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AN ANALYSIS OF SUB-CONTRACTING RELATIONSHIPS BASED ON THE SUB- CONTRACTOR/CUSTOMER TECHNOLOGY EXCHANGE PORTFOLIO. SOME EMPIRICAL FINDINGS.

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ABSTRACT

In the last decade subcontracting relationships have assumed a particular weight in the strategy of managers in search of efficiency, flexibility, and quality. Subcontracting is not a new industrial practice, but reasons and ways firms recourse to it have changed, and exchange relationships have become highly complex in their nature. In order to manage complexity, multiple channels for the coordination of the activities are developed, and an intensive exchange of technology is established. This paper reports some findings of an empirical exploratory study aimed at investigating the nature of technology flow in the customer firm/subcontractor interaction. A sample of Italian small/medium subcontractors was considered.

INTRODUCTION

In the last few years collaborative agreements between entrepreneurial firms and large companies have become increasingly common. A frequent form of cooperation is subcontracting in which a small/medium sized firm produces parts for a large final manufacturer or performs operations for that producer as a wage work (8; 11). These relationships exist in almost every industrial sector, even though they are common in industries characterized by especially complex products, some of which involve thousands of components (i.e. automobile, aircraft and tool machine manufacturing). By using a pool of external suppliers a greater flexibility can be combined with a constant high productivity. Sharing production among firms determines a division of technological areas of specialization, and the subcontracting system becomes a distribution channel for technical knowledge, routines and procedures transfer, and organizational learning for small firms.

Based on the foregoing discussion an interesting research question arises, that is what kind of relation exists between the nature of the technological flow of the customer firm/subcontractor business exchange, and product and subcontractor's characteristics.

AN OPERATIONAL CONCEPT OF TECHNOLOGY

A firm's technology is the set of technologies that it utilizes to carry on its activities. This set of technological competencies and capabilities continuously modifies as the result of efforts of internal or external development. Technology can be embedded in the individuals, in the structure and culture of organizations, in its records and routines, in its equipment (7; 12). Diverse modes of organizational learning convert individual expertise and knowledge into organizational technologies. According to

Nelson and Winter (1982) firms develop routines which reflect the organization's ability to adapt to changing circumstances and establish distinctive capabilities and skills.

Unfortunately, technology remains sometimes an ambiguous concept, not easy to be operationalized. A way to overcome this difficulty is to break it down in its basic components. In this paper a definition of technology adapted from that proposed by the Technology Atlas Team (1987) is used. Four basic components of technology are identified: hardware (HW), object-embodied technology; human skill (HS), people-embodied technology, which is the know how of carrying out tasks; information (IN), document-embodied technology; rules/procedures (RP), institution embodied technology. This latter establishes the nature and sequence of the information flows, machines to be used, and skills required.

Table 1 reports the classification used. This taxonomy allows the analysis of how technology flows among firms and the ways a subcontractor can internalize new technology.

TECHNOLOGY TRANSFER, ADAPTATION AND COORDINATION MECHANISMS

Subcontractors and customers often establish lasting collaborative relationships, and when the business exchange accounts for a relevant share of subcontractor sales or customer's needs a significant adaptation process occurs (5). This adaptation develops both as a process of organizational fit and as a process of day-by-day coordination.

The process of fit between customer and subcontractor is necessary to establish a common language to make effective communication between the two parties. It allows to increase the technological capability of one of the parties involved, and to make it homogeneous and compatible with that of the other. This adaptation usually requires a substantial modification for the organizations involved, and considerable investments, so to increase dependence between the parties. The subcontractor can adapt its manufacturing process to that of its customer by purchasing equipment which can use part programs for NC machines created by the customer, by introducing logistic systems, common scheduling and planning procedures, and routines for quality control. The other form of adaptation almost occurs on a day-by-day base, with the coordination of the subcontractor's operations with those of its customer. Coordination is necessary to cope with the uncertainty, ambiguity and interdependence of the system, arising from the absence of information or the presence of conflicting interpretations of a situation, and the organization of productive system (4; 14; 15). In order to reduce uncertainty and ambiguity and cope with the system interdependence organizations have to transfer and process information (2). The adaptation and coordination mechanisms represent effective means for the transfer of technology across firms.

Empirical research aimed at studying the interaction between small and large firms identified eleven channels as frequently used by firms to transfer technology (3): raw materials, sub- components and pre-machined parts, machinery and equipment, training, advice on specific issues, in-progress check, advice for the adoption of quality routines, quality management procedures, meetings, documents, and different forms of collaboration at the start of the transaction. These channels transfer technology under the four forms descripted.

Table 1 - The four components of technology

Technology hardware-embodied (HW) It is in form of equipment, machines, tools.

Technology document-embodied (IN) It is in form of manuals, designs, schemes. It describes how to use a single object. It is always codified.

Technology people-embodied (HS) It is in form of judgements, opinions, suggestions, impressions, skills. It is not codifiable and transferable only through people.

Technology rule-procedure embodied (RP) It is in form of scheduling plans, procedures, organizational rules. It establishes what kind of relations exist among HW, IN, HS for task execution. It can be formalized and codifiable with a different degree.

METHODOLOGY

Data were collected through face-to-face interviews with entrepreneurs, technicians and plant managers from the end of 1990 to 1991. According to the author's experience a structured face- to-face interview approach can yield more reliable data. It allows the interviewer to elaborate on those questions that might cause difficulty, and to gain a visual impression of the object of the survey. Each respondent was interviewed by means of a questionnaire seeking data on economic and other firm characteristics, such as location, sales, employment, technical/manufacturing capability, and interaction modes with the main customers.

A sample of 59 subcontracting firms was studied in depth. All firms investigated are located in Italy. They subcontract to customers selling in the aerospace/electronics, automotive, and medium-low technology industries (electrotechnology, tool machine building, textile-machine) . The average size of a sample's firm is 82.1 employees (sd = 112.7), sales per year 13.234 billions of Lira (sd = 29.37).

Every subcontracting transaction is characterized by a certain combination of the four technology components. This combination determines the technological portfolio of the customer/subcontractor exchange. The model of the technology transfer channels proposed by Esposito and Raffa (1991) is used here to study the nature of technology transfer from a customer to its subcontractor, and identify the technological portfolio.

Each respondent was asked to judge the importance and utility of each channel to transfer technology in his factory according to a value scale from 1 to 9. According to Saaty (1980) this scale captures fairly well the preferences of an individual. Every channel vehicles technology in forms of hardware, skills, information and organizational rules and procedures at a different rate. In order to measure how each channel affects every component, a major assumption was introduced, that the influence of the flow of technology along the channel on each technology component was given by the following relation:

TC(i) = [E (w^I(j) C(j) + w^II(j) C(j) + . .}/V(maxi) j = 1, . . ., 11 where TC(i) is the generic technology component

C(j) is the utility-value given to channel j by the respondent

V(maxi) is the maximum possible value for the channels influencing that component

W(j) is a weight measuring the magnitude of the effect of that channel on the component i. w^I(j) measures 1st order effects, w^II(j) measures 2nd order effects, and so on.

Some discussion with business consultants, entrepreneurs and firms managers made it possible to build a matrix of weights accounting for the contribution of the channels of technology transfer to each component of technology. A "pairwise comparisons" approach common in the Analytic Hierarchy Process (AHP) technique was used to determine weights.(1) A second assumption was done, that all the effects were of the 1st order. Consequently, only w^I(j) values were considered. In Appendix 1 the mapping of the relational system for the evaluation of the technological portfolio is reported.

Cluster analysis was used to group firms, using as the clustering variables the four components of technology. The K-Means algorithm proposed by MacQueen was used as clustering technique. Because the algorithm required to specify in advance the number of clusters (K), the software program was made rerun for various choices of K in order to obtain K not repetitive combinations of technology component measurements having the highest F-values.

For every subcontractor its first and second customers were considered on average the sales for the first two customers accounts for more than 65% of total sales. In order to take into account the volume of the business exchange, the flow of technology from the customers was weighed with the percentage of sales.

ANOVA was used to test the difference between the four clusters.

(1) AHP is a technique developed to find priorities of different alternatives relative to an object reducing a sequence of priority problems into a sequence of pairwise comparisons according to certain criteria (10;6). In this case the criteria were the four technology components, the alternatives the eleven channels of technology transfer.

RESEARCH FINDINGS

Table 2 shows the Correlation Matrix among the values of technology components for the main two customers. A compensation effect between some components of technology emerges. Particularly, an increase of HW determines a decrease of IN and, with a lower intensity, a decrease of HS. Generally, the more technology is transferred lending specific equipment and specialized machinery to the subcontractor, or providing it with the raw materials, the less it is necessary to transfer a rich written technical documentation. As an illustration, let us think at a firm which receives a die and the raw material to make plastic mouldings from the customer. This firm will need only some indications about how to blend the plastic powders, the value of temperature, and the number of pieces to produce. The same is for people-embodied tech-

nology. The stronger is the weight of the physical component of technology, the less relevant is the weight of people. In the same way, an increase in the value of HS determines a decrease in RP (and vice versa). This is particularly true when organizational rules and procedure are easy to be codified, and after being transferred into a firm, they become routines. That is the case of the procedures a firm must implement to manage quality control. This compensation effect among the components of technology remains considering the relationship with each customer separately. The outcomes from cluster analysis confirm this compensation effect.

Table 2 - Correlation matrix of the technology components. First and second customer (source: database ODISSEO)

HW IN HS RP

HW 1.000 (0.000) IN -0.734 1.000 (0.000) (0.000) HS -0.542 0.148 1.000 (0.000) (0.263) (0.000) RP -0.313 0.184 -0.522 1.000 (0.016) (0.162) (0.000) (0.000)

Bartlett-Chi Square statistic: 621.018 Prob- 0.000 note: probabilities are in bracket

Table 3 illustrates what happens to the four technology components passing from the first to the second customer. The variables considered in the correlation were obtained as the difference between the values of each technology component for the first two customers, then normalized by dividing it for the maximum value of the technology component. Technology components tend to vary in the same direction. An increase in the flow of technology in one of the four forms determines an increase in the flow in the other three forms.

Table 3 - correlation matrix of the difference of values of technology components between the first and second customer (source: database ODISSEO)

DHW(12) DIN(12) DHS(12) DRP(12) 1.000 DHW(12) (0.000) 0.357 1.000 DIN(12) (0.033) (0.000) 0.393 0.940 1.000 DHS(12) (0.013) (0.000) (0.000) 0.339 0.947 0.888 1.000 DRP(12) (0.051) (0.000) (0.000) (0.000)

Bartlett-Chi Square statistic: 255.834 Prob- 0.000 note: probabilities are in brackets

Firms' characteristics, product and market strategies

By means of cluster analysis four kinds of subcontracting relationships were identified, depending on the feasible combination of the four technology components. Summary statistics for the 4 clusters are shown in Table 4.

Table 4 - Summary statistics for the 4 clusters of firms (source: database ODISSEO)

Variable DF DF F-ratio Prob

Hardware 3 55 108.61 0.000

Written 3 55 15.22 0.000 Information

Human Skill 3 55 61.85 0.000

Rules and 3 55 25.31 0.000 Procedures

The four clusters show 4 diverse combinations of the components of technology which indicate four types of technological portfolios (Table 5).

Table 5 - Technological portfolio and firms' characteristics (source: database ODISSEO)

Cluster 1 Cluster 2 Cluster 3 Cluster 4 Anova (probabilities) Total of firms=59 n = 31 n = 15 n = 7 n = 6 HW = .03 HW = .22 HW = .05 HW = .35 IN = .35 IN = .28 IN = .38 IN = .25 HS = .29 HS = .19 HS = .07 HS = .07 RP = .33 RP = .30 RP = .51 RP = .33

AGE (years) 31.00 19.40 27.33 17.33 0.013 SIZE (employees) 255.42 43.5 23.0 29.3 0.489 SALES (billion) 24.58 3.67 2.68 2.187 0.065 INSALES (%) 0.16 0.21 0.17 0.36 0.185 SALEMP 0.128 0.080 0.104 0.072 0.001 %PR(1) 0.63 0.67 0.79 0.5 0.008 %PR(123) 0.92 0.97 0.92 0.89 0.413 REGMARK 0.53 0.75 0.74 0.87 0.006 ITAMARK 0.87 0.96 0.96 0.88 0.243 %CU(12) 0.69 0.76 0.57 0.83 0.034 FTECH(1) 1.712 2.408 1.134 1.522 0.001 FTECH(2) 1.270 1.805 0.652 1.061 0.041 DFTECH(12) 1.571 2.278 1.044 1.412 0.002 DCOMP(12) 0.142 0.096 0.98 0.019 0.05 DCOMP(1234) 0.370 0.480 0.222 0.648 0.135

In the first cluster hardware embodied technology is not relevant. On the contrary, technology embodied as information and rules and procedures has a higher weight and technology transferred through people is much more important than in the other clusters. Most firms belonging to this cluster are main contractors in the automotive industry. These firms are involved in the development of a new model from the early stage in co-design with the customer. In this stage there are still problems that must be solved and uncertainty is high. Consequently, to establish an intense communication between customer and subcontractor design teams becomes a strong imperative for an effective development process. Three firms subcontract to the electronic industry.

Cluster 2 presents a more balanced exchange technological portfolio, even though the rules/procedures component has a slightly higher weight relative to the others. Some primary firms subcontractors to the aerospace/defense industry are in this cluster. Two firms are second- tier subcontractors for the aerospace industry. One is a second tier subcontractor to the automotive industry.

The third cluster contains firms having an unbalanced exchange technological portfolio in which information and rules/procedures prevail. Generally, firms belonging to this cluster are subcontractors to traditional low-medium technology industrial sectors (electrotechnology, textile machinery building). These firms do not establish stable and constant relationships with their customers. Consequently, when they begin to collaborate with a new customer there are no incentives for this to transfer a relevant amount of technology to the subcontractor factory, such as practices for quality management, costs evaluation methods, and scheduling plans. Common standards and routines cannot be established and a large amount of codified technology must be transferred in every transaction.

That explains the relative high value for information and rules.

The last cluster is made of small firm subcontractors almost exclusively to the aerospace and defense industry. Technology embodied in raw material and specific equipment is relevant in this cluster. These firms receive pre-machined parts to manufacture, fixture, jigs, and gauges from the customer. A high level of standardization supports the transaction making it effective.

Firms belonging to cluster 1 are on average older and larger. Thirty-one years is the average age (AGE) for these firms. Their size (SIZE) is 255 employees and 24.58 billion of lire as sales per year (SALES) on average (no statistical evidence supports this) . As an indicator of success the average firm's growth in sales over the last three years was chosen (INSALES). The values of this variable show that the small firms of cluster 4 in 1990-91 were faster growing than the other firms. Probably, the positive demand trend of the aerospace industry in that period produced a "driving effect" on them.

The investigated firms primarily serve Italian markets (ITAMARK), which represent almost the exclusive markets for firms in cluster 2 and 3 (96%). Firms of cluster 4 have plants which are localized close to their customers, thus their regional market (REGMARK) coincides with the Italian market. At the same time they have international customers as firms of cluster 1. The internationalization process of the firms belonging to these two cluster has a different origin. The belonging to international groups favored the entrance into foreign markets of the automotive component subcontractors of cluster 1, which established collaborative relationships with the competitors of their main Italian customer. Firms of cluster 4 entered foreign market primarily thanks to the international collaborative agreements engaged by their Italian customers. In both cases, this process of internationalization supported a circulation of technology in the subcontracting chains.

A relatively high dependence on a few major customers and a certain product specialization characterize these firms. Firms of cluster 3 present a lower dependence on the first customer (%CU (1)) than other firms. They derive less than 40% percent of their sales from their first customer and less than 60% from their first two customers (%CU(12)) . These firms use to have short-term contractual agreements with their customers. These results are supporting that a high importance given to procedures during the transaction is a consequence of a low dependence on the customer and a scarce initial fit also, idea that emerged from the analysis of the exchange technological portfolio. On the contrary, these firms follow a strategy of product specialization. The 79% of the total sales derives from only one line of products (%PR(1)) . There are no substantial differences between firms of cluster 1 and 2 as regards dependence on customer. Firms of cluster 4 are highly dependent on the first two customers, which sell in the same industry, but on the contrary less product specialized. These firms are small family-owned machine shops. Indeed, 29 employees and 2.187 billions of lire represent the average size. The low ratio of sales to employees (SALEMP) can be explained by the fact that these firms receive from the customer the raw materials, or pre-machined parts the cost of which is not included in the sales evaluation. These firms largely invested in numerically controlled equipment (usually, single NC machines or centers) in the last three years. The flexibility of the new technology made it possible for these firms to diversify production gaining efficiency.

During the interview respondents were asked to rate the technological sophistication of the product

manufactured for the first three main customers on a 1-9 scale. To assess product technological sophistication the following dimensions were considered: the level of conformity to quality specs requested by the customer for that product; the level of difficulty in realizing it; and the time required to learn how to do that product with the required degree of quality. To limit the effects of the subjectivity of judgements, the analysis was done considering the difference between the values of technological sophistication of product manufactured for the two main customers. This value was normalized by dividing it for the maximum score rate given by the respondent (DCOMP(12)) . From the analysis it emerges that there is no significant difference between the technological sophistication of the product realized for the first two customers in the case of firms belonging to clusters 1, 2 and 4. Differences become higher passing from the product realized for the first two customers to products realized for the other customers. That is particularly the case of firms of cluster 4. These firms have the first two customers in the aerospace industry, while the others is in low technology industries. Some strategies of technological diversification can be thus identified. Firms of cluster 2 and 4 pursue almost the same strategy. Indeed, most of the firms of the cluster 2 are subcontractors of the aerospace industry, all the firms of cluster 4 subcontract to the aerospace industry.

Technology flow largely increases with product sophistication as shown in Table 6. It appears that manufacturing more sophisticated products requires a deeper integration with the customer.

In the four clusters the technological flow from the first customer (FTECH(1)) is considered more important than the flow from the second customer (FTECH(2)) in the acquisition of technological capabilities. The calculated values for the difference (DFTECH(12)) confirm this tendency. It is interesting to note how the values for both the flows are lower in the case of firms belonging to cluster 3.

Table 6 - Relation between technology flow and product technological sophistication. First and second customer (source: database ODISSEO)

Dependent variable: DFTECH(12) N = 56 Squared R = 0.443; no constant

variable	coefficient	std error	probability (2 tail)
DCOMP(12)	2.637	0.670	0.004

note: in the sample 56 firms have more than one customer

CONCLUSIONS

The study is exploratory, and a further investigation is required to assess the validity of the considerations done. Several caveats should be identified before drawing any conclusion.

Firstly, findings rely on subjective judgements and key variables are built from these judgements. A major effort should be undertaken to use a more objective scale to measure variables and more effective and objective methods to assign attribute weights.

Secondly, a more stratified and larger sample should be chosen. The number of firms subcontracting to the aerospace and automotive industry is high relative to the firms subcontracting to other industrial sectors. Additionally, cross-cultural studies are necessary to determine if the results are generalizable to other countries.

Finally, a more reliable and sophisticated statistical analysis should be conducted. Cluster analysis remains an exploratory tool.

Nevertheless, the study provides the basis for more refined research that can enable researches to provide useful guidelines for subcontracting and customer firm's technicians and managers to better model their collaborative relationships. To summarize, findings presented in this paper suggest these main conclusions. The customer firm in different ways enables its subcontractors to achieve a higher technological capability. The constant request of better manufacturing performances and more sophisticated parts supplied, together with an intense technological flow contribute to the upgrading of the subcontract's technological asset. The need to be more integrated with the customers, to increase efficiency, and particularly to increase product reliability and quality forced these firms to largely implement new production technology and to focus on new manufacturing methods. The deeper is the integration between the customer and the subcontractor, the more intense is the technological flow between the parties. This finding seems to confirm what emerged in other studies. A higher involvement in the process of product development and manufacturing determines, but at the same time needs, a more intense and articulated flow of technology between the parties.

In some industries customer/subcontractor transactions assume particular characteristics and the technological content of the arrangement depend on the characteristics of the subcontracting firms.

APPENDIX 1

Channels to technology components contribution map.

HW

Raw Material Pre-machined parts Equipment

IN

Advice on specific issues Collaboration on the launch of the order Written documents Meetings In-progress check

HS

Training Collaboration of the launch of the orders Meetings

RP

In-progress check Support for the adoption of QC procedures QC procedures

Scale used to assess contribution weights:

1: no contribution at all 100: highest contribution

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RETHINKING THE BUSINESS PLAN PARADIGM: BRIDGING THE GAP BETWEEN PLAN CREATION AND PLAN EXECUTION

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ABSTRACT

A new business planning paradigm is inherent in the "total quality management" school of thought. This new approach has several advantages. Principal among them is that it helps bridge the gap between plan creation and plan execution. Most business planning resources for small business have not yet recognized the new business planning paradigm. This paper compares the traditional business plan paradigm to the new. It describes three shortcomings of the traditional approach and five strengths of the new approach. It explains how the strengths of the new approach can be used to overcome the shortcomings of the traditional approach and yield stronger business plans. Simple examples illustrate how to create and execute business plans using New-Paradigm business planning.

INTRODUCTION

Dr. W. Edwards Deming and other leaders of the total quality movement challenge our traditional business practices. (3; 7; 10; 11). They encourage American business leaders to radically redefine the role of the company in our free enterprise system and adopt a new philosophy of quality, innovation and continuous improvement. A new business planning paradigm is inherent to this "total quality management" school of thought. (2; 5; 8) This new approach has several advantages. Principal among them is that it helps bridge the gap between plan creation and plan execution.

The new business planning paradigm links the strategic planning process to day-to-day operations. Properly used, it eliminates the creation of business plans that "gather dust on the shelf" while the business owner is overwhelmed by the realities of dynamic markets.

Most business planning resources for small business have not yet recognized the new business planning paradigm. (For example (6; 9) They still describe traditional business plan formats and follow conventional approaches to strategic and operational planning. (4) It is time to recognize the new paradigm and employ its strengths to cope with the shortcomings of traditional small business planning. The resulting "alloy," or "New-Paradigm" approach, will yield stronger business plans.

This paper compares the traditional business plan paradigm to the new. It describes three shortcomings of the traditional approach and five strengths of the new paradigm. It explains how the strengths of the new paradigm can be used to overcome the shortcomings of the traditional approach and yield stronger business plans. Simple examples illustrate how to create and execute business plans using New-Paradigm business planning.

COMPARING THE TRADITIONAL AND NEW PARADIGMS

Traditional business planning models suffer from three shortcomings that the New-Paradigm addresses well. They are: a "functional" approach to business planning, a limited view of the processes that speed investment turnover, and "physical asset myopia."

Traditional discussions of business planning describe the planning process as a management function, along with organizing, staffing, leading, and controlling. The table of contents of the business plan includes sections which echo the functional departments of a business school. Typical section titles are: company description (background, mission, competitive edge) , market analysis and marketing plan, technology and research and development (optional), organization, and financial analysis. The company is presented as a pyramid-shaped organization chart. This leaves the business owner with a fragmented view of business operations and little guidance concerning how to link the functional activities to plan a pathway to success.

A second shortcoming of the traditional business planning paradigm is that it takes a limited view of the processes required to speed investment turnover. The total cycle of work is not encompassed by traditional plans -- vendor selection, materials acquisition, internal operations, logistics, customer service, customer payment, and reinvestment. Instead the traditional paradigm assumes the company will achieve the tight synchronization required for rapid investment turnover. Further, the cycle of work is not viewed as an improvement process. Product franchises and company infrastructure are seen as depreciating assets. They are not used as springboards for the achievement of breakthroughs -- breakthroughs needed to achieve the high rates of investment turnover associated with comparative advantage.

The third shortcoming of traditional business planning is physical asset myopia. The company's infrastructure is seen as physical plant, equipment, and the trucks used for distribution. The traditional paradigm does not consider other core elements required for efficient and effective operations to be part of the infrastructure: people, teams, work structures, mechanisms for improvement, and leadership. According to the traditional paradigm, these are variable costs, not fixed costs, and do not receive the same consideration as "capital" items. As a result, plans to develop them remain obscure. As budget items they are low priority, underfunded and expendable.

The total quality management school of thought views the company as a step-by-step flow of work or "chain of customers." Each cycle of work progresses through the entire chain and offers experiences, which create opportunities for improvement. Links in the chain are codependent. To achieve a win-win business relationship, they must work together to maximize benefits and minimize costs for the present work cycle. There must be ongoing efforts to learn how to achieve greater benefits and lower costs in the next work cycle. If these imperatives are not met, the company will lose out in a highly competitive world.

The New-Paradigm approach to business planning implied by total quality management is flow-oriented, recognizes the total cycle of work, and acknowledges codependencies. It values strategic alliances, partnering, teamwork, and continuous improvement. Further, the New-Paradigm places high value on infrastructure elements which are undervalued by traditional paradigms: people, teams, work structures, mechanisms for improvement, and leadership. Strategic and operational considerations are linked so that continuous improvement and rapid investment turnover become a way of life.

STRENGTHS OF THE NEW-PARADIGM

The New-Paradigm for business planning offers ways to cope with the three shortcomings of traditional business planning models. These are strengths which improve both strategic and operational plans:

1. The New-Paradigm's flow-orientation relates all resources to the flow of work (operations) implied by the company's core strategies. Resources which will not contribute are easily identified because the structure of the organization is designed to hasten and improve the flow. Redundant resources simply do not "fit in" omissions are also easily recognized. missing resources create gaps or "holes" in the plan which cause visible "leaks" in the flow.

2. The flow orientation allows strategists (business owners) to remain focused. The operating system is designed to directly reflect the strategy. It is easier to trace cost overruns and unexpected windfalls to source activities. The lessons offered by experience are more visible. Business owners can absorb what is learned to improve the quality level of operations and refine strategy.

3. The New-Paradigm makes clear the codependencies that exist in the synchronized choreography of any successful enterprise. Many business owners start their own businesses because they desire independence. They are loath to admit codependencies and do not plan adequately to orchestrate successful business relationships. The new approach to planning makes it clear when planning for codependency is the best way to achieve financial independence.

4. The New-Paradigm clarifies that certain "variable" expenditures are actually fixed costs. Study of the flow of work makes it clear that the company must "make the payments" on certain assets (people, teams, work structures, mechanisms for improvement, leadership). If it goes into arrears and the assets suffer from neglect, work processes will stall and investment turnover will slow. This will cause a flight of financial and human capital from the company.

5. Finally, the New-Paradigm helps potential business owners and investors understand that "easy entry" businesses -- those which appear to have low start-up costs -- may not be. They may require heavy investments in the "soft" elements of infrastructure to achieve smooth work flows and satisfactory investment turnover.

Melding the strengths of the New-Paradigm into traditional business planning procedures helps small business owners create stronger, New-Paradigm business plans. The next section illustrates how to do this.

CREATION AND EXECUTION OF "NEW-PARADIGM" BUSINESS PLANS

Creation and execution of New-Paradigm business plans require a different perspective, not a completely new approach. New-Paradigm business planning is an alloy of traditional and new paradigm thinking. Existing planning tools and skills take on new meaning under the New- Paradigm approach. Advocates of the total quality management school of thought have developed new tools for analysis. Under the New-Paradigm approach, certain of these can be used in combination with

traditional planning techniques, like SWOT analysis, to develop stronger business plans -- strategic and operational.

Both traditional planning processes and the New-Paradigm approach attempt to translate strategic vision into step-by-step game plans. James Ball reminds us of the basic intent of all planning processes, traditional and New-Paradigm:

"You will know your goals are complete and working to your advantage when they possess these elements:

Goals must be:

1. Written 2. Visual 3. Prioritized 4. Specific

Goals must have:

5. Deadlines 6. Commitments 7. Plans

Many individuals see their goals end up on a pile of passing fantasies because they were incomplete in one or more of the listed ways. You will have an excellent chance of achieving each of your goals if they Possess these seven basic elements." (1, pp. 88-89.)

What Ball says applies equally well to traditional and New-Paradigm business planning. The advantages of the New-Paradigm come from the integration of strategic and operational planning to design a complete, orchestrated flow of work that yields rapid investment turnover.

A simple example, created by Myron Tribus, illustrates how to bridge the gap between plan creation and execution under the New-Paradigm. (10, p. 170) Figure 1 depicts the work necessary to publish a daily newspaper. Figure 1 is a "deployment chart" -- a New-Paradigm planning tool. Note the differences between this deployment chart and the traditional, pyramid-shaped organization chart usually included in a business plan. Figure 1 shows many things not included in an organization chart. The sequence of tasks in the flow of work, and elapsed time, run from top to bottom. The symbols under each position title show the nature of involvement required from each team member. Both the deployment chart and the traditional organization chart list the people in the organization. However, the deployment chart deemphasizes the relative authority of the participants and stresses how they must work together to accomplish the f low of work. Everyone knows what they must do, when they must do it, and how what they are doing fits into the general f low of work. Figure 1 is a "mid-level" flow chart. It does not list partners and allies outside the organization -- as one might list on a "top-level," strategic deployment chart. It does not go into the detailed steps of each job -- as one might show on a "low-level," operational deployment chart. However, the orientation is the same at all levels. Deployment charts emphasize the study of work flow, synchronizing it, perfecting it, and achieving high rates of investment turnover. Ideally, all the charts, at all levels of planning, link with each other to form a tightly choreographed flow of work.

Table 1 is a step-by-step illustration of the planning process required to make this ideal a reality --

bridging the gap between plan creation and plan execution. The legend at the top of Table 1 briefly describes tools used for New-Paradigm business planning. (For more complete discussions of New-Paradigm planning tools see (5), (8) and (11)) . The ten steps show how these tools are used to improve operations and align day-to-day activities with company strategy.

CONCLUSION

The total quality management movement offers us a new business planning paradigm that can be used by small business owners to integrate strategic planning and operational planning. This New-Paradigm approach to business planning aids both plan creation and plan execution. It can be implemented by using simple planning tools. The New-Paradigm approach helps keep the planning process focused on strategic goals and makes it more understandable and more effective.

Most business planning resources for small business have not yet recognized the New-Paradigm approach. They still describe traditional business plan formats and follow conventional approaches to strategic and operational planning. The traditional approach has shortcomings that the New- Paradigm handles well. It is time to rethink our business planning paradigms to include what we have learned over the past fifteen years about total quality management. We must meld traditional approaches with new approaches. We need to update the resources we use to guide small business owners through the planning process.

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FIGURE 1 FLOW CHART FOR PUTTING OUT A NEWSPAPER (10, p. 170)

editor reporter sales copy layout graphic printer billing customer | editor editor arts | Generate Obtain--
----------> Need or an <---------- Receive
Advent a |<---------- n Story | | | Make a Make | Input to Rough------
---------- an ---------- ----accept the Draft Informal ? Computer | Product | | | | y ---------/----edit
---------- \ | | | Generate Formal | Story--- ----Product | Lists | | | | | is | | Advent y-----/------
/----------List the Coop \ \ coop ? | | ---- companies | n | | | | | | Compute | | | Shared | | |
Costs | | | | ----------/------/----------Bill----------> \ \ | | ---------->Layout |
<----------pages | n | pasteup | | --------- Approve y ---------->Flat ? Checker ---------- Print
| | Dispatch

TABLE 1 BRIDGING THE GAP BETWEEN PLAN CREATION AND PLAN EXECUTION: HOW TO SORT OUT WHAT NEEDS TO BE DONE TO IMPROVE A COMPANY

Legend: brainstorming (a group technique for generating a large number of creative ideas on a subject), affinity chart (a display that groups related ideas), interrelationship digraph (a graphing technique that shows causal relationships between pairs of ideas, cause and effect diagram (a graphing technique that shows cause and effect relationships to diverse factors which impact a goal), tree diagrams (a "goes into" chart that shows components to be assembled into a larger system), Pareto analysis (analysis of data to rank problems or their causes), SWOT analysis (enumeration of strengths, weaknesses, opportunities and threats), quality table (a matrix that compares and scores consumer demands, performance characteristics, company capabilities, and the capabilities of competitors), top-down flow chart (shows the most basic steps in a process/project, and the major sub steps for each step), deployment chart (shows the flow of a process which people are involved at each step, and the timeline). (5; 8; 11)

To develop/improve an operational plan to accomplish your vision for your company, try the following steps:

Step 1: Select your most challenging goal

What do you want to accomplish? Is the goal written, visual, prioritized compared with your other goals, and specific? Have you established deadlines, made the necessary resource commitments and developed step-by-step operational plans (work flows)?

Step 2: Review what has happened to date. Brainstorm all factors which might affect your ability to accomplish your goals. Do this with your key constituents (key staff members, partners, investors, allies, suppliers, customers, etc.)

Step 3: Sort the factors. First sort them into related groups using affinity charts. Then sort them into cause-effect sequences using interrelationship digraphs, cause and effect diagrams and tree diagrams. Do this with your key constituents.

Step 4: Do a first cut Pareto analysis. Study the cause and effect diagram (or the tree diagram). Guess which branch is the one that will have the most influence on whether you will reach your goal. Which twig on the branch will have the most influence on the branch? Write down your guesses.

Step 5: Do a quick SWOT analysis and/or prepare a quality table on the branch/twig identified in

Step 4. What can your company do to use its strengths and overcome its weaknesses? How can it capitalize on the opportunities it has and overcome the threats it faces? What can it do to provide product and service characteristics that brand the company? (i.e. what do you think should be done about the branch/twig identified as top priority in Step 4?) Write down your guesses.

Step 6: What else do you need to know before you act on your initial guesses? Write down the list of what you need to know about the top priority branch/twig you have isolated.

Step 7: Review the background, strengths and weaknesses of each person available to you. What can each of you contribute to strengthening the branch/twig you have isolated?

Step 8: Select someone to work on the branch/twig you have isolated. Of course, others can help and give guidance. The person selected will have primary responsibility for improvement of the branch. As the first branch is assigned, work with the person taking it on. Prepare a down a top- down flow chart covering the major steps of what is to be done. Next prepare a deployment chart describing who will do it, and tentative checkpoints and deadlines. Compare these charts to your "top level" flow charts to make sure they fit in. Leave the detailed work flow analysis to the person assigned to the branch, but make sure it gets done. At this point you will have operationalized the most important element of the most important goal of your strategic plan.

Step 9: Once the first branch is assigned, return to Step 4, and pick the most important remaining branch/twig. Keep cycling through Steps 4 through 8. Do this until all the major aspects of your most important goal are being addressed, or until everyone appears to have a reasonable workload. If you run out of staff time, figure out how to get more help (training, selection, partners, alliances, consultants, advisors, etc,). Nothing is impossible if you can find the right people to help you do it.

Step 10: Once you are on the path to achieving your most important goal, return to Step 1, pick your next most challenging goal and continue to planning process.

AN ANALYSIS OF OPERATIONAL PROBLEMS FACED BY SMALL FAMILY FIRMS VERSUS NONFAMILY FIRMS

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ABSTRACT

Most small businesses are family owned firms. Previous research has focused almost entirely on issues related to succession. This study examines and compares the operational problems experienced by 55 family owned firms with 27 nonfamily owned firms. The results confirm the hypotheses that 1) no differences exist between the operational problems of family owned and nonfamily owned firms and 2) the lack of money affects nonfamily owned firms to a greater extent than family owned firms. This study contributes toward a better understanding of family owned firms and their similarities/differences with nonfamily owned firms.

INTRODUCTION

Family businesses were the backbone of the job creation efforts that occurred in the United States in the 1980s. They produced almost one half of the gross national product and generated roughly 50% of the total wages paid (6). Research indicates that about one third of the nation's 1000 largest publicly traded manufacturing firms can be considered family businesses. The majority of privately held companies with more than 500 employees are family firms.

Family businesses generally exhibit characteristics that differentiate them from publicly owned entities. Mature family businesses frequently have substantial liquidity and little or no debt. Their return on assets often exceed those of their public counterparts. The owners can invest in and run their business with a clear view to long-term value enhancement because they do not have to produce quarterly earnings for stock analysts. Family firms also must understand how family relationships affect the business and how the business impacts the family (11). Some businesses avoid the "family-business" label because the term connotes a lack of quality management (19). Yet meeting or exceeding customer requirements is a practice for which family businesses are very adept (11).

Recent studies have shown that the lack of succession planning has been one of the most important reasons why many first generation family firms do not survive their founders (9). Family businesses are confronted with the problems of succession and sibling rivalry, which often replaces growth as a priority. Only a small number of studies have been devoted to this topic. However, several studies suggest that family owned businesses face unique problems.

LITERATURE REVIEW

Research indicates that the average life expectancy of a successful business owned by a single family is 50 to 60 years. Families lose their businesses late in the second generation or early in the third (19). Transferring the family business to the next generation poses significant operational problems for

family owned firms.

Duggan (5) contends that the problem is related to the federal estate tax, which takes up to 55% of an estate and often forces the inheritors of a successful business to sell or liquidate. He recommends life insurance designed to apply proceeds to pay the estate tax as a means to facilitate transfer to the next generation. Others suggest that the technique of making annual gifts of stock in the family owned business is an effective strategy.

In recent years several authors have suggested strategies for succession in family owned businesses. Lansberg (9) maintains that organizations must develop structures, i.e., family councils, boards of directors, and succession task forces that facilitate cooperation among the family members to insure con tinuity in succession. Such designs, for example, can develop controls over family members who believe they have a right to a job in the business.

Bork (1) suggests employment policies for family owned businesses as a means for giving direction to the employment of family members. Jaffe (8) recommends family councils to give focus to the plans of individual members, the family, and the business. Ward and Aronoff (24) promote consensus techniques to give direction to the individual decisions within the family. Salganicoff (13) also has determined that the most underutilized resource available to the family business are women, and family members should be sensitive to their concerns, roles, and judgement.

Financial problems also create operational difficulties for family owned businesses. Financial institutions were cautious in making loans during the 1980s (10). Brogden and Benson (2) found a lack of management capability and succession planning as the typical reasons for a bank to refuse lending to family companies. They recommend a management development plan, as well as a transition plan, as a means of increasing a family business' line of credit. The number of family members who rely on the business for support places an additional financial strain on the business. Ward and Aronoff (22) recommend developing other sources of individual income, expanding to additional investors, as well as restraining life styles as a way of maintaining a balance to financial problems in the business.

Because family businesses are a recent area of study, the literature is only now emerging. To date, most of the research has focused on succession planning. In addition to problems associated with succession, an array of other problems can arise in family-run companies. This study will examine operational problems experienced by small family businesses as compared to small nonfamily owned firms.

RESEARCH HYPOTHESES

Questions concerning the differences in business problems between family owned and nonfamily owned firms remain unanswered. The hypotheses for this study are:

1) No difference is expected between the operational problems of family versus nonfamily firms.

2) The lack of money is expected to affect family owned firms to a greater extent than nonfamily

owned firms.

SAMPLE AND METHODS

Information was solicited from 82 (55 family owned and 27 nonfamily owned) small businesses located in a large Midwestern City. The firms were selected from a single geographical area to minimize the differences in the operating environment.

A questionnaire was developed and pretested during January, 1993. Questions in the survey were compiled from previous literature relating to problems experienced by small firms and from comments made during the pretest. The sample was obtained from a random selection of firms from the local telephone directory. Data was collected through personal interviews with the owner of each firm.

