisted approximately 10% of all of the registered businesses on the island.

3. Insurance counseling and legal advice. Most businesses are both unaware of the extent of their coverage and save money by being under insured. Also, in a major and costly disaster, national and formerly reputable insurance companies will try to cut cost by minimizing their claims payout. They will follow the letter of the law and not the spirit of the contract or claims made by insurance agents during the sale of the policy. Furthermore, it is often in the vested interest of the insurance company to be a small business fail. According to Coon (1992), "you have to consider the fact that if the business does not start over or fails prematurely, then the insurance company pays out less in losses."

There should be ongoing seminars to educate businesses about co-insurance, lack of insurance, policy holder rights and public adjusters. This last group, public adjusters, are a necessary evil of disasters and the business community should be made aware of their services. For 3-10% of the claim, they handle all insurance matters. They naturally work hard to maximize the payout. This is particularly true in an isolated disaster such as a fire.

For large scale disasters where there is a chronic shortage of public adjusters, it may be more profitable for them to get a commission from a dozen people at a 75% payout than to work conscientiously on a 100% recovery from one client. However, for conscientiously public adjusters working in disaster situations, their records can be used to support disaster loans if the businesses were under insured.

4. Use SBI students or task force members to locate neighborhood sites which can be used as counseling centers for small businesses to fill out forms or to hold information seminars. Since space after a major disaster is at a premium, this is not a trivial task.

5. Work with the Better Business Bureau to alert the business community to bad contractors, con-men, fly-by-night organizations and carpetbaggers.

6. The counseling groups should act as a clearing house for legitimate contractors, and do surveys on the availability and prices of materials needed for reconstruction. We published a pamphlet on prices and availability of building materials about 2 1/2 months after Hurricane Hugo. It was still needed then because while the world forgets about you very quickly, most people will not have the money from insurance or SBA disaster loans until three to six months after a disaster and hence will be unable to rebuild until then.

7. Because Hurricane Hugo was so large and processing times were so long, sources of bridge financing were developed and mechanisms for the business community to access this loan pool were established.

8. Early in the year following a disaster, you should hold seminars on the tax consequences of the disaster. Uninsured losses can be carried forward or backwards after being used in the current year, so figuring out how to maximize the tax benefit is complex.

9. All community efforts should be coordinated between the SBDC's, the MBDC's, the SBA, and the local SBI's. There is more than enough work for everyone and coordination will minimize wasted effort. In St. Croix where no SBI personnel were available, SBA disaster personnel manned desks at the SBDC and assisted small businesses in filling out disaster loan applications.

10. Keep accurate records, particularly SBA form 641 request for counseling. All of your staff of disaster assistants may be less than perfect so the disclaimer is wise for any organization offering disaster assistance. Also, three years from now a myopic accountant who never watches CNN news will arrive to audit you, be unfamiliar with your post disaster plight and not intrigued with your war stories.

Any organization that received federal funds better be prepared to defend their records. Federal Emergency Management Agency

officials are empowered to give on the spot cash to any person or organization assisting in disaster recovery. However, federal auditors are empowered to recover every cent that can not be validated as properly spent. Hence, records are essential.

CONCLUSION

There is a cliche among planners that "plans never work but planning does." This is particularly true when facing a disaster where business people, bankers, business counselors, professors and students are also victims. Those who survive a disaster are generally over extended and disorganized. This impacts potential productivity. Even if the entire plan does not work, it will provide an initial sense of direction which allows SBI's, MBDC's or SBDC's to start attacking problems in a systematic manner. These business counseling organizations will be more effective if they work together to coordinate their efforts in advance and also if they have a general sense of direction provided by a plan.

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