The questionnaire asked the owners to indicate their three most difficult business problems (establishing a market identity, advertising, bookkeeping, personnel, inventory management, accounts receivables management, suppliers relations, short-term debt, long-term debt, cash flow, balancing family needs with the demands of business, and others). The questionnaire also asked the managers to rank the extent to which the lack of money had affected the operation of their businesses using a five-point Likert scale (1 - a large extent and 5 - not been a factor). Other information requested in the questionnaire included the major activity of the firm, ownership, and the level of revenue generated during 1991.

The percent of firms reporting each problem to be one of their three most difficult was determined for the entire sample, and for the family owned and nonfamily owned firm subgroups. A Chi-Square test of significance was calculated to identify significant differences between the problems experienced by the two groups of firms.

RESULTS Business Characteristics * Approximately 41% of the firms were sole proprietorships, 18.3% were partnerships and 40.0% were corporations.

* Approximately 24.4% of the firms had revenues of less than $50,000 in 1991, 17.9% had revenues of $50,001 - $100,000, 30.8% had revenues of $100,001 - $500,000, and 26.9% had revenues > $500,000.

* The average age of the firms was 10 years. Approximately 31.7% had been in business for less than a year, 37.8% for 1 - 10 years, 17.1% for 11 - 20 years and 13% for more than 20 years.

Business Problems: Total Sample

Table 1 shows the three most difficult problems indicated by the firms and their percentages. The largest percent of firms indicated that cash flow is one of their three most difficult problems. Carter and Van Auken (3) discuss the liquidity constraints and cash management difficulties resulting from smaller firms lack of access to capital markets. In addition, Harris (7) reported that bank loans to small businesses have declined since 1989 and that many financial institutions prefer to extend loans to large corporations rather than smaller firm.

The study also found that 36% of the small businesses ranked personnel management as one of their three most pressing problems. Harris (7) found similar results in a survey of 401 small companies.

Approximately 36.6% of the firms report that balancing the needs of the family with the demands of the firms was one of their three most difficult problems. Such a concern had been raised by Ward and Aronoff (24), who found that business growth cannot keep up with family expansion and rising family lifestyles. The tensions resulting from operating a business can distract a small business managers' attention from family life, resulting in family stress. In family owned firms disagreements between family members can increase stress.

The results also indicated that 27% of the firms reported establishing a market identity to be one of their three most difficult problems. The difficulty of establishing a market identity is more common for new firms than for more established firms. Van Auken and Gaskill (17) have documented how the problems associated with establishing a market identity change as firms ages.

A smaller percent of the respondents indicated the remaining problems to be one of their three most difficult. Twenty-five percent of firms ranked inventory management as one of their most pressing problems. Approximately 24.4% reported advertising to be one of their three most difficult problems. Small firms tend to lack adequate funds or marketing expertise to develop effective advertising. Van Auken, Doran and Rittenburg (16) found also that referrals were the most used source of advertising by small firms.

The study revealed that only 12.18% and 10. 96% of the owners ranked short-term debt and long-term debt, respectively, as one of their three most pressing problems. The relatively low percent of firms experiencing difficulties in these area may be a result of the average life of the firms in the sample. More mature firms, such as in this study, would not be experiencing the financing difficulties associated with start-up and, thus, would likely have sources of debt capital established. Finally, only seven percent of the firms indicated that supplier relations was one of their three most difficult problems.

Operating Problems: Family Owned Versus Nonfamily Owned Firms

Table II compares the percent of family owned firms versus nonfamily firms reporting each problem to be one of the three most difficult. The highest percent of firms in each group reported that cash flow (family owned firms - 45.5%, nonfamily owned firms - 37.0%), balancing family needs with demands from the business (family owned firms - 40.0%, nonfamily owned firms - 29.6%) and personnel management (family owned firms - 36.4%, nonfamily owned firms - 37.0%) were one of their three most difficult problems.

The percentage patterns shown in Table II indicate that a lower percent of nonfamily owned firms than family owned firms were experiencing establishing a market identity, advertising, inventory management, cash flow and balancing family needs with the demands of the business as one of their top three problems. In contrast, a higher percent of nonfamily owned firms as compared to family owned firms reported that supplier relations and short-term debt were one of their three most difficult problems. There is little difference between the percent of family versus nonfamily owned firms

reporting personnel, accounts receivable, and long-term debt as one of their top three problems.

Table II also shows the Chi-Square statistic when comparing the relative percents for each group of firms. The table results show no statistically significant differences between the percent of family owned versus nonfamily owned firms reporting each of the problems to be one of their three most difficult. This result supports the first hypothesis, which stated that family and nonfamily firms have similar operating problems.

Operating Problems and Money: Family Owned Versus Nonfamily Owned Firms

The second hypothesis stated that the lack of money will affect family owned firms to a greater extent than nonfamily owned firms. The questionnaire asked the respondents to rank the degree to which the lack of money affects the operation of the business. The mean response from the family owned firms was 3.49, while the mean response from the nonfamily owned firms was 2.85. A t-statistic comparing the difference between means was calculated to be -2.077, which is statistically significant at the 5% level.

This result supports the second hypothesis. The lack of money affects the operations of the nonfamily owned firms to a greater extent than family owned firms. Van Auken (14) found that the loans from family and relatives were an important source of debt capital for smaller firms. Family owned firms may have a better established support network than nonfamily owned firms. As a result, family owned firms may be better positioned to acquire capital from this network than nonfamily owned firms and, thus, may experience fewer operational problems resulting from lack of capital.

CONCLUSIONS

The findings of this study confirm that cash flow, balancing family needs with the demands of the business and personnel management are some of the more difficult problems faced by small businesses. Cash flow and the associated financial difficulties are a continual problem that small firms must manage, especially due to the limited access of small firms to the capital markets. Van Auken and Gaskill (17) have reported balancing personal and business demands to be a difficult issue for both newer and more mature smaller firms. The difficulties associated with personnel management are associated with firm maturity as the owner hires employees to conduct daily operations. Resnick (12) has reported that some small firms are switching to outside contracting which reduces personnel problems by cutting employees, their benefit costs, and the associated required paperwork.

This study also examined differences between the operating problems of family owned with nonfamily owned firms. The results are consistent with Daily's (4) contention that family and nonfamily firms have similar operating characteristics. However, the results of this study also revealed that the lack of money affected the nonfamily firms more than the family firms.

This study has several limitations. The results may be biased from the source and location of the sample. Not all firms are listed in the telephone directory. In addition, firms in sections of the country other than the Midwest may report different problems. Finally, the average age of the firm may have biased the results toward more mature firms than younger firms. As a consequence, differences

between newer family and nonfamily owned firms would not have been revealed by the study.

Future studies could examine differences in operating problems and the degree to which the lack of money affects operations relative to the age of the firm (i.e., younger versus older firms). Further studies could also examine differences between the ability of family versus nonfamily owned firms to acquire capital. Such a study could examine these differences relative to specific types of capital.

Tables are available upon request.

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MANAGING A FAMILY BUSINESS IN CHANGING TIMES

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ABSTRACT

Family businesses, especially those in retail services, are facing intense competition from franchises. This paper is an attempt to explore this important issue in detail.

INTRODUCTION

The scope for small business entrepreneurship was forecasted to be enormous. The U.S. Small Business Administration (SBA) has proudly announced that more than 90% of all registered businesses in the U.S. can be considered a small business. Such businesses have been the source of 100,000 new jobs in the U.S during the last decade. In this paper we focus on the family-owned business as a special case of the more general small business sector. Family businesses tend to have the kind of policies and practices that build trust, empathy, bonding, loyalty and better communication among employees (1; 2). In a family business, with proper planning it is possible to groom a successor - often an immediate member of the family- who can successfully take over the business in case of an emergency. Hence it is critical to provide younger family members with the necessary experience to prepare them for eventual succession. But evidence indicates that this is not often the case thus worsening the succession problem (3).

ADVANTAGES OF A FAMILY BUSINESS

Apart from flexibility, trust, and better communication between employees, there are several other advantages to a family-owned business. Generally a family will work together at an enterprise better than a group of unrelated people. If the enterprise fails, it is obvious all will be worse off and consequently the loyalty is high. Law suits are less common in family owned enterprises. Also, customer complaints can be dealt with quickly and effectively by a family firm.

DISADVANTAGES OF A FAMILY BUSINESS

Unfortunately, the very aspects that make small businesses effective and efficient, can also have the opposite effect, if not properly exploited. Too much family culture may be at times harmful to the business. Some of the commonly observed symptoms may include: (i) too much family business conducted on company time (such as phone calls); (ii) too much family decor in a business environment; (iii) mingling of business and personal expenses; and (iv) family conversations during business hours (4). As an end result of these activities the business may be operated in a nonchalant way and the owner may just muddle through the business decisions and the effect of such actions on non-family employees may be negative. Also, family feud and divorce are more prevalent in our society. When there is internal feuding between family members, operating the business becomes a

nightmare. Often this implies the breakup of the business. With one-half of the first marriages ending in divorce, we are dealing with a problem that is becoming critical for a familyrun business (5).

FRANCHISED BUSINESS OPERATIONS

Franchising has probably caused more uproars among family owned businesses than any other business concept in this century. An excellent summary of the key characteristics of franchised operations can be found in (6). The franchise is an organizational form that deals with several areas quite well. Marketing, financing and personnel policies may be strengthened under a franchise label. The franchisee is provided with a product/service that is generally well researched and a well conceived marketing plan. The franchisor often helps franchisees with the implementation of such plans. With franchisee's own money at stake, the agency cost is reduced. To the lender, the franchises's use of borrowed funds is well defined, reducing the risk of asset substitution. Moreover, part of the monitoring function is often performed by the franchisor, thus relieving some of the operating burdens. Franchising is also a cost effective way to transfer the track record or reputation of the franchisor to the franchisees (7). Franchising is considered as a low risk route to business ownership. Successful franchises are the ones where franchisees get help from franchisors every step of the way, and have products or services that are in high demand (8). But such success does not come without accompanied by sacrifices. The franchisee must pay (i) an initial franchise fee, (ii) make initial investment e.g., real estate, insurance,equipment and inventory, (iii) possibly an ongoing annual franchise fee, (iv) royalties on gross sales, and (v) abide by strict operating guidelines set forth by the franchisor. The fees and conditions tend to vary with the franchisor's track record (9; 10). It has been observed that corporate managers formerly earning $90,000 - $150,000 per year bought franchised businesses that cost around $80,000. Their hours of work increased and their salaries decreased. Many aspiring entrepreneurs also find that the closely controlled methods of franchise operations may be too restrictive (11; 12).

FRANCHISOR PERSPECTIVES

Franchisors hold that franchising offers a wide variety of benefits (13): faster growth, greater market penetration and locking in that market, greater commitment of owner-operator compared to an employee and greater access to capital which enables the faster growth to occur. But there are several problems to be overcome before a franchising operation can succeed (14).

STRATEGIES FOR FAMILY BUSINESSES

Family businesses are currently evaluating the pros and cons of joining the franchise bandwagon. Many of the family businesses have already chosen the franchise route (15). But a franchise does not always guarantee increased competitive advantage. Franchising may even take away a retailer's competitive advantages by reducing the firm's flexibility in sourcing, product lines, promotional programs and personnel policies. Many others are looking for other alternatives to combat the franchising trend.

Provide Improved Customer Service

Because the firm is local, it is possible for the management to be very responsive to customer requirements. For instance, the changes in demand conditions can be responded to without delays. Hence, small firms can trade cost inefficiency with volume flexibility (16). In conjunction with the customer, a product/service can be tailor made and such an approach is often difficult to copy (17).

Emphasizing Local Contacts

Owners of small family firms tend to be local entrepreneurs who identify their own success with the success of the local town. They have lived in the same area for a long time and have good local connections. Such contacts may help in defending their positions when faced with threats from emerging franchises and enable them to cut through the local governmental bureaucracy.

Utilizing Local Market Knowledge

Family owned firms have a better feel for customer requirements at the local level simply because they happen to live in the immediate vicinity of their businesses. Moreover, local firms could be the first to take advantage of opportunities created due to population shifts occurring within the area. They can move faster on critical business decisions, such as site, selection for a new store to serve new subdivisions.

Operational Efficiencies

Today's electronic revolution offers family businesses opera- tional efficiencies that were available only to larger firms in the past. Tradelink International is a case in point. It is a oneman firm providing a liaison service between U.S. and British firms. Without the advent of electronic gadgets such as personal business computers, fax machines, and mobile telephones, it would be impossible for this business to function.

Point-Of-Sale (POS) Systems Until recently small businesses found these systems cost prohi- bitive. Technological changes coupled with increased global competition helped drive down prices of POS system to a level that is affordable by many small businesses. Today a small business computer system costing around $4000 can provide the business owner with instant information about the inventory situation and provide timely information on merchandise to be reordered (18).

Participating in Buying Groups

Family businesses, especially small retailers, can get organized into buying groups to qualify for the same quantity discounts being enjoyed by larger chain stores. A case in point is the buying group of Home Hardware Corporation located at St. Jacobs, Ontario. Each store carrying the Home Hardware sign is independently owned and operated. At the buying group level, specific methods of store operations are recommended, but the independent owner can choose not to implement those recommendations. Home Hardware buying group claims to obtain efficiencies that reach the level obtained by larger retail firms such as K-Mart.

A SMALL BUSINESS CASE STUDY

This case involves a small business owner who owns and manages a video store-Super Video in a middle class suburb of a major metropolitan area in the Midwestern U.S. The store is located in a high traffic area. But during the last year the sales revenues declined by more than 25% due to increased competition and unfavorable economic climate. Two new Blockbuster franchises had opened recently in the immediate vicinity. The owner of the Super Video is concerned about these developments and is reexamining the various alternatives.

Technology

Super Video, being in the video rental business, is subject to technological changes shaping the home entertainment industry. It is possible that today's video rental stores, virtually unknown ten years ago, may be quite obsolete sometime in the future. Hence, Super Video has to be very alert to technological changes rocking the entertainment industry such as the compact disc revolution or the pay-per-view services offered by the neighborhood cable systems.

Competitive Factors

Managing a video store at a profit is a real challenge especially given the tough competitive environment in terms of alternate forms of entertainment- both direct and indirect- being made available to a discerning consumer. The industry at the moment is very diverse. The enterprises involved range from Blockbuster Entertainment Corporation the obvious industry leader, to many single-store family operations. Blockbuster seems to set the tone for the smaller video stores to follow on key merchandising issues. For a small independent business such as the Super Video, Blockbuster is a very lively giant and represents a moving target. For Blockbuster, from 1987 to 1991, the number of stores grew from 238 to 2028, revenues grew from $180 million to $868 million. It has achieved this by innovative management. The industry has obviously reached its maturity stage. So the emphasis is on how to attract the existing business. Yet another emerging source of competition for Super Video is the supermarket. At the national scene, more than one-third of the nation's 30,000 supermarkets now carry videos, and the proportion is growing. The neighborhood supermarkets entered the market modestly, as another means'of building store traffic. From the supermarkets' point of view, the video business has an obvious attraction. Each time a customer rents a video, he makes two trips: one to rent and one to return. On each occasion, the customer picks up and buys other items too.

Sell-through

Yet another source of competition for Super Video, though indirect, is the "sell through" distribution of videos being adapted by movie producers. Sell through is the term given to the actual sale of a video movie, as opposed to its rental. The video store owner is already in the business of selling the previously rented tapes. But the trend is for more of the video movie sales to be brand new cassettes, not the previously used ones such as the sale as new Aladdin video to the public at a price of around $10. Once the trend of buying, instead of renting, a video is more firmly established amongst retail customers, the video store will have yet another source of competition. In many cases, the video will be just another item to be mass merchandised, and supermarkets, department stores, even membership wholesale clubs, will put them on the shelves.

Demographics

The video store is servicing the more immediate local neighborhood. Though customers tend to live in the immediate vicinity of the store, it is possible to increase business by tapping into thousands of employees who work in the nearby Corporate Technical Center as well as other area plants. But this would require that the store begin to diversify into titles not being offered by franchised stores such as Blockbusters. The video selection process will need to reflect this.

New Releases

A crucial feature of the video business is the availability of new issue video releases. Hundreds of customers want to rent the new issue at the same time. Hence ordering the optimum number of copies of a new issue is critical to profitability. The balance, of course, is between disappointed customers and the costs of rental video inventory. Success is often determined or measured by: (1) Number of turns- the frequency with which a tape is rented out (2) Number of copies of a movie ordered (3) Sales timing- putting a rented movie up for sale. Maximum profitability is obtained by again striking the best balance between (i) lost rental revenue, and (ii) cash inflow from sale.

Customer Service

Super Video emphasizes customer service. The store is managed and operated by the immediate family and friendly service seems to be the underlying business creed. There is a great deal of awareness among family members that customer service is an area where Super Video may have a clear advantage over the Blockbuster franchise.

Adult Movies

Blockbuster has chosen not to stock the X-rated movies in its stores. This is seen as a window of opportunity by Super Video and it has opened up an Adult Section within the store. Adult movies in general have been more profitable. However the decision to add the adult section has not been an easy one for Super Video. The key question revolved around how this may be accomplished discreetly. Super Video's store layout is somewhat unusual in that it was not an "usual box". It was decided to place the adult section in a corner of the building in such a way that at first glance the customer may not even realize that part of the store exists. These titles were not being actively promoted to customers.

Store Attractiveness

Super Video is about 2500 square feet store which is clean, bright and airy. From a purely physical aspect, the store could function with a facility of about half that size. But the bright space is needed to build store traffic for an "entertainment" store. Super Video has experimented with different store layouts to change traffic patterns. The management is exploring various strategies for increasing store traffic and sales revenue.

Kid's Area

Video rentals seem to fall under the category of an "impulse purchase" and certainly the selection of the title is an impulsive decision. Hence, it is critical for Super Video to pay special attention to in-store merchandising techniques. The in- store displays must help customers to pursue the available titles easily. To this end, Super Video has created a kid's area in the store next to the children's video section. A television is located in the area with VCR attached which can be used to view children's videos. The Kid's area was designed with an attempt to provide parents with uninterrupted shopping time while they were in the store. Bonus Membership

A possibility is for the store to offer memberships where, for a fee, the member may have free video rental for a prescribed time. The advantage is that it provides cash up front. Members typically rent less movies than they planned. For instance, a video rental store sold its customers a $32.00 coupon book that enables them to rent a specified number of videos, and to keep an upcoming sell-through title.

Advertising and Sales Promotion

Direct advertising is cost prohibitive for Super Video. However, Super Video's competitors benefit by their franchisor's national and regional advertising efforts. The advertising by Blockbuster, certainly helps build the image of area Blockbuster stores, which in turn diverts the customer traffic away from independents such as Super Video. Even advertisements in regional print media may be too costly given Super Video's limited budget.

But Super Video has other alternate means of communicating with its target audience. It has used the direct mail option wherein a direct marketing firm in the area distributed Super Video's flyers in conjunction with that of non-competin businesses in the neighborhood to the entire trade area.

TIME TO CHANGE

Super Video is hard pressed to discover, select and implement ideas that may be helpful in its attempt to reposition itself. It can benefit by trying out some of the following ideas: (i) Basing the video tape buying decisions on the opinions of a community panel; (ii) Reexamining the length of the rental period currently at 2 days; (iii) Relying on practices and performance other independents around the nation to determine necessary benchworks for Super Video- it was found that science fiction titles had best rental potential, renting at 43 percent of its potential and dramas - often considered slow renters - actually came out better than average, renting at 39 percent of its potential; (iv) Given that new releases are clearly the most profitable, Super Video could significantly increase its focus on this product line; (v) It should consider revamping its products aimed at children given the recent surge in demand for children's titles; (vi) It should try and expand the present buying cooperative to an informal chain of video stores thus creating some of the benefits of a franchised operation such as projecting a regional image but at the same time preserving local control; (vii) Explore the use of the neighborhood newspaper carrier to distribute video movies; (viii) Expand the items that complement the video rental; (ix) Work out a long-term tie-in arrangement with the adjacent pizza store in promoting the video business; (x) Offer tape duplicating services; (xi) Stocking foreign titles to serve the various ethnic groups. REFERENCES AVAILABLE ON REQUEST

CULTURE CONSULTING IN A FAMILY OWNED ENTERPRISE

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ABSTRACT

This paper describes how a mid-sized, multiple product-line organization sought to change part of its "organizational culture" -- common language across its multiple products serving different industries.

INTRODUCTION

Organizational culture is a problematic concept. There are probably as many definitions of organizational culture as there are academic authors who attempt to tackle the subject. Schein (1985) defines it as a "pattern of basic assumptions" of a given group. Kilmann, Saxton, and Serpa (1986) define it as the "shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms that knit a community together". Smircich (1983) reviews the concepts and definitions primarily in the organizational literature. Ouchi and Wilkins (1985) review the literature with an historical perspective, noting the shift of authors from faculty in sociology and anthropology departments to those disciplines which reside in management departments. And Deshpande and Webster (1989) attempt to move the definitions and concept of organizational culture over to marketing where its importance is "undeniable".

Despite this academic difficulty in defining the term, managers seem intuitively to know exactly what organizational culture" is, and why it is important. Some of this knowledge undoubtedly is derived from In Search of Excellence (Peters and Waterman, 1982) and the ensuing books, articles, television programs and news segments on lostrong cultures" and their importance to American industry and competitiveness. [For a counter to some of this outpouring, see Saffold (1988)]. What follows is a description of one family owned enterprises culture and the effects on that culture of a major change directed by outside consultants hired by the owners.

The Company and its Culture

DCI was founded in the late 1950's to publish and print weekly newspapers and is still 100% owned by the founder. Always a technological leader, DCI was among the first printers outside the New York City area to use web-offset and cold type. In the 1960's DCI entered the real estate publishing market with Homes Illustrated, magazines which depict houses for sale with both text and photographs and were distributed free to prospective homebuyers. By the late 1980's, DCI was

publishing approximately twenty weekly suburban newspapers, twenty Homes Illustrated magazines, and one weekly real estate newspaper, covering cities from Southern California to northern Ohio. DCI has continued in the technological forefront and was among the first to use laser cameras and digital typesetting equipment. In 1977, DCI began the development of CompuAd, a computer program which writes classified advertisements for houses. By the late 1980's, several hundred copies of CompuAd and its progeny had been sold in the United States and overseas.

The main reason for DCI's success is, without a doubt, the Chairman and founder. The holder of degrees from two Ivy League colleges, he put together a successful company through a combination of hard work, vision and top people who were both good at what they did and also complementary to the skills of the Chairman. By his own admission not much of an administrator, he also 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.

The culture of DCI in 1986 could only be described as open. The Chairman and other managers were readily accessible to everyone in the company. Further, there was little structure and almost no written job descriptions among senior managers. The concept of "corporate staff with portfolios" did not exist, so almost anyone could be assigned to any special project - matrix management by default. The individual newspaper and magazine operations were highly autonomous, with next-to-no formal reporting requirements from the manager to, the Chairman. Except for financial data, the only reporting consisted of telephone conversations, usually initiated by the Chairman when he wished to know "what's going on". Failure was rarely punished by termination; after thirty years in business, the Chairman was proud to announce that he had fired only two people. Displeasure was, rather, evidenced by a noticeable coolness in relations with the Chairman. People were intensely loyal to the Chairman; when a program of awarding service pins was initiated in 1989, several 25 year pins were given to relatively low-level employees.

A striking feature of the firm's culture was the fact that none of the entities identified itself as "A DCI Company" until many months or even years after the introduction of that name. All the entities were known by their own names and most of their local advertisers - and most of the advertisers for all the entities were local - though the publications locally-owned. The DCI name was introduced, appeared on the mastheads of some (but by no means all) of the publications, and no general explanation of what DCI was or why the name was being changed was ever made to either advertiser or employees.

But perhaps the most noticeable feature of DCI's culture was the firm's drive to innovate, both in improvements to current products and in the creation of new products. DCI's innovation is directly attributable to the Chairman. Blessed with an inquiring mind, he continually asked questions beginning with "Why can't we?" or "Why doesn't?" - questions that often led to innovative solutions to problems. Because he let his managers manage, he had no difficulty "taking time from the same old grind" (Berton 1989) for innovation. In fact, innovation frequently took precedents over operations, often to the distress of the managers.

A danger of having the Chairman lead the innovation effort is that it becomes difficult to stop a bad idea, particularly when it is the Chairman's own. Staw (1976) and Staw and Ross (1987a, 1987b) have

written extensively on escalation of commitment and its causes; DCI had continual difficulty in killing off projects that had become marginal, much less "bad" projects. This problem is possibly caused by the fact that the source of so much innovation at DCI is the Chairman. According to DCI folklore, CompuAd started one day when the Chairman, reacting to the stream of bad advertising copy received by Homes Illustrated from real estate agents, asked, "Can't we get a computer to write this stuff better?" After an investment of several years and hundreds of thousands of dollars, the answer is unequivocally "yes".

Since DCI was in two quite different industries newspapers and real estate publishing there was no common language across the industries. Their only commonality was that both products were printed on newsprint. In one division, the customers were almost exclusively real estate firms and their agents; in the other, customers were mostly retailers and individual subscribers. Both newspaper managers and Homes Illustrated managers had a good feel for what their advertisers wanted and needed, but used different terminology to articulate that feel to corporate staff. Communication as a cultural performance (Pacanowsky and O'Donnell- Trujillo 1983) was difficult to decipher in these circumstances as there were multiple subcultures (if not true multiple cultures) within the firm. Thus corporate staff wound up with a confused sense of who DCI's customers were. This was not auspicious for continued longterm success (Miller 1987) as the 1980's drew to a close.

VALS and VALspeak

SRI developed the Values and Life Styles Segmentation System (VALS) in the late 1970's. DCI's Chairman had first heard of VALS through Atlantic magazine article (Atlas 1984). His curiosity was aroused by VALS's purported ability to explain how "two people living next door to each other with the same basic demographic profile live so differently and buy such different things." Despite the presence of literally dozens of other typologies, VALS is well known by the business public and is relatively easy to explain to those who do not know it. These facts make it attractive to managers dealing with business-to-business marketing problems. After attending the VALS users' conference in November, 1987, and finding himself in congenial company - an important consideration in many small, family-run firms and especially true in DCI - the Chairman committed DCI to using VALS in the marketing of both CompuAd and Homes Illustrated. DCI's primary goal for using VALS was to have all its personnel speaking the same language about the firm's customers. James Tilton, then Vice President at Ray Ellison Builders, claimed that the greatest value of VALS is in sensitizing Ellison to the customers and their values" (Tilton 1988) - not a goal to belittle in this day of better customer service and concern about "quality".

As part of the VALS subscription, DCI elected to have SRI come to Cleveland in February, 1988, to deliver an orientation to most of the management of the Corporation as well as the managers of the newspaper division; at the end of the day-long session, most of the attendees had a rudimentary understanding of VALS and what the individuals of the various types were like. DCI corporate staff was then charged with the task of developing an in-depth understanding of VALS to connect it to the various projects under way at DCI. A great deal of hope was pinned upon VAL's being able to deliver a competitive edge to the electronic publishing ventures. By far the most important task was to disseminate the VALS language about customers and the population at large among DCI's employees.

It was here that the first difficulty of the change effort occurred. It is easy to talk about "corporate" culture and "organizational" change; however, not every firm or agency is "organized". In fact, one of the authors steadfastly refused to refer to DCI as an "organization" and always categorized it as an Empire, with the model of the Holy Roman Empire in the late Middle Ages in mind. DCI owned almost nothing; all of the entities were owned directly or indirectly by the Chairman. The usual DCI practice for a new entity was to give the person with the idea (or a trusted local subordinate if the idea originated with DCI) potential ownership in a company of which the Chairman originally owned all, with the local person, it sweating-in" earnings until he and the Chairman each owned 50%. DCI had been quite successful down through the years with this method. Although this may qualify as the "nation building" analogy that DiTomaso (1987) describes, it is so early in the process of nation building as to make it difficult to decide whether the resultant culture is "strong" or "weak".

All managers were given extreme latitude in running their operations: headquarters help was available if needed, but so long as the operation was profitable, supervision was minimal. Cross-communication, even within the same "division" was infrequent; managers usually communicated with headquarters which then disseminated information to the various operations. Attempting to impose change on this most loosely coupled of systems imaginable was not going to be easy.

And yet, there was immense change. DCI's culture allowed for - in fact almost demanded - easy introduction of innovations. The Chairman's dictum that DCI would adopt VALS throughout the firm gave corporate staff the foot in the door with anyone who might be recalcitrant. Within a short time of the orientation meeting, all of DCI's people were talking about "Belongers" and "Achievers" and "Soc Cons" ("Societally Conscious") various segments in the VALS typology as-though these terms had been part of the DCI lexicon forever. DCI had successfully adopted VALS as a enterprise-wide language. Given a sufficient amount of time and effort, it should have been possible to make the sophisticated use of the typology second nature to key employees at most of the entities. The managers had, without realizing it, been crying out for such a communications tool for a long time.

However, to the disappointment of both corporate staff and the Chairman, the ancillary uses of VALS came to naught at DCI. There were only two rather feeble attempts to VALS-type markets for DCI products. A haphazardly-chosen sample of CompuAd users was VALS typed with marginal results and no follow-through.

Readers of one DCI newspaper who requested information were sent VALS-typing questionnaries. Markets were to be VALS-typed prior to the introduction of two new products as a now-standard part of the new-product research and development process. When the new product introductions were stopped, so was the VALS typing. An abortive attempt to do a "quick-and-dirty" VALS typing at an interactive computer terminal for a new product was stopped before the algorithms were sketched.

Several attempts were made to tie VALS directly into one of the newspapers and the CompuAd/NewsAd family of products primarily through the use of words, symbols, or design elements which would appeal to one or more of the types. A prototype of a future NewsAd could write two advertisements for the same house for different VALS types - one for Achievers and one for the Societally Conscious with a single input of data. An advertisement for NewsAd 2 was directed squarely at Achievers. And, when a major new marketing effort was launched in 1989 for NewsAd 2,

there were a pair of media advertisements produced, one aimed at Achievers and the other at the Societally Conscious. These were the most promising developments of VALs "technology" to the DCI product line.

However, two events intervened in 1989 to bring these develoments to a halt. First, in January, 1989, SRI International introduced VALS 2, a whole new typology, which bore little resemblance to VALS. DCI was not enchanted with the change. Some of the corporate staff were upset that the change was introduced just at the point that DCI was about to truly utilize VALS. To echo the words of Chevron Corp.'s Manager of Research, DCI was not sure that VALS ws so broken as to need fixing - at least not with VALS 2. (Winters 1989). Second, in November, 1989, for a number of compelling corporate reasons, DCI stopped marketing the NewsAd family of products, the last of the products which VALS was supposed to help. As a result of these factors, DCI elected not to renew its subscription to VALS 2. Was DCI's VALS attempt worth the effort? The unifying factor of a common language provided a large enough benefit by itself to make the effort not only worthwhile, but a success. DCI did not make any more marketing use of its adoption of VALS than it did of its own name change. Most DCI customers did not know that the firm was a VALS subscriber, nor were they advised how to use VALS in their marketing efforts. VALS was never adequately used to gain a competitive edge for DCI. One reason for this fact was the introduction of VALS 2 so soon after DCI subscribed to VALS. A second reason was the culture at DCI where operational decisions were left to the entities and not dictated by headquarters. When the entities raised potential uses for VALS, the Chairman never stated that he espoused such use. Despite all the shortcomings in the implementation of VALS, in SRI's handling of VALS, and in VALS itself, the effort at least ran at "breakeven" and probably was a net benefit to this highly fragmented firm.

WHAT DID WE LEARN?

One of the most pressing questions in any discussion in action research is "will this intervention work?" This question may be too large to be answered and in the present instance the answer would seem to be "no". DCI remains today a fragmented, open firm, prizing innovation. New production methods are still introduced and new products tried. In many ways, DCI seems as it was prior to VALS.

Elements of a company's culture can be changed. DCI managers showed no hesitation in adopting "VALS-speak" when it was championed by the Chairman. VALS was accepted, not because "the Chairman said so", but for other reasons. First, as mentioned above it filled a need which the managers already felt. Second, and just as important, it was seen as a way for DCI to join the "big boys" who were VALS users. As such, it fit within a cultural norm of the firm - to be innovative, to matter.

As a final word, we would like to address a potential concern involved in any attempt to change culture. Many academic writers have properly questioned the ethics of attempted cultural change by managerial elites. In this case, some of the ethical considerations are obviated by the fact that the Chairman owned 100% of the stock in DCI and had the acquiescence in adopting VALS by the remaining owners of the other firms in "the Empire". In a sense, DCI and other family-owned enterprises are thus different from the usual firm written about in the management literature in not

being large, widely-owned firms whose managers are not the owners of a significant share of the stock. In the case of DCI, the Chairman had the legal right to adopt VALS in an attempt to change the organizational culture if he wanted; if the rest of the employees did not like the choice, they could leave. This legal argument, of course, does not answer the questions of right versus ethical process. As Wilkins and Dyer (1988) state, various cultures change in various ways; the type of legal/cultural matrix discussed in this paper changed in some of its parts without a great deal of resistance to that change.

Can culture be manipulated? The present instance shows that where ownership is concentrated in the hands of management as it is in many family-owned enterprises, where employees are loyal to and trust management, and where management does not try to turn the culture in a diametrically-opposed direction to its current posture in a short time, cultural elements can be purposefully manipulated.

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BUILDING THE IMAGE OF A NEW, HOME BASED SERVICE BUSINESS

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ABSTRACT

Introducing a new, home-based service business into a local competitive market requires a clear understanding of how the unique characteristics of a homebased service business and the consumer decision making process (buyer-readiness stages) affect the initial promotion mix decision. This paper concludes with a practical discussion of appropriate promotion ideas for new, home-based service businesses.

INTRODUCTION

Currently, more than 12.1 million business owners operate full-time businesses from their homes. In addition, another 11.7 million operate part-time home-based businesses. (1) Not only can having a home-based business reduce operating expenses, it also offers one the opportunity to work at his or her own pace and hours.

But despite their growing popularity, home-based business people are, in some instances, not taken seriously. The impression held is that a home-based business person is only playing at being in business. This can be especially true of new, home-based service businesses; their lack of a tangible product makes them vulnerable to questions concerning their quality. In fact, competitors can take advantage of this aspect by adopting a competitive strategy that portrays the home-based business as lacking in experience and stability. (2)

The purpose of this paper is to describe the ways in which a new, home-based service business is unique and propose ways in which such a business can effectively position itself among compeitiors who are serving the same local market. In particular, this paper deals with home-based businesses in which there is no face-to-face customer contact within the home. And because promotional strategies emphasizing purchase are fruitless unless the consumer is cognizant of the service, this paper will further focus on the initial buyer-readiness states of awareness and knowledge.

UNDERSTANDING THE NATURE OF A HOME-BASED SERVICE BUSINESS

There are typically four characteristics associated with a business that provides a service: intangibility, inseparability, and variability, and perishability. (4) Each of these characteristics are also true of a home-based service business. But the first two traits, intangibility and inseparability, seem to create particular problems for the home-based service business.

The characteristic of intangibility implies that it is impossible for a customer to see or touch what the service business has to offer. Therefore, it is generally difficult to know prior to purchase the quality of the service. (4) This difficulty is compounded for the home-based service business if the business

does not offer a physical location in which to interact with a customer. Even those owners who want to provide space for customer interaction are often stymied by zoning laws. (1) Yet in non-home-based businesses, aspects of a company's physical location are often used as substitutes for a tangible product: The face of the building, the signage, and the interior decor are all capable of subtly telling a customer that a business is stable, reliable, and professional. Many home-based businesses do not have this opportunity.

The second difficulty that a home-based service business faces is related to the trait of inseparability: It is commonly suggested that the service provided by a business cannot be separated from the person who provides it. (4) This implies that the visibility of the service provider is key to the success of the business. So without a physical location within the business community, the home-based business person even lacks the daily opportunities for personal interaction--the visibility--that simply going to and leaving from a non-home-based business would provide.

FOCUSING ON THE PROPER PROMOTION MIX

To overcome the difficulties inherent in being a home-based service business, one must carefully analyze the opportunities for counteracting these difficulties in each stage of the consumer decision making process. The Hierarchy-of-Effects Model suggests that the stages through which a consumer passes are awareness, knowledge, liking, preference, conviction, and purchase. (5)

Of particular importance to this discussion are the initial stages of the process in which the owner of a new, home-based service business must seek a cognitive response from the potential consumer. In a study by Wilson and Hainault, it was found that non-users of a service had lower perceptions of quality than did users. (8) Therefore, image characteristics must be conveyed to the target market early in the decision process. The business must design a promotion strategy that creates visibility and communicates clearly the traits of experience, reliability, and professionalism so as to move the target audience through those initial buyerreadiness stages of awareness and knowledge.

Communicating to potential customers can be done through the use of several promotion tools: advertising, personal selling, sales promotion, and public relations. Selecting the proper promotion mix--the combination of tools to be used--requires a matching between the stage of buyer-readiness and the tool or tools most appropriate for that stage. According to Kotler in Marketing Management, advertising and public relations are the tools considered most effective in the early stages of buyerreadiness. (4)

THE INITIAL PROMOTION STRATEGY FOR THE NEW, HOME-BASED SERVICE BUSINESS

What does this mean then for the new, home-based service business? Consider, for example, a carpet cleaning service. A strategy that begins with a sales promotion tool such as a coupon may have less than the desired results. Certainly there will be some responses from price sensitive consumers. But the target market as a whole will not react because they have no knowledge of the company; the business has no image that will portray to potential customers the company's experience at carpet cleaning, its reliability, or the quality of its work.

To demonstrate how the selection of the promotion mix should be applied to create the appropriate image for a new, home-based business, three home-based scenarios have been developed--a furniture reupholsterer, an accountant, and a house and pet sitter. Each example will (1) focus on counteracting the difficulties that stem from the service characteristics, intangibility and inseparability, and (2) demonstrate the use of advertising and public relations as methods for moving the target audience through the awareness and knowledge stages of buyer-readiness.

Furniture Reupholsterer

A furniture reupholsterer has the opportunity to create a substitute for a tangible product in the vehicle he or she drives. While a new vehicle certainly seems to say "prosperous," every home-based business owner cannot afford to purchase a new vehicle. A used vehicle can be an effective tool if it is clean (inside and outside) and if it has professional signage displaying the company's logo, name, and phone number. In a sense, the vehicle takes the place of the office and furnishings of a non-home-based business.

In addition, a furniture reupholsterer should pay attention to personal dress and grooming as the appearance of the reupholsterer conveys a strong message to the potential buyer. In his Model of Service Perceptions, Gronroos points out that functional quality (attitudes, behaviors, appearances) has an impact on a company's image just as technical expertise or quality does. (3) A uniform or clean work clothes, then, can speak volumes about the care a reupholsterer will give someone's furniture. Of course we all know someone who is really good at what he or she does, but the person's grooming and dress habits don't reflect that expertise. Poor appearance can be overcome, but it takes time; it takes considerable word of mouth about one's abilities to overcome one's idiosyncracies. Why waste that time in getting the business off the ground?

Other ways to generate awareness and knowledge include the following: One possibility is to rent space at a home and garden show. The business owner could reupholster an item throughout the duration of the show and give advice freely to questions asked. The reupholsterer will have gained visibility, created a substitute tangible product (the item being reupholstered), and promoted his or her level of expertise.

A second possibility is to offer to teach a continuing education class in reupholstering at the local community college. In general, "teacher = expert" in the minds of consumers. Students in the class become potential customers for more difficult reupholstering jobs they might have; and word-of-mouth referrals from the students are also likely to occur.

A third idea for establishing the image of a new, home-based reupholsterer would be to contact an established antique dealer and offer to reupholster something in return for referrals or the opportunity to display business cards at the dealer's shop. This possibility is especially important because it puts knowledge of the reupholsterer's abilities in the hands of an opinion leader, someone from whom others might seek advice.

Accountant

A new, home-based accountant has even more difficulty demonstrating the quality of his or her work than does the reupholsterer. A finished chair can always be shown to a potential customer. But what can an accountant show? Creating an image of tangible quality is much more difficult.

So the accountant must focus on the things that represent the service provided. That means a well-designed logo that appears on quality stationery, business cards, and brochures. (These items are important to all three of the service businesses discussed herein, but are particularly important to the accountant.) The accountant must also focus on the characteristic of inseparability and recognize that his or her every move reflects upon the business.

Potential ideas for creating awareness and knowledge in the target audience are as follows: The accountant could use the repetition that advertising provides by placing a multiple-time ad in the newspaper. The ad should announce the opening of the business and stress the experience, training, and specialty of the owner. A picture of the accountant will help the target audience attach a visual image to the company name. The accountant should not expect instant phone calls as this ad is strictly for building awareness.

To emphasize the experience of the accountant, he or she could undertake a variety of activities: offer to write a column for the local Chamber of Commerce newsletter; offer to give free lectures or seminars to Chamber or other civic organization groups; and submit a news release for the newspaper's Business or Personnel Update column that indicates recent continuing education coursework or seminars taken.

To initiate word-of-mouth communication about the quality of the his or her work, the accountant could donate his or her services to a highly visible nonprofit organization. (6)

House and Pet Sitter

A firm foundation of trust is required to allow a stranger into one's house when no one is at home. This trust can be built from two perspectives: opportunities for personal interaction and comments spread word-of-mouth by opinion leaders. So a newly established house and pet sitter would want to look for opportunities to display his or her trustworthiness to potential customers in whatever arena possible. This might mean doing volunteer work with a nonprofit organization, working on Chamber committees, etc. Responsibility displayed in one situation leaves the impression that one will be responsible in other situations.

One way to initiate word-of-mouth communications is for the sitter to donate his or her services to a fundraising auction such as one held for a public television station. This allows not only awareness exposure during the auction but also a chance to demnstrate the quality of the services provided.

The house and pet sitter might also use the technique Pike calls "farming." A take-off on segmenting, farming involves concentrating on a specific neighborhood. (7) The sitter could go door-to-door introducing himself or herself and handing out flyers. In addition, the sitter could stage a cutest and ugliest dog contest in a nearby park where his or her image as a person who likes and gets along well with animals is clearly exhibited. Both the door-to-door activity and the dog contest give the sitter

opportunities for personal, trust-building interaction with the target audience.

CONCLUSION

The foregoing discussion centered upon the initial promotion strategy that is necessary for a new, home-based service business to undertake to begin building its image. Obviously, the promotion strategy cannot stop there. Additional uses of the promotional tools must be added to the promotion mix as some members of the target audience move past the awareness and knowledge stages. This means that the promotion mix will then include the use of tools that appeal to potential customers at all stages of the buyer- readiness process.

The key issue, though, for a new, homebased service business is recognizing the starting point. Creating a promotion mix that has appeal for consumers in all stages of the buyerreadiness means that money has been wasted on inappropriate techniques. The message is clear: The consumer goes through successive steps prior to making the decision to purchase. Focusing on the initial stages of the consumer decision making process lays the groundwork for the success of future promotional tools.

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ASSISTING SMALL FIRMS IN BECOMING MORE COMPETITIVE - CONTRIBUTION OF STRATEGIC MARKETING PLANNING

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ABSTRACT

Although Timmons (32) argues that "one of the most striking characteristics of the successful entrepreneur is his attitude towards and use of planning", in practice, empirical research suggests that formalized strategic planning is very rare in small firms (13; 14). Low practice of marketing planning is significant when research shows that lack of marketing orientation is a major cause or one of the contributing factors for lack of competitiveness. Ames (2) suggest that the problem is a lack of effective implementation of marketing strategies. This study looks at a programme designed to influence the practice of strategic marketing planning in small/medium sized firms and analyses its impact on the firms.

1 THEORETICAL BACKGROUND

Most of the literature on strategic planning has been prescriptive, discussing the importance and methodology of planning and prescribing the stages that should be covered when preparing a plan. Some works include: (I; 8; 26).

The modes of formulation generally agree throughout the normative literature (25). Taking this view of planning, the output of the planning process is the plan document and the contribution of the external expert is summarized in the plan. The effectiveness of the plan is related to the degree of implementation of the recommendations contained in it. This approach which is highly analytical is responsible for the appearance in the literature of prescriptive theories (26) or normative theories (25).

Another approach defined by Archibald (3) is the "clinical approach" which is also referred to in the literature as "organizational development", "planned change", or the "human relations" approach (20; 10 ; 5; 6; 28; 4; 31). This approach again uses an expert to develop a plan and the expert is referred to as a "change agent". The objective of the expert is to produce planned change" and development in the organization by using the process of analysis, and by helping the client to cope with the environment. The main and real effect of this approach can be seen as the increase in comprehension of the client firm. The argument that planning process has an important effect on learning how to plan has been also advocated by Michael (23).

In spite of proliferation of literature on the subject empirical research in marketing planning is limited. Greenley (17) identified only seven such studies. These studies suggest that there is a considerable gap between theory and practice. Limited and incomplete use of marketing planning in the firms in the UK has also been reported by Greenley, (15;16) and McDonald (22). Similar results in the Netherlands were obtained by Verhage and Waars (33).

Martin (21) argues that the lack of success of marketing planning is due to the poor management of the plan. Carson and Cromie (9) argue that the approach taken to marketing by "business proprietors" in small firms differs from the managers of larger organizations and maintain that the marketing planning principles advocated in literature need adaptation before use by small organizations.

Cosse and Swan (11) argue that the product managers used those items of strategic marketing information that they perceived as being more useful. The study suggests that as the knowledgeability regarding a concept or technique increases, the effort needed for its use is reduced and consequently is applied more often. This view is consistent with more general literature and studies on innovation (27). The importance of knowledgeability as a prerequisite to adoption is well documented in the general literature on innovation. Different models of adoption suggest that awareness and knowledge are indispensable steps in the process of adoption (19; 24).

2. RESEARCH OBJECTIVES AND DESIGN

2.1 Objective

The objective of this study was to look at a programme designed to influence the practice of marketing planning in small/medium sized firms, and analyze the impact of marketing planning on them when they are provided with such a plan by an external consultant. As part of the original program there used to be a number of field workers, called Senior Industrialist (SI), who were experienced managers with a high level of business qualification. The Senior Industrialist would visit the managing directors of the firms and explain to them the nature of the strategic marketing project and would brief them on how to manage the consultant. The program was partially funded by the UK government.

The study considers the situation of the firms at the beginning of the project and analyses the impact and outcome of the exercise using the clinical approach discussed above, where the expert interacts closely with the client firm. In this approach, the process of planning and interaction with the expert increases the knowledgeability of marketing within the firms. The increased knowledgeability will encourage firms to implement the recommendations and utilize marketing planning in the future.

2.2 The Research Design

A questionnaire was sent to all firms that had completed the project. The response rate was 38.7%. Managing directors, together with owners and marketing directors, form over 86% of the responses.

Over 90% of the firms in the sample had an average turnover of less than five million pounds. Over 78% of the firms had less than 50 employees. Almost 73% of firms were 'family owned' or owned by their directors, most were private companies and had been in business for longer than ten years. Firms in the sample were doing business with different customer groups, but were not engaged in selling directly to the consumer. Comparing the characteristics of all the firms that benefited from the programme with the sample obtained in this research, it is possible to conclude that the sample is a satisfactory representation of the population.

To analyze the data the statistical package SPSSX (30) was used. The techniques used were factor analysis (35; 18) and log-linear models (7; 12).

3. DISCUSSION OF THE RESULTS

3.1 Practice of Marketing and Business Planning Before Intervention

To assess the position of the firms before the intervention two sources were used: (1) The responses obtained through the survey and (2) the evaluation of the senior industrialist who visited the firm, through desk research.

Results of this study confirm that the practice of marketing planning in small firms is very limited. While from the firm's point of view only 14.6%- admitted that they had no plan at all, the senior industrialist report testifies that nearly 70% of them were lacking any marketing plan at all. This is an interesting result as it confirms the findings of Greenley (15) and McDonald (22).

Lack of marketing planning in the small firm can be well assessed by looking at the allocation of marketing responsibility within the firm.

Firms were asked to specify who in their organization was in charge of marketing. In 22% of the cases there was nobody in charge and in about 40% of the cases, a sales person or marketing manager was responsible for the marketing activities of the firm. In nearly 38% of cases the marketing function was performed by the managing director or other director. The lack of marketing planning together with the fact that only 26% of the firms had a marketing director testifies the low priority given to marketing in small firms.

Log-linear models were used to see: i) The relationship between the degree of formalization of marketing planning activity and the marketing responsibility, and ii) the interaction between marketing planning and marketing responsibility.

The model was used for both cases: firm's response and senior industrialist's view. While firms' responses show a strong interaction between marketing planning and responsibility, data obtained based on senior industrialist views reveals that such an interaction is nonexistent.

This result implies that the presence of a marketing director or a sales director is not a guarantee per se that marketing planning will be practiced in the firm. In many cases, marketing directors are probably more concerned with the day to day activities of the firm rather than formal planning. This is confirmed by the answer given to the question as to why they called for a marketing expert in the first place. In more than 50% of cases they responded that they wanted to have a formal marketing activity or have a long term marketing plan. About 50% of the firms asked for the help to get the professional view of an outsider regarding their activities or to have their existing marketing activities confirmed. In both cases they feel that an expert could help them to organize their marketing activities or at least give them the confidence to pursue those activities.

The relationship between marketing responsibility and size was also assessed. Marketing

responsibility also interacts with size in terms of the turnover and number of employees. McDonald (22) suggest that as the size of a firm grows, so does the use of formalized and comprehensive planning in the firm. In this case, allocation of marketing responsibility is related to the size. The analysis also shows that as the number of employees increases so does the practice of marketing planning in the firm.

3.2 Evaluation of the Program

Most of the firms in the sample had no marketing planning or a very limited marketing planning activity. The methodology of assistance requires interaction with the experts, both from the program and the marketing consultants. It is necessary to see how the firms evaluate their experience with the above programme and the consultancy process and also how valuable the experience was.

The level of satisfaction of the experience is quite high. As to the value of the marketing consultancy to the firms, 63% of them found the program to be of good or very good value, using a scale of 1 to 5. Their evaluation of the consultant is similar. About 70% of them found that consultants perform a good or very good job. But, the importance they attach to the programme is far higher. Over 70% of the firms found its execution to be good or very good. However, the much higher figure of above 91% reflected the importance they attached to the programme in terms of concept. The importance attached to the concept reflects to a certain extent the degree of the need for firms to improve their marketing activities. They would recommend the use of the program in about 82% of cases to other firms.

The application of hierarchical log-linear models shows no relationship between the "value" and evaluation in terms of concept. However, the model shows that there is a positive relationship between the execution of the program and its value to the firm. The difference in the results suggests, not surprisingly, that although firms attach high value to the planning concept and its usefulness, once they become aware of it, they find it of value only if performed properly.

3.3 Interaction and Awareness

As argued before, the interaction with the expert has an important influence on increasing knowledgeability and awareness towards marketing issues and marketing planning. Such an impact is suggested not only by theoretical literature (20; 10; 5; 6; 28; 4; 31) . The pilot-interviews with the managing directors of the firms also gave clear signals of such an effect. With this background, a number of questions were included in the questionnaire, which measured the likely effect of the intervention in increasing awareness and knowledgeability of marketing and marketing planning issues, using a scale of 1 to 5 (strongly agree to strongly disagree).

The results show that there is general agreement on the impact of the Program in increasing knowledgeability in the firm. Although this result is appealing, the real interest lies in looking at the relationship of this knowledgeability to other variables.

Factor analysis was applied to knowledgeability variables to determine if they can be represented by a reduced number of variables (factors). Using the eigenvalue rule, three factors are identified which together explain 58.1% of total variance: Increased knowledgeability of marketing operation (Factor

1), Increased knowledgeability of marketing strategy (Factor 2), Increased marketing awareness (Factor 3). This smaller set was used to determine the relationships of knowledgeability with other variables.

The variables that were used to evaluate the programme were: overall evaluation in terms of concept, overall evaluation in terms of execution, and whether or not firms would recommend it to others. It was thought that these were the three key variables that could explain firms, evaluation of the programme. The variable that represented and most effectively summarized firms' evaluation of the consultant was "the overall assessment of the consultant".

The results showed that value to the firm has a positive relationship with two knowledgeability factors: marketing awareness, and marketing strategy, that is, firms will find the program to be good value for money if their marketing awareness and knowledgeability of marketing strategy issues are increased. This relationship confirms the proposed hypothesis that not only is there an effect on knowledgeability of the firms, but also the value of the exercise is seen to be related to marketing awareness and marketing strategy issues.

As argued before the value of consultancy lies in its ability to augment the knowledgeability and capability of the client firm. Is this value acknowledged and appreciated by the firm? Do firms judge consultants in terms of their contribution to knowledge? By looking at the relationship between knowledgeability factors and evaluation of the consultant, these questions can be answered. The results confirmed that there is a positive relationship between consultant performance and two of the factors: marketing awareness and increased knowledgeability of marketing strategy. The positive association implies that higher levels of knowledgeability are associated with higher scores for the overall evaluation of the consultant.

Would firms recommend the program, based on the effect it had on their knowledgeability? The application of log-linear models show a positive relationships between this variable and the same two factors, (i.e., marketing awareness and increased knowledgeability of marketing strategy). The result therefore shows that the higher level of increased knowledgeability results in stronger support and increased recommendation of the program to others.

As described earlier, the nature of the program implied interaction with the firm. The programme directors would review and approve the terms of reference and the consultant's report. Considering this relationship and specially the senior industrialist's role, it is legitimate to expect that the process of intervention may influence the knowledgeability of the firms. The interest at this stage is to see if the operation of the programme also influenced the knowledgeability of the firm. The log-linear models identified a positive relationship between the marketing awareness factor and operation of the programme which indicates that the operation of the programme can also contribute to marketing awareness.

4. FURTHER RESEARCH

This paper merely reports how the intervention of an expert in the process of implementing the strategic marketing planning in the firms can have an impact on knowledgeability of the firms. The

article, however, due to space restrictions, does not report a number of other important issues.

As to future direction for research, it is required to see whether or not as a result of the intervention, the practice of marketing planning has increased in small/medium sized firms. It is important to see if firms are practicing marketing planning, if it is being practiced in a systematic fashion and specially what impact it is having. Also worth considering is the impact of marketing consultancy in the absence of such a monitoring system.

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ASSESSING THE NEEDS OF SMALL BUSINESS RETAILERS

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ABSTRACT

This exploratory study was conducted to profile small business needs for an industry specific business sector--small business apparel and accessory retailers. Original questionnaires incorporating a comprehensive Needs Assistance measure were mailed to 230 small business retail owners; 92 (40%) were returned and usable. Assistance needs for small business apparel and accessory retailers were found to be in the areas of managerial planning and support services, human resource management, and competitive and promotional strategies. Support agencies and institutions can address the problems of business failure by focusing on these areas of greatest need.

THE LITERATURE

Despite the prevalence and recognized benefits of small business, more small businesses fail than succeed. While the exact failure rate is uncertain, estimates ranging from 50% to 80% are reported for businesses within the first five years (8). According to the U.S. Small Business Administration, small business accounted for 49,719 of the U.S. failures in 1989 (4). These figures attest to the difficulties owners have in establishing, developing, and maintaining successful business practices.

Past researchers explain that most failures can be categorized as internal (causes controlled by the manager) or external (forces seen as uncontrollable). Franklin and Goodwin (5) found half of the major problems to be external factors directly linked to government policy and regulation. Similarly, Peterson, Kozmetsky, and Ridgway (10) found perceived uncontrollable forces (e.g., federal regulations, taxes, high interest rates, and the economy) to be causes of small business failure. Franklin and Goodwin (5) state, however, that small business owners may be too ready to blame uncontrollable variables rather than aggressively taking control of their circumstances.

Although, external factors play a key role in the success or failure of small businesses, a general consensus exists among previous researchers that a major cause of failure is attributed to internal managerial shortcomings (1, 6, 9, 11, 12). Small business owners themselves recognize the problem of inadequate management skills. Gaskill, Van Auken, Manning (6) found that perceived causes of failure included shortcomings related to managerial and planning functions. Peterson, Kozmetsky, and Ridgway (11) suggest other causes of failure closely related to managerial inabilities were high overhead, cash flow, and under capitalization/over extension.

Excessive rates of small business failure have resulted in increased interest in small business assistance needs. Banks, Bures, and Champion (2) identified the top six need related areas as basic management skills, leadership, problem solving, communication skills, motivation, and decision making skills. Greatest needs areas in the Dodge and Robbins (4) study were comprised of personnel problems and organization design, inventory and cost controls, and lack of business knowledge and business planning. In a survey of businesses having 10 or fewer employees, longterm business

planning was perceived to be the area in which the greatest management assistance was needed (10). Other areas in which assistance was needed include reporting procedures for government forms and marketing techniques in pricing, advertising, and selling. Topics regarding basic management skills such as communication skills, leadership, and problems solving were also found to be needed in training and development programs (2).

Small business owners and managers have frequently suggested that providing better management education could reduce small business failure (11), indicating that small business owners and managers are not aware of the assistance available, or they are not receiving adequate management assistance. According to Gaskill, Van Auken, and Manning (6), "Training programs and small business support endeavors need to focus on equipping small business practitioners with the managerial skills necessary for effective small business operators as well as a conceptual and cognitive understanding of how these functions affect business performance". To ensure adequate assistance targeted to the realistic needs of small businesses, support organizations and educational institutions must be aware of appropriate and specific areas of need.

This study, therefore, was conducted to identify small business needs for a specific retail business sector. Apparel and accessory retailers were chosen as the targeted retail industry for analysis due to their large representation in the small business sector (7). Specific businesses included Men's and Boy's Clothing and Accessory Stores, Women's Clothing Stores, Women's Accessory and Specialty Stores, Children's and Infant Wear Stores, Family Clothing Stores, Shoe Stores, and Miscellaneous Apparel and Accessory Stores.

METHODS

The sample for this study consisted of existing, successful small business apparel and accessory retailers in Iowa who had been in business five or fewer years. Study participants were located through the Iowa Department of Revenue Sales Tax Permit tapes. Standard Industrial Classification (SIC) code numbers offered a means of identifying businesses with apparel and accessory product lines. Contact was initiated with 230 retailers using a systematic random sample selection procedure.

The research instrument used for data collection was an original structured mailed questionnaire. Development of the mailed questionnaire, incorporating a Needs Assistance measure, was based on an extensive review of small business research and through assistance provided by professionals in textiles and clothing, marketing, economics, and business management. To identify assistance needs, participants (newly emerging, successful small business apparel and accessory retailers) were requested to respond to a list of 37 possible need items extracted from the small business literature and from the expert panel input. Items included such areas as: improving customer service, developing a long-range business plan, improving employee performance, personnel training, minimizing operating expenses, financial planning, employee recruiting, sales forecasting, etc. Participants were to identify the extent to which they needed assistance in the specified areas using a scale of 1 (to a very little extent) to 5 (to a very great extent). Additional information collected addressed general business background information and socioeconomic data. Current business owners and small business consultants in apparel and accessory retailing were used in validating the instrument. The questionnaire was pretested with Shoe Store retailers.

A modified version of Dillman's Total Design Method guided the collection of the data. An executive summary of the results served as the incentive for completion. Data collected were numerically coded, computer tabulated, and analyzed through the Statistical Package for the Social Sciences (SPSS). Procedures used for the analysis of data included frequency counts, factor analysis, and reliability coefficients.

RESULTS AND CONCLUSIONS

Of the initial 230 business owners, 92 (40%) completed and returned usable questionnaire. Thirty-five (15.2%) of the mailings were returned nondeliverable, and seven businesses were no longer in operation (.03%). Four business owners responded (.01%) indicating they were not interested in study participation.

In demographic terms, the largest percentage of the 92 respondents were female (66.3%), married (84.8%) and had some college or technical training beyond high school (37.0%). Seventy seven percent were currently in a two-income household with earnings in the $30,000 to $45,000 income range (21.7%). In terms of their business background, the largest percent had sole ownership of their business (56.5%), and fifty percent started a new business in a downtown area (47.8 %). Approximately 98% drew customers from outside the community 63% of the participants had never previously owned or managed a small business.

Principal components factor analysis with orthogonal rotation was conducted on the Needs Assistance items to identify which items clustered together and could serve as a reliable measure of small business needs. As shown in Table 1, three factors resulted with item loadings ranging from .93 to .39. Twenty items were identified under Factor 1 with loadings ranging from .93 to .42 (Cronbach's alpha = .95). These needs appear to be related to Managerial Planning and Support Services. Specific items include: financial planning, credit/capital planning, long-term planning, planning for growth, cash flow control, short-term planning, marketing research, controlling business growth, minimizing operating expenses, inventory control, target marketing, sales forecasting, pricing strategies, business networking, decision making skills, legal and tax advising, locating business consultants, and locating information sources/publications.

Many of the items in Factor 1 strongly relate to the planning functions which are critical to business performance. Such items addressing planning related to finances, growth management, inventory planning, and market planning suggest managerial deficiencies in strategic and operational planning concepts. Increased emphasis needs to be directed toward aiding small business owners with general small business managerial functions (i.e., planning, cash flow control, marketing research, expense control, and pricing). A breadth of managerial skills are necessary in small business retailing and, understandably, many individuals will not be experts in all areas.

TABLE 1. FACTOR ANALYSIS OF SMALL BUSINESS NEEDS

Items Factor Loading Communality

Factor 1. Managerial Planning and Support Services Financial Planning .93 .88 Credit/Capital

Planning .81 .66 Developing a Long-Range Business Plan .73 .66 Planning for Growth .73 .72 Cash Flow Control .67 .73 Setting Business Priorities .66 .60 Decision Making Skills .65 .58 Developing a Short-Term Operational Plan .65 .57 Locating Business Consultants .63 .42 Business Networking .60 .55 Marketing Research .54 .47 Controlling Business Growth .53 .48 Minimizing Operating Expenses .52 .42 Inventory Control .52 .61 Target Marketing .52 .36 Sales Forecasting .52 .41 Pricing Strategies .51 .44 Inventory Planning .50 .53 Legal and Tax Advising .46 .34 Locating Information Sources/Publication .42 .30 Eigenvalue = 15.0 Proportion of Variance Explained = 40.8 Factor 2. Human Resource Management Improving Employee Performance .80 .68 Improving Customer Service .80 .71 Developing a Sales Training Program .60 .43 Personnel Planning .59 .49 Employee Recruiting .54 .30 Delegating Responsibility .52 .42 Identifying Quality Products .50 .35 Manager Training/Education .49 .51 Improving Vendor Relations .44 .57 Controlling Employee Theft and Shoplifting .41 .26 Improving Personal Selling .39 .39 Eigenvalue = 2.4 Proportion of Variance Explained = 6.7

Factor 3. Competitive and Promotional Strategies Visual Merchandising .69 .64 Competing in Trading Area .65 .50 Coping with Discount Stores .62 .54 Advertising and Promotion .54 .43 Improving Business Image .43 .47 Assortment Planning .43 .45 Eigenvalue = 1.5 Proportion of Variance Explained = 4.1

The visibility of support service areas (e.g., business networking, advising, consulting, information sources) surfacing as recognized needs indicates that business owners willingly acknowledge their deficiencies. Practitioners need to recognize the importance of business consultants, advisors, and information sources in overcoming deficiencies and managerial shortcomings in small business operations.

Factor 2 (Cronbach's alpha = .88) addresses items of Human Resource Management (factor loadings ranging from .80 to .39). Specific needs are improving employee performance, improving customer service, developing a sales training plan, personnel planning, employee recruiting, delegating responsibilities, manager training/education, improving vendor relations, controlling employee theft, and improving personal selling (identifying quality products is a recognized unrelated item in Factor 2).

The importance of customer relations, customer service, and sales training cannot be minimized for the small business retailer since a commitment to customer service is a recognized key competitive advantage for the small business retailer. Equipping personnel with the necessary skills, however, takes time, training, and indepth knowledge of selling techniques. Outside sources such as consultants and educators can be used to assist in the training and development issues through workshops, seminars, etc. The data suggests that small business retailers recognize the importance of human resources in business activities and seek assistance in personnel related areas such as recruiting, training, and performance evaluation.

Factor 3 appears to relate to the externally oriented needs including Competitive and Promotional Strategies. Items include: competing in trading areas, coping with discount stores, assortment planning, improving business image, visual merchandising, and advertising and promotion. Factor loadings ranged from .69 to .43 (Cronbach's alpha = .83). Business image improvements through

merchandise assortment planning and presentation are strategies to cope with market competition. Small business retailers in this study identified needs in these areas. Small business retailers are forced to compete in an "overstored" business environment; competitors include other specialty stores, mass merchandisers and department store retailers in virtually every market area. Techniques for success in a highly competitive market surfaced as a need item along with assistance in store positioning and promotional/marketing techniques.

Through small business needs analysis, support agencies, institutions, and small business practitioners can gain insight into areas warranting increased attention in the small business retail area. The realization that insufficient managerial skills ultimately contribute to small business downfall has created the need for professional guidance in managerial planning (including finances, credit, long-range business plans, planned growth, cash flow, setting business priorities, etc.), human resource management, and competitive strategies. Such insight creates consulting opportunities in small business management as well as possible academic intervention to better address the needs of the small business retailer and potential future practitioners.

The importance of small business to the U.S. economy is significant in terms of training, innovations, quantity of small business firms, and employment opportunities. Despite the resources committed to advancing the small business sector, over half of all U.S. businesses are predicted to fail in their first six years. Aiding in the development of small business owners/managers is warranted, but priority needs to be given to the identification, development and implementation of programs/services which meet the specific needs of the small business community. Only through greater awareness of the small business sector, can appropriate support measures be taken to aid in decreasing the rate of business failure.

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THE COMPETITIVE EDGE FOR SMALL RETAILERS: IS THERE MISSING INFORMATION

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ABSTRACT

Small business failures have been shown to be associated with the lack of strategic planning. Of ten, the information necessary for the strategic planning process is not being used by the small retailer. This information void puts the small retailer at a distinct competitive disadvantage since its large competitors typically have formalized information systems (IS) that integrate needed information into the planning process. The purpose of this paper is to present a model that describes how information should be managed by a small retailer and to present the findings of a study conducted to determine how small retailers in one industry are using specific information tools that can serve as inputs to the strategic planning process.

INTRODUCTION

For more than a decade, the number of small business retailers has continually declined (5). Since over the same period retail sales as a whole have continued to grow (1), a conclusion can be drawn that more volume is being generated by fewer companies. This can be partially attributed to the fact that 54.5 percent of all small businesses fail within the first five years of operation (1).

The key contributing f actor to small business failure is the lack of strategic planning on the part of the owners. In general, most owners do not have any formal or systematic method for planning (8). A study conducted by AT&T revealed that only 42 percent of small businesses surveyed had a formal business plan. Those companies were more likely to be successful than others. The study found that over a two year period, 59 percent of the companies which had grown or expanded utilized a formal business plan. Only 38 percent of the businesses which used plans experienced declines in their operations. Small businesses in general have limited operating capital. The limitation makes it essential for small businesses to have accurate records. Minor miscalculations in planning, control, or merchandising decisions can be catastrophic (4).

Small businesses make a significant impact on the United States economy - - - they employ nine out of every ten workers (5). Retailing is particularly important to the U.S. economy because as an industry they are the third largest employer, employing approximately one out of every six workers (7). Since small business is such a vital part of our economy, we need to examine the tools available to small companies which will allow them to narrow the competitive gap between their operations and those of larger businesses. This paper will specifically examine whether or not the informational tools that are commonly used by businesses are being neglected by small retailers.

MODEL DEVELOPMENT

The model depicted in Figure 1 was developed to help the small business owner understand what information needs to be gathered (2). In addition, the model illustrates how the information should interrelate to enhance both strategic planning and the decision making process.

Inventory control and point of sale can be compared to the chicken and the egg; that is, sales information is required for accurate inventory control and inventory information is needed to make the sale. However, a valid information system (IS) needs to go further than that particular relationship. Accounting, data base, individual judgement, and order generation also need to be integrated into the system.

Data collected from the POS should feed directly into accounting, inventory control, and a data base. Each function should then convert the data into useable information which can be interpreted by management. The interpretation can then be combined with managerial judgement or "fuzzy logic" to develop a strategic plan. The plan should guide operating, merchandising, and marketing decision making. The sales data sent to the accounting function can be turned into essential information such as inventory turnover and open-to-buy budgets.

RETAIL "IS" MODEL Figure 1

Retail Business

Governmental ----------->Accounting-------- --------->Operations--------- Economy Regulations | \|/ | | Point <------->Inventory ----->Strategic----->Merchandising----| Suppliers of Control Planning | Technology Sale---------- /|\ | | /|\ \|/ | | | Competition | DataBase---------- --------->Marketing --------| Market | FEEDBACK | Trends ----------

In addition to allowing management to see which items are turning over the quickest and which items need to be reordered, an integrated inventory control system can identify merchandising trends. This information combined with insight gained from working directly with the consumer should be able to identify product classifications that need to be either expanded or narrowed. Keeping a perpetual inventory with an integrated system can enable small retailers to quicken their response times to a changing market which should prove to be one of the most valuable assets.

Once the data has been turned into information, the small business manager can use accurate information in conjunction with the insight gained through personal involvement to form a strategic plan for the firm. The plan should be used as a guide to operating, merchandising, and marketing decision making.

As the model indicates, one needs to realize that this is a continual process. The retail market is very volatile. Retailers also need to be aware of that is taking place in the external environment. Just as in any industry, there are governmental regulations on the local, state and federal levels to which retailers must adhere. Changes in competition may also affect the way a store must do business particularly if the retailer is a small business and an industry giant enters the local market. Customers, who are very subjective, influence retailer's merchandising policies. Suppliers and the availability of merchandise can have either positive or negative effects on the way of doing business. In addition, the

economy, changing technology, and market trends must be monitored. The industry is unique. Its is "dramatically affected by subjective consumer whims" (3).

A small retailer cannot be everything to every one and they shouldn't try to be. The large stores try to fill that need. Small businesses need to focus on their strong points. To do that, they need to understand who their consumers are. A data base with minimal information such as name, address, and phone number can be combined with the type of merchandise the consumer buys to identify who the target market is. This information can help determine what type of merchandise needs to bought, what type of advertising needs to be done, and where the advertising needs to be placed. Even with the availability of the Retail IS Model, small retail firms need to realize they cannot successfully compete directly with the industry leaders such as Wal-Mart or Sears because of the difference in buying power of the different size companies. The model should be a guide which will enable small stores to compete on their intrinsic assets rather than on price.

METHODOLOGY

To determine how small retailers get information, a survey of retailers in the gift industry was conducted. A pretest was conducted at the Dallas Market Center during a major gift market. Giftware buyers from various parts of the country were surveyed. Seven national sales managers from manufacturing firms in the gift industry and 11 manufacturer's representatives also reviewed the questionnaire.

Questionnaires were sent to 438 businesses located throughout East Texas, North Louisiana, and Arkansas. A 30.8 percent response rate was achieved through the receipt of 135 responses. The responding businesses could all be classified as small --- 66.7 percent had annual sales of less than $250 , 000. The community Mutation of 77.8 percent of the companies was less than 50,000. Trade area population was less than 50,000 for 53.3 percent. The average distance to a major city from the community in which the stores were located was 66.03 miles. The majority of the businesses, 74.8 percent, had three or less fulltime employees and 67.4 percent had three or less part-time workers. Only 3.7 percent had ten or more fulltime and only 5.2 percent had ten or more part-time employees. All stores involved in the survey sell gifts but some sell them secondarily to other products. Type of primary business, location, and number of locations of the responders can be found in Tables 1, 2, and 3, respectively.

The purpose of the study was to determine whether small retailers are using the tools available to them which would enable them to compete more effectively in the market place. The survey was also designed to help determine if the respondents had the knowledge base which would aid them in using the tools. The survey addressed the key issues of operating a retail store. The issues addressed in the total instrument included: services offered, competitive advantages and disadvantages, advertising, buying habits and influences, paying for purchases, taking inventory, computing inventory turnover, budgeting an open-to-buy, and target market identification. This paper focuses on the final four issues listed above: 1) taking inventory, 2) budgeting an open-to- buy, 3) computing inventory turnover, and 4) identifying the target market.

Table 1 Primary Business of Respondents

Primary Business Number of Respondents

Cards & Gifts 54 Flowers & Gifts 23 Pharmacy 22 Bookstore 5 Gourmet 8 General Store 4 Cosmetics 2 Novelty 10 Misc. 7 TOTAL 135

FINDINGS

Inventory control is essential to the profitability of any retail operation. It should make a contribution to the company's earnings. Total assets of a retail operation represent a significant portion of the company's total assets. One of the major problems facing retailers today is the high cost of carrying excessive inventory (6).

Respondents were asked to indicate their inventory management practices. The survey revealed that only 37.8 percent of the respondents keep a perpetual inventory of the stock carried in their stores. In addition, 57.8 percent take inventory for tax purposes only. Another 4.1 percent never take inventory. The results are depicted in Table 4. Without inventory records, managers must rely strictly on personal memory and intuition to guide them on their merchandise decisions. Long term strategic planning becomes extremely difficult, if not impossible, to form.

Table 2 Location of Respondents

Location Respondents Percent of Total

Strip Center 34 25.2 Mall 10 7.4 Free Standing 52 38.5 Downtown 7 5.2 Other 28 20.7 No Response 4 3.0

Table 3 Number of Locations of Respondents

Number of Locations Responses Percent of Total

1 117 86.7 2 10 7.4 3 4 3.0 4 1 .7 5 1 .7 No Response 2 1.5

The lack of strategic planning can also be seen in the lack of use of an open-to-buy. Of those responding to the survey, only 25.2 percent make purchasing decisions based on a budgeted open-to-buy. The survey also reveled that 21.5 percent of the respondents do not know how to budget an open-to-buy. Results are included in Table 4.

Table 4 Inventory and Budgeting

Activity Responses Percent

Perpetual Inventory 51 37.8 Monthly Inventory 10 7.4 Inventory/Taxes Only 78 57.8 Never Take Inventory 6 4.1 Budget an Open-to-Buy 34 25.2 Don't Know How to 29 21.5 Budget an Open-to-Buy

Inventory turnover is another critical issue which affects the cost of inventory. There is no magical

number to determine whether a store has an adequate turnover ratio; the necessary level depends on the type of merchandise carried and the average maintained mark-up on the items. For example, exclusive merchandise such as fine jewelry generally carry a high mark-up and have a relatively low inventory turnover ratio. Mass merchandise items or convenience items are frequently just the opposite. They carry a low mark-up and high turnover ratio. Retailers of such items rely on turnover rather than high mark-up to generate profit for the store. Although the ratio may be different for the various types of stores, one thing that all have in common is that there is a profitable range for each operation and the ratio needs to be closely monitored. If the store experiences a ratio which is too low for their operation, they will encounter unnecessarily high inventory costs. A low number can also indicate that product classifications and mix need to be reviewed - - - some may need to be narrowed or eliminated altogether. On the other hand if inventory turnover is too high, stock outages may be experienced which can lead to dissatisfied customers and customer defection. Of those surveyed, 25.9 percent reported their inventory "turns" two to three times a year and 20.0 percent reported a ratio of four to five times per year. Another 34.0 percent reported that they did not know how to compute inventory turnover. Results of this issue are depicted in Table 5.

Table 5 Inventory Turnover

Turns per Year Responses Percent

Under 2 12 8.9 2 - 3 35 25.9 4 - 5 27 20.0 6 - 7 9 6.7 8 - 9 4 3.0 Over 9 2 1.5 Don't Know How to Figure Inventory Turnover 46 34.0

The target market issue was broken down into two questions. Respondents were asked to identify the major age group and primary occupational group which shop in their store. Age categories were divided into 10 year increments with the exception of the age groups under 25 and over 65. Occupational categories were very broad such as manufacturing, agricultural, clerical, or professional. Because the target market categories were broad, an assumption has been made that those which identified three or more segments were not really aware who their target market was or did not understand the target market concept. Charts 1 and 2 on the following page illustrate the response rate with respect to the number of categories identified. As can be seen from the charts, 29.63 percent identified 3 or more age categories as being in their target market, while 34.81 percent indicated 3 or more occupation groups as being in their target market.

Target Market Number of Groups Identified

Age Chart 1

0 0.74% 1 54.81% 2 14.81% 3+ 29.63%

Occupation Chart 2

0 0.74% 1 48.15% 2 16.30% 3+ 34.81%

IMPLICATIONS

A large portion of small retailers are not using the informational tools available to them. In some instances it is merely because they do not have the knowledge to make the appropriate calculations. In many cases, small business owners are embarrassed to admit they do not know how to perform the tasks which are essential to forming a good business plan. They may not understand the possible ramifications of either not knowing how to perform certain tasks or not taking the time to perform them.

The model developed depicts how information needs to relate in the day-to-day operation of a retail firm. That relationship exists for industry leaders all the way down to the small hometown,"mom and pop" operations. With or without a formal information system, retailers need to understand how the information relates and affects the profitability of the firm. A perpetual inventory provides information about which merchandise is selling. It can give insight into product categories that either need to be expanded or narrowed. Before a decision in made to make such a change, managers need to know how much money they can afford to spend which created the necessity of a budgeted open-to-buy. Without the two, manager generally "fly by the seat of their pants". Although 21.5 percent reported they do not know how to budget an open-to-buy, the true figure may actually be higher. In many cases, small business owners are embarrassed to admit that they do not know how to perform tasks which are essential to efficient operations. In this case, 34.0 percent reported that they did not know how to figure inventory turnover. If 34.0 percent do not know about inventory turnover, then 34.0 percent probably do not know how to budget an accurate open-to-buy. Inventory turnover is an essential ingredient calculating an accurate budget.

The inability to identify a store's primary customers may indicate that retailers also do not understand the target market concept. A business can have the knowledge to accurately budget an open-to-buy, but still not buy the right merchandise. If a store does not understand who their customer is, they have a higher risk of purchasing merchandise that will not sell in their store. All the aspects are interrelated.

The lack of knowledge and planning revealed in this study indicates there may be a direct relationship with the high percentage of failures for small businesses. Because small businesses have a significant impact on the United States economy, we, as educators, need to explore the avenues available to help these manager develop the skills to compete profitably in the marketplace.

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PRE-PURCHASE COMMUNICATION FOR TQM: ADVERTISING BY VETERINARIANS

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ABSTRACT

Communication with the customer is essential to quality management. Historically professional associations have frowned upon advertising by members. This paper examines the views of owners and managers of veterinary clinics regarding advertising. Many professionals do not realize how advertising can benefit both customers and practices. Advertisements are an effective way to communicate with customers about quality, provided they do not create false expectations which can damage the reputation of the provider and the business.

INTRODUCTION

Communication with the customer is an essential part of the total quality management (TQM) process. The message has been repeated many times that service quality must focus on meeting and exceeding customers' requirements.(8) The business, whether large or small, must know and anticipate the needs and wants of customers before the purchase is made as well as levels of customer satisfaction after the purchase.

In forecasting the future of quality management issues, Philip Crosby described how executives want to learn how to run the company so that, among other quality improvements, customers' needs are always satisfied and anticipated.(1) In small businesses that provide professional services, emphasis must be placed on communication that anticipates and clarifies expectations and territory boundaries so that performance targets can be established.(9)

A step toward TQM is attracting and having proper customers--those who can be satisfied by what the business is able and willing to offer and provide. This involves the establishment of pre-purchase expectations.

Client (or customer) satisfaction, a key element in the formula for TQM, can be established and enhanced when prospective customers have information about the business before making a purchase decision. Prospective clients seeking professional services must be aware of the products and services available from various sellers so that the best and most appropriate supplier can be selected to satisfy current wants and needs.

Advertising messages are often built on information about anticipated needs and wants that ultimately create a satisfied customer. This message content is often used as a pre-purchase source of information

that can tell prospective customers about the business, the variety of products and services offered, specialties, etc.

ADVERTISING OF PROFESSIONAL SERVICES

Many small businesses, especially professional services such as medical doctors, dentists, lawyers, accountants, and veterinarians face a unique challenge as they compete in the marketplace and attempt to provide information to prospective clients. In addition to the demands of the marketplace, they are often guided and restrained by government regulations and/or professional associations that define, sanction and prohibit various business related activities. One such activity that has been and remains a controversial issue is advertising by providers of professional services.

Historically professional associations have frowned upon, discouraged, or even prohibited advertising by the members. This position was based largely on arguments that advertising would tarnish the image of the profession, might detract the practitioner from delivering professional services, and might promote quacks with a silver tongue for selling rather than competent professionals dedicated to quality care and service.

Those who favor the use of advertising to promote professional services offer such arguments as a need to deliver messages to expanded services areas, the need to replace the name-shingle with other messages and media, and the availability of professional and tasteful means for communicating with prospective clients. New types of customers seek information about businesses before purchases are made, and the business has a responsibility to provide such information, especially in the current day of specialization. The arguments point to the fact that the professional practice is a business, and many practices operate with a sense of business even to the point of hiring a manager for business operations.

THE VIEWS OF PRACTITIONERS

The views of individual practitioners are major factors affecting the use of advertising within the profession. Quite often the position of the organization is a summation of the views and demands of the members. Older members, often influential in establishing the rules, find it easy to accept "their" rules. Newer members seeking support and endorsement from the establishment may find it easier to comply than to challenge the rules. As summarized by Bullard and Snizek in a review of the literature, officials of professional societies admit that practitioners who advertise their services are looked upon with scorn by most of their colleagues, and advertising is used only by a small minority of professionals in various occupations.(2) Additional evidence comes from Folland, Peacock and Pelfrey who found that younger accountants evaluated advertising more favorably and were more optimistic on empirical issues of advertising's effects on the accounting profession. (5) Although there is evidence of support for advertising, the support appears to be cautious and "reserved" as documented by Hodge, Brown and Lumpkin who found that 89 percent of the accountants disapproved of CPA firms offering free services for answering an advertisement.(7)

The views and attitudes of professionals toward advertising within their respective professions have been studied both before and after the historic 1977 Bates decision. A significant study of lawyers by

Shimp and Dyer in 1978 confirmed that a large majority of lawyers were strongly opposed to advertising in the legal profession prior to the Supreme Court's decision on Bates.(10) Later studies of lawyers, physicians, dentists, and accountants reveal a trend toward increased acceptance of advertising, yet there is serious concern for professionalism, dignity, and respectability. (3,4,7,11,12)

VIEWS OF VETERINARIANS

Veterinarians provide professional services to local communities through small businesses described as professional practices, animal hospitals, and clinics. These professionals are controlled by governmental and professional rules and regulations which often include business related issues such as advertising.

The historic Bates ruling applies to veterinarians, yet the response has been quite varied. While conservative veterinarians limit their promotional efforts, there are specific examples of assertive advertising such as when the CEO of Veterinary Centers of America fought back and advertised his services on local television when area pet stores began offering limited storefront veterinary services such as vaccinations.(13) Although specific advertisements show the efforts of some veterinarians, information about the views of these professionals toward advertising in the profession is limited.

THIS STUDY

This study, a part of a major study of management and marketing issues, examines the views of the owners and managers of veterinary clinics regarding advertising by veterinarians. The purpose of the study is to describe their views and relate these findings to advertising as pre- purchase communication for TQM.

Questionnaires were mailed to 600 veterinary clinics randomly selected from telephone directories of the ten largest cities in Texas. Respondents were asked to indicate on a five point scale from "Strongly Agree" to "Strongly Disagree" their attitudes towards ten statements concerning advertising by veterinarians.(9) A total of 117 useable questionnaires were returned for a response rate of 19.5%. The typical respondent was a male veterinarian, approximately 43 years of age and had been in practice 12 years.

RESULTS

As shown in Table 1, respondents appear to be divided on whether or not advertising will lower the veterinarian's credibility. Nearly thirty-five percent (34.8%) agreed that credibility would be lowered while 43.5% disagreed. More than one-fifth (21.7%) were undecided regarding the veterinarian's credibility being lowered.

More than half (51.3%) indicated that they believed the image of veterinarians would be lower as a result of advertising. Yet less than one-fifth (19.1%) agreed that advertising would benefit only quacks and incompetents.

Nearly half (47.8%) felt that the public would be provided with useful information through the

advertising of veterinary services. Thirty-two percent disagreed that the public would benefit and one-fifth (20%) were undecided as to benefits for the public.

While only 42.6% agreed that it is proper for veterinarians to advertise, 34.8% disagreed with the statement. This item had the largest number (22.6%) "undecided" responses.

Three-fourths (75.6%) agreed that advertising can be used tastefully by veterinarians.

Most of the respondents (53.3%) disagreed that prices would be lowered due to more competition, yet a large number (31.1%) did agree that prices would be lowered due to more competition.

The majority (63.5%) disagreed that advertising makes the public more aware of the qualifications of veterinarians. An even large percent (69.9%) disagree that advertising will increase the quality of veterinary services. The greatest number (75.7%) disagreed that advertising wold help consumers make more intelligent choices between veterinarians.

DISCUSSION

Total quality management in service organizations focuses on improving the processes, products, services and the culture of the organization with the ultimate aim of improving customer satisfaction. Customer satisfaction is a complex issue, but one that can be improved through decisions regarding the creation of consumer expectations about services, prices, etc.. Advertising is one of the means by which we can influence the perceptions of potential, and current, customer expectations, thus setting the initial stages for satisfaction.

The veterinarians participating in this study are divided on the issue of advertising. While many express favorable views toward advertising, there are many others who do not think advertising can help either the profession, their practice, or their customers. Professionals in the field of marketing would argue that advertising not only can be beneficial, but if done correctly, can benefit both veterinarians and their customers in a total quality approach to customer satisfaction.

Marketing professionals and SBI consultants can use the results of this study to help veterinarians focus on client satisfaction by developing an advertising program appropriate for the business. In a total quality approach the service provider should first carefully identify their potential customers to identify their needs, wants, etc. A media program can then be developed which matches consumer needs with the services offered by the provider. An advertisement depicting a veterinarian in a plaid jacket and yellow bow tie offering "low, low prices on used dogs and cats" might attract attention but might also not increase the veterinarian practice.

However, if a veterinarian specializes in small animals, that message needs to be communicated to potential customers. An individual taking their horse to a small animal will not receive the services they need, will not be satisfied, and may not bring their small animals to that hospital or clinic. Yet, if the potential customer realizes the specializes in small animals and yet they still take their horse to that veterinarian, their level of satisfaction may remain high if the veterinarian can provide even a minimal level of service. That same customer may well be inclined to return to that veterinarian if the

services of a small animal veterinarian are ever needed.

In the forgoing example the use of some form of advertising could have influenced the potential customer expectations about the service provider. As evidenced in this study, many professional service providers do not realize how advertising can benefit both their customers and their practices. However, a careful matching must be done of the service providers capabilities and the advertising of those capabilities. Advertisements that create false expectations will tend to damage the reputation of professional service providers and ultimately their business.

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Table 1

Veterinarians Response

Statements Strongly Agree to Strongly Disagree SA A UNDECIDED D SD

If a Veterinarian Advertises, the veterinarian's credibility is lowered. 13.9% 20.9% 21.7% 27.8% 15.7%

In general, my image of veterinarians would be lower as a result of advertising. 19.1 32.2 13.9 21.7 13.0

Advertising by veterinarians would benefit only quacks and incompetents. 6.1 13.0 12.2 43.5 25.2

The public would be provided useful information through advertising services. 8.7 39.1 20.0 22.6 9.6

It is proper for veterinarians to advertise. 6.1 36.5 22.6 20.9 13.9

Advertising can be used tastefully by veterinarians. 22.6 53.0 11.3 8.7 4.3

When veterinarians advertise, prices are lowered due to more competition. 8.5 22.6 11.3 44.3 13.0

Advertising makes the public more aware of the qualifications of veterinarians. 3.5 26.1 7.0 34.8 28.7

Advertising will increase the quality of veterinary services. 1.7 7.8 20.9 33.9 35.7

Advertising would help consumers make more intelligent choices between veterinarians. .9 12.2 11.3 38.3 37.4

A SURVEY OF SMALL BUSINESSES' USE OF MARKETING TOOLS

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ABSTRACT

This paper reports the results of a national mail survey of small businesses to investigate their use of various marketing tools, their relative effectiveness, marketing personnel/budgets, and the use of outside marketing services. One thousand questionnaires were mailed to a randomly selected sample of small businesses. Forty-three were returned due to moved/no forwarding address or business no longer in operation. Thus 957 questionnaires were delivered and 168 questionnaires were returned for a response rate of 17.6 percent. Direct mail, TV ads, magazine/trade publications, and brochures/catalogs were rated as the most effective marketing tools by respondents. More marketing activities were not employed due to concerns about cost effectiveness. Over 90 per cent of the respondents did not know their company's SIC code, indicating limited knowledge and access of secondary data sources.

INTRODUCTION

While small business owners and managers must wear many "managerial hats," one that may often feel uncomfortable is marketing. Marketing is often an afterthought because of the need to concentrate on production and financial considerations in launching and running a small business. This study investigates the use of various marketing tools, their relative effectiveness, and the use of outside marketing services by small businesses. No previous studies of this topic were identified in a review of the literature.

The causes of failures as reported by Dun and Bradstreet, however, illustrate that marketing is often a problem because a large percent of failures can be attributed to a lack of or poor marketing among businesses.

METHODOLOGY AND OBJECTIVES

Data for this study were gathered via questionnaires mailed to a sequentially selected probability selected sample of non "Professional" small businesses (fewer than 100 employees) located throughout the contiguous 48 states. The mailing list from which the sample was drawn was obtained from Dun and Bradstreet.

To guide the research, the following objectives were specified:

1) To evaluate the extent and usefulness of marketing tools such as brochures, TV advertising and trade shows.

2) To determine the use of outside marketing personnel to plan/ implement marketing activities.

3) To determine the levels of marketing expenditures and reasons why more marketing activities are not utilized.

To improve the accuracy of the questionnaire, a pretest was undertaken involving a mailing of 100 questionnaires to local small businesses. These respondents were asked to evaluate the questionnaire and note any unclear questions or choices of answers. Using this input, the revised questionnaire was mailed to the national sample. The questionnaire included a cover letter explaining the nature of the project and asking for their cooperation and a pre-addressed, postal permit return envelope.

Out of the one thousand questionnaires which were mailed out, 957 were actually delivered and 168 were returned yielding a 17.6 percent response rate. Budget restraints limited the use of pre- and post-contact mailings which would possibly have increased the response rate. Areas of questioning included business characteristics, use of various marketing tools, external marketing service providers, and marketing expenditures. The business characteristics measured included years in business, industry, and level of employment.

The resulting data were processed using the SPSSX statistical package to permit more extensive analysis. Two analytical approaches were used in the study. First, percentages and mean responses were computed for the purpose of determining the direction of response patterns. Second, respondents were grouped by industry and size to analyze differences in responses.

OVERALL FINDINGS

As noted earlier, 168 respondents completed and returned the questionnaire within the four week cut-off period. Characteristics of the businesses surveyed represented a wide variety of firms based on length of time in business, industry category, and two major groups based on number of employees.

The length of time in business of respondents is shown in Exhibit 1. While about 10 percent have been in business less than five years, 27.4 percent have been in business for over 30 years. These categories represent the extremes in terms of business experience of respondents.

EXHIBIT 1 Length of Time in Business

Category Percent* ----------

Less than 5 years 10.1% 5 to 10 years 25.0 11 to 15 years 13.1 16 to 20 years 14.3 21 to 25 years 6.0 26 to 30 years 3.0 Over 30 years 27.4

*Does not add to 100% due to rounding.

Respondents were also questioned about the size of their business. These results are shown in Exhibit 2. Almost all of the businesses surveyed had less than 99 employees and 50 percent had less than 20 employees. Thus these respondents could truly be classified as small businesses reflecting the accuracy of the mailing list in targeting small businesses.

EXHIBIT 2

Maximum Number of Employees Last Year

Size Category Percent* ----------

Less than 20 50.0% 21 to 99 48.6 100 to 249 1.2

*Does not add to 100% due to rounding

Another characteristic measured was types of industries the businesses represented. While many different industries were surveyed, the largest groups of respondents were: retailing, manufacturing, services, construction, and others. Many of the businesses were involved in more than one industry as reflected in the percentage of responses shown in Exhibit 3.

EXHIBIT 3

Industry of Respondents

Industry Percent* ---------- Agr./fores./fisheries 1.8% Mining 1.8 Construction 19.0 Manufacturing 22.6 Transportation 6.5 Fin./ins./real est. 3.6 Retailing 28.6 Wholesaling 15.5 Services 22.6 Other 18.5

*Does not add to 100% due to multiple responses.

USE OF MARKETING TOOLS

As shown in Exhibit 4, yellow page ads, direct mail, newspaper ads/inserts, and brochures or catalogs were the four most frequently used marketing tools. The two least frequently used tools were TV ads and billboards.

Differences among four of the industry groups in terms of their use of various marketing tools is shown in Exhibit 5. Manufacturers are heavy users of brochures/catalogs, yellow page ads, direct mail and the heaviest users of trade shows & magazine/trade publication ads.

Retailers are most likely to use newspaper ads/inserts, yellow page ads, direct mail, and brochures but are also likely to use broadcast media (radio/television). Service providers are heavy users of yellow page ads, and are the heaviest users of brochures/catalogs, direct mail and telemktg. Construction

companies rely on yellow page ads, brochures/ catalogs, newspaper ads/inserts & trade shows for promoting their businesses.

EXHIBIT 4

Marketing Tool Usage: All Respondents

Marketing Tool Percent Using ---------- Yellow page ads 60.5% Direct Mail 53.0 Newspaper ads/inserts 49.4 Brochures or catalogs 46.9 Mag./trade pub. ad 34.6 Radio 31.5 Trade shows 30.2 Telemarketing 21.0 TV ads 16.0 Other 13.0 Billboard 9.9

EXHIBIT 5

Marketing Tool Usage By Industry Group

Percent Using-

Mkt Mfg- Re- Tool Cont tail Svcs % % % % Yellow page ads 50.0 75.0 73.7 62.5 Direct Mail 55.6 50.0 65.8 34.4 Newsp. ads/ins. 21.1 81.3 44.7 37.5 Brochures/cat. 50.0 45.8 55.3 43.6 Mag./trd pub. ad 52.6 37.5 36.8 28.1 Radio 13.2 56.3 26.3 21.9 Trade shows 47.3 28.9 31.6 34.4 Telemarketing 13.2 16.7 23.7 18.8 TV ads 0.0 34.2 12.5 6.3 Other 5.3 12.5 13.2 6.3 Billboard 0.0 22.9 5.3 12.5

RANKING OF MARKETING TOOLS

Respondents were also asked to rank the various marketing tools in their effectiveness in attracting new customers. To avoid the difficulty of trying to rank all ten tools, they were asked to rank the three most effective by using a 1 for the best, 2 for second best, and 3 for third best. The ranking of marketing tools is shown in Exhibit 6. Direct mail, TV ads, and magazine/trade publication ads were ranked as the most effective techniques. These were followed by brochures/catalogs and trade shows. These rankings were, of course, different depending on the industry of the respondent.

EXHIBIT 6

Ranking of Marketing Tools: All Respondents

Marketing Tool Rank ----------

Direct Mail 1 TV ads 2 Mag./trade pub. ad 3 Brochures or catalogs 4 Trade shows 5 Yellow page display ads 6 Newspaper ads or inserts 6 Radio ads 8 Telemarketing 9 Billboard ads 10

The rankings of the effectiveness of the various marketing tools by four industry m groups are shown in Exhibit 7. Manufacturers ranked direct mail, magazine/ trade publication ads, and brochures/catalogs as the three most effective marketing tools. Retailers ranked yellow page ads, newspaper ads/inserts, and radio as the three most effective. Service companies ranked yellow page ads, telemarketing, and direct mail as their top three while construction companies preferred direct

mail, brochures/catalogs (tied for the most effective), and yellow page ads.

OTHER DIFFERENCES AMONG INDUSTRY GROUPS

Cross-tabulations of the data by industry groups were utilized to determine what other differences might exist among

EXHIBIT 7

Ranking of Marketing Tools By Industry Group

Rank ---------- Re- Marketing Tool Mfg tail Svcs Cont ----------

Yellow page ads 4 1 1 3 Direct Mail 1 4 3 1 Newspaper ads/ins. 6 2 5 5 Brochures or cata. 3 5 4 1 Mag./trade pub. ad 2 7 6 7 Radio 7 3 7 5 Trade shows 2 6 2 4 Telemarketing 5 9 7 9 TV ads 9 8 9 8 Billboard 8 10 10 10

businesses in their use of various marketing tools. Two statistically different (.05 level) differences were detected: (1) Service companies employed fewer full-time salespeople; and (2) Retailing, wholesaling, and service businesses were the least likely to engage in data-based marketing.

While none of these findings was surprising, the finding related to databased marketing does create the potential for application of these techniques to small businesses in these industries. As these businesses continue to install computers, there will be many opportunities to create seminars and software applications for these businesses.

WHY MORE MARKETING IS NOT USED

Respondents were also asked why they did not engage in more marketing activities. The major concern was the benefit/cost trade off expressed in both the "costs too much" and the "costs outweigh benefits" responses. In other words, the value of marketing to the firms in terms of increased revenues, profits, and position is questionable. The results are shown in Exhibit 8.

EXHIBIT 8

Why More Marketing Isn't Used

Reason Percent ----------

Costs outweigh benefits 48.8% Costs too much 46.3 No competitive pressure 16.0 Not enough knowledge of what to do 15.4 Other reasons 13.6

MARKETING BUDGETS/PERSONNEL

About 74.1 percent of the firms responding reported that they made some allocation for marketing expenditures. The median amount of those making some allocation was 9.5 percent of sales and the highest percentage was 20 percent of revenue. This included total expenditures for all marketing activities such as promotion, sales personnel consulting fees, and other marketing personnel.

Many of the companies employed part- or full-time marketing personnel. Part-time personnel were used by 19.8 percent of the firms and 22.5 percent had full-time marketing staffs. When asked about marketing expenditures for next year, 29.7 percent reported plans to increase expenditures while the majority, 70.3 percent, planned to keep their expenditures the same or reduce them.

USE OF EXTERNAL MARKETING SERVICES

Respondents were also asked whether they had used external marketing service providers. Their replies are shown in Exhibit 9. Advertising agencies were the most frequently used service provider. Almost 23 percent had used the services of an ad agency. The second most frequently used external service was manufacturers' agents and brokers. These service providers were used by about 18 percent of the respondents. While only 4.3 percent reported using a marketing research firm, 21.8 percent stated that they had completed some type of formal marketing research. Evidently, most of these projects were completed by internal staff or by consultants.

EXHIBIT 9 Use of External Marketing Services

Percent Service Provider Utilizing ----------

Advertising agency 22.9% Mfgs' agent or broker 17.9 Marketing consultant 9.3 Export firm 6.8 Mkg research firm 6.8 Pub. relations firm 4.3

SIC CODES

One of the most surprising findings in the study was the small share (8.7 percent) of respondents who knew their Standard Industrial Classification (SIC) code. This means over 90 percent of these small business operations do not know about the wealth of data that is available to them through secondary data sources, such as the Census of Business, Census of Retail Trade, etc.

In essence, they are foregoing the availability and use of these data sources which could be accessed by a trip to most libraries. Such "free" data could provide a whole array of useful data for analysis and planning. The revelation that most firms do not know their SIC designation is significant. Small businesses are missing a tool that can possibly improve marketing.

The STC system classifies establishments in the United States according to their economic activity. The U.S. Government Printing Office in Washington, D.C. publishes the Standard Industrial Clas-

sification Manual which designates industries by assigning them a four digit code number.

This provides a business with a practical classification system for industrial customers. By itself, SIC

will not tell the small business operator who the customers are, their potential, etc.; but by linking the SIC system with industrial guides, customer information is more accurately available. For example, if the SIC classification for existing customers is known then all other businesses with the same code are potential customers. Additionally, if firms utilize the input-output models published by the U.S. Department of Commerce they can identify the SICs that purchase from other SICS. It is, therefore, important for firms to understand their SIC classification code.

SUMMARY

A wide variety of marketing tools have been used by the respondents surveyed. They have most frequently used yellow page ads, direct mail, newspaper ads/insert, and brochures/catalogs. However, they ranked direct mail, TV ads, and magazine/trade publication ads as the three most effective tools.

The two most frequently used external marketing service providers were ad agencies and manufacturers' agents and brokers. The two most infrequently used were public relations firms and marketing research firms.

Over 90 percent of the respondents did not know their company's SIC code number. This means that the wealth of secondary data available though libraries is not known or not accessed by most of these respondents.

While most of the respondents had used a wide variety of marketing tools, there is still concern about the effectiveness of engaging in more marketing activities. This was reflected in high concern for costs and costs/benefits of engaging in more marketing activities.

THE BETTER BUSINESS BUREAU: A NEGLECTED TOOL TOWARD DEVELOPING QUALITY MANAGEMENT

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ABSTRACT

Customer satisfaction is a major criteria in achieving quality management. This paper examines a city's Better Business Bureau as an initial tool in implementation of a quality management program. Results of a survey show that small businesses have not yet realized the potential of this vehicle as a method to obtain customer feedback and customer satisfaction. Members tended to join the organization in order to have their reputation checked, to be warned of unethical practices, and to check the reliability of suppliers and banks. However, such an organization may be an excellent vehicle for small businesses to understand and settle consumer problems. Consumer information should be perceived valuable to companies desiring to implement quality in serving customers.

INTRODUCTION

As competitive pressures have intensified, both domestically and globally, small businesses have sought techniques which will enable them to effectively meet this challenge. In response to this economic reality, the past decade has shown the need for small businesses to develop and/or increase quality management program. Typically, a major concern of small business is to enhance customer satisfaction by addressing ongoing problems and opportunities in order to build customer loyalty. Owners seek help through the Small Business Administration, colleges and universities, private seminars, trade associations, and even consultants to obtain information on quality management.

In particular, a potential vehicle to aid in developing quality by increased customer satisfaction is through the Better Business Bureau (BBB), a private, non-profit organization that provides services and programs to assist consumers and businesses. Moreover, a firm's character may be reflected in its response to customers and the bureaus's recommendations and inquiries. (2)

Mission of the Bureau

The Better Business Bureau mission is to promote public confidence in business through effective self-regulation. Self-regulation is the most effective method of marketplace control and the best shield against excessive government regulation. (4) Specifically, the BBB works toward the accomplishment of the organization's mission. Objectives of the BBB are to help consumers indirectly are: (4)

1. Providing information about a company whether or not problems exist. 2. Providing information about charities and other organizations that are seeking donations.

3. Helping resolve a buyer/seller complaint, including mediation and arbitration services.

Further, the BBB attempts to help consumers by:

1. Fostering ethical advertising and selling practices.

2. Monitoring advertising and selling practices.

3. Alerting consumers about fraudulent and harmful practices in the marketplace.

4. Providing consumer information to news media, such as radio, television, and newspapers.

5. Publishing and disseminating pamphlets and books on a wide variety of topics of interest to consumers and businesses to enable them to make informed decisions. (4)

Relationship to TQM

Total Quality Management (TQM) includes a philosophy of management based on the belief that an organization can improve its business and its relationship to its customers. Moreover, TQM requires an organization to strive toward continuous improvement. The ultimate goal of TQM is to alter the process by improving satisfaction. (3)

Customers are actively pursued in order to ensure that customers are satisfied and have been treated fairly. Further, complaints, comments, and calls for assistance are viewed as valuable inputs in improving quality. Growing evidence suggests that small businesses that do not make the shift will find starting, competing, and surviving more and more difficult. (3)

THE STUDY

The major purpose of the research was to determine reasons member join the organization and to assess the bureau's current status and usefulness. The population consisted of 1,287 members of a Better Business Bureau in a medium-sized city in Texas. A 3-page questionnaire with cover letter was developed, pretested, and mailed on November 13, 1992. Some 345 questionnaires were returned, resulting in a 27% response rate.

The survey instrument consisted of both open-ended and closed-ended questions. In particular, members were asked reasons why they joined the Better Business Bureau and their perceived strengths, weaknesses, and suggestions for improvement.

Reasons for Membership

Members reported several reasons for belonging to the Better Business Bureau as depicted in Figure 1. The top three reasons were:

1. Consumers may check the reputation of the business.

2. Members are warned about current fraudulent activities.

3. Members may check the reliability of suppliers and others.

Other reasons for joining, as reported by small businesses, were to enhance civic responsibility, aid consumer complaint resolution, and receive newsletter information.

Quality of Newsletter

A majority, 70%, of the members indicated they always read the newsletter. (See Figure 2).

Figure 1 Figure 2 Reasons for Belonging to Frequency Members Read the Better Business Bureau Newsletter

Reasons Always 70% Check reputation 76% Often 22% Warns of scams 68% Sometimes 7% Check reliability 56% Rarely 1% Civic responsibility 49% Newsletter 38% Complaint resolution 38% Reports on charity 37% Fosters truth 36% Fosters truthy 32% Increase businesses 11% Education/Seminars 9% Other 13%

Figure 3 Value of Newsletter

Valuable Limited

Alerts on Scams 93% 7% Unanswered complaint 79% 21% Front Page Headlines 70% 30% Charity Reports 55% 45% List of New Members 54% 46% Monthly Reports 40% 60% Other 38% 62%

Members were asked to rate selected items as valuable or invaluable on various articles that appear regularly in the newsletter. Figure 3 shows that members placed the greatest value on articles that relate to alerts on fraudulent behavior, followed by articles that deal with unanswered complaints. The front page headline articles also received high ratings by the members. Some 29% of the members rated the newsletter as excellent, while another 63% rated the newsletter quality as "good." Further, 65% of the members indicated that they circulated the newsletter to their employees. Value and Satisfaction

A large majority, 81%, of the members stated they called on the BBB to check the reliability of unknown companies before doing business with them. Also, 80% of the members called on the BBB to "check out" charitable organizations before they made contributions.

The bureau staff received excellent ratings for being courteous and friendly. Further, the staff received good ratings for being knowledgeable, effective follow-up requests, and employee speeches. Over 54% of the members indicated they were extremely satisfied with the BBB, and another 44% reported they were fairly satisfied.

Perceived Strengths

A major strengths perceived by members was providing a needed service for the community. Other than the Chamber of Commerce, no other agency existed that promotes business ethics in the community. Also, it was viewed as a resource to "check out" the reliability of other companies before doing business with them. For instance, members were able to evaluate suppliers, banks, and others.

Further, members saw the bureau's strengths as providing alerts on "scams" occurring within the community.

In addition, the newsletter informed members on current events. This newsletter advises members on activities, such as customer complaints, in which the BBB is involved. Also, a final strength, mentioned by members, was that the BBB was seen as both a source of information and a vehicle to promote honesty and truth in advertising.

Demographics of Respondents

Fifty percent of the companies responding to the survey had been in business over 16 years. Most of the responding members were small businesses with a limited number of employees. Fifty-five percent of the companies have fewer than 10 employees, and 78% had fewer than 25 employees. Further, over 65% of the companies had annual sales of less than $1 million.

CONCLUSION

Since customer feedback is vital to a small businesses, the Better Business is a vehicle to promote quality service. However, the survey results showed small businesses did not indicate improved customer service to be a strength or a major reason for joining the Bureau. Perhaps more small businesses should reevaluate their reasons for joining and take advantage of this important area of consumer feedback which, in turn, may lead toward increased quality service. Further, small businesses might views customer complaints through the Bureau as a new direction toward increased quality and customer satisfaction. For instance, the arbitration process used is a formal dispute settlement process offered by many bureaus. Small businesses might utilize such arbitrators who are volunteers specially trained in resolving consumer and business related disputes.

Also, the Bureau acts as an mediator by being an impartial third party to help achieve mutually acceptable solutions to consumer and business disputes. As companies compete both nationally and internationally, it seems that effective complaint management should be a priority toward increased quality management. The reaction of small business to customer feedback may be a potential measure of its concern for customer satisfaction and its desire for quality. REFERENCES

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ENTERPRISE ZONES AND DEVELOPMENT ORGANIZATIONS: ARE THEY THE ANSWER TO ECONOMIC PROBLEMS?

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ABSTRACT

The economic situation of this nation has been very dynamic over the past twelve to fifteen years. Since Small Business is the backbone of our economy, the federal, state, and local government have been very interested in assuring success. One of the approaches to this assurance has been the establishment of Enterprise Zones at the state level. Another approach has been establishment of the Associate Development Organizations. This paper focuses on the success of these Enterprise Zones and Associate Development Organizations.

INTRODUCTION

Enterprise Zones are closely aligned with the economic condition of this nation. These zones are public-private ventures designed to bring jobs to the inner city and rural areas suffering the economic and social consequences of high unemployment.

Many states are able to bring business to their location with the promise of providing various incentives, such as tax and regulatory relief. Some have provided choice locations and ample work force now and in the future. These perks are influencing decisions in many businesses whose survival depends on increasing production without increasing cost.

The concept of enterprise zones isn't new. Great Britain has been involved in the use of this system for approximately 20 years. In the 1970's, Great Britain created these zones to revitalize their dock and warehouse areas which were in disarray, abandoned and deteriorating. The extension of the enterprise zones to the rural areas is an American variation. A new twist is being implemented in the idea of enterprise zones today. The riots in Los Angeles and both President Bush and C@ton's interest in reviving inner cities helped further the plan of enterprise zones. It must also be kept in mind that enterprise zones are not without critics. Some established businesses view the enterprise zones as incubators for competitors; labor unions see them as refugees for employees seeking to avoid regulations. Liberals like 'The New Republic's Michael Kinsley says enterprise zones amount to bribing rich people to help poor people (Abdoha, 1992).

Other opponents also argue that businesses attracted to the enterprise zones have done no more than move from other areas to take advantage of tax breaks, resulting in no net gain in economic activity. Many of these opponents have challenged the directors and managers of these programs to validate the improvement and success of these programs through tax paid and number of people employed (Butler, 1981).

RESEARCH OF THE LITERATURE

Riots have brought the urban condition into the public's focus. A solution for this condition has been promoted by some legislators and the former Housing and Urban Development Secretary, Jack Kemp. These individuals feel the government should give tax incentives for businesses that relocate to impoverished and rural areas. These new enterprise zones would increase jobs and capital as well as provide citizens with a stake in their neighborhood. Opponents, however, believe social programs must be implemented first to make the areas safe for business (Zuckman, 1992).

The Reagan and Bush administration advanced the notion of the enterprise zone as the cornerstone of their urban redevelopment programs. Again the Housing and Urban Development Department supported the enterprise zone creation, while critics believed the zones have not and will not benefit (ed) minorities (Harris, 1992).

Enterprise zones continued to win favor with members of the federal government. The House Ways and Means Committee approved an urban aid tax bill that creates 50 enterprise zones with tax breaks and federal aid on June 25, 1992. This approval was gained after Democrats rejected the White House capital gains tax waiver. This bill splits the enterprise zones between cities and rural areas with less than 1,000 people. The inclusion of rural areas in this bill was based on the fact rural legislators objected to singling our distressed urban areas while rural areas, which contained many of their constituents, were ignored. This package contained a uniform 14 year intangible asset writeoff period for participants (Cloud, 1992). Former Senator and Senate Finance Chairman Lloyd Bentsen amended the above $31 billion urban aid bill to garner bipartisan support and minimize a veto threat by adding $5.3 billion to enterprise zone funding and improving individual retirement accounts (IRA). Bentsen disallowed IRA deductions and set personal exemption income and itemized deductions limits for high-income taxpayers to pay for the increased funding while undercutting the capital gains tax break support (Cranford, 1992).

President Bush and Congress negotiated the urban aid proposal during the week of June 1, 1992. Although Democrats were willing to support Bush's enterprise zones, neither side agreed on what tax breaks would be used or how to fund the bill. Democrats proposed a higher funding level than preferred by Republicans, but both sides attempted to compromise because it was important for the political agenda to appear they are able to work together (Zuckman, 1992).

New York Representative Charles Rangel (McCoy, 1992) introduced a bill that will establish 100 enterprise zones throughout the United States. This bill enhanced The Enterprise Communities Act of 1992, which also addressed social problems such as crime and drug use. Many of the urban politicians felt a need for this type of support. Jean Dimeo (1991) spoke of the attractiveness of enterprise zones in problem areas and the use of tax incentives to support social issues in an article in American City and County. Jacobs (1990) also gave credit to Representative Daniel Rostenkowski for supporting the enterprise zone bill in an article in National Real Estate Investors. With all of this support there was a considerable amount of doubt in the minds of some government decision makers. Frank Shafroth (1992), wrote of the situation that existed in congress in his article in Nation's Cities Weekly. Shafroth wrote of how congress made preparation for the 1992 Fourth of July recess, leaving some doubt as to when the compromise urban aid legislation would be passed. This was the bill totaling $17 billion,

which among other things, would fund the establishment of 50 enterprise zones and reauthorize municipal tax programs.

Thomas Dolan (1992) referred to enterprise zones as 'Danger Zones!' He further stated that the required ingredient in an enterprise zone is enterprise. Although businesses in enterprise zones can receive tax credit for hiring workers from areas plagued by unemployment, the subsidies are wasteful and unnecessary. All that business needs to succeed is freedom (pg. 10). Enterprise zones have negligible history of success, according to McClure, (1992). She refers to the fact that the Urban Institute and U.S. General Accounting Office researchers have been unable to document employment growth attributable to the creation of state enterprise zones. Nevertheless congress enacted a federal zone program in October 1992.

Jack Kemp while still a New York Congressman firmly believed that establishing enterprise zones can help alleviate the many problems of the inner cities. The creation of small businesses, with support from the government, can create jobs, increase tax revenue, and rejuvenate urban neighborhoods. Kemp was the most active supporter of enterprise zones in the government. His theory was, he would he to see the broadening of ownership of America's capitalistic system and to show that entrepreneurial capitalism can be used to combat poverty (Doescher, 1991). Cowden and Eiler (1991) questioned Kemp's thinking. They felt this was a football mentality and commented on the same in their article, 'Will Enterprise Zones Make it To The End Zone'? Will Kemp's Idea Finally Score?

The shock to political leaders caused by the devastating 1992 Los Angeles riots motivated Congress to authorize federally sponsored enterprise zones for many depressed urban areas. Business owners and investors expanded operations into such areas and are entitled to get a variety of federal tax breaks (Cordtz, 1992). President Bush proposed enterprise zones as a means of spurring economic growth for depressed inner cities by providing tax breaks and aid for businesses. The evidence from the 38 states with enterprise zones indicates that the zones are successful only if supplemented by other social programs (Garland, 1992).

The economic proposals of presidential candidates George Bush and Bill Clinton differed in their policies toward small businesses. The one thing that both agreed on was, larger enterprise zones would help restore the nation's economy without destroying small businesses with taxes and regulations (Rutledge, 1992).

President Bill Clinton's support of enterprise zones could bolster those that have already been created by states and cities to combat unemployment in inner-city and rural areas. He, President Clinton, seeks incentives to companies for hiring in poor communities. His idea is to provide wage credits to businesses in specially designated zones (McGinley, 1993). The Economic Empowerment Act of 1993 has been submitted to Congress by The Clinton Administration. The legislation would provide tax incentives, grants and federal assistance priorities for 100 cities and towns that would be designated as Enterprise Communities (DeMott, 1993).

It must be realized that additional actions pertaining to enterprise zones are constantly ongoing. This review of the literature attempted to concentrate on activities that occurred over the past three to five years.

FINDINGS

Enterprise zones have the support of many powerful politicians to include the President and many of his administrative staff. While there is support from the White House, there are others in Congress, state government, and local government who oppose the idea of enterprise zones. At the state level, many Economic Development Agencies have established programs that operate very similar to the Enterprise Communities, but involve the entire state. These findings will provide information on a state that is not involved in the establishment of and operation of enterprise zones Washington State.

Thirty five states and the District of Columbia have authorized enterprise zones. Most of these zones have been created in the past ten years of less. This is due to the fact, the 1980's was a time of prosperity. In time of prosperity there is no need for enterprise zones Employment is available to most of the population in the inner cities and the rural areas. According to the Department of Housing and Urban Development, 26 states have formed 3,172 enterprise zones. Within these zones, the states have created 663,588 jobs and sparked investments totalling nearly $41 billion by offering incentives to existing and prospective employers.

An example of the success of enterprise zones can be seen in the states of New Jersey, Connecticut, Utah, and elsewhere. These programs have produced strong entrepreneurial activities. In Trenton, New Jersey, Urban Enterprise Zone Program began in 1985, with the aim of revitalizing the commercial and industrial section of the city. The program offered tax incentives for investment in the area and made an effort to prepare the property for such investments (Murph, 1992). In Jersey City, New Jersey, Sarivetnick's Company-Acrilex, Incorporated, since 1989 has employed 36 full-time employees, made $8.2 million, with a tax savings of $10 thousand.

In Utah, Christensen Applied Composite (Artificial Lines) realized $2 million in sales per year; increased its employees from 11 to 25 from 1985 to today; and had a tax saving of $700 to $1 thousand per new hire. An example of a successful application of the enterprise zone philosophy. In Connecticut businesses in enterprise zones are paid up to $1500 per new hire. This is quite an incentive for small businesses to participate in the program.

More than 1137 jobs were created between 1985 and 1990 in 2.63 square miles of an enterprise zone in Hammond, Indiana. Businesses in the area received from $21 to $100 exemption from the state's inventory tax of assessed validation. The enterprise zone in Hammond has formed itself into a corporation, The Urban Enterprise Zone Association of Hammond. This corporation can legally solicit grants from foundations, offer scholarships to zone residents, and collect fees from zones businesses based on taxes saved because of membership. The fee collected amounts to approximately 20% of taxes saved.

Enterprise zones were originally seen as solutions for a specific area in Utah. Thought is now being given to linking the enterprise zones, particularly in distant rural areas, using data communication.

The State of Washington has elected not to directly participate in the enterprise zone program or the Enterprise Communities. Instead, the state has organized or replaced the Economic Development Agency with a new cabinet level organization referred to as Department of Trade and Economic

Development, composed of nine districts throughout the state. These districts are known as Development Organizations and are headed by individuals referred to as Associates. The Associate Development Organizations (ADOS) are a network of local economic development councils and boards that work with businesses in their counties to create and retain jobs. These jobs are an integral part of the support of the state's tax base.

Job creation and business development are essential components for dealing with the state's economic downturn. Associate Development Organizations (ADOs) are statutory-authorized local service delivery agencies for economic development. ADOs have been designated by local communities and funded by the legislature ($2.0 million/biennium) through the Department of Trade and Economic Development as the 'official vehicle' to effect local economic development activities in each county throughout the state (RCW 43.31.097). State funds that support these organizations have leveraged additional public and private funds in each of the ADOs areas. ADOs activities are varied. A network of 33 economic development councils in 39 counties identify local economic problems and coordinate resources to execute state policy in concert with local needs. ADO-assisted efforts may include: -identifying assistance for local firms that want to diversity -recruiting new businesses to an area -assisting with site improvements -enhancing the economic vitality of local existing businesses -leveraging public/private partnerships -working with local government to strengthen local economic development programs throughout the state (RCW 43.165.080)

Washington State Laws of 1993 will have profound effect on the economic development of the state and hope for upturn of the employment picture. Local and Regional Development Contracts will be guided by the following policy and procedure:

(1) The department may contract with associate development organizations or other local organizations to increase the support for and coordination of community economic development services in communities or regional areas. The organizations contracted with in each community or regional area shall be broadly representative of community and economic interests. The organization shall be capable of identifyin key economic and community development problems, developing appropriate solutions, and mobilizing broad support for recommended initiatives. The contracting local chamber of commerce, private industry councils, port districts, labor groups, institutions of higher education, community action programs, and other appropriate private, public, or nonprofit community and economic development groups. The department shall be responsible for determining the scope of services delivered under these contracts. (2) Associate development organizations or other local development organizations contracted with shall promote and coordinate through local service agreements with local governments, small business development centers, port districts, community and technical colleges, private industry councils, and other development organizations, for the efficient delivery of community and economic development services in their areas. (3) The department shall consult with associate development organizations, port districts, local governments, and other local development organizations in the establishment of service delivery regions throughout the state. The legislature encourages local associate development organizations to form partnerships with other associate development organizations in their region to combine resources for better access to available services, to encourage regional delivery of state services, and to build the local capacity of communities in the region more effectively. (The preceding legislation will become effective on July 1, 1994).

With the above laws in place and the extensive studies that have been accomplished, the State of Washington's program is an excellent example of another approach to enterprise zones. Functions and activities of the Associate Development Organizations have been finalized and cover the spectrum throughout the state. Associate Development Organizations across the state provide local business assistance resources, community profiles, business seminars, industrial site information and finance assistance to small business with start-up needs. Is also a source of encouragement to the young or new entrepreneur in the community.

Washington has some experience to work with according to available information. Team Washington was created in 1985 as a concept to produce a true cooperative partnership between the public and private development agencies across the state. Within the Department of Trade and Economic Development, the organizational structure created a new consulting and marketing organization across the state called Associate Development Organizations (ADOS) working together under the Department's leadership.

The 1985 intent was for the ADOs to sign agreements with Department of Trade and Economic Development in which roles, coordination, and procedures are outlines, including the process for acquiring and managing plant investment prospects and cases. Each county that signed a contract with the Department would receive matching funds. Matched funds or services from the ADOS, the money was to go to the support of a full-time staff person at the local level, thus correcting one of the Department's greatest resource deficiencies. Having the ability to call on the resources of offices across the state, all operating on a full-time basis, was intended to create an instant geometric jump in effectiveness for the state's economic development effort. The new organizations were to constitute a statewide network providing small business assistance, export assistance, and plant siting assistance.

In addition, the ADOs were to be invited to join Team Washington missions to expand domestic and international trade opportunities, attract new industry from other states and countries, encourage tourism to Washington State, and obtain sales opportunities from the federal government.

In 1990, the Washington State legislature formalized the ADO network in House Bill 2929, the Growth Management bill. The bill established with the Department the local economic development service program. This program was given the authority to coordinate the delivery of economic development services to local communities throughout the state.

House Bill 2929 states that the Department's local economic development service program shall, among other things; (1) contract with local economic development nonprofit corporations, called ADOS, for the delivery of economic development services to local communities or regional areas; (2) to enter into agreements with other state and federal agencies, educational institutions to coordinate the delivery of economic development services to communities; (3) provide training to ADOS.

From the beginning, all counties were treated with the same expectation regarding opportunities and obligations with the Department. ADO contracts have provided dollars for each participating county since 1985.

For some counties, the Department's funding provides the largest portion of their operating budget.

The result is that these ADOs operate with part-time directors, single directors with no support, or single directors with part-time support assistance. Although there are communities that have an extraordinary ability to form partnership and raise both the public and private funds, often the communities that have the greatest need for additional funds are the least able to obtain them.

The enterprise zones do not stand alone. The United States government has other programs that are suppose to provide support to the. disadvantaged set asides, Affirmative Action, HUD, etc. The problem with these programs is very similar to the problem found in the enterprise zones policy, they are corrective measures to give the economically disadvantaged a level playing field, after which they were to be dismantled. The continued existence of the-se programs and the enterprise zones make a farce out of the high sounding principles that these programs are associated with. The checks and balances that are essential to make the programs a success are not totally in place now or in the forseeable futur.

Another organization similar to the enterprise zones and the Development Organization in Washington State is the "The Agricultural Investment Fund, Inc." This organization is headquartered in Washington, D.C., and is organized as a corporation to promote economic development in under-utilized rural areas by attracting industry and taking advantage of untapped markets and resources. Agricultural Investment Fund's primary mission is to 'promote' usage of agricultural land. This development is to occur over a period of five to ten years. The fund has an arrangement with the U.S. Department of Housing and Urban Development to purchase 85 residential lots, 62 acres of industrial land, and 23 acres to industrial/commercial land all in the states of Virginia and North Carolina. The problem is where to find individuals who are, who wish to see, what kind of capitalistic 'magic' they can achieve through combined efforts in projects with the Agricultural Investment Fund (Reed, 1993).

Enterprise zones, Development Organizations and the Agricultural Investment Fund all provide opportunities for small business persons. The critical problem remains-how can individuals, and businesses be brought in line with the requirements of ethical and social issues currently being faced in this nation and the international environment. Are the actions being taken sufficient for the present and future?

DISCUSSION

Obviously this study cannot cover all of the issues facing this environment and the business world. However, this study looked at pertinent items of information on the establishment of enterprise zones and the political nature of the support garnered from its inception to this present day. Who benefits from these enterprise zones and the value that should be attached to such programs.

It is very evident that in those areas or states where enterprise zones have been very successful, supporters find it politically sound to continue its existence and financial support. Individuals from the President of the United States, down to the junior congressperson voices his or her opinion either positively or negatively. Individuals with a rural constituency favor extension to rural areas; individuals with an urban constituency favor putting more financial effort and support in the urban areas and social programs for a decaying inner-cities.

A number of states show evidence of a solid program and the generation of jobs and funds for use in the communities and the state. While this appears to have a positive showing an equal number of negative actions are also on the horizon. Individuals are moving businesses to enterprise zones simply for the tax break and other relief, but not improving the availability of jobs or training of the unemployed. Many times there is a transference of negativism associated with personal gain. Funding by governmental agencies do not always reach those that are truly in need of help. The pattern of 'greasing the squeaky wheel' is still applicable in the policy adopted for enterprise zones.

While the enterprise zones success can be attributed to federal intervention, Development Organizations in the State of Washington is the successful brainchild of the Washington State Legislature. Development Organizations function at the grassroots level of the communities and appear to be politically sound. If there is one draw-back, it is the lack of full-time staff in each of the ADOs Office. Information is not available to determine if this is a problem related to budget shortages or a lack of forethought on the part of the individuals responsible for the program. It can be assumed this situation will be rectified as more success become evident. It can also be that politics will not be a controlling factor for Development Organizations, but the need of the area combined with an ethical and social approach. Beginning with the new laws to be effective July 1, 1994, directors and participants in the Organization Development Programs will have a more firm basis on which to operate. Other states will possibly use the system established in the State of Washington as a guide.

The Agricultural Investment Fund, Inc., has unlimited potential in the small area where it functions. Its future and expansion is dependent on maintaining a positive relationship with the Department of Housing and Urban Development. It can generate enough activity to become a beacon for small business and entrepreneurs in that particular area or North Carolina and Virginia.

SUMMARY/RECOMMENDATIONS

Enterprise zones and Development Organizations are a strength to small business and the communities where they operate. They represent a broad range of services, organizations, and people. They provide opportunities for economic improvement and a means of creating job opportunities and training for individuals in rural and urban areas. By 'no stretch' of the imagination can these organizations be considered perfect, they are simply tools that enhance the way of life or lifestyle of many individuals who would be dependent on social programs or the social system.

Recommend further study be done to include programs that are in use or being designed to provide similar service as the Enterprise Zones and Development Organizations. Consideration should also be given to the possible expansion of AIEF, and to other states that anticipate participating in the Enterprise Zone Program.

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AN INCUBATOR CASE STUDY: THE COLORADO CENTER FOR CONTEMPORARY ART AND CRAFT

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ABSTRACT

This study analyzes the experience of starting and developing a small business incubator exclusively serving artists and crafts people. The principal methodology was personal in-depth interviews with 16 key people closely associated with the organization. More-than-twenty hours of interviews, plus archival material, provided insights into what makes such an organization succeed. These insights can be applied to the planning, formation, and growth of incubators elsewhere.

INTRODUCTION

The number of small business incubators in America has grown from a handful 15 years ago to approximately 600 today. Many were started and failed, some have survived, and a few have become great successes. Today there is a national trade association, The National Business Incubation Association, and a growing literature on small business incubators to which this is an addition.

The purpose of this study is to describe the experience of a unique small business incubator, The Colorado Center for Contemporary Art and Craft (The Art Center). The Art Center (originally named the Business of Art Center) was established as a nonprofit small business incubator in 1988 in Manitou Springs, a community adjacent to Colorado Springs, Colorado

The Art Center is unique in that it is dedicated to serving artists and crafts people. The original intent of the organization was to provide the infrastructure necessary to support fledgling artists in their pursuit of art as a career. As the original name suggests, one of the Center's objectives was to provide artists with the business skills necessary to achieve success in the marketplace. This study shares the experience of this incubator.

METHODOLOGY

First the researchers reviewed archival material -- brochures, the mission statement, newspaper articles, and miscellaneous other historical documents. But the principal research method was to conduct personal interviews with 16 people representing different stakeholders' perspectives. The interview technique was semi-structured. A basic questionnaire with primarily open-ended questions invited respondents to expand and develop their answers as they thought appropriate. We interviewed three board members, three studio artists, four associate artists, a former volunteer and teacher, two staff, a media representative, a community gallery director, and a very successful Colorado artist and entrepreneur with an international reputation. This is an exploratory study whose purpose is to develop the issues and questions that could later be refined and used for a larger, more systematic mail survey

or additional personal interviews.

The interviews averaged about one and one-half hours. One investigator conducted 9 interviews and one 7, with two interviews done jointly. During and after the interview process, the investigators met to compare and analyze the evolving process and results. These meetings exploited the different perspectives, creative insights, and dialectic progress that are the advantages of multiple investigators.

In this paper, we use the input gathered from the personal interviews to summarize the important issues facing the Art Center, how those issues might be resolved, and ideas for its future development. Only some of the information we gathered is reported in this study. The material reported was chosen for its relevance to SBIDA, particularly those interested in how specialized incubators can be successfully launched, perhaps in their areas.

FOUNDING AND EVOLUTION

Like many exciting start-ups, the Art Center was started because of the coming together of a creative visionary, deep pockets, and a dedicated practical champion. The visionary was Paul Inteman, a newly-hired city planner for Manitou Springs who sought innovative ways to promote community economic development. U.S. West provided the first deep pockets by funding a $30,000 economic development strategy study for Manitou Springs. The study concluded Manitou Springs should focus on and exploit its long-standing tradition as an arts and crafts community, rather than diversify into new areas. Taking that recommendation seriously, Inteman began searching for ways to execute, including the novel idea of a physical facility to house and nurture emerging artists.

Chuck Murphy, a person uniquely positioned to bring the idea to fruition, emerged as the overall champion. Murphy is a long-time Manitou Springs resident, a building contractor, an owner of miscellaneous buildings and a life-long lover of art. A member of the planning commission, Murphy became excited about the idea of an arts incubator and made it happen by providing a large old building whose renovation he oversaw. Over the years Murphy has charged only minimal rent and has essentially given the building to the Art Center. He is acknowledged by everyone close to the Center as its principal patron.

Since its beginning, the organization has undergone growing pains. Recently there has been a change in management accompanied by a name change and reorganization. Currently the Art Center is organized around four component parts and activities: 1. Studio space for artists in residence 2. Retail Shop 3. Gallery 4. Education programs - Masters art classes - Basic business classes - Community service classes

The Art Center's stakeholders include 19 board members, a four-person management team, the supporting part-time and volunteer staff, artists who rent studio space, associate artists who pay an annual membership fee and have the opportunity to sell their work through the retail operation and take classes at reduced rates, those involved in the educational programs, and the community at large. There are 35 studio spaces, 19 of which are occupied.

ISSUES AND LESSONS TO DATE

The first challenge of the Art Center was to define its mission. Although most interviewees seemed to be able to clearly define what they thought the Center's mission should be, they were not all confident that the actions of the organization were consistent with that mission. One interviewee concisely stated the mission should be: "to be the world-wide leader and model for the professional development of emerging artists." Another artist said the mission was to "be an active positive force in helping serious artists develop into capable business people and capable artists." Most of those interviewed clearly expressed the belief that the mission should be focused on promoting artists, not on community economic development or running successful retail or gallery operations.

Though it appears that there is agreement on the focus of the mission, the way in which that mission should be accomplished is much more controversial. Some of the questions that must be addressed include: 1. Should the Center be self-supporting or does the mission--to support and promote artists who are not yet monetarily successful--justify some kind of subsidy? 2. How should the various programs be prioritized? 3. How can the competing interests of the various stakeholders be balanced in the decision- making and day-to-day operation of the Center? 4. Can business and art really coexist or is there an inherent conflict between them.

The first three of these issues are common to all incubators and even to all businesses, but the fourth is narrowly focused on art incubators in particular. The next four sections discuss these issues and summarize the input from the various stakeholders.

Self-Supporting or Subsidized?

Whether the Art Center can and should become a self-supporting entity is controversial. A former teacher and volunteer felt very strongly that to the extent the Center fulfilled its mission it would have to be subsidized and that to the extent it "failed" it could be self-supporting. He argued that fledgling artists by definition are not able to pay market prices for the services they receive. Therefore if the mission is to serve them, the services must be subsidized. This interviewee likened the Center to any other non-profit subsidized organization that has intrinsic value, for example a library.

On the other hand, many of the contributors, supporters and board members expected the Center, after a start-up period, to operate as a well-managed business and become self supporting. To be self-supporting and to continue to provide below-market-priced services for artists would require a profit from some of the Center's operations. For example, if the retail and community education programs were to become successful, the money from those operations could subsidize studio seminars, the gallery, and the business seminars for artists. But some respondents thought none of the activities should be subsidized in the long-run, with one key board member saying "every program should pay for itself."

In general, the artists and staff differed strongly from the board and outside constituencies on this question. Most outsiders, especially the seed capital donors, think that the Art Center should move as quickly as possible to self-sufficiency. Many name that as the number one organizational goal. They worry about survival of the organization, saying "the number one priority is staying in business," and "non-profits need to be run like businesses."

The problem of the degree and duration of subsidies is common to all incubators and even to for-profit businesses funded by venture capitalists for example. Obviously the venture-capital- funded project is expected not only to become self-supporting but to generate wealth for the investors. But in the early years this often requires large subsidies. VCs often ponder the question of subsequent rounds of funding and for how long subsidies should continue.

In the case of the Art Center, the question is two-fold: Should there be an end to the subsidies and if so when? If it is decided that the organization should become self-supporting, the means for achieving this raises the second issue: prioritization of programs.

Program Prioritization

Once it has been decided that the organization either needs to become self-supporting or at least generate more of its funding internally, the question of how this can be achieved must be addressed. For the Art Center two sources of revenue appear obvious: the retail operation and a community education program. The Art Center has had a retail operation from its beginning, but many people argue it has not been effectively marketed nor its potential realized. The Center has not even advertised in the local tourist packets, let alone state or nation-wide. The retail inventory has been exclusively the work of the associate and studio artists, the great majority of whom live within a 20-mile radius of the Center.

In order to enhance the revenue stream of the retail operation, a new marketing plan is being implemented that will significantly increase the visibility of the Art Center to both tourists and locals. In addition, the new management has brought in products with sales success records from other areas of the country.

The increased dedication of time and resources to the retail area, and the addition of what some artists have called "foreign goods" and "crafts" in contrast to "local art," are controversial. Some artists perceive their needs have been shunted aside because retail has taken priority. Many think that bringing in work from other areas of the country is in direct conflict with the original mission of promoting local artists. These people think local artists have more than enough good work to offer and that the Art Center should pursue ways to promote local artists' work in other areas of the country, not vice versa.

Some artists also think that the inclusion of "craft" is a mistake. They argue that there are plenty of local venues for the crafts, and the Art Center should focus on high quality fine art. What is art and what is craft is not a question that can be easily answered, but some of the associate artists think that the distinction can and should be made. They are also wary of the retail operation encroaching on the gallery's space. They argue that the gallery openings give the Art Center its greatest exposure and bring people in who become retail customers. Others argue the exact opposite: the ordinary tourist or citizen is drawn in by the retail operation and may then wander into the gallery.

The conflict is not just between stakeholders. It is also about the priorities of mission versus operations. As one key board member expressed it, the ideal mission would reflect this ordering of priorities: (1) education, (2) studio space, (3) gallery, and (4) retail. But for survival, the only priorities

are: (1) retail, and (2) grant proposals.

Generally speaking, the outside stakeholders were more kindly disposed toward heavier reliance on both out-of-state artists, and on crafts, for sales. They would always prefer to sell local fine art, but using outside vendors and more crafts is better than not selling at all. "Local artists should understand that selling in the retail shop is an opportunity, not a right," one person said.

These conflicts over "local" versus "foreign," "art" versus "craft," and retail versus gallery reflect similar problems for businesses struggling to determine their optimal product line and market niche. In most small privately-owned businesses these issues are resolved by owner/managers with input from employees, customers, and suppliers. This brings up the third issue at the Art Center: how should the organizational/management structure be arranged to resolve the conflicts between various stakeholders?

Decision-Making, Stakeholder Interests and Governance

Decisions at the Art Center, are made by a 19-member board of directors and implemented by the management team composed of one director and three full-time support people, Many of the artists are concerned about the composition of the board and that it is appointed, not elected. One interviewee characterized the board as a "self-perpetuating oligarchy" determined to "help" artists without considering what "help" the artists need or want. This person went so far as to substitute "board" for "government" in the well-known joke: "We're from the government and we're here to help." It was noted that there are only two token artists on the board.

Many of the artists perceive that they are neither kept abreast of the board's decisions, nor do they have any input into the decision-making process. In a word they feel "disenfranchised." In times when the for-profit business world seems to be moving to broad-based decision-making, team problem solving, and employee empowerment, it seems ironic that an arts organization would appear so autocratic.

The current dissatisfaction about governance and decision making probably results from the turmoil a year ago, when the board replaced the director against the wishes of many artists. Although the incident created alienation, the board thought the replacement was necessary, though they admitted it was handled poorly.

Apparently, before this event the board had failed to exercise close scrutiny over management. A few newer board members became concerned about various management problems. More business-type board members were appointed and together they asserted more control. Now some board members admit that the board is short on artists and worry that the board may be swinging too far toward micro-management of operational details. Some say if the board was too detached in years past, it may be getting too activist today.

Everyone agrees that there is a great need for better communication. It should be an important project for the new director to open the communication lines and bring the artists and the board together.

How seriously artists' input will be taken is yet to be seen. This brings up the final issue: Can artists really do business? Is their input to decision-making valuable, or are they just a bunch of "flakes?"

Business of Art?

As the original name implies, the founders of the Art Center believed artists could be trained to be effective business people. But when we asked our interviewees, "Do you think there is an inherent conflict between business and art?," we got polarized and emphatic answers.

One of the more successful artists responded, "Yes, business is very practical, art is an affair of the heart. Lots of times they just never come together and you have to make a choice. Most people must adulterate their art part time to continue to do the stuff they love."

Another artist replied equally emphatically, "That's bullshit. If an artist buys into that it's their own handicap. We're intelligent, practical people and have all done business in other areas." Other responses were more moderated. One artist pointed out that most architects, lawyers, and doctors are also not very good business people. He commented that anyone who has specialized training in a narrow field is not likely to be good at many other things. He also argued that most business people are totally ignorant of art, and said the challenge and opportunity for the Art Center to train business people to appreciate art, was just as important as teaching artists to do business.

Even those artists who felt that there was an inherent conflict, thought it was imperative to their survival as artists to acquire basic business skills. None of them considered turning over the business side of their careers to someone else. For a fledgling artist this is not an option. The situation is similar to the engineer entrepreneur with a great product. Without sufficient capital backing, s/he must be the accountant/financial analyst and marketing manager in the early days.

It is possible to conceive the mission of the Art Center being accomplished by providing business services (accounting, legal, tax, marketing) to artists, rather that trying to teach artists business skills. This is an avenue that has not been explored, though the suggestion of putting together a mail-order catalogue of the associate artists' work broaches this idea, at least from the marketing perspective.

FUTURE STRATEGIC PLANNING

The Colorado Center for Contemporary Art and Craft is in a transition phase and faces a number of complex issues. Though there is some nervousness about its future, people strongly believe in the Center's mission and want it to succeed. In order to help the Art Center position itself for future strategic advantages, interviewees were asked to do a SWOT analysis and engage in a visualization exercise, picturing what the Art Center could become under the best of scenarios. The next five sections address these points.

Strengths

The people we interviewed were eager to discuss the Art Center's strengths. The Center's mission, the artists, and the generous, caring atmosphere are the greatest strengths said the artists. They think the

Center is a much-needed support mechanism for artists who receive little or no instruction about making a living during their formal art education. Accessibility to artists and exposure of the artists to the public are also strengths. The non-profit status is also important because it allows the bottom line to be achieving the mission, not making a profit.

For the board and outside constituents, the major strengths included: the mission and essential concept of nurturing artists; the physical facility and equipment; the master and business classes; community support; community outreach programs; and the new director. Not surprisingly, the board mentioned one strength not cited by artists - the board. There was disagreement about one other factor: The same number of people who said the location was a strength also said it was a weakness.

Weaknesses

Some of the artists viewed the board and the decision making process as the weakest link in the organization. They were unhappy with the level of communication from the board and the management, and hoped that it would improve under the new management. Some also viewed the board as too focused on the bottom line rather than the original mission. Many admitted that while they were happy with the previous management, basic business organization and management had suffered. Day-to-day mechanics seemed to have been let slide, though thin staffing and funds may have been the cause. Clearly a larger staff and a bigger budget would help straighten out the operating problems. It was also acknowledged that although the building is one of the best facilities in the area, its space had not been properly designed and was not being utilized effectively. For example, the lighting and the ventilation are considered inadequate by some of the artists.

As with the strengths, the board and outsiders stressed different weaknesses than the artists. These different weaknesses included: lack of financial self-sufficiency; low studio occupancy and poor recruiting of artists; absence of great success stories and testimonials from artists; and lack of support from the artist community. Other weaknesses were too much staff turnover, public perception of too much change and organizational stumbling, poor bookkeeping, deteriorating equipment, overworked and underpaid staff, too many activities, poor lighting in some areas, and location.

Opportunities

Many of the artists think that if the Art Center refocuses on its original mission - to promote emerging artists through the provision of capital equipment, studio space, and education -- it could become the nation's leading art incubator. With additional staff support and budget dollars it could become a focal point of community activity recognized by both artists and business people nationwide. It could provide apprenticeship programs for graduates of the country's leading MFA programs and become a highly desired place to launch a successful art career.

Among important opportunities mentioned by the board and outsiders were: a catalogue; new community services and courses; new art and culture columnist at the local newspaper; building associations with colleges and universities; and specialty niche marketing of the retail shop.

Threats

To artists, the primary threat to the future progress is lack of funding. With a somewhat mixed history of business management, the Center is currently struggling to reorganize its programs and regain its momentum in fund raising. Some of the artists also think the new management is moving away from the original mission. They argue that the support of the artists and the community was based on a belief in the mission, and they worry that the artists and the community will lose faith in the organization. Without the support of the artists and the community, the organization will fail.

Threats perceived by the board and outsiders included: inadequate funding and lack of financial self-sufficiency; lack of focus; new arts cooperatives forming in the community; non-profit status threatened by retail sales revenues; competition with and resentment from local merchants and other community art teaching programs; gambling initiative in Manitou Springs; and board apathy.

Visualization

When asked to visualize where the organization could be in five years, only one respondent said it could be gone. All of the rest of the interviewees, excited about the Center's mission, conceived great things. They visualized national recognition, a catalogue operation, additional studio space including some one-person professional studios, a national reputation for launching successful artists, testimonials from great artists who had "graduated" from the Center, secure financing, adequate staff, top quality educational programs both for the artists and for the community, ownership of a private collection, host to national juried art shows, the center of activity and interaction between artists and the public, being on every Colorado tourist's "must see" list, sponsorship of regional arts and crafts fairs, satellite sites in different cities, apprentice programs linked to colleges and universities, physical expansion, dormitories and apartments for resident artists, national representation on the board, regular scheduling of masters classes as in schools like Anderson Ranch, and being the "Taos of Colorado."

Clearly the Colorado Center for Contemporary Art and Craft is an organization many people want to succeed. In spite of its problems, the overall impression is that it has great potential and is providing a much-needed service for area artists and the community.

EXCERPTS FROM A PERSONAL INTERVIEW WITH PAUL SOLDNER, ASPEN COLORADO

This research project allowed us to interview a world-renown artist, Paul Soldner. Soldner is uniquely important to this study because he is not only a successful artist, but he has visited the Art Center where he taught a master class; moreover he is a successful entrepreneur who has created a line of pottery equipment sold world wide.

Now 73 and semi-retired in Aspen Colorado, Soldner has been cited as one of the world's top ten potters. He has been a professor and master instructor of ceramics for decades, was a founder and is a still-featured instructor at Anderson Ranch Art Center in Snowmass, and was for many years a professor of art at Scripps College. The author of ceramics books and videos, he travels and lectures often. Following are some of Soldner's answers to a few key questions. His answers are paraphrased and summarized with a few quotations added.

1) Does an incubator specially focused on artists make sense?

Yes, it makes sense, especially today because of two emerging trends. One is the cutbacks in art programs in many colleges and universities around the country. Art incubators can play a major role in filling the growing gaps in art training and apprentice programs. The second harmful pressure on art education is the public paranoia over pollution. Many artists and studios, especially smaller independent ones, are being put out of business by OSHA and EPA-type regulation. Art incubators could provide both better and more acceptable equipment and processes and lobbying clout to resist over-zealous regulators. This is especially important in urban areas.

2) Are there other similar facilities around the country, and do they work well?

There are two ceramics facilities of which I am aware -- Northwest Pottery in Seattle, which is about 20 years old, and a new one in St. Paul. They work well because they provide a half-way house for artists newly out of school taking their first career steps; a place where many artists working together can learn from each other; a place where masters workshops and seminars can be held.

3) What do emerging artists need most for launching a successful career?

Time most of all. "There is no quick fix." The best things we can provide them are a good facility and equipment, libraries, opportunities to learn from each other and from mentors or instructors, encouragement, hope and role models. But the most important key to artistic success is time -- and practice, practice, practice.

4) What educational programs are more important -- "art" or "business?"

The business side can be taught quickly and relatively easy. But basic art skills are more important and take much longer. And it's progress in art that determines long-run success. "If they make a better mouse trap, it will sell."

5) Is there an inherent conflict between "art" and "business?" And can artists really be taught "business?"

Yes there is some division between the aesthetic purists at one extreme, and the strictly commercially oriented at the other. An incubator can't do much for the purist determined to become a world-class artist. "Don't worry about the top; they are going their own way," because of an incredible inner drive. An incubator should focus on the others who want to pursue art more modestly--perhaps as a small business shop owner, local studio artist, teacher or for lifestyle reasons.

6) Should an incubator offer a wide variety of services -- studio space, gallery, retail shop, art, business and community educational program -- or should it focus more narrowly?

It's good to provide a variety of programs to artists, up to the point where some less important activities, say community service activities, hamper the fundamental activity of artists working at their art.

7) Is there a conflict between "art" and "craft," and would too much emphasis on craft drive away the

fine artists?

Don't worry about driving away the artists -- they have their own inner motivation to move ahead. The conflict question cannot be easily answered. "Skill" is a better term than"craft." "Giving skill and training people is probably the most important thing" ... on which to stay focused.

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THE BUSINESS INCUBATOR: RETHINKING ITS APPLICATION TO SMALL FIRM FINANCIAL STRATEGY

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ABSTRACT

Business incubators provide operational assistance at one loca- tion to newly launched businesses. These shared arrangements provide generic operational support at an elementary level of sophistication. Incubator finance and accounting services include basic data entry, bookkeeping, and end-of-month state- ments. This paper addresses the lack of strategic value in incubator accounting and finance support functions.

A previously published model of unmet tenant needs is further developed to segregate operational and strategic financial reporting requirements. A financial strategy model is proposed where incubator firms proceed through increasing strategic requirements over time. A channel of incubator-support stages is recommended to provide internally-graduated financial strategy support as tenant firms progress through the incubation process.

INTRODUCTION The incubator, an often reviewed concept within the entrepreneurship and small business literature, has been hailed as a revolutionary concept for enterprise development and job creation (1) (2) (3). In reality, incubators do provide very basic support services for new ventures, including reception, meeting and office space, data entry, word processing, copying, printing, and management advice. They also assist with bookkeeping, inventory accounting, and generic end-of-month financial summaries for newly launched small businesses (4).

The Problem

Small businesses tend to utilize generic "off-the-shelf" software for their accounting and finance functions (5), yet want financial reports which are useful for their own unique decision- making (6). Incubators generally lack the resources sophis- tication necessary to address firmspecific financial reporting requirements of tenant firms (7), yet evidence shows that a firm- specific, strategy-driven objective should be employed when setting up a small firm financial information system (8). The generic nature of these incubator accounting and finance functions may not be altogether beneficial or value-adding to a small firm's financial strategy and positioning needs.

HYPOTHESES

A primarily operational managerial resource, incubators may not meet the strategic needs of tenants. Three questions must be asked. First, are tenant firms aware of any strategic deficiencies that may exist in incubator-provided accounting and finance services? Second, is there a point at which tenant firms might recognize the need to first augment their incubator- provided accounting services? And third, is it possible for incubator-based new ventures to develop timely and reliable financial strategic information? It could be argued that the development of incubator services aimed at specific financial

strategic capabilities might not be conducive to the contemporary incubator model, where services have broad applications.

Objective

This paper reviews the characteristics and empirical evidence of incubators, and the nature of incubator-provided accounting and finance services. The "management advising" component of incubators is then examined relative to the fundamental tenets of operational management and strategic management relative to new venture financial reporting requirements. Finally, potential detriments of incubator services are delineated in light of the differentiation between operational and strategic financial orientations.

A model is proposed that could serve to locate the most appropriate time(s) for a new venture to utilize an incubator, and at what specific point it might be beneficial to abandon the generic incubator concept from a firm's operations in favor of developing specific financial strategic information resources. Discussion addresses the model's impact on incubator use, and ideas for further research are proposed.

BUSINESS INCUBATORS

Networking and shared resources are essential elements of successful entrepreneurial ventures (9). Incubators provide generic shared business management support functions, with access for numerous small firms at one location (10). They are often located in converted warehouses and abandoned factories where inexpensive support services are offered for nascent enterprises and where tenants generally remain for between 18 and 24 months (11).

The number of business incubators in the United States grew from ten in 1979 to over 350 by 1989 (12). Reports were that there would be well over one thousand incubators by the early 1990's and that four out of five existing incubators were successful (13). Incubators are an essential component of a larger model for enterprise development, but are merely one type of small business resource along with venture capital exchanges, intrapreneurship and innovation centers, small business development centers (SBDC's) and student education/entrepreneurial development (14). Some incubators organized and geared toward a niche of new ventures that exhibited common profiles of business success factors (15). Specific criteria that should be employed when small firms are choosing an incubator, including a match of industry firm type with certain support and technology services (16) (17).

Incubator Empirical Studies

Incubated businesses have success rates of between 80 and 90 percent, while nonincubated firms have failure rates near 60 percent (18). One study examined a large incubator over a nine year period and found that only 23 of 143 (16%) new ventures failed (19). Incubators in smaller cities tend to be more successful than those established in metropolitan areas, and incubator tenants believe the services provided are important for the continued survival of the business (20).

New entrepreneurs enter incubators only when they believe that some benefit will be derived from

their tenancy, and that these expectations vary considerably (21). Incubator tenants primarily seek inexpensive space, with shared and incubator-provided services, and such services are extremely generic in nature rela- tive to business type (22) (23). Four measures of successful incubators have been suggested, including a relatively large number of tenants, a large number of jobs created, a high level of graduated firms (firms that leave the incubator), and a tenant equity position (24).

Incubator Finance and Accounting

Business incubators generally offer a basic package of finance and accounting services (bookkeeping, data entry, and ex post end-of-month financial statements). Very little of this is customized to the unique objectives and concerns of tenant firms. This paper contends that the majority of tenants probably do not recognize the generic shortcomings of these reports.

Incubator Management Advising

The primary function of an incubator is to provide management ad- vice, networking for ideas, and operational support (1) (10) (11) (12) (16) (25). Incubators offer noticeably generic support (management advice included) in an effort to provide widely-used applications for all tenant firms. This "expertise" exhibits some breadth, but no firm-specific depth of knowledge for specific strategic ideas and goals of particular small firm tenants.

Operational Management

The studies cited in the prior section found that the advising available through incubators is almost strictly operational management support (i.e. directly related to day-to-day firm operations). This type of "planning" is myopic by nature, and often ex post in terms of developing firm perspective.

Strategic Management

Strategic management is distinguished from operational management in that it takes a longer-term view of the business, and is ex ante in its perspective. Potential changes in the external environment and the relative appropriateness of the firm's internal capabilities are managerial concerns far more sophis- ticated in nature than coordinating daily operations. The firm specificity required to analyze and take action on strategic issues goes far beyond the capabilities of the operational advice offered through business incubators.

Small Firm Strategy

Strategic planning is positively related to small firm performance (26), but strategic management for small business needs to be specific and dynamic in its implementation. Firm- specific strategies are necessary for small businesses to be successful, and certain small-firm strategies are more profitable than others (27). Little benefit accrues to small firms that utilize a highly formalized strategic planning process (28). Small firms should know the difference between a written business plan and on-going company planning, because small firms rarely use their stated business plans for managing on-going operations (29).

A FINANCIAL STRATEGY MODEL

A previous model of incubator-tenant interactions was developed (23) where sponsor-managers of the incubator decided that some services were unneeded offerings, tenants recognized that some needs were unmet, and an overlap occurred where sponsor offerings met tenant needs (Figure 1). This serves as a basis for examining where the operational finance components of the incubator end, and the strategic requirements of the many tenant firms begin.

Figure 1

INCUBATOR-TENANT INTERACTIONS _____ Sponsors|----------> Unneeded and |----------> offerings Managers| _____ _____|<----------->| |Tenants Unmet <----------| Needs <----------|_____

From: Spitzer and Ford, 1990. Journal of Business and Entrepreneurship, (October), p. 32.

Figure 2 outlines three basic accounting and finance needs that are met by most incubators, and recognizes that the resources to address the tenants, financial strategic needs develop outside most incubator capabilities. Much of what incubators offer is often limited in scope relative to the tenant firms (30). An incubator financial strategy model would address those specific unmet needs of tenants, and could eventually require incubator manager/sponsors to consider firm-specific financial strategy as a necessary service offering.

There is little agreement as to which incubator services have the greatest value for tenants (25). Figure 3 outlines nine types of firm-specific strategic oriented financial reporting requirements. Each of these documents exhibit ex ante financial forecasting perspectives that are directly related to strategic issues that impact small business capabilities.

Figure 2

INCUBATOR-TENANT STRATEGIC INTERACTION

_____ _____ Sponsors|---------->| Tenants and | Data Entry | Managers|---------->| Opera- | Bookkeeping | ational _____|---------->| Needs End-of-Month |_____ Financials _____ _____ ? |---------->| Strategic|---------->|Strategic Resource |---------->| Needs _____| |_____

Figure 3

(Incubator) (Tenant) Sponsors| | and |<----------->| Operational Managers| | Needs _____| |_____ |----------->| | Pro Forma Income Statement | | Pro Forma Balence Sheet | ? |Cash Budget Scenario Forecast | Strategic| Capital Budgeting Forecast |Strategic Resource | Sources & Uses of Funds | Needs |Pro Forma Receivables Aging | | Pro Forma Payables Aging | | Financial Ratio Analyis | | Cost Accounting Analysis | _____|----------->|_____

Financial management as both operational and strategic components. Posting receivables and payables, and monitoring working capital are fundamental financial operations easily offered by incubators. The higher quality of sophistication and expertise necessary to generate timely and useful financial strategy requirements (eg. pro formas, scenario analyses, forecasts) is directly related to firm posture and positioning, so that small businesses can address external threats and opportunities, internal capabilities and resources, and other strategic issues.

Figure 4 proposes a financial strategy model for incubator tenant small firms where line B represents a fixed level of operational finance support from the incubator, and line A represents some scheme of additional graduated firm-specific financial reporting. (Line A assumes that financial reporting increasingly develops at discrete points in time as the business grows.) Line 1 depicts a newly launched incubator firm that displays erratic changes in financial reporting needs. Early on, the firm derives sufficient utility from the incubator financial support up to time period lb (their financial reporting needs do not exceed the incubator's data entry and bookkeeping services up to that point in time), after which they then require other firm-specific services not offered by the incubator.

Figure 4.

Line 2 traces a second firm type that has more predictable and uniform reporting requirements. It quickly outgrows the incubator at point 2b. These requirements remain within the general parameters of the growth in expected discrete additions to financial reporting. Line 3 traces a third firm type that is also predictable and uniform in financial reporting growth, but which successfully utilizes the incubator finance supports for a relatively long time (point 3b).

DISCUSSION

It would be inappropriate to assume that any small firm still housed in an incubator is not a candidate for sophisticated, firmspecific, strategic financial requirements, just as it cannot be said that firms requiring strategic-oriented financial reporting should not be located in an incubator. Location of the business operations is exclusive of strategic financial needs. It would be worthwhile to locate any discrete points in time where newly launched firms would require additional financial strategy-oriented reporting, and whether incubator firms understand their need for these increasingly sophisticated support functions.

Business incubators might need to establish a continuum of categorical support (from purely operational levels through various stages of strategic tools) aimed at a complete range of tenant firm types, each with differing strategic financial reporting requirements. Once graded support levels are in place, newly admitted tenants could be tracked across a series of variables. Incubators could support separate classes of firms with distinct financial and accounting service groups, and pro- vide an intra-incubator graduation process through well-defined stages of financial support. Figure 5 outlines how Stage 1 tenant firms require only basic (Level 1) financial support (up to point a).

Firms at Stage 2 require the first adjustment in strategic reporting requirements up to Level 3 (this adjustment could be the addition of some portion of the financial reporting summarized in Figure 3). Stage 3 requires further strategic- oriented sophistication to Level 3 (point c), while Stage 4 could

describe some remaining financial strategy reporting capability to some comprehensive arrangement (to Level 4, point c).

Figure 5 IDEAS FOR FURTHER RESEARCH

Prior work recommends longitudinal studies be developed when examining entrepreneurial ventures, in that repeated measures over time provide much clearer results compared to studies that employ retrospective designs (31). Researchers could measure tenant firms from their first day in the incubator to the day they graduate and see if firm profiles could be developed to describe whether distinct firm types exist (see Figure 4). It would be interesting to see what measures (if any) might prove useful in classifying incubator tenant stages of strategic financial reporting requirements.

A Data Envelopment Model was previously developed to analyze the efficiency of SBDC's that provide incubator-comparable services (32). This could be extended to examine incubator new ventures that are deemed homogeneous across several criteria, distinguishing these on an input-output basis (those that utilize firm-specific financial reporting versus those that do not). Perhaps the concept of an incubator is more descriptive of the physical arrangement, rather than the nature and quality of the support services.

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THE SMALL BUSINESS INSTITUTE PROGRAM ACADEMICALLY SPEAKING

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ABSTRACT

This research is designed to help the local Small Business Institute director determine how he or she fits the national norms. One of the strengths of the SBI Program is its diversity and is proven by this research. The field of Management still is the dominant factor represented in the SBI academic curriculum but other fields of business and economics are making major inroads. SBI is truly blessed by heavily tenured faculty and SBI directors with longevity.

INTRODUCTION

This research is conducted to illustrate the academic component of the Small Business Institute (SBI) Program. It is meant to cause the reader to think about where their SBI Program fits with the national norm. The intent of the researchers is to not only report facts but to cause the SBI director to analyze and compare their program with the national norm taking into consideration the local needs of their community.

Even though the SBI Program has been in existence for over twenty years, from this research you will be able to see that there is no one model that characterizes the SBI program or director. Previous research said, "Each of our programs, while having some common rationale, objectives, and ties to the SBA, operates in vastly different environments and employs a wide array of practices," (6) and "are continuously challenged in the administration of their programs" (4).

Four hundred twenty-one SBI directors responded to the 1992-93 survey. This yielded a response rate of 84 percent. The total population of SBI schools for the 1992-93 survey was 503. The data is being compared to previous research performed in the 1991-92 school year. Research for 1991-92 yielded a total of 394 SBI directors out of a total population of 504 which gave a response rate of 78 percent.

FINDINGS

A listing of the respondents by United Sates Small Business Administration Regional Office is given in Table 1.

TABLE 1 Respondents by SBA Regional Office (1992-93)

Region 5 (Chicago) 76 Region 6 (Dallas) 65 Region 4 (Atlanta) 55 Region 7 (Kansas City) 44 Region 3 (Philadelphia) 43 Region 2 (New York) 32 Region 1 (Boston) 28 Region 8 (Denver) 28 Region 9 (San Francisco) 28 Region 10 (Seattle) 22

Region five led the country in total number of responses totaling 76. They were closely followed by region six totaling 65 respondents.

Each SBI director was also asked to give the major area of study in which they obtained their highest degree. This data is given in TABLE 2. TABLE 2 Major Degree Field for SBI Directors Doctors Degree

1991-92 1992-93 Management 82 91 Business Administration 32 33 Marketing 30 29 Economics 26 22 Marketing, Business and Higher Education 26 22 Finance 10 14 Computer/Mgmt. Info. Systems 6 Other 34 34

Masters Degree

1991-92 1992-93 Business Administration 48 57 Marketing 26 33 Management 17 26 Finance 11 12 Accounting 5 4 Economics 5 3 Marketing & Business Ed. 5 5 Computer/Mgmt. Info. Systems 3 Other 10 10 Bachelors Degree 10 11 No Response 17 6 Management was the predominate doctoral major field. Prior research stated, "SBI directors had their primary field of expertise in Management" (7). This is followed by Business Administration and Marketing. As can be seen by the distribution of majors, the SBI director comes from a varied background. The category 'other' had majors such as Public Health, Public Administration, Hotel Administration, Engineering, Law, etc.

On the masters level, Business Administration was the leading response for the second year in a row. Second was Marketing with 33 respondents for the school year 1992-93. Management was third with 26 respondents.

The major area of academic assignment in which the SBI director has taught was obtained from the survey. The findings are given in TABLE 3.

TABLE 3 * Areas in Which SBI Directors Teach

1991-92 1992-93 Management 265 270 Entrepreneurship & Small Business 172 254 Marketing 120 125 Finance 37 53 Economics 24 35 Accounting 22 26 Information Systems 11 20 General Business 10 49 International Business 10 Business Law 3

* The respondents could choose more than one area

SBI directors' academic teaching background is heavily weighted toward professors of management. Background changes seen in the research are more professors with academic backgrounds in entrepreneurship and small business, finance, and general business. "One of the most important strengths of the SBI Program is its individuality among not only colleges and universities but faculty members" (1). A new category gaining prominence as a teaching field of SBI is international business which should be watched to see if the SBI program is becoming more globalized in its approach.

The number of years that each SBI director had been involved with SBI and the number of years they had served as director was obtained from the survey. The data is given in TABLE 4 in descending

order by the number of respondents.

TABLE 4 (1992-93) Years in SBI Years as Director

1 year - 50 1 year - 69 5 years - 46 2 years - 60 2 years - 37 3 years - 50 3 years - 35 6 years - 29 8 years - 29 5 years - 28 6 years - 28 4 years - 24 10 years - 27 8 years - 23 4 years - 26 10 years - 19 9 years - 18 9 years - 15 7 years - 17 7 years - 14 20 years - 15 16 years - 14 15 years - 14 15 years - 10 16 years - 14 17 years - 10 17 years - 11 20 years - 10 12 years - 10 12 years - 7 18 years - 10 14 years - 7 13 years - 8 18 years - 7 14 years - 6 13 years - 6 19 years - 5 19 years - 3 11 years - 3 21 years - 2 21 years - 2 23 years - 2 23 years - 2 11 years - 1 22 years - 1 22 years - 1 24 years - 1 24 years - 1 No Response - 6 No Response - 9

On the average, an SBI director has been involved with SBI for 7.77 years. Six directors reported being involved from the SBI program's inception in 1972 and are still active at the present. Some of the SBI directors stated that they had worked with SBI as early as 1969 which was before the program officially began. It was also determined that the respondents had been an SBI director for an average of 6.49 years.

Fifty five percent of the responding SBI directors are in their first five years on the job. Fourteen percent of the respondents have 15 or more years experience as an SBI director. One problem created by so many new SBI directors is that the SBI program is in constant need of education and training. There must be more done to retain high quality SBI directors. This will include more prestige and higher pay for the director position.

Release time that each responding SBI director receives was obtained from the survey. The results are given in TABLE 5.

TABLE 5 SBI Director Release Time

1991-92

0 hours 207 directors 52.5% 3 hours 76 directors 19.3% 6 hours 11 directors 2.7% Other 3 directors .9% No Response 97 directors 24.6%

1992-93

0 hours 31 directors 7.4% 3 hours 73 directors 17.4% 5 hours 4 directors 1.0% 6 hours 17 directors 4.1% Other 6 directors 1.2% No Response 290 directors 68.9%

This question has increasingly caused problems under our surveying method because of the definition of release time. In one school a person is given three hour course credit for teaching the SBI course where in another school an individual is given outright release time for doing the SBI cases. They both equal the same amount of release time but one professor doesn't count the course reduction as release time. Previous research showed that approximately 34% of the responding directors were required to teach nine semester hours in addition to their responsibility as SBI Director," and "Another

34% of the directors stated they teach 12 hours as their academic assignment" (7).

Each SBI director was asked the types of classes in which they teach the SBI cases. The findings are given in TABLE 6.

TABLE 6 (1992-93) * Classes That The SBI Program Is Offered In

Small Business Management 219 Business Strategy/Policy 122 Entrepreneurship 102 Special Project, Seminars and Practicums 97 Business Consulting 94 Marketing Research 90 Marketing Management 67 Internships 48 International Business 37 Accounting 27 Finance 24 Retailing 23 Management Info. Systems 20 Organizational Behavior 9 Advertising 9

* The respondent could make more than one choice

Small Business Management, Business/Strategy Policy, and Entrepreneurship were the three most popular courses were SBI cases are used. Entrepreneurship has become a more popular class for the SBI program. Previous research performed on a sample in 1991-92 showed the Entrepreneurship class placing fifth among the above classifications (2). As can be seen from the overall list of courses there is no one course where SBI case work is limited to one discipline. Prior research stated, "students found the policy course to be more effective in developing analytical skills and to be more useful in their careers than the SBI course." "On the other hand, the SBI course was perceived to be more effective in developing interpersonal skills and operational skills than the Policy course" (3).

Several new questions were asked on the SBI directors survey. The results will be given in the remainder of the research. Each director was asked to provide their academic rank. The findings are given in TABLE 7.

TABLE 7 (1992-93)

SBI Director Academic Rank

Professor 27.6% Associate Professor 28.3% Assistant Professor 16.4% Instructor 13.5% Non-Academic Rank 11.4% Lecturer .7% No Response 2.1%

Over half of the SBI directors have the rank of professor or associate professor. The disturbing fact is that approximately 12 percent of the instructors have no academic rank. This question is definitely an area that must be monitored and watched in the future because the backbone of the SBI program is the presence of full- time academic qualified as well as business qualified directors.

SBI directors were surveyed to obtain their tenure status. The results shown in TABLE 8.

TABLE 8 (1992-93) Tenure Status

Tenured 63.4% Non-tenure Track 28.5% Tenure Track 1.0% No Response 7.1%

The overwhelming majority of SBI directors are tenured which should provide a stable environment for the program. A disturbing fact is that approximately 30 percent of SBI directors are in a non-tenure track position thus creating a degree of instability. Unfortunately there is a national trend toward hiring a number of professors in all areas of academia on the non-tenure track.

SBI directors were asked to give their faculty status. The responses are given in TABLE 9.

TABLE 9 (1992-93) Faculty Status

Full-time 71.7% Part-time 7.1% Full-time Administrative .2% No Response 21.0%

The statistics indicate that 7.1 percent of respondents were part- time. It is also very interesting that their was a 21 percent 'no response' to this question which after some further investigation left the researchers with the idea that the 7.1 percent figure for part-time is low. This is definitely an area in which the U.S Small Business Administration and the Small Business Institute Directors' Association should do further investigation.

SBI directors were surveyed to determine whether they were working with other college departments on their campus. the findings are shown in TABLE 10.

TABLE 10 (1992-93) Worked With Other College Departments

No 59.6% Yes 37.8% No Response 2.6%

It is encouraging to see that 38 percent of the SBI Programs are working in conjunction with other colleges within their university to provide even more expertise to the small business community. This spirit of cooperation can only enhance the SBI program as well as provide more services to the small business community/ If this trend of greater sophistication continues, there may also need to be a rethinking of the SBI payment structure by the U.S. Small Business Administration.

An important question raised in the past has been the degree of control that an SBI director has over the funds received for doing the SBI cases. The results of the question are shown in TABLE 11.

TABLE 11 (1992-93) Control of SBI Funds

Total 53.7% Partial 34.7% None 7.8% No Response 3.8%

It is encouraging to see that approximately 88 percent of the SBI Programs have either total control or partial control over their SBI funds. Approximately 54 percent had control of their funds which was similar to 52 percent shown in research by Marilyn young and George Joyce of the University of Texas at Tyler (7). For those schools that have no control over their funds, the researchers have to wonder how much effort is actually being put into these programs since there is no reward for doing so. It is stated in the U.S. Small Business Administration's Statement of Work that all SBI funds must be spent on small business related matters (5). Now that the SBI case is a grant, it would be a federal violation to spend the money for other purposes.

CONCLUSION

As this research has shown, there is no one way to direct an SBI program. It has also raised questions for the U.S. Small Business Administration as to whether their Statement of Work is being enforced or whether grant funds are being properly and legally utilized by participating SBI schools. These are not only questions to be answered by SBA but should require some further investigation by the Small Business Institute Directors' Association. These questions include areas such as control of funds, academic rank, tenure status, faculty status, and working with other college departments.

The SBI Program is heavily grounded in the Management field but many other fields are starting to claim a part of the SBI program. SBI is truly becoming a multi-discipline program. SBI is being taught in more diversified settings in the colleges or departments of business. Entrepreneurship and small business courses seem to be the new way of presenting the SBI program.

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ENTREPRENEURSHIP EDUCATION: EXPLORING THE BOUNDRYLESS CLASSROOM

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ABSTRACT

This report describes our experience with a new delivery system for Entrepreneurship education that combines the traditional graduate classroom experience with professional executive development programs. We applied this teaching pedagogy to a course in our graduate concentration in Entrepreneurship entitled Consulting Services. We opened enrollment in this course to include both graduate students and participants from the business community. Findings suggest a course structured this way provides unique learning opportunities for two distinct groups of students while expanding the scope of consulting services normally offered through the SBI program. It generates external revenue to fund entrepreneurship activities and expands the recognition of the college's entrepreneurship program within the business community--all at no expense of academic credibility.

INTRODUCTION

Although much has been voiced and written about the need for greater collaboration between the academic and business communities, not many innovative approaches have been pioneered. Kennesaw State College decided to stop talking about such a collaboration and do something. In teaching the field of Entrepreneurship we have proactively changed our paradigms about what constitutes an academic education. We have pushed the envelop and explored the boundaryless classroom.

During the 1992 fall quarter, Kennesaw State College's School of Business Administration approved a new graduate M.B.A. concentration in Entrepreneurship. KSC's objectives for the Entrepreneurship Concentration included: national recognition for innovative, creative, academically rigorous programs and research in Entrepreneurship; greater credibility and visibility of KSC with the external business community; development of funding sources to support entrepreneurship education at KSC; pedagogical design of a new matrix delivery system for entrepreneurship education that would foster greater collaboration between the various academic and business constituents that we serve.

This paper presents a descriptive report on our experience with this new delivery system for entrepreneurship education that reaches beyond the traditional classroom boundaries of graduate entrepreneurship instruction and establishes a true partnership between the academic and business communities. Specifically we will discuss the development and implementation of a new course entitled: "Consulting Services."

A NEW DELIVERY SYSTEM: CONSULTING SERVICES

We offered a new course in the summer of 1993 entitled: "Consulting Services." It was our first attempt at executing a new prototype delivery system for graduate education in business that allowed participants from the business community to cross register into our M.B.A. concentration classes. Consulting Services was selected as the trial course because of its timeliness and applicability to market conditions as a result of the current restructuring taking place in the economy.

Intuitively we know, the world of business is changing. The new direction is toward the global virtual organization" --- groupings of loosely coordinated project teams composed of independent contractors and consultants. Consulting Services was designed as an entrepreneurial option to corporate employment. We felt anyone desiring to take their skills and knowledge to the market could benefit from this course. Ideal participants could include: professionals, paraprofessionals, skilled craftspeople and trained technicians from both the profit and not-for-profit sectors. Specifically accountants, software and information technology specialists, financial advisors, engineers, writers, designers, health-care specialists, communications experts; as well as retired/retiring or laid off professionals evaluating challenging new alternatives would find this course beneficial.

COURSE DEVELOPMENT

In order to accomplish the objectives for the concentration in Entrepreneurship in general, and for the Consulting Services course in particular, we realized we needed to bring in some "heavy hitters" with strong name recognition within the Atlanta Business Community We decided to use one consulting firm to help promote the course and enlist individuals from that organization to be our featured speakers. In order to use the local consulting firm, we agreed to use their name in promoting the course and made all materials and handouts subject to their approval.

Additional featured speakers were drawn from our own faculty. We invited only faculty with active consulting practices to participate as speakers. We also used panelists from local-global consulting firms -both large and small firms- to address different niche markets, technology applications, or product-services areas. In total, we were able to enlist the help of 37 consultants who provided their services pro bono.

In developing the course we determined the following: the scope of the course; who should attend and how they would register; how the course would be funded; how the course should be marketed; what the course format, and requirements should be.

Scope of the Course

We set up the course to show how to start, market, and successfully operate a consulting business. The course offered practical "how-to" advice on the nuts and bolts of consulting from practicing consultants. The basic consulting functions we addressed included: skill/market identification; opportunity recognition and establishment of client base; interview, problem/needs assessments, observation, data collection, analysis and documentation; diagnosis, recommendations, implementation, follow-up and control; legal, ethical, and confidentiality issues; contracts, fees, and payments; and managing change, expectations, collaborative teams, and projects.

Attendees and Registration

We opened the course to our KSC graduate students and other graduate students throughout the university system. We also decided to make the course available to undergraduate students as a directed study. We invited the business community to participate and offered our own MBA alumni a reduced fee to attend. Given the rationale that entrepreneurial ventures will have a greater chance of success with a strong family support system, spouses (significant others) were invited to accompany registered students to the sessions for no additional fee as long as they shared handout materials.

Undergraduate and graduate students registered through the normal telephone registration process to receive 5-credit hours while members of the general business community registered for the course through the Small Business Development Center and earned up to 40 hours of Continuing Professional Education (CPE) credit.

We enrolled a total of 41 students in the course: 15 graduate students, 16 from the business community, 5 alumni, and 5 undergraduate directed studies students. In addition, we had between 8 and 12 visitors each session. These included spouses, interested business associates, other faculty, and consultants speaking in other sessions. Setting the registration fee at the rate that we did for business participants served as a pre-screening device for enrollment. It should be noted that the participants from the business community tended to be highly educated, professionally-trained practitioners, with an average age between mid thirties to mid fifties. Included among them were: an attorney, an industrial psychologist, engineers, accountants, technology specialists, international business consultants, association managers', banking executives, quality control and assurance managers, as well as practicing consultants who wanted to polish their skills, network, and energize their focus. On the whole, the registered participants would have met or exceeded the entry criteria into our graduate business program

Funding

Registered graduate students paid standard tuition for a 5-hour quarter credit course. KSC alumni paid a reduced registration fee, while business participants paid $695 which included all books and handout materials. Need-based scholarships were available through the SBDC.

Corporate sponsorships were solicited to grant a prize to the top intervention projects. All monies (in excess of expenses) generated by opening the seminar portions of this class to the business community are to be used for Fellowships in Entrepreneurship. out of this course, we were able to grant five fellowships to our graduate students. A funding pool remains to be used for at least ten additional student fellowships.

Marketing the Course

In order to inform the business community about our course, we first developed and created a brochure to send to various mailing lists within the metro-Atlanta area. We also wrote news releases for the local area newspapers and bought advertising in the Atlanta Business Chronicle and the What's Up Hot Fax. A front-page business section article about the course appeared in the local area daily

newspaper.

An article describing the course was included in the MBA Alumni newsletter and the school newsletter. Flyers were placed strategically across campus, taken to the regional meeting of the Institute of Management Consultants, and included in local area business and community calendars and newsletters.

Course Format

The course was conducted on Saturday mornings from 7:30 a.m. - to 12:00 p.m. over a 9-week period. The course was divided into two parts: the featured speaker(s) presentation that lasted approximately two hours and the interactive panel discussion segment that was led by invited guests, from the Atlanta business consulting community lasting approximately the same period of time. We planned breaks before and during the sessions to allow the participants and speakers to network as we felt that was an important aspect of the course.

Course Requirements

In addition to attending the seminar sessions and reading the required texts and handouts, MBAs were required to participate in a field consulting intervention project. Local area companies participating in these interventions included some of the "hottest" growth companies in the city. Companies participated as Small Business Institute (SBI) cases under the Small Business Administration program. Each student team was monitored by a faculty and a consultant mentor. During the final session, the students made client presentations (including the presentation of a hypothetical bill to the client) to a board of evaluators. Presentations were critiqued by the client, the evaluators, and the audience.

Findings

In examining how well the Consulting Services Course met the objectives set for the course, we were struck by the fact that the course met or exceeded expectations in almost every area. The course provided an opportunity to gain greater credibility and visibility both for the college and the Small Business Development Center with the larger business community in a number of ways. First, experienced business consultants who participated as featured speakers or interactive panel discussion participants were impressed with the caliber of the participants in the course and were made more aware of the high quality academic offerings. Second, for several of the professionals seeking skill development in consulting who enrolled, the course provided an introduction to the way in which the KSC School of Business seeks to meet the needs of non-degree students seeking professional development. Third, the course received favorable press coverage in the city's business publications. Fourth, the promotion of the course increased awareness of the School of Business within the metropolitan business community, leading some to comment "KSC is Atlanta's best kept secret in educating entrepreneurs." And finally, speaker selection provided an introduction to the major professional consulting associations.

A second objective of developing sources of funding for entrepreneurship education was achieved by consciously keeping the costs of running the course low. As a result, course fees from non- degree

students are being used to provide additional opportunities for entrepreneurship projects and course work.

The third objective of creating a linkage between the academic and business communities and creating a new type of course design which incorporated the characteristics of a traditional graduate course with some of the characteristics of the less traditional professional executive development program was acknowledged as having been met. Post course evaluations indicated that one of the most satisfying aspects of the course, as recognized by both groups, was the opportunity that the course provided for the sharing of experiences and insights by students who would not normally have any interaction. Several of the "executive development" students said they learned something of value from hearing how the graduate students handled their consulting assignments structured through the Small Business Institute program.

Added benefits include the creation of a library of video tapes of the presentations of our featured speakers and panel members all of whom have significant experience in some aspect of professional consulting and the creation of a notebook of readings on all aspects of consulting. These resources are now available to small business clients through the Small Business Development Center.

As with any new endeavor we learned a great deal. We found it takes a tremendous amount of time and energy to develop and implement a course of this nature. Designing and coordinating this course simulates implementing a professional training seminar on a weekly basis, combined with the rigor of maintaining academic excellence. Faculty must be dedicated and determined to network with the business community to get needed resources. Additionally the business community must be willing to provide the support and guidance in order to make a course of this nature successful --- a true collaboration of the academic and business worlds in a real-time applied environment.

In reviewing the class evaluations, we received many comments and suggestions from both the business and academic communities. Some comments were: "Positive, dynamic class; not the same old structure; not just a "fluff" class; great interaction between the different student categories; and more of these type classes. I like the business mixture and MBA'S. A great impact--we had the knowledge and experience of professionals. The format causes a 'sharing' of knowledge between all students. Enhanced it. Offer more classes like this." Suggestions we received included: "more coverage of finances, more 'how to,' more time for interaction between students and speakers, a more varied format, and less speakers during each session in order to give more time for depth and exploration of the topic."

A program of this nature requires proactively being responsive to the current business and academic environments, sticking your neck out on the line, and taking a chance. With an eye to the future,, we sought out the resources and took the opportunity to challenge our paradigms about what constitutes graduate education. We embraced change in the process, learned what works and what needs revising both in terms of the program and the process. We have received much praise f rom the consultants and the students who participated in the experience, and several have also offered to come back and do repeat performances. The ultimate criteria of effectiveness in this type of endeavor, given our objectives in creating this course, are the many inquiries we have already received regarding the next offering of this course and others in the entrepreneurship series.

SUMMARY

The world of work is changing. As major corporations continue to down-size, many more experienced professionals will be seeking new opportunities to utilize the skills they have acquired over many years, and students graduating from colleges and universities will be exploring non- traditional career paths. This shift in the world of business demands a concomitant shift in thinking about the structure of entrepreneurship education in our academic institutions. The Consulting Services course is an example of a new delivery system for entrepreneurship education.

We feel everyone wins ... the graduate students, the business executives, the companies participating in the field interventions, faculty, invited speakers and panelists, the Small Business Development Center, the School of Business Administration, future students of KSC's entrepreneurship programs, and ultimately, the general economy as more and more individuals seekout business opportunities.

Graduate students and business people learning together... what an innovative concept!!!

EXPANDING THE ROLE OF ENTREPRENEURSHIP EDUCATION: THE INDONESIAN CONNECTION

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ABSTRACT

This paper compares the cognitive temperament and entrepreneurial drives of 155 American to 70 Indonesian students. The Americans have a dramatically higher drive which suggests that Indonesia needs to expand the role of entrepreneurship education to achieve economic wealth and success associated with entrepreneurship.

INTRODUCTION

Americans have long been proud of their rich entrepreneurial heritage which spans the days in which the Country was founded by merchants seeking new trade, through Yankee Clippers sailing the world over, to modern entrepreneurs creating new industries and new ways of thinking. Today, new and emerging nations are looking to entrepreneurship to aid economic development and bring them into the world market. Have Americans lost the edge in entrepreneurial drive? Will business pioneers of the future come from Asia? Eastern Europe? The Pacific Rim? This paper will begin to explore that question. It will compare a group of American students to Indonesians studying in America to determine which display a stronger entrepreneurial drive.

THE NEED FOR ENTREPRENEURSHIP

Entrepreneurship is generally understood to involve venture creation. However, the process clearly goes beyond that simplistic concept. First, the venture need not be a small business, nor even a new business. Modern researchers apply entrepreneurial concepts to large, established businesses. In fact, a new term, "intrapreneurship," has been coined to describe the efforts of large firms to function in an innovative fashion [22] . Further, strategic management texts now describe several key responsibilities of a CEO as entrepreneurial [26] . Modern high school encyclopedia treat the entrepreneur as one who brings about changes in patterns of production and consumption [9]. Entrepreneurship is intricately entwined with business, economic factors, creativity and innovation, and change. Entrepreneurship is one of the oldest established processes of human society [5]. The Phoenicians, 3,000 BC, were entrepreneurs in every sense of the word. One of the earliest known writings, dating from 2500 BC, deals with lending money at interest and many of the Babylonian Laws dating from 2100 BC regulated and protected business. Columbus, himself an entrepreneur, was looking for new trade routes when America got in the way in 1492. Entrepreneurship has been a driving force in the world ever since the first humans began to develop specialization of labor at the dawn of history [5]. Schumpeter [24] credited Mill [19] with bringing the term, "entrepreneurship," into general use among

economists. Mill believed that the key factor in distinguishing a manager from an entrepreneur was the bearing of risk. Schumpeter disagreed. He believed that innovation was the central characteristic. Nevertheless, the idea of risk bearing has been integral as far back as Cantillon, circa 1700, who described an entrepreneur as a rational decision maker who assumes the risk and provides management for the firm [15].

In the United States, Ely [11] was one of the first to study entrepreneurship. Interestingly, Ely explained that economists were forced to choose a term, "entrepreneur," from the French language because the earlier terms dealing with individuals who started businesses had become corrupted. These earlier terms included "undertaker," which Ely explained had been appropriated by a single group of business owners, and "adventurer" which had come to imply an undesirable level of rashness.

Perhaps the most important aspect of entrepreneurship from a societal perspective is innovation [3]. McClelland [18] was a champion of the concept that novel activity was a key factor in entrepreneurial activity. Drucker [10] posits that entrepreneurship is innovation in a business setting. The effects which seem most important to countries undergoing a change in economic structure are those which involve jobs creation, balance of trade, production of consumer goods, and impact on standards of living. Collectively, these are the economic effects of entrepreneurship.

The term 'economy' refers to the business affairs of a nation or the world [9] . These affairs are predominantly concerned with the problem of how limited resources can be made to serve virtually unlimited wants and needs. The major contribution which Ely made was express recognition of entrepreneurship as the fourth factor of production [11; 12] . This was a major expansion of the traditional perspective of land, labor and capital as factors of production. Adam Smith [25], writing in 1776, implicitly recognized the role of individual capitalists. Ely's work, and the growing body of economists focusing on venture creation led directly to the recognition that individual initiative was a primary ingredient in the economy of a nation. Knight, writing in 1942, called it, "economic pioneering" [17, p. 214]. Modern, high school encyclopedia now describe entrepreneurship as the process of bringing together land, labor and capital, and the control and supervision of output [9].

Entrepreneurship, considered as a factor of production, becomes a primary support for any nation's economy. In fact, many undeveloped and underdeveloped nations have turned to entrepreneurship support programs to spur industrial output, increase jobs, and raise the standard of living [27]. As nations begin to face a change from Communism, their governments turn to entrepreneurship in the hopes that it will rebuild their private sectors [16; 21]. An economy can produce a variety of goods and services for consumption by its citizenry, but because the factors of production are finite, the quantities of output are limited. An economy is considered to be efficient if the productive resources are used to their fullest extent. That efficiency is related to business behavior and is bound with the efficiency of an individual firm as well as the role of all firms in the economy as they interact to create and affect systems of markets [2]. Clearly, entrepreneurship, when it exists, is a major contributor to economic growth and development. Virtually everyone seems to be looking toward the resurgence of entrepreneurship to drive a conversion of these economies toward free enterprise and to fuel an increase in standards of living and in the health of the nations [23].

COGNITIVE TEMPERAMENT

Cognitive temperament has been used frequently in recent years in explanatory studies involving entrepreneurs and entrepreneurial activity [6] . This research has frequently involved the use of the Myers-Briggs Type Indicator [20]. Keirsey and Bates [14] felt that different types of cognition could be explained in a more straight- forward fashion than the 16 different groupings of typology which result from the MBTI [20]. Their conclusions are based on the works of Jung, Kretschmer, Freud, Adler, Sullivan, Maslow, and Spranger as well as Isabel Briggs Myers and Katherine Briggs [14]. They identify four major cognitive temperaments which can be described in MBTI terms as: SP or sensationperceptive; SJ or sensation- judging; NF or intuitive-feeling; and, NT or intuitive-thinking. The four temperaments may be identified by use of the Keirsey Temperament Sorter [14], or by administering the MBTI [20].

Carland and Carland [6] found that entrepreneurs were more likely to display the NT temperament while managers were more likely to display the SJ temperament. They hypothesized that entrepreneurs might be driven to entrepreneurship by inherent dissatisfaction with traditional business life. Barbato and Durlabhji [1] in their study and the analysis of other studies involving budding entrepreneurs' and the MBTI also found results which were consistent to the findings of Carland [7] and Hoy and Boulton [13] in that entrepreneurs tended to demonstrate an NT persuasion while owners and managers tended toward the SJ perspective. The clear indication from those studies is a linkage between the NT temperament and entrepreneurship.

THE INDONESIAN LINK

As an emerging Pacific Rim nation, Indonesia is a prime example of a nation attempting to improve its economy and the standard of living of its people through entrepreneurship. The government has established a series of programs designed to facilitate the establishment and growth of small businesses, including special loan funds, educational and training plans. A more unique aspect of Indonesia's plan is its recognition of the need for education. The government recognizes that entrepreneurship is a function of individual initiative; that hopes of expansion of entrepreneurial activity must rest with the citizenry. Indonesia has established a program to choose bright, energetic, young people and send them to the United States for graduate training in business. Citizens chosen for this program have their educations financed by the government. In return, the participants have a service obligation to return to Indonesia and to train others in business. The program is highly competitive.

One of the American universities chosen by the Indonesian government for participation was Western Carolina University. Consequently, the authors became familiar with the efforts of the Indonesian government and became interested in studying the effects of their educational experiences on the Indonesian students participating in the program. Specifically, the authors examined whether the participants in the Indonesian study program had developed a high entrepreneurial drive relative to American students.

THE ENTREPRENEURIAL DRIVE

Many researchers examine entrepreneurship as though it were a dichotomous variable: one is, or is not, an entrepreneur. But, entrepreneurship is not categorical, rather it is a propensity: a tendency [8].

That means that each individual has some entrepreneurial tendency but each has a different level of the drive. Some will not have a drive of sufficient strength to lead to business ownership. Others may have a sufficiently high drive to found a business, but not to drive growth in that business. Still others will be driven to establish firms which will ultimately become dominant in their fields. Most people will fall somewhere between the extremes.

Given the rich entrepreneurship heritage in the United States and the established perspective that entrepreneurial activity is a suitable vehicle for pursuing economic comfort and self esteem, one would expect almost any group of Americans to display a relatively high entrepreneurial drive. The American dream seems universally to become one's own boss; to start one's own business. If Indonesia and other emerging countries expect to be successful, in addition to entrepreneurship assistance plans and business education programs, they must encourage their people to recognize and to desire entrepreneurship. The actual creation and growth of businesses will be a function of individual initiative in Indonesia, as well as the United States and the rest of the world. For that initiative to occur, individuals must view entrepreneurship as a desirable vehicle to achieve personal economic well being and self esteem. In other words, citizens in emerging countries need a high entrepreneurship drive in order for their economies to thrive.

METHODOLOGY OF THE STUDY

One of the authors, an Indonesian graduate student, was able to gain access to the list of Indonesian citizens presently in the United States who were participating in the business education program described in the previous section. Of the 86 students involved in the program nation-wide, 70 agreed to participate in this study. These participants were administered an instrument which measures the entrepreneurial drive. Their scores were compared to a group of Americans drawn from the ranks of Western Carolina's student body. In addition to the Entrepreneurship Index, both sets of students were divided into cognitive temperament by use of the Keirsey Temperament Sorter. Both groups were in essence convenience samples, however, the authors reasoned that the results of comparison could be valuable in an exploratory study in indicating the validity of future study.

The sample used in this study consisted of 70 Indonesian students studying in the United States at various universities throughout the Country and 155 American students at Western Carolina University. The Indonesian students were all graduate students who had demonstrated proficiency in the English language through the TOFFEL examination. Consequently, the authors employed English language versions of the instruments. Table 1 displays the distribution of the two groups of students by sex and by cognitive temperament.

TABLE 1 DISTRIBUTION OF TEMPERAMENTS BY SEX

American Indonesian Total Male Female Male Female Male Female Total SJ 28 34 33 10 61 44 105 SP 23 12 5 3 28 15 43 NF 28 2 9 1 37 3 40 NT 15 13 8 1 23 14 37 Tot 94 61 55 15 149 76 225

As Table 1 shows, the Indonesians were predominately SJ temperaments. Since the sample was convenience based, it is not known whether the temperament distribution is representative of the Indonesian population. In fact, the other cells of the distribution were so sparse as to make parametric

statistical examination based on temperament impossible. Consequently, the remainder of the study focused on the Entrepreneurship Index scores.

Many of the Indonesian students came from small business backgrounds. That is, parents or relatives of the students were frequently small business owners. The distribution of students according to background is displayed in Table 2. As the table shows, the students were almost equally divided by background. Clearly, a large portion of the Indonesians should have a strong basis for recognizing the value of entrepreneurial activity in achieving success and self esteem.

TABLE 2 INDONESIAN SMALL BUSINESS BACKGROUNDS

Small Business Non-Small Business Total Temperament SJ 20 23 43 SP 5 3 8 NF 5 5 10 NT 2 7 9 Total 32 38 70

The instrument chosen for this study was the Carland Entrepreneurship Index. The Index was designed to demonstrate the relative strength of the entrepreneurial drive. It is a 33 item, forced choice, objective instrument, which requires no special training to score. Scores range from 0 to 33, with higher scores indicating a stronger entrepreneurial drive. The Index has been shown to have high validity and reliability in a variety of statistical evaluations [8].

In a sample of 209 business owners, the Index produced split-half, odd-even reliability of .73. The Index also produced a Kuder- Richardson or Cronbach's Alpha score of .73 [8]. With dichotomous questions, the Kuder-Richardson produces the same score as Cronbach's Alpha test for validity [4]. A reliability coefficient of .70 or higher means that the test was accurately measuring some characteristic of the people taking it and that the individual items in the test were producing similar patterns of response in different people. The statistics of .73 are acceptable and indicate that the Index produces valid results [4].

In a test-retest correlation using 40 business owners retested at least two months after the original test date, there was a statistically significant correlation of .80 indicating that the index was consistent over time in producing unique scores for respondents. The Index was highly correlated with the Need for Achievement, Preference for Innovation and Risk Taking Propensity as measured by established personality instruments. In addition, the Index was able to successfully discriminate between groups who self selected themselves by primary objectives of profit and growth versus family income [8].

The first step of the research was to compare the Indonesians according to their backgrounds. Table 3 displays the results of a t-test between the Entrepreneurship Index scores of Indonesians with small business backgrounds and those without such a background. As the table shows, those Indonesians with a small business background had a statistically higher entrepreneurial drive than those students with no such background. This finding is in keeping with the expectation that a higher drive can be expected in individuals who recognize the value of entrepreneurial activity. TABLE 3 ENTREPRENEURSHIP INDEX SCORES SMALL BUSINESS BACKGROUNDS COMPARED TO NON-SMALL BUSINESS

GROUP N MEAN SD T P SMALL BUSINESS 32 16.75 2.9 2.3 .028 NON-SMALL BUSINESS 38

15.18 2.9

The second stage of the research was to compare the Indonesians to the Americans. Table 4 displays the results of a t-test between the Entrepreneurship Index scores of the two groups.

TABLE 4 COMPARISON OF ENTREPRENEURSHIP SCORES BETWEEN INDONESIANS AND AMERICANS Group N MEAN SD T P Americans 151 19.37 4.7 6.6 .000 Indonesians 79 15.90 3.0

The table shows that the American students had a dramatically higher drive than the Indonesian students. In fact, the difference was so marked, that the authors decided to compare the American students to the subset of Indonesians who had small business backgrounds. The results of that t-test are displayed in Table 5 and show that the Americans still had a highly significant edge over the Indonesians even after the lower scoring students without small business backgrounds were omitted.

TABLE 5 COMPARISON OF ENTREPRENEURSHIP SCORES BETWEEN INDONESIANS WITH SMALL BUSINESS BACKGROUNDS AND AMERICANS

Group N MEAN SD T P Americans 151 19.37 4.7 4.1 .000 Indonesionas 32 16.75 2.9

CONCLUSION

The results of this study cannot be extrapolated due to the convenience nature of the samples. Nevertheless, the dramatically higher drive for entrepreneurship displayed by American students compared to Indonesian students participating in this study suggests that the Indonesian government might be well served by re-examining its educational program. One must remember that the Indonesian sample consisted of 70 of the 86 students whom the government had sent to the United States to study. If the government expects those students to return to Indonesia with a strong appreciation for the value of entrepreneurship, it may be surprised. These findings suggest that Indonesia's U.S. educated business educators and consultants will have a lower drive than the average American. For a country which needs a greatly heightened awareness of entrepreneurship and an expansion in its rate and growth, that does not seem a desirable end. Since there is no knowledge of the temperaments of the Indonesian population in general, it is impossible to guess whether such entrepreneurial drive exists in the population outside of the sample. In the US, it is known that the NT typology, while a small percentage of the total population (12%; according to Keirsey & Bates [14]), constitutes a significant number of those individuals who are labelled entrepreneurs in the studies previously mentioned. Perhaps the Indonesian educators should recognize the possible contributions of this group by including larger numbers of them in the opportunity to study in the US.

If these findings are confirmed by future research, the Indonesian government would be well advised to seek educational programs or modifications of programs which will enhance the entrepreneurial drive of the participants. Alternatively, the government might add to its screening program for participants in the study program an entrepreneurship index. In fact, the results of this study suggest that all emerging nations who look for educational programs to expand the rate and success of domestic entrepreneurship would be well advised to consider the entrepreneurial drives of those chosen to participate. Real success in enhancing entrepreneurship can only come from enhancing

individual initiative directed to that end. Such initiative must largely be a function of individuals recognizing entrepreneurial careers as desirable vehicles for achieving economic and personal success.

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STUDENT ENTREPRENEURIAL CHARACTERISTICS AND ATTITUDE CHANGE TOWARD ENTREPRENEURSHIP AS AFFECTED BY PARTICIPATION IN A SBI PROGRAM

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ABSTRACT

The purpose of this study was to determine college students' entrepreneurial characteristics and attitude change toward entrepreneurship after participation in a Small Business Institute (SBI) program. This research was conducted to provide information to SBI Directors for program development, impact, and promotion.

The sample consisted of 220 college students enrolled in a SBI program during the fall semester 1992, in Region 8. Student participants completed the Entrepreneurial Attitude Orientation (EAO) instrument at the beginning and end of the SBI program. The EAO assessed student participant attitudes toward becoming entrepreneurs on four subscales: need to achieve, innovation, locus of control, and self-esteem. Data analysis included dependent t-tests, multivariate and univariate analysis of variance, and least square means.

A significant difference was found between pretest and posttest scores f or students on the internal locus of control variable. A significant difference was found for age across time. The SBI program influenced students in the 20-22 age bracket by producing a more positive attitude toward entrepreneurship than participants from other age groups.

INTRODUCTION

The Small Business Institute (SBI) program was a cooperative arrangement between colleges and universities, small business, and the Small Business Administration (SBA). Senior level or graduate students acted as consulting teams to provide in-depth analysis of a pre-determined small business situation. The intent of the SBI program was to provide business counseling through direct contact between the student team and the small business client. The program provided students with a practical, hands-on application of knowledge gained in previous coursework.

A concern by educators with a SBI program is to determine whether there has been a change in the attitude of the students toward the subject matter. Information on student attitudes toward entrepreneurship can help program planners to determine the future direction of entrepreneurship education.

This study focused on determining if college students' entrepreneurial characteristics and attitude toward entrepreneurship changed after participation in an SBI program. This study was directed

toward the research questions:

1. Do college students' entrepreneurial characteristics and attitude toward entrepreneurship pretest scores differ from the students' entrepreneurial characteristics and attitude toward entrepreneurship posttest scores after participation in an SBI program?

2. To what extent does gender, age, students' parent (s) as entrepreneurs, prior business experience, prior work experience, grade expectation, and SBI program as a required or elective course affect students' entrepreneurial characteristics and attitude change toward entrepreneurship after participation in a SBI program?

LITERATURE REVIEW

Two approaches have been used to measure entrepreneurial tendencies, demographic information, and personality traits (Robinson, 1987). The first involved the identification of demographic information about the entrepreneur. Demographic data has provided information to describe entrepreneurs, however, most of these characteristics do not enhance the ability to predict whether or not a person is likely to start a business. A person has little control over changing their demographic traits in an attempt to improve their chances of success.

The second method to assess entrepreneurial tendencies has focused on examination of personality traits. These traits included achievement motive, risk taking, and locus of control. Shaver and Scott (1991) stated that attention shifted from the act (entrepreneurship) to the actor (entrepreneur) with McClelland's (1961) concept of need for achievement.

Research by Kukla (1974) explored the area of an individuals perceived ability and the perceived difficulty of a task. The probability of success was closely related to entrepreneurial risk taking.

Brockhaus (1982) stated that entrepreneurs possessed greater internal locus of control beliefs than the general population. Gasse (1985) agreed that entrepreneurs had an internal locus of control which may have been a better way to identify potential entrepreneurs than achievement motivation.

Carlson (1985) stated that once a person's attitude was measured, a prediction could be made about the person performing or not performing an act Attitude and personality have been very closely linked when applied to the same goal - the prediction of behavior. Carlson devised a scoring system for a three component (affective, cognitive, and behavioral) instrument that measured the consistency between components as well as the strength of each one. This attitude scale was used to predict scholastic achievement. Robinson (1987) used Carlson's attitude consistency model to develop an instrument for predicting entrepreneurial activity by measuring a person's attitude (all three components) toward achievement, locus of control, innovation, and self-esteem/confidence in business situations. Robinson called the instrument the Entrepreneurial Attitude Orientation (EAO) scale.

METHODOLOGY

This study was conducted as a single group pretest-posttest design. This design involved the

administration of a pretest to measure the dependent variables: (a) need to achieve, (b) innovation, (c) locus of control, and (d) esteem. The next step was the application of the experimental treatment to the subjects. Finally, the posttest was administered to measure the dependent variables again.

There were four dependent variables and seven independent variables involved in this study. The dependent variables were the entrepreneurial subscale scores (need to achieve, innovation, locus of control, and esteem) derived from the EAO scale. The independent variables were: (a) pretest or posttest type, (b) student gender, (c) student age, (d) student's parent(s) as entrepreneur(s), (e) student's prior work experience, (f) student's grade expectation, and (g) SBI program participation required or elective.

The population for this study consisted of SBI programs in SBA Region 8. The sample for this study consisted of 220 college students enrolled in SBI programs during the Fall, 1992 semester at randomly selected colleges and universities in SBA Region 8. Unequal cluster sampling was used to select groups rather than individuals from the defined population due to the impractically of obtaining the list of all members of the population. Thirteen SBI programs were selected using a random order of numbers in SBA Region 8.

The Entrepreneurial Attitude Orientation (EAO) instrument was administered to the students. No revisions were made to the 75 statement version of the original EAO instrument. The instrument used a five point Likert-type scale that measured four subscales of entrepreneurship which included: (a) achievement in business, (b) innovation in business, (c) perceived personal control in business, and (d) perceived self-esteem in business.

Directors of the SBI programs were contacted by mail to secure participation in this study. The EAO instruments were mailed on September 1, 1992. Of the 196 (89%) pretests returned, 191 (86.8%) were found to be usable. The posttest was mailed on December 3, 1992. Of the 173 (90.6%) posttests returned, 150 (78.5%) were useable.

Descriptive statistics were calculated for each of the four dependent variables to determine the meanscore, number of entries, standard deviation, variance, and standard error. The main interaction tested was the difference between pretest and posttest scores. This was measured utilizing dependent t-tests on the dependent variables of need to achieve, innovation, locus of control, and esteem.

To measure significant difference related to the independent variables, seven Multiple Analysis of Variance (MANOVA) test with repeated measures were conducted. if significant differences were found; univariate test procedures for repeated measures were reported. Least Squared Means (LSM) were calculated to isolate the specific sources of significant variance.

RESULTS

The EAO utilized a five point Likert-type scale in which a response of "1" indicated strongly agree and a response of "5" indicated strongly disagree. Therefore, a lower mean score indicated more positive attitude toward entrepreneurship.

Data analysis indicated that a significant difference was found between pretest scores and posttest scores. The dependent t-tests used to test the difference between pretest and posttest scores indicated a statistically significant difference for the locus of control dependent variable. The change in attitude were all found to be in the positive direction from pretest to posttest. No significant difference was found among the remaining three dependent variables of need to achieve, innovation, and esteem. Table 1 shows the descriptive statistics for each of the four dependent variable pretest and posttest scores, and the dependent t-test scores. Significant interaction were found between pretest and posttest for age across time. The MANOVA

Table 1 Descriptive Statistics of Pretest and Posttest Scores by Dependent Variable

Variable	Test	N	Mean	SD	SE	t	p>t
Need to Achieve	Pretest	150	2.020	.308	.025	-.0291	.771
	Posttest	150	2.010	.327	.027		
Innovation	Pretest	150	2.506	.269	.022	-1.720	.087
	Posttest	150	2.453	.286	.023		
Locus of Control	Pretest	150	2.495	.348	.028	-2.630	.009
	Posttest	150	2.386	.369	.030		
Esteem	Pretest	150	2.476	.291	.024	-0.629	.530
	Posttest	150	2.454	.325	.027		

Table 2 Multivariate Analysis for Age, Time, and Interaction

Source	Pillai's F	Num df	Den df	p>F
Trace				
Age	.02891 1.0739	4	144	.3717
Time	.07222 2.8041	4	144	.0280
Age*Time	.07082 2.7466	4	144	.0307

used to test significant interaction across age and time, yielded a Pillails Trace value of .0708 and the estimated F value of 2.7466. Table 2 shows the MANOVA for age, time and interaction.

The data were further analyzed using ANOVAs on repeated measures. significant interactions were found on the dependent variables innovation and esteem. The change in attitude was found to be in the positive direction. No significance was found among the dependent variables need to achieve or locus of control.

There was no significant difference between pretest scores and posttest scores for the individual independent variables, or no significant interaction between six of the independent variables (gender, parent(s) as entrepreneur(s), prior work experience, years of prior work experience, grade expected, and degree requirement) and difference between pretest and posttest scores across time.

CONCLUSIONS

To the extent that the findings are valid and reliable,the following conclusions were drawn:

1. Students who possess an internal locus of control will develop a more positive attitude toward entrepreneurship after they participate in a SBI program than students who do not possess an internal locus of control.

2. Student age is a f actor in changing attitude toward entrepreneurship. The SBI program has a more powerful influence on students in the 20-22 age bracket in producing a positive change in their attitude toward entrepreneurship.

DISCUSSION

The significant change in attitude toward entrepreneurship found between pretest scores and posttest scores is consistent with the findings of Palmerino, Langer, and McGillis (1984) that stated attitude change may occur in the form of the attitudinal object, the person, or in the relationship between the two. This study found significant attitudinal change in the relationship between students and entrepreneurship.

The dependent t-test and the ANOVAs for difference between pretest and posttest scores when run with each independent variable that indicated significance, all revealed significance on the dependent variable locus of control. This is consistent with Gasse's (1985) statement that entrepreneurs possess an internal locus of control and may be a better way to identify them than achievement motivation. Brockhaus (1982) and Brockhaus and Horwitz (1986) also stated that entrepreneurs possessed stronger internal locus of control beliefs than the general population. In solving the business problems included in the SBI, students with internal locus of control appeared to draw on their past learning. They applied what they had learned.

The lack of a significant difference between pretest and posttest scores on the need to achieve, innovation, or esteem dependent variables should not be viewed as an indication of success or failure of the SBI program. More information about an object does not directly translate into a more positive attitude toward that object. The SBI program appeared to have provided realism on the subject of entrepreneurship. This was revealed in the data from students without prior work experience and those whose parent(s) had not been entrepreneurs.

The significant difference found in student's attitude across time showed that attitude toward entrepreneurship can be measured and changed. This follows Carlson's (1985) statement that once an attitude was measured, a prediction could be made about the person performing or not performing an act.

The finding that no significant difference existed on the seven demographic independent variables of gender, age, parent (s) as entrepreneur(s), work experience, years of work experience, grade expected, or degree requirement agrees with the findings of Brockhaus (1982) and Gasse (1985). They showed that demographic characteristics did not enhance the ability to predict whether or not a person is likely to become an entrepreneur.

The development of more positive attitudes toward entrepreneurship indicated that participants were more likely to become entrepreneurs after participation in the SBI program than they were before. This supports Boberg and Kiecker's (1988) position that more hands-on experience was needed in entrepreneurial training. This finding also supported Zeithaml and Rice's (1987) statement that entrepreneurship is a profession, and the idea of teaching entrepreneurship without a laboratory is like trying to teach engineering, medicine, or education without laboratories.

The results of this study indicated that there can be an improvement in entrepreneurial attitude of senior and graduate level college students through participation in an SBI program can have a positive impact on individuals who recognize entrepreneurship s a career choice. Persons interested in increasing entrepreneurship and entrepreneurship education should continue to support programs like the SBI. SBI directors should recognize that students with internal locus of control are likely to develop a more positive attitude toward entrepreneurship. Measuring locus of control at the start of the program will allow directors of the program will allow directors to balance teams with students who look within themselves for solutions to problems, and students who seek external sources for solutions.

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AN AUTOMATED FEASIBILITY/SENSITIVITY MODEL FOR STUDENT CONSULTANTS

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ABSTRACT

Performing a feasibility analysis is an overwhelming experience for SBI student consultants. The difficulty is compounded if the would be venture can pursue different combinations of financial structures, marketing mixes, and asset sizes. The feasibility consultation requires consummate skill, experience, diplomacy, and wisdom which taxes most undergraduate and graduate students. Without a process to guide the students through a feasibility analysis the faculty advisor must compensate with more frequent interventions.

INTRODUCTION

This paper presents a feasibility/sensitivity analysis as an aid to student and professional small business consultants. Pedagogically students quickly grasp the model and can answer increasingly more sophisticated questions as the would be venture takes form and requires more detailed sensitivity analysis.

Student consultants using the model are provided a logical path through the confusion of a feasibility analysis. They can grasp the model and the process quickly. Their pedagogical experience is enhanced with an easily understandable and applicable model that channels them and their client, the would be entrepreneur. The model progressively pushes the student consultant to ask more probing questions which requires the would be entrepreneur to further refine and quantify their nascent venture.

INTRODUCTION AND OVERVIEW

The feasibility model starts with what the would be entrepreneur would like to earn from the venture and determines the level of sales and assets necessary to generate this level of financial return. From this data, proforma balance sheets and income statements can be established.

The model uses ratios from Robert Morris Associates. The ratios are calculated from financial information on small business bank loan applicants. Robert Morris Associates provides ratios and percentages categorized by asset size of the firm. For a feasibility analysis the smallest size is usually used. Each number provided is an average of that figure from all of the financial statements. For example, for physical fitness facilities (SIC code 7991) there were 54 companies in the smallest asset

size category (2). THE MODEL

The First Step

The model begins with the amount of income that the entrepreneur would like to make and generates the level of sales and assets required to generate this level of money. From this, proforma balance sheets and income statements can be generated.

The first assignment for the student consultant is to determine what amount of money the entrepreneur needs for their monthly needs, bank repayment, extra tax burden, and the amount that they need to take this level of risk (Appendix 1).

This "desired income" approach developed by the late Dan Steinhoff forces the would be entrepreneur to determine what financial rewards they need or desire (1).

This prevents the entrepreneur from buying or starting a venture that will not meet his/her needs.

The Model's Logic

The logic is that gross revenue necessary to generate the desired income is a linear function of desired income. Similarly, the level of assets necessary to generate this level of sales is a linear function of gross revenue. This concept displayed in figures 1 through 4 is easy to explain to student consultants.

The Second Step: Determination of Gross Revenue

Once desired income is determined the gross revenue necessary to generate this level of income is given by the formula: gross revenue = desired income divided by net profit to net sales. Assume that the entrepreneur wants to make $25,000 profit from the venture and an additional $5,000 for taking this risk and that they want to start a fitness facility (SIC code 7991).

In this example, net profit to net sales for a physical fitness facility is .055 (2). Gross revenue is $30,000 divided by .055 or $545,455. This is the first reality check that the student consultant can provide the entrepreneur. The entrepreneur and consultants must determine if this level of sales is possible in this location. If not, another location must be considered, the desired income reduced, or the venture must be more profitable than the average firm of this asset size.

FIGURE 1 First Part of the Model

Desired Income-->.055-->Gross Rev $545,455

At this point, the analysis moves from a financial question to a marketing/finance question. Average gross revenue can be determined from Robert Morris Associates ratios. The total sum of all firm gross revenues are totaled at the bottom. This divided by the number of firms gives an average. If desired gross revenue is larger than this figure, the entrepreneur must convince the consultants and ultimately investors or banks that this is possible.

The Third Step: Determination of Assets

The level of assets necessary to generate this level of sales is a linear function of desired gross revenue. The median sales to asset ratio for physical fitness facilities is 3.0. Therefore the assets are given by the formula: total assets = desired gross revenue divided by the sales to asset ratio. In our example, total assets = $545,455 divided by 3.0 or $181,818.18. This provides the second reality check, can the would be entrepreneur borrow or sell sufficient equity to raise this amount of money?

FIGURE 2 Desired Income to Assets

.055 3.0 Desired --- >Gross --- >Assets of $181,818 Income Revenue

The Fourth Step: Breakdown of Assets

With this figure for assets, the individual assets categories can be determined. Both Robert Morris Associates Ratios and Dun and Bradstreet provide the categories for assets. For example, cash is 10.9 percent of total assets. Therefore the typical cash level is $19,818 ($181,818 x .109). The other assets can be determined the same way.

The student consultant is now ready to use the full model (Figure 3). Starting with what the entrepreneur would like to make the student can generate the gross revenue and the asset size that is "typically" needed to generate that level of return for the entrepreneur. Once these are determined, the individual categories of both assets and liabilities can be determined.

FIGURE 3 The Feasibility/Sensitivity Model

Desired --- >Gross --- >Assets --- >$ Income Income Revenue $ Expenses

Liabilities + Net Worth

Balance Income Statement Sheet

The Fifth Step: Determination and Breakdown of Liabilities, and Net Worth

With an estimate of assets the model can predict the level of liabilities and net worth. Because liabilities and net worth must equal assets, liabilities and net worth total $181,818. As above the individual liability categories can be determined. For example, trade receivables are 5.0 percent of total liabilities and net worth, they are therefore, $181,818.18 x .05 or $9,090.91

The Completion: Balance Sheets and Income Statements and Summary

Once individual categories of assets and liabilities are computed, the entire balance sheet and income statement are derived (Figure 3 and 4).

As mentioned above, desired income, gross revenue, asset size, individual asset categories, and

individual liability categories are all related and derived from desired income. The model uses these relationships to move the student consultant to the next question.

A COMPUTERIZED MODEL WITH SENSITIVITY ANALYSIS AND WHAT IF CAPABILITY

The computerized model is capable of answering numerous what if questions or performing a sensitivity analysis. As the venture takes form the entrepreneur and consultant face a bewildering number of combinations of different asset size, gross revenue, and desired income. Before computers this type of analysis would have been extremely laborious and time consuming. An electronic spreadsheet of the model allows the entrepreneur and consultant the ability to ask and answer what if questions or determine what changes will occur if any figure in the model is replaced.

One usual question asked by entrepreneurs is what will change in the model if they start with a different asset figure? Typically, most start up ventures can begin smaller than the "average" firm. To answer this question the student consultant requests the entrepreneur to list and price all the assets that they would absolutely need to start this small business. Once this figure is determined, the student consultant enters the model at the asset figure and uses it to determine the others (see figure 2).

Assume that the consultant and entrepreneur determine that the entrepreneur can start this business with $11,300 of assets. Entering the model at this point generates a desired income of $1,865 and sales of $33,900.

FIGURE 4 The Feasibility/Sensitivity Model

ENTRY POINT ASSETS OF $11,300

DESIRED GROSS ASSETS $ INCOME INCOME<--- REVENUE<------- >$ EXPENSES $1,865 $33,900 $11,300

LIABILITIES + NET WORTH

BALANCE INCOME STATEMENT SHEET

Because $1,865 is far below what the entrepreneur needs, the student consultant and the entrepreneur need to determine how the firm can generate more desired income with just $11,300 in assets. Thus the model forces the entrepreneur and student consultant to ask how the entrepreneur can do better than the "typical" firm with the same level of assets.

For example, if the entrepreneur says they can push their assets to obtain a higher sales to asset figure or a higher net profit to net sales figure the student consultant can enter these numbers into the model to predict how they will change desired income or any other number.

For illustration, the sales to asset figure used above was 3.0 or $3.00 of sales for every dollar of asset. This was the median number provided by Robert Morris Associates. Robert Morris Associates provides the first, second (median), and third quartile figures for sales to assets. If the entrepreneur

presents a convincing case that they are more efficient and can achieve higher sales per dollar of assets, the consultant can enter the third quartile of sales to asset figure which is 4.2.

However, verifying use of a higher number is difficult, statistically the entrepreneur must perform more efficiently than 75 percent of similar sized firms and achieve this in the start up years. Unless the entrepreneur has previous experience in this type of business, it would be difficult to perform better than 75 percent of existing firms in this type of business.

At this point, numerous what if questions are possible. The student consultant and the entrepreneur can enter the model at any number of places and ask questions, determine new combinations of assets, sales figures and desired income. As an example, different what if questions yielded the following possibilities:

TABLE 1 What If Scenarios

DESIRED NET PROFIT SALES SALES TO $ ASSETS INCOME TO NET SALES ASSETS RATIO

$1,865 .055 $33,900 3.0 $11,300

$2,610 .055 $47,460 4.2 $11,300

S3,512 .074 $47,460 4.2 $11,300

Summary

Pedagogically the model takes the student and entrepreneur from an original concept, how much money the entrepreneur wants to make and forces both along a logical progression from desired income to gross revenue assets, liabilities, and then balance sheets and income statements. Because feasibility analysis is confusing to most student consultants, the model provides a framework and path for guidance. It also forces the entrepreneur to answer more detailed questions if the entrepreneur believes they can start with a different asset level or operate at higher levels of efficiency than "typical" firms at the same asset size in this type of business.

In addition, because these are numerical relationships, the model is easily computerized using Lotus or any other spreadsheet program. With a portable computer the student consultant can perform this feasibility analysis at the client's place of business.

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Appendix I

DESIRED INCOME

A. LIVING EXPENSES MONTHLY:

HOUSING _____ UTILITIES_____ FOOD _____ CLOTHING _____ CAR _____ ETC. _____ TOTAL _____ B. ESTIMATED TAX LIABILITY FEDERAL _____ STATE _____ OTHER _____ TOTAL _____

C. BUSINESS LOANS (MONTHLY PAYMENT) LISTED _____ TOTAL _____

D. TOTAL PERSONAL PROFIT _____ ADD A, B, C,

E. ADDITIONAL PROFIT FOR TAKING RISK _____

F. DESIRED INCOME LINES D + E _____

Appendix 2 28 NUMBER OF STATEMENTS

% ASSETS 10.9 Cash & Equivalents 14.2 Trade Receivables - (net) 4.6 Inventory 2.1 All Other Current 31.8 Total Current 53.9 Fixed Assets (net) 2.0 Intangibles (net) 12.2 All Other Non-Current 100.0 Total

LIABILITIES 8.9 Notes Payable-Short Term 4.8 Current Maturation-L/T/D 5.0 Trade Payables .8 Income Taxes Payable 13.3 All Other Current 32.9 Total Current 33.6 Long Term Debt .0 Deferred Taxes 7.2 All Other Non Current 26.3 Net Worth 100.0 Total Liabilities & Net Worth

INCOME DATA 100.0 Net Sales Gross Profit 91.9 Operating Expenses 8.1 Operating Profit 2.6 All Other Expenses (net) 5.5 Profit Before Taxes 4.2 3.0 Sales/Total Assets 1.5

TESTING PRISON INMATES FOR ENTREPRENEURIAL APTITUDE

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ABSTRACT

Previous research has indicated that many prison inmates may have an aptitude for entrepreneurship and self-employment, perhaps related to the "street-smart" nature of such individuals and their activities prior to incarceration. Since a major cause of the high rates of recidivism among released inmates is their inability to obtain employment, such an entrepreneurial propensity would support the development of self-employment training programs in prisons for soon-to-be-released inmates.

This paper reports on a research study in which prison inmates were tested for entrepreneurial aptitude and their scores were compared to scores of various groups of entrepreneurs and also of displaced workers.

INTRODUCTION

As reported in previous research [4], There are indications that many prison inmates may have strong entrepreneurial aptitude. Such indications have been related by small business specialists who have met with inmates in self-employment discussion or training sessions in prisons. These specialists have been impressed with the understanding and sophistication that such inmates have demonstrated when discussing the difficulties involved in financing and starting one's own small business. These small business specialists furthermore assume that such sophistication derives from the inmates' experiences prior to incarceration, to their being "street-smart, and to the types of personalities that prison inmates tend to have.

The prison inmate population of the United States was 883,593 at the end of 1992. This was a record high [7]. Furthermore, almost two percent of the adult population of this country is in prison, on parole, or on probation [6]. Recidivism, the tendency of an ex-convict to return to criminal activity and thus eventually return to prison, is a major factor in these rising statistics; and a major cause of recidivism is the great difficulty that ex-convicts have in obtaining employment after leaving prison.

Thus, self-employment as opposed to employment by others offers a possible alternative for ex-convicts, and a possible means to reduce recidivism. If it can be shown that prison inmates do indeed have an aptitude for entrepreneurship, then arguments can be made for the funding and implementation of self-employment programs in prisons for inmates who are soon to be released. Yet the subjective impressions of small business specialists who have met or worked with inmates in prisons is not a sufficient basis to work from. More objective measurement of inmates' entrepreneurial aptitude is required. This paper reports on a formal testing of entrepreneurial propensity among a sample of prison inmates, and a statistical comparison of these inmates' scores with the scores of

several groups of practicing entrepreneurs, and also with the scores of a sample of laid-off workers.

METHODOLOGY

The Miner Sentence Completion Scale-Form T (MSCS-Form T) is an instrument which measures five aspects of task motivation: 1) a need for self-achievement, 2) a preference for avoiding unnecessary risks, 3) a desire for feedback on the results of one's efforts, 4) an aspiration for personal innovation, and 5) a want to think and plan for the future. Prior research has indicated a correlation between such task motivation and positive entrepreneurial performance [2]. Thus the MSCS-Form T can be considered a test for entrepreneurial aptitude or propensity.

The testing instrument requires the respondent to complete 40 stems, eight of which measure each of these aptitude traits. Five subscale scores and a total entrepreneurial task motivation score can be calculated from each completed instrument. Subscale scores can vary from +8 to -8 and total scores can range from +40 to -40, although actual scores tend to be much more narrowly distributed [1].

Miner [1] provides normative test score data for 135 entrepreneurs spread throughout the United States. In addition, test score data for two groups of entrepreneurs, one from fast- growth firms and another from slow-growth firms, has been reported by Smith [3] . Thus, good test score data exists for a comparison with test scores of prison inmates.

Since one objective of this current research study is to determine the potential value of possible self-employment training programs for inmates and/or ex-convicts, it is also worthwhile to compare inmate scores with a group which is currently the target of such training programs: laid-off (or "displaced") workers. MSCS-Form T score data for a sample of displaced workers has been reported by Sonfield [5] and can also be compared to the inmate data.

There are significant obstacles to testing prison inmates for entrepreneurial propensity using the MSCS-Form T. First, most prisons are very reluctant to allow researchers entry and access to inmates. Any input from the outside is considered a risk to internal stability and control. Even when individual prison administrators are open to the idea of a research study, they must usually obtain central approval from the federal or state correction authorities, and only after a complex formal application is made by the prospective researcher. Several attempts with both state and federal prisons were made by the authors before one acceptance was obtained at a prison in downstate New York.

A second obstacle to successful testing is the reluctance of prison inmates to cooperate. Such cooperation must come solely on a voluntary basis, as no reward of any sort may be offered in such a research situation. (Rewards are sometimes offered in other research contexts, such as in experimental drug and medication testing.) In this study, only a minority of the inmates asked to volunteer did so.

Still a third obstacle in this specific situation is the nature of the research instrument itself. The MSCS-Form T requires the respondent to develop a complete sentence from forty short sentence beginnings or "stems" (such as "Inventing something new or "Working with a partner A large portion of prison inmates have limited writing skills and have difficulty in completing the sentences sufficiently for valid scoring to be done. About 25% of the respondents' test forms were therefore not

usable, either because the responses were too minimal or because too many items were left blank.

Twenty-nine MSCS-Form T instruments were completed in a manner that allowed for full and valid scoring. The request for volunteers was presented to the prison's inmates in a neutral manner to minimalize the possibility that the resulting sample would be self-selective in any way. To furthermore assure validity in scoring, two independent scorings were performed by separate scorers, and the means of the two scores for each of the forty items were used for analytical purposes. The inmates tested were all convicted felons (i.e. convicted of more serious crimes), there was about an even split between first-time and repeat offenders, and a variety of crimes were involved.

RESULTS

Mean MSCS-Form T total scores and subscale scores for the prison inmate sample, along with scores for the normative entrepreneurial sample, the fast-growth entrepreneurs, the slow- growth entrepreneurs, and the displaced workers are presented in Table I on the following page. A statistical comparison of these means is presented in Table 2.

Looking at the Total Score data, it appears that the subjective conclusions of small business specialists are supported by a more objective empirical testing. The MSCS-Form T Total Score mean for the inmate sample is much higher than the mean score of the entrepreneurs from low-growth firms and the mean score of dislocated workers, and is somewhat higher than the large sample normative entrepreneurial mean score.

Statistically, the data strongly supports the conclusion that the prison inmates have a higher entrepreneurial aptitude than the slow-growth entrepreneurs. The confidence level to support the conclusion that the prison inmates have a higher aptitude than the "normative" population.

TABLE 1 MEAN MSCS-FORM T SCORES

II III IV v Prison Norma- Entrepreneurs Dislocated Inmates tive Fast Slow Workers Data Growth Growth for Firms Firms Entrepre- neurs (n=29) (n=135) (n=50) (n=47) (n=36)

TOTAL SCORE 8.59 6.81 11.32 0.32 0.69

Self- Achievement 2.35 1.91 3.32 0.34 -0.31 Avoiding Risks 1.85 0.94 1.44 -0.28 -0.14 Feedback of Results 1.55 -0.20 0.50 -1.68 -0.06 Personal Innovation 2.94 2.99 4.06 1.64 1.42 Planning for the Future -0.07 1.17 2.10 0.30 -0.17

Sources: Prison Inmates: Current Study; Normative Data: [1]; Entrepreneurs, Fast Growth and Slow Growth: [3]; Displaced workers: [5].

TABLE 2 SIGNIFICANCE LEVELS

I v.s. II I v.s. III I v.s. IV I v.s. V t P t P t P t P

TOTAL SCORE 1.487 <.10 2.001 <.025 6.126 <.005 N.A.

Self- Achievement 1.103 NS 2.095 <.025 4.194 <.005 N.A. Avoiding

Risks 1.933 <.05 0.755 NS 3.793 <.005 N.A. Feedback of Results 4.556 <.005 2.381 <.01 7.281 <.005 N.A. Personal Innovation 0.126 NS 2.536 <.01 2.662 <.005 N.A. Planning for the Future 2.772 <.005 3.938 <.005 0.651 NS N.A.

Notes: 1. Statistical hypothesis test techniques for two normally distributed populations using independent samples with unequal standard deviations; one-tailed test critical values. 2. Standard deviations for the Dislocated Workers not available (N.A.). Comparisons are thus non-statistical but clearly strong. is lower, but still significant at P<.10. On the other hand, the data also supports the conclusion that high-growth entrepreneurs have a greater aptitude than the prison inmates.

Because standard deviations or other data on the distribution of the dislocated workers' scores was not available, a statistical comparison using these means was not possible. However, as the dislocated workers scored similarly to the low-growth entrepreneurs, it is reasonable to conclude that a statistical comparison of the inmates' scores to dislocated workers' scores would be similar in significance to the available statistical comparison of the inmates' and low-growth entrepreneurs' scores. Thus, it furthermore appears that the inmates have a significantly higher entrepreneurial aptitude than the dislocated workers.

The subscale data provides much additional information. The inmates score significantly higher than the slow-growth entrepreneurs and the dislocated workers with regard to most of the entrepreneurial factors and score either higher or similarly to all but one of the normative scores. The fast-growth entrepreneurs tend to score either higher or similarly to the inmates on most of the subscale factors, but these results are more mixed.

Several individual subscale comparisons are especially interesting. In comparison to the other groups, the prison inmates are especially low in their inclination to plan for the future. This is not surprising, given the nature of their current incarcerated situation. Perhaps if we had sampled only inmates close to release we would have obtained a significantly higher score for this subscale (and thus a higher total score as well).

The inmates also stand out from all of the other groups in their high need for feedback of results. A simple explanation for this is less obvious, but this is the one subscale where the inmates score higher than the high-growth entrepreneurs.

CONCLUSIONS

Empirical analysis of the entrepreneurial aptitude of a sample of prison inmates, as measured by MSCS-Form T testing of task motivation, indicates that these inmates have a strong propensity for entrepreneurial success, at a level comparable to or higher than samples of currently practicing entrepreneurs. Since a major cause of inmate recidivism is the inability of ex- convicts to obtain employment, and if indeed prison inmates have significant entrepreneurial propensity, then self-

employment should be considered a valid alternative path for ex-convicts.

The data generated in this study supports further consideration of programs to assist soon-to-be-released and/or recently- released prison inmates in implementing self-employment and entrepreneurial activities. Such programs would be similar to current federally and state funded programs aimed at laid-off workers, who have tended to score poorly in entrepreneurial aptitude in earlier studies.

In further research, a larger sample of prison inmates might allow us to differentiate between the MSCS-Form T scores of different groups of inmates (perhaps first-time versus repeat offenders, or by type of criminal conviction), and thus further identify those inmates with the best potential for self-employment success and most likely to benefit from entrepreneurial training.

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LEVERAGING THE ENTREPRENEURIAL LEARNING PROCESS THROUGH NETWORKS AND ALLIANCES: AN EVOLVING MODEL

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ABSTRACT

Entrepreneurship education is increasingly being used as a part of community economic development models providing the basis for revitalizing a community through jobs for youth and training/education for low income or displaced persons. SBI consulting historically has tended to focus on improving the operations of existing businesses as autonomous units . . . usually not as a part of a larger economic development model. The national and international growth of alliances, partnerships, networks presents a model to greatly leverage the resources available to the SBI and the learning experience of the owners and student consultants. This paper reports on an evolving model being utilized by one SBI program to leverage resources while participating in community economic development. The implications of alliances on the quality of consulting and the educational experience are explored.

INTRODUCTION

Strategic alliances, partnering, coops, teamnets, networks, flexible manufacturing network systems, are terms for the mid- 90's (2; 8; 10; 12; 13; 14; 16). As applied to business, these are indicators of the growth of collaboration, or better, connectivity in business.

Small businesses, from the microenterprise endeavor to the rapid growth high tech firms, are exploring strategic options based on partnerships and alliances to secure benefits more effectively obtained with another individual or organization or organizations rather than alone. These alliances enhance the probability of success. Collaboration allows small organizations to stay small while functioning as a larger organization.

The collaboration models can be utilized to expand the role of entrepreneurship education by leveraging resources available to educator/trainers and entrepreneurs or small business people.

This paper explores collaborative models in general and focuses on how to leverage the entrepreneurial learning process through networks and alliances by describing one model in evolution. The model focuses on an SBI program and one of its unique developing alliances with a Private Industry Council. The potential leveraging outcomes are discussed.

CONFLUENCE OF INTEREST MODELS

The confluence of interest model is such that collaborating or working together enables each

organization or individual to be better off, and attain mutually beneficial goals while each remains true to its own mission. The process is designed to have synergistic effects. Confluence models range from rather elaborate public-private partnerships of many to ad hoc short term one project undertakings between as few as two individuals (1; 6; 9; 20).

Many arrangements are complex, legally and contractually based but other ad hoc flexible arrangements can be accomplished with the handshake.

There has been a rapid increase during the last five years in the utilization of collaborative models. From Lewis County Woodcraft Cooperative (5, p. 3) to the flexible networks in Denmark and the Emilia-Romagna area in Italy (11; 18) the models are emerging internationally. Indeed, Tom Peters (15) refers to the temporary alliances and networks as connection power. 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" (7, p. 10).

Robert (17) suggests that alliances have the best chance for success if each is exploiting a unique strength, or forming with someone else's unique strength, and or neither partner has desire or ability to acquire other's unique strength.

A MODEL IN ACTION

The SBI at an accredited university in the Pacific Northwest has developed alliances and networks. A web of selected "partners" is noted in Illustration 1 (see Illustration 1).

As noted in the web, the Center relies on alliances and networks to leverage its resources. Two years ago, the SBI Director wanted to expand the role of entrepreneurial education to include the use of microenterprise as an economic development tool in the inner city (3).

The location of the university is in the Central Area with a high representation of low income and welfare people in addition to an inner city economy in which money tended to flow out not circulate. The University wanted to be positively involved in helping the community, but the Director's skills in economic development models and working with low income were limited. In the past, the usually all Caucasian SBI student teams had not always been accepted as legitimate consultants who were capable of relating to the predominantly African American population.

An alliance with the Snohomish County Private Industry Council was pursued when they secured a grant to train 60 low income inner city residents to be self-employed. (For a detailed look at the Private Industry Council and how its alliances work, see 4.)

An alliance with the PIC was negotiated between the Executive Director of the PIC and the SBI

Director who had some prior professional association. The PIC had partnered with the Black Dollar Days Task Force in King County, a community based community organizing organization to deliver its entrepreneurship training program to the Central Area with funding from federal and city resources and foundations.

Private Industry Councils of which there are over 600 in the U.S. first entered federal employment and training policy as an option under the 1978 amendments to the Comprehensive Employment and Training Act (CETA), Title VII, Private Sector Initiatives.

Since 1984, the PIC has provided training and employment services to more than 10,000 low income adults and youth. It has formed working relationships, partnerships and collaborative efforts with other organizations far beyond its original mandate.

The partnering enabled the SBI Director, who was also the instructor in the Business Policy course in which the program is used, to take ten low income inner city graduates as SBI cases of the entrepreneurial training program who were in the initial stages with their businesses. The expertise developed by the PIC was able to be tapped. The Executive Director and the Training Program's local manager, who was a leader of Black Dollar Days Task Force, spoke to the Policy class and mentored the students and SBI Director.

The SBI Director participated as a guest instructor for one of the inner city entrepreneurship classes, attended graduation of the four classes, and visited businesses. Issues of diversity, use of microenterprises for economic development and gaining entrance through the Black Dollar Days Task Force connections--learning opportunities went both ways as the students worked as closely as possible with the microenterprises.

That then led to access to another one of the PIC's programs, Down Home Washington (19). At first the SBI Director was studying Down Home Washington as a model for developing markets for small businesses--in this case geographically dispersed small rural based enterprises in economically depressed areas. The businesses are mostly of a craft nature. The PIC was training and providing marketing services. The University SBI has been following the growth of the model as an educational experience for the students and the instructor/director. The group of members now numbers 35 businesses including 7 woodshops. They have shown their wares at a Tulip Festival. In another instance, the group rented a couple carts in a mall for a Mother's Day Cart Promotion. Both instances allowed those business owners who participated in organizing and staffing the events to develop organizing, team building and management skills while testing the price validity of their products and potential demand.

The network is open at a nominal fee to other business owners. Participating in the network can be a valuable entrepreneurial learning experience. The owners are also networking with each of the other 35 owners plus accessing the knowledge and experience and networks of the PIC. The SBI is able to refer clients to the marketing network as well.

The University SBI worked with another of the PIC's partners, the Economic Development council to help find a business opportunity for a plastic molding firm. That experience and expertise resulted in

the SBI client initiating merger talks with another plastic molding firm to gain unique synergies from each of their strengths.

SUMMARY AND CONCLUSIONS

This particular evolving flexible alliance has enabled the University to better fulfill its service mission by helping gain credible access to the inner city. It has enabled the SBI to start developing competencies in utilizing small business in economic development models. One project a team worked on involved a feasibility study for converting an abandoned school in the central area into an incubator/employment/retail trade facility to be developed by the community while providing a critical mass for a market of businesses from the training programs and others who are too isolated from their markets. The consultants are in a much better position to work more productively with their clients. The SBI is able to demonstrate the value of networks, and it has a history to draw on to apply to its clients.

The PIC was able to leverage its resources utilizing more in-depth time. Students were able to interact and work with about ten new small business owner/trainees. The Central Area business owners were able to see that the SBI was sincere in its desire to work with minorities and low income to realize that it was a valuable learning experience for the students as well as for themselves. Students and owners were able to get a different view of each other a view that builds trust and understanding.

For most organizations in the mid-90's and especially MOST small businesses building networks, partnerships and alliance will mean the difference between success or failure. This SBI's experiences enable it to model what it is talking about. It is also able to share its networks and partners to enable the students and clients to be resources, to leverage each other, to truly expand the role of entrepreneurship education by building on strengths of its flexible alliances. This is definitely a win-win situation.

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ENTREPRENEURSHIP, ACADEMICS, AND ECONOMIC DEVELOPMENT: A CASE STUDY IN SYNERGY

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ABSTRACT

Southeastern Oklahoma State University in Durant, Oklahoma in 1987 implemented an entrepreneurship program which is designed to identify, encourage, and mentor potential entrepreneurs. In 1988, a pre-business, pre-incubator, research and development lab was introduced as part of the project. This program, coupled with the course, "Business Consulting," has significantly contributed to the economic development in the southeastern region of the state. It is the "marriage" of the entrepreneurship project with the academic course--the sharing of resources-- which is largely responsible for the success.

BACKGROUND

In 1981, the dean of business at Southeastern originated the concept for an entrepreneurship development program. Specifically, it would be would seek to assist in the development of twenty-five new industries in the southeastern region of Oklahoma by the year 2000. In 1987 the project was funded by the Noble Foundation, a director appointed, and a name chosen for the program: "Project 25 By 2000." In 1988 the pre-business research and development lab was proposed by the director, and was funded to facilitate the goals of the project. The lab was appropriately named the Alpha Lab.

The project shared some of the same broad goals in terms of economic development as did the university's SBI program. Since 1973 Southeastern had participated in the SBA sponsored Small Business Institute program providing free managerial assistance, research, and counseling to entrepreneurs and small business owners. In 1992 the SBI course was redesigned and the course name changed to "Business Consulting." It became apparent that with the common goals the two programs shared, that resources might be shared and therefore be better utilized for the benefit of both.

ENTREPRENEURSHIP: PROJECT 25 BY 2000

Mission/Goals

Hornaday suggested that entrepreneurship is best understood as residing within a conceptual space bounded by three dimensions: (1) Economic innovation, (2) Organization creation, and (3) Profit-

seeking in the market sector. Furthermore, Hornaday suggested that these three dimensions can be used as guides to determine the kind of economic innovation and organization creation that should be

encouraged (Hornaday 1992).

The entrepreneurship program, Project 25 By 2000 specifically seeks to identify, train, and mentor entrepreneurs, and to help in the creation of twenty five new industrial businesses by the year 2000. Furthermore it has the following objectives:

1. To promote a climate conducive to entrepreneurship and innovation.

2. To provide networking opportunities among entrepreneurs.

3. To provide programs, seminars, workshops, and other assistance which will encourage and promote entrepreneurship.

4. To introduce entrepreneurs to bankers, investors, and other sources of help.

5. To encourage innovation and entrepreneurship to high school juniors, seniors, graduate, college students, and others.

6. To afford young men and women who desire to stay in Southeastern Oklahoma the opportunity to "bloom where they were planted."

Program Design

There are several schools of thought in regard to entrepreneurship. Each of the "provide different insights for recognizing underlying values, responding to the future, improving management, and changing and adapting," according to Cunningham and Lischeron. They wrote, "An understanding of entrepreneurs and their ventures require criteria from each facet of the overall process: entrepreneurs' personal perspective, their ways of identifying opportunities, their methods of acting and managing, their mechanisms for adapting and reassessing" (Cunningham and Lischeron 1991). Southeastern's program is similar to the Entrepreneurship Development Program (EDP) in India, in that it is designed to encourage entrepreneurship. "EDP consists of three stages: (1) selection, (2) training, and (3) follow-up," (Gupta 1989).

The Southeastern model of entrepreneurship training and development seeks to integrate a practical approach from various schools of thought. Project 25 By 2000 has a simple design which can be summarized with three key features: (1) Selection, (2) Program Activities, and (3) Funding. The selection process has evolved from being rather restrictive to being more inclusive. Following publicity, brochure mailouts, and some personal contacts, solicitations are made for interested persons to make application for the program. These solicitations are made through high schools, votech schools, and colleges, as well as through personal contacts.

A simple application is received and reviewed, and applicants are asked to complete the Herrmann Brain Dominance Instrument, a test designed to indicate thinking styles. Consistent with most research on brain dominance, those with preferences in the upper right lobe--the creative thinkers-- are particularly sought for the program. Based on the questionnaires, interviews, and Herrmann

Instrument, about 20 persons are selected each year to participate in the program. Once a person is selected, they are invited back each year to participate in the program's activities.

The activities of Project 25 By 2000 include an annual summer Entrepreneurship institute, and workshops and seminars in the Spring and Fall. The summer institute is usually a week long and is a comprehensive overview of starting a business. A primary goal of the institute and the fall and spring seminars and workshops is to introduce and network the participants with investors, bankers, successful business leaders, and sources of help through SBA, SBDCs, the state commerce department, and other relevant assistance programs including the Small Business Institute.

Past speakers have also included the Editor-In-Chief of Entrepreneur and Entrepreneurial Woman magazines, Reiva Lesonsky, and Comer Cottrell, a leading minority businessman, founder/president of PRO-LINE Corporation, co-owner of the Texas Rangers. Recently, Dale Ensign, Executive Vice President of Sinclair Corporation, was the guest speaker for a seminar, and the latest seminar was a statewide program co-sponsored with the SBA, the "Young Entrepreneur's Seminar" (YES). Numerous representatives of the SBA and government leaders in the area of economic development have participated as speakers in the program.

In a study of foundation's support of entrepreneurship, it was found that only twelve (16.9 percent) of the 71 responding foundations indicated an interest in funding entrepreneurship research (Gatewood, Miranda, Hoy 1990). While research suggests that there has been relatively little foundational support of entrepreneurship research, Southeastern has been fortunate in receipt of foundation funds this may be due to the more practical application of the program.

Funding was originally provided by the Samuel Roberts Noble Foundation, and with matching funds from Southeastern. The present funding source is the Weyerhaeuser Foundation. Grant monies are available for this type of program and should be pursued by institutions desiring to implement such.

The Alpha Lab

The Alpha Lab is a pre-business, pre-incubator research and development laboratory designed to provide the technology and assistance needed for developing business plans and prototypes. It was designed after concluding that the participants in Project 25 By 2000 were not in a position to adequately and effectively prepare business plans. They lacked the space and the equipment which can greatly enhance quality and reduce the time frame in which the business plan can be developed. In 1988, the Noble Foundation authorized expenditures to develop this lab,

Currently the lab is equipped with three IBM computers and printers, a Macintosh system, laser printer, and typewriter. It contains a phone, a facsimile machine, a report binding system, and photocopier, as well as video projection equipment, desks, furniture, file cabinets, office supplies, and numerous software packages. A small library of video tapes, instructional manuals, and books on entrepreneurship, small business, and business plan development is also housed in the lab. Other than financing, this provided the answer to many of the challenges the entrepreneur with an idea faced. The lab assists the "entrepreneur with an idea" become the "entrepreneur with a plan."

ACADEMICS

Small Business Institute

Since 1973, Southeastern has participated in the SBA's university based SBI program. The program involves students enrolling in a three hour course, being assigned to a consulting team, and assisting an area small business in researching and solving problems or challenges. More recently, in 1992 Southeastern changed the academic course title to better reflect and describe its content. The SBI program at Southeastern enjoys an excellent reputation, which has only been enhanced by the "marriage" with the entrepreneurship program.

The course, indeed the SBI program, is truly a win-win-win proposition. Client businesses win because they receive management assistance free of charge. It should be noted that the assistance is provided by senior and graduate business school students supported by the faculty of the school of business. The students win because they have a chance to "get their feet wet," while still students. They have the opportunity to apply their learning in a business setting. It is a real encouragement-builder. And the university wins, through the increased involvement with the business community, and the opportunity to afford its students with application-based learning.

SHARED RESOURCES: A CASE STUDY IN SYNERGY

Since many of the goals and objectives of the SBI are similar to Southeastern's entrepreneurship program--namely economic development--the two programs began to share resources. Though funds are separately maintained, as are inventories, the physical resources and faculty resources were blended.

Faculty Resources

Faculty had been supportive of the academic consulting course, and were encouraged to become even more active. Regular workshops on topics within the faculty's respective fields were scheduled for the consulting class. Faculty were encouraged to participate to a greater degree in the entrepreneurship program by providing similar workshops at the summer institute and fall and spring seminars. The reward for the faculty has been both intrinsic and extrinsic. Some monies have been used from both programs to compensate faculty for presentations, and other times monies have been used to support relevant travel to faculty who have participated in the programs.

Physical Resources

Perhaps the greatest benefit has been the sharing of physical resources between the two programs. SBI has been blessed with numerous sources of material, both written and video, provided through the SBA. These materials are particularly useful to those participating in the entrepreneurship program as well. Through cooperation, these materials are readily available to participants and students in both programs.

The Alpha Lab has been the most significant source of help for both programs however. The types of

software purchased for the lab are particularly useful to students consulting with area businesses. The photocopying equipment, binding equipment, and computer systems have also greatly increased quality and efficiency among SBI students. Some enrolled in the consulting course refer to the lab as the SBI lab. In fact, there is as much or more activity in the Alpha Lab among the consulting class, as there is among participants in the entrepreneurship program.

What has emerged is a greater utilization of resources, a synergistic effect, which has enhanced and improved both programs. A synergy of a different kind has also been observed. Participants in the entrepreneurship program have networked with those in the consulting class resulting in a dialogue and sharing of ideas. One group "recruits" for the other. Recently, one of the new start-up businesses in the entrepreneurship program was even one of the business clients for the SBI program.

RESULTS

SBI

Southeastern's SBI is an elective course operated on a business consulting format. Students gain a comprehensive view of the client business and make recommendations for improvement in the management, marketing, and financial areas. The availability of the Alpha Lab, particularly its computer capabilities, has assisted in reviewing the business and recommending solutions. As examples, fisCAL software has been used to analyze the firm's financial statements and make comparisons to industry standard and desktop software has been utilized to design ads and brochures for the business. Additionally, desktop publishing software and graphics software have enhanced the quality of both the oral presentation and the written report. Also, because the Alpha Lab is dedicated to assisting businesses, SBI students have been given ready access.

Project 25 By 2000 and Alpha Lab

A survey was conducted of participants in the entrepreneurship program in an effort to measure its success. (One of the frustrating things about working with entrepreneurs is their reservations about sharing details. Another is tracking them). The results of that 1992 survey revealed 21 business startups. Of those, 12 were full-time employers and 6 were part-time firms. Three of the start-ups had voluntarily closed.

A categorization of the start-ups revealed six manufacturing firms, five retailing firms, five service firms, and two agribusinesses. Of the 12 full-time employers, three were manufacturing, three retailing, five service, and one agribusiness. Of the marginal firms, defined for this purpose as part-time, low growth firms, three were manufacturing, two were retailing, and one was agribusiness.

In an attempt to measure the effectiveness and influence of the project, several questions were asked. When asked to rate their overall impression of Project 25 By 2000's influence toward encouraging entrepreneurship, over 81% favorably-56.25% very encouraging, and 25% somewhat encouraging. The Alpha Lab was also rate favorably, although half of the respondents had not participated in the program.

The overall helpfulness the program was in helping the participant not pursue their entrepreneurial goals revealed an interesting statistic. Over 12% responded the program had helped them in not pursuing their entrepreneurial goals. However when asked as a result of participating in the program how likely they were to pursue owning their own business, none reported "not likely." Apparently, some had decided not to pursue the entrepreneurial goals they had set after participation in the program. But they did still appear to be interested in pursuing self-employment.

These results are also interesting when considered in view of the responses to the question of how sure the participant was, as a result of their participation in the program, that they are indeed entrepreneurs. Almost 44% answered very definite while about 31% answered somewhat definite. Over 18% said they were not very definite, and about 6% said they were not an entrepreneur.

Finally, the survey attempted to measure the impact the project had made in terms of employment. The survey indicated that 52 jobs had been created by the business startups, created by participants in the project. The breakdown by category revealed 18 jobs created in the manufacturing sector, 11 in retailing, 21 in service industries, and two in agribusiness.

CONCLUSION

Southeastern's is a case study in success. This success of the consulting course is measured in businesses assisted, and in improvement in client effectiveness, efficiency, and increased profits. It is measured in increased learning and confidence among students, and in increased involvement and cooperation between the business school and the community. The success of the entrepreneurship program can be measured in the number of businesses started, in the number of individuals "saved" from starting entrepreneurial endeavors, and in the number of jobs created.

Success is made possible through the efficient sharing of academic resources, faculty resources, and physical resources within the school of business. It is the cooperation and coordination of the entrepreneurship and academic programs which has provided the synergy needed to make both programs more productive.

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ACTIVITY-BASED COSTING FOR SMALL FIRMS

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Activity-based costing (ABC) is a costing system that permits much more precise product costing, especially for firm which have a significant proportion o their total cost as overhead or other indirect costs. ABC began to be used b large industrial firms in the mid-1980s At that time the cost of installation was as much as $175,000 and could take six months or longer to install with the help of a major accounting firm. A costs such as these ABC was beyond the means of most small firms.

Today software packages are available that cost under $1,000 which puts ABC in the range of most small manufacturers.

The advantages of ABC are that it permits more precise product costing, better identification of what causes costs to occur (cost drivers), and facilitates identification of non-value adding activities. Use of an ABC system in a small business gives the business the same type and quality information large businesses, allows it to be flexible in a changing market environment, and permits the analysis of non-labor related costs.

Installation of an ABC system involves identifying activities, identifying cost drivers, and constructing an overhead rate. Some reaggregation of activities and drivers may be necessary, and some firms may desire to further analyze activities to determine which ones add value to the product (process value analysis.) Fortunately for the managers and accountants of small firms, low-cost software packages can now assist them in ABC installation and analysis.

INTRODUCTION

Since it was first introduced in the mid-1980s, activity-based costing (ABC has revolutionized product costing by much more precise association of over head costs with individual products Originally the domain of large public accounting firms, installation of an ABC system used to take an average of six months and cost between $150,000 an $175,000. Today a computerized program for installation of a simple ABC system costs less than $1,000 (17). With the dramatic lowering of cost, it is tim that many small manufacturers considers converting their labor-hour or labor cost driven overhead base to a more refined system which will better pin-point product costs.

In this paper the authors describe what an ABC system is and outline the ben fits for a small manufacturing firm They discuss the procedures necessary install an ABC system and provide information on ABC software packages and their cost.

DEFINING ACTIVITY-BASED COSTING

Noreen defines ABC systems as those that

assign costs to products on the basis of multiple "cost drivers," which may or may not be proportional to the volume of output. This is in contrast to most traditional cost systems which use only one allocation basis (usually direct labor or machine hours) that is proportional to volume (11, p. 159).

The latter part of Noreen's definition in which he contrasts ABC with traditional systems is perhaps the best starting point to describe an ABC system. Manufacturing costs are divided into material, labor and overhead costs, with overhead being the catch-all category that includes all expenses associated with the manufacturing operation other than the direct costs of material and labor. Historically, the major portion of product cost was materials and labor. Overhead was not a significant cost. In such an environment, the easiest way to apply overhead to products was by labor hours or labor cost or some other measure which was basically driven by the volume of production. Such an approach was convenient and did not seriously affect product costs as long as overhead costs were small.

With the advent of more capital-intensive and automated processes, the overhead category came to comprise 35 percent or more of total manufacturing cost (14, p. 74) while labor cost may be as little as 5 to 10 percent (5, p. 30). In companies in which overhead costs are far larger than labor, it is not reasonable to apply overhead on a labor basis.

For manufacturing companies which have a large amount of overhead, it is increasingly being recognized that this expense category is not one homogeneous whole. Overhead has many sub-categories or pools which can be more accurately assigned to products on some basis other than labor. For example, there is a whole group of costs associated with obtaining and handling materials which could better be assigned on a material related basis. Another group of costs is associated with machine setups which could better be assigned on the basis of number or length of setups. Still an-

other group is related to the inspection process and could best be assigned by number or duration of inspections. The list could go on almost indefinitely.

Activity-based costing takes the separate cost pools or activities of the firm and assigns the costs to products by an allocation base which is specific to that activity--in other words, a base that has a high correlation with that particular cost. ABC advocates usually speak of "cost drivers" rather than allocation bases because the emphasis is on finding what drives or causes a cost to occur.

During the installation of an ABC system, companies usually go through an analysis process which defines many cost pools and drivers and then settles on a manageable number. Cal Electronic Cir-

cuits, for example, identified some 23 cost pools and 19 cost drivers which were later reaggregated into 10 cost pools and 8 cost drivers (9, p. 37). After cost pools and cost drivers are defined, then separate overhead rates are constructed for each pool of costs. These rates are subsequently used to apply overhead costs to products.

Although ABC analysis has most frequently been applied to manufacturing overhead, the techniques can be used for any cost which is indirect--that is, not directly traceable to products. Two of the

pioneers of ABC, Robin Cooper and Robert Kaplan, see the next major applications as being to corporate overhead and to research and development costs (8, p.25). Another cost area which can benefit is the whole group of marketing costs, particularly physical distribution (10, p.33).

BENEFITS OF ABC SYSTEMS

The most obvious advantage of an ABC system is that it provides much more accurate product costs. This is important for pricing decisions as well as for financial statement purposes. Johnson and Kaplan discuss one company whose labor-based system indicated they were making profit margins of greater than 40 percent on most of their products. A more accurate accounting for overhead revealed that 77 percent of the products were actually losing money--the remaining 23 percent produced 400 percent of the profits (7, p. 240). An old axiom is that 20 percent of a firm's products produce 80 percent of the sales (80/20 rule). Kaplan says that when installing an ABC system, it is typical to find that 20 percent of the products produce 225 percent of the profits, what he calls the 20/225 rule (13, p. 7). In other words, many products are unprofitable which cannot be detected by traditional costing systems.

More accurate product costing has benefits besides just showing which products are producing a profit. More accurate product costs provide information on issues such as what size batches should be produced, which department managers are doing the best job, what product diversity is costing the firm, which customers are most profitable, and whether the firm is performing better than it was last month or last year.

Another benefit from the installation of an ABC system follows from the close examination of cost drivers. Typically, when overhead is applied on a labor basis, cost drivers other than volume are ignored in the cost system and for decision-making purposes. For example, one cost driver which is frequently overlooked is the number of different parts or components, indicating a lack of interchangeability between parts. Tectronix's Portable Instrument Division realized significant cost savings when managers perceived that a lengthy list of product components resulting from designers making minor but frequent changes to product components was an important cost driver (4, p. 95). Another cost driver which is often neglected is the number of batches produced which increases costs due to the setup process and to downtime in production. Still another is the number of product lines. (6, p. 29).

In their analysis of cost drivers, many companies find that some activities being performed add very little value to the product and some may add no value at all. This further step of process-value analysis is another benefit of ABC which helps a manufacturing firm rid itself of activities which have no real benefit (2, pp. 53-57) (15, p. 39). For example, inspection per se does not add value to the product. If manufacturing workers can inspect products themselves and eliminate the need for a separate inspection operation, this non-value adding cost can be eliminated. Other typical non-value adding costs are storage, counting, and moving (12, p. 59).

The advantages of more accurate product costs and a better recognition of cost drivers are benefits which may be reaped by small manufacturers as well as by large manufacturers. The key factor in the benefits achieved is not in the size of the firm but in the size or proportion of the indirect costs. Any small firm with a sizeable proportion of its costs in manufacturing overhead, research and

development, or marketing costs of an indirect nature can use ABC to its advantage.

With computer programs for ABC installation and use well within their price range, small firms can utilize ABC techniques to compete in today's business environment. Among the problems facing small business, Welsh and Cummings list lower foreign employee wages, a decreasing trained labor pool and the need to provide more employee training, and increased labor demands for pay and fringe benefits (18, pp. 43-45). The result of these problems is that small businesses which survive will have to find ways to decrease the labor component of product cost which will increase automation and the overhead component. This overhead component can benefit from ABC analysis.

Welsh and Cummings also list as small business problems a growing need for small business to act more like large business, increases in partnerships between large/intermediate and small businesses, and the fact that large businesses are beginning to target typical small business area products and services (18, pp. 43-45). These factors mean that small businesses will have to be as good or better than large businesses to compete and/or cooperate with them. Having an up-to-date cost system which can accurately pinpoint product costs and identify cost drivers is essential.

Other problems listed by Welsh and Cummings are increased global competition at all business levels, a growing need to stay flexible, a rapidly changing market environment and a growing need for immediate access to current business information from a variety of sources (18, pp 43-45). Product cost information that is current and relevant will assist small businesses in staying competitive in the market environment.

In installing ABC, small firms may actually have an advantage over larger firms in that their infrastructure is not as cumbersome and inflexible. While a large firm may have an accounting de-

partment with a vested interest in the cost system in place, the managers and accountants in a small firm may be open to new ideas. The selling of a new system in a small firm may require convincing one or two key people while in a large firm it may involve 20 or 30 or even more.

In summary, the advantages of an ABC system to a small manufacturer include:

- Better product cost information - Better identification of cost drivers - Better recognition of non-value adding activities

These advantages can lead to overcoming many of the problems facing small business such as a need to analyze non-labor related costs, a need to have the same type and quality of cost information as larger businesses, and a need to stay flexible in a changing market environment. In the installation process, a small manufacturer often can reap the benefits of being more adaptable to change than a larger firm.

INSTALLATION OF AN ABC SYSTEM

Installation of an ABC system includes a three-phase process of (1) identifying the activities or cost pools, (2) identifying the drivers, and (3) constructing the rates to apply to products. Where the

analysis of step (1) and (2) results in an unmanageable number of pools or drivers (that is, a number that would result in a system that is not cost effective), then some combining or reaggregation may be necessary. An auxiliary part of the process may be to perform process value analysis to determine which activities add value to the product and which do not.

Identification of activities can differ greatly depending on the nature of the manufacturing process. However, a general taxonomy for activities would include the following levels:

1. Unit level--Performed once for each unit produced such as machining a surface or drilling a hole. 2. Batch level--Performed once for each batch produced such as machine setup or moving a batch of units to the next process. 3. Product level--Support the production of a product type or model such as engineering specification changes for a product. 4. Process level--Support the individual processes such as maintenance of equipment. 5. Plant level--Sustain the overall operation of the plant such as plant security and building maintenance. (1, pp. 51-72).

Defining activities and drivers is an interrelated process. Some activities can be combined and applied with a single driver without loss of accuracy to the system if the driver is appropriate for the whole cost pool. For example, all batch-level costs might be combined and assumed to be driven by the number of batches.

The most obvious factor in selecting a cost driver is the correlation of the cost driver to the actual consumption of the activity. Other factors include the cost of measuring the cost driver and the behavior induced by use of the cost driver. (3, p. 45). This selection may be determined by a judgmental process from personnel in the production area and may be confirmed by statistical correlation techniques or by less formal rankings. Cal Electronics personnel described this part of their installation process as:

The third step involved the preparation of a spreadsheet (matrix) correlating the processes and potential drivers. Key experienced personnel then assigned weights, using a five-point scale, for each cell in the spreadsheet.... The cost drivers were selected based on these scores. (9, p. 37).

Once activities and drivers are selected, then overhead rates can be constructed. For example, batch-related costs may be found to be a certain dollar amount per batch which will then be applied accordingly in the cost management system.

The good news for small manufacturing firms is that there are now software packages available which facilitate most of the routine number crunching. ABC Technologies of Portland, Oregon, has a software package called EasyABC which costs under $1,000. Input for the design of the software came from both industry and academics such as Peter Turney at the University of Portland (17). Profit Manager Junior from Strategic Cost Systems is similarly priced and was designed by Robin Cooper and Robert S. Kaplan (16).

Other packages are available from Integrated Cost Management Systems, Inc., a Dallas firm, and Sapling Software Aiding Planning Corp. (NetProphet II) as well as from major accounting firms. Those from major accounting firms, however, tend to be priced higher and may come as part of a

consulting package (17).

In summary, installation of an ABC system includes the following steps:

- Identifying cost pools or activities - Identifying cost drivers - Reaggregation of pools and drivers, if necessary - Construction of overhead rates to apply cost to products - Process value analysis to determine non-value adding activities, if desired

Software packages are available at reasonable cost which greatly facilitate the process of installation and maintenance of an ABC system for a small company.

CONCLUSIONS

Activity-based costing is a system of product costing which is beneficial to any manufacturing firm with a significant proportion of its product cost in overhead or other indirect cost. The advantages of ABC are that it permits more precise product costing, better identification of what causes costs to occur (cost drivers), and facilitates identification of non-value adding activities. Use of an ABC system in a small business gives the business the same type and quality information as large businesses, allows it to be flexible in a changing market environment, and permits the analysis of non-labor related costs.

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ADOPTION OF NEW ACCOUNTING SOFTWARE PACKAGES: ISSUES RELATED TO THE EASE OF CONVERSION

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ABSTRACT

Consultant recommendations for adoption of accounting software packages are constrained by large startup costs for the business and exposes the business to a number of risks. Considerable client time and effort result from software conversions and override even the most pressing need for change. Such changes are likely in the modern environment of rapidly changing technology, constant development of competing products offering substantial improvement and capabilities, and the natural growth of companies who expand beyond their present accounting software. It is useful to know what conversions, and import/export options may be available. This paper presents some initial discussion of the features available for a number of 'low-end' accounting packages that allow some of the work of conversion to be assisted by such software solutions.

INTRODUCTION

The small business person is often faced with the dilemma of choosing between the present accounting software and some more attractive competing product. This tension exists because there is a tremendous investment in the existing system in terms of training and accumulated records, yet the business is tempted by the new package that offers increased capabilities. The increased capabilities might be flexibility in the design of the chart of accounts, new and expanded grouping options, reporting flexibility, general ease of use and compatibility with a new public accountant's system.

The inevitability of this dilemma results from a number of forces on the small business. The increasing power of computers makes a computer upgrade likely and is a natural time to consider upgrading the software. The increasing computer power encourages software developers to expand the capabilities of their packages, and the competitive package may be far ahead of the accounting package presently in use. The increased use of the Windows interface, the Macintosh-based systems and other user-friendly interfaces makes newer systems more attractive, and eases future training time.

Business specific reasons for the dilemma stem from growth of the business and personnel issues. As a business grows it is normal for the present system to be tested in its ability to handle an expanded number of accounts, larger data files, and in its ability to answer more sophisticated management questions. As businesses experience turnover in their accounting and bookkeeping personnel pressure will develop for upgrading the hardware and software as new employees are asked to work with outmoded equipment and software.

THE CONVERSION PROBLEM

The adoption of a new accounting software package requires certain time consuming and tedious procedures to be performed. In the case of an existing business these procedures represent tasks that

must be performed while performing all the regular work required by the present system.

The new chart of accounts must be established. The new chart of accounts may be identical to the existing one, but more likely the new system will have increased capabilities. These increased capabilities are assessed and built into the new chart of accounts. Therefore this step requires some executive level time, in addition to clerical.

Historical information must be entered into the new accounting system. Prior year data and beginning balances must be converted to the new chart of accounts and entered. This step requires clerical time.

All detail records for subsidiary systems such as customers, suppliers, inventories and personnel must be entered. This step requires a large amount of clerical time.

Conversion of accounting software normally requires running both the old and new systems in parallel for a sufficient period to assure the business of consistent results. If the conversion is not taking place at the beginning of a fiscal period the current journal needs to be brought up to date. Therefore, the journals need to be entered from the beginning of the fiscal period to the current date. For an interim adoption the accounting department would therefore have two systems running currently, plus they would be doing the year-to-date data for the new system. Accordingly, the accounting department experiences a tripled workload. Personnel problems are also created because at the same time that the workload has been increased the accountant or bookkeeper is trying to learn a new system.

An important element for consideration during any conversion is the risk associated with the change. If the new system is established manually or when software solutions exist (see the next section) care is exercised and significant time is required to assure accuracy. Software solutions alleviate some of the need for concerns arising from human error, e.g., incorrect or invalid entries. While consistency is improved with software solutions it is also possible for data to be corrupted because the data structure was not completely understood.

When a recommendation is made to adopt a new accounting system the consultant usually is called on to help estimate the time involved to accomplish the above tasks. This estimate should not be understated, and it adds to the cost of conversion it is largely responsible for the inertia in accounting system adoption decisions.

ACCOUNTING SOFTWARE CONVERSION OPTIONS

Accounting software packages could be designed to assist significantly in the conversion process, and the existence of such facility contributes to the ease or frustration of adopting a new package. Accounting packages that offer import/export or conversion functions should be carefully considered as aids in adoption decisions.

The most straightforward adoption of a new accounting software package is possible when the new package offers a conversion option. These conversion modules are familiar to user and are commonly offered as software becomes available in successive versions. The succeeding versions are made compatible with prior versions through a conversion process which allows the upgrade of the

database. This paper does not address the conversions to successive versions because it is almost universally performed by conversion modules provided by the new version.

This paper is concerned with competitive upgrades. One highly marketable option for software developers to consider adding to their product would be conversion modules along the lines of the conversion options available in word processing programs at this time. Microsoft Word is attracting WordPerfect customers (and vice versa) by offering file compatibility. One example in accounting software is Peachtree Accounting offers a conversion module for users of Quicken . According to their editor they are considering other conversion options. Such a conversion option would reduce, but not eliminate the time required to perform the conversion steps outlined above and therefore reduce the overall cost of converting.

An alternative to conversion modules is careful use of export and import functionality existing in the accounting software packages. This functionality takes two forms, 1) export functions designed to output fields of the database and 2) export functions designed to output text for spreadsheet analysis or word processing.

If the accounting package can export elements of the database then a conversion requires certain specific fields. For example, are the chart of accounts, beginning balance, prior year balances, budgetary information and the current year journals available for output?

If the software allows export to spreadsheet programs or text to word processing programs the same information is necessary. These export functions may add control characters for formatting the output. These additional characters are easy to clean out of the data, but are a problem that needs to be understood. Also troubling are the additional spacing that is added to format the output to a wordprocessor. These spaces can be converted or eliminated but they increase the complexity of any conversion using this option.

The final step at this point is to use the import function of the new accounting package to import the various elements. To accomplish the importing of the elements the consultant needs to understand the format expected by the new package. Often some data manipulation is required by using a text editor. The author has found spreadsheet programs helpful for this purpose in some cases. Users comfortable with Microsoft Excel or Lotus 1-2-3 will be able to do conversions such as account number conversions or the breakout of multi-value fields. The ease at which the data in one system can be made compatible through import/export to the new package is highlighted in the following section.

EXAMPLES OF IMPORT/EXPORT CAPABILITIES

This paper offers some preliminary discussion of conversions to and from the following software: Quicken, Pacioli 2000, DACEASY, and Peachtree. As the following discussion will detail, using software to assist in the conversions between various packages is only cost effective if the consultant does a number of them and therefore has developed this area as an expertise, or the software application themselves encourage importing/exporting or conversions. At this point, utilizing software to assist in conversions is very limited. The following detail discusses the import and export functionality available through the four packages chosen for this initial review.

Quicken

Quicken is reasonably open for export and import. Since its export facility is well developed consultants should find ways to convert Quicken accounts to most others, limited only by the new package's ability to import.

Quicken can export and import any of the following:

Transactions from one account Category list and class list Account list Memorized transaction list Budget Amounts

All transactions and lists are available for export and import: All balance sheet accounts Account list Category list Class list Memorized transaction list

Pacioli 2000

There is no routine procedure for importing to Pacioli Accounting.

Exporting from Pacioli Accounting is made possible through the report generator and an option to "print to file." Delimiter choices are available for fields and text. Report options include:

Chart of Accounts Accounts: History Budget Actuals Receivables and Payables

DACEASY

Export and Import is not available through routine procedures. Recommend export through a "Print to File" utility. Reports would include all general and subsidiary journals and statements.

Peachtree Accounting

Peachtree offers their customers, without charge, a conversion module from Quicken.

Peachtree can also accommodate some input from a comma delimited file through its client write-up facility. Input is possible for chart of accounts, balances and payroll. It requires some ingenuity if the initial file is Lotus 1-2-3 rather than Peachtree.

CONCLUSION

The conversion process is complicated by the absence of straight conversion modules in the competing software packages, with the exception of the Quicken/Peachtree conversion. The assumption that users will remain with their existing software package or are willing to undergo excessive conversion costs in terms of time spent to reenter data are both incorrect. Business users should not have to remain with old technology, clumsy interfaces or chart of accounts structures when more useful and modern approaches are available.

The software developers can respond in one of two possible ways to attempts to use the import and export functions to alleviate the lack of straight forward conversion modules. one solution is to make the import/export function method irrelevant by providing good conversion modules. This approach will be market driven and is highly likely given the experience with word processing and spreadsheet programs. The result will be that attempts, as described above to circumvent the lack of the conversion modules will be short-lived and replaced with much more elegant solutions. The second approach for the developers would be to limit import and export functions and to frustrate the attempt to convert in this way. This extreme case is already extant in the software packages that offer no export or import except for some limited reporting functions,

The alternative solution, faced with the problem of software developers and their resistance to the required innovation is third party developers. Accountants should expect database translators comparable to the development of the translators for word processing or spreadsheet systems.

Software which does not allow users to export and to essentially leave for improved software should receive little support by consultants in software recommendations. It is preferable to offer a client flexibility when it exists.

At the present time, conversion from one accounting package to another is not a user-friendly task. Some limited conversions are possible, along with more sophisticated use of the import/export functionality, but the results are limited.

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DOWNSIZING: A PRACTICAL APPLICATION

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ABSTRACT

An unprecedented number of companies planned to institute downsizings in 1993. In addition, there are no indications which point to a decline in this activity throughout the remainder of the twentieth century. It is for this reason that businesses should become better prepared to implement the actual downsizing and learn how to manage the remaining employees in order to accomplish the objective of the downsizing. Small Businesses are not exempt from this phenomenon and the negative ramifications of a poorly executed downsizing can actually be fatal for them. Size is no longer an excuse since a smooth and effective downsizing can be executed by companies both large and small. All downsizings, regardless of company size, have common attri- butes and the remaining employees display common symptoms.

INTRODUCTION

Downsizing, rightsizing, resizing, layoff. A downsizing by any other name is still traumatic for both displaced and remaining employees alike. No matter what label a company gives the process, there is the task of implementing the reduction in workforce while impacting the production and morale of the remaining employees. According to the most recent AMA study, U.S. companies planned to implement downsizing at an unprecedented rate. (7) The objectives of the downsizing range from a decrease in direct company cost to improving the competitive position of the company. However, a poorly executed downsizing can actually add to a company's woes and never achieve the desired results. This paper is not intended to analyze whether a company should or should not implement downsizing procedures. Rather, its focus is on how to downsize while preserving the long run productivity of the remaining employees. Based on the collection of secondary research and interviews with downsizing and outplacement experts, there is enough information available to piece together the tasks which should be implemented in order to successfully implement a downsizing which will reduce the shock to the displaced employees while establishing a healthy groundwork for the remaining employees to return to normal and productive work.

Why Downsize?

Companies large and small implement downsizings for various reasons. Greenberg (7) established that the majority of businesses (54.9%) implement downsizings due to a downturn in business. Productivity gains was second (23.2%) which was followed by mergers and acquisition (9.2%). In every case, upper management was attempting to improve operating profits by reducing the direct cost of personnel. By eliminating some employees from the payroll, company costs are immediately cut, creating a financial boost and providing company shareholders with tangible evidence of the company's commitment to competitiveness. (1) In addition, upper management expected to either improve or maintain the current level of productivity. As Harari (8) points out, "Isn't it extraordinary how management can sincerely believe that people who are jerked around like pieces of meat will

show commitment and loyalty to the firm."

Although downsizings have taken place in companies large and small alike, smaller companies make deeper cuts during a downsizing. Greenberg (6) found that smaller companies cut a greater percentage of their workforce (12.7%) than larger companies (6.1%). With a workforce reduction of this magnitude, it is of utmost importance for the company to have a quick return to a normal operating environment. Unfortunately, several factors prevent this from happening. To further complicate the issue, it is understood that 63% of companies who downsize will repeat the procedure the following year. It would then be in the best interest of the company to properly execute the downsizing successfully or become a victim of its actions. Baggerman (1) suggests that although downsizing is intended to cure ailing businesses, it eventually becomes a contributing factor to corporate demise.

The Effects of a Downsizing

The downsizing is traumatic for both displaced and retained employees alike. Once the decision is made to downsize the company, the objective of upper management is to execute the downsizing in a manner which will impact the remaining employees as little as possible. Even if the downsizing is executed perfectly, management can expect to experience several responses from the remaining employees.

Jones (10) discussed the fact that remaining employees will go through a mourning period and likened it to a life event such as marriage or death. "If survivors aren't allowed to mourn, their grief might come out in unhealthy ways. They might idealize the company's past and sabotage new strategic initiatives." (16) Moskal also added, "Just like some Vietnam veterans, survivors of downsizing may feel guilty that they made it through while some of their friends didn't. They also feel anger, frustration and job insecurity." (16)

Decreased productivity can be anticipated for a number of reasons. Fagiano (4) discussed the "Noah's Ark Effect" in which employees "hunker down and concentrate not on the job but on looking for signs of stormy weather." This concept has merit since the remaining employees do not have any guarantees that the process will not be repeated. Barkley and Green (2) also concluded that the days preceding and following a downsizing are unproductive or counterproductive. "Some employees who survived the layoffs and continued employment with the company were anxious and uncertain." (2) The survivors are looking for reassurance and/or reasons to convince themselves that the company is worth staying with. What reassurances do they have to continue a career here? "Downsizing is like a relationship that has ended and it has similar rules. You hold back f rom total commitment for a while until you are sure it's safe again." (16).

There is always the possibility of a mass exodus of people from the company. This exodus would usually come from the top performers since they usually have the most opportunities in the job market. In addition, a company can expect the top performers to leave due to their need for a growing and challenging environment. Unfortunately, a company in the process of downsizing does not fit the needs of most top performers. Solomon (19) quoted Newman as stating, "Bright people want to be where things are happening and where there's the most resources and opportunity for their future. They want to be in a winning place and land on their feet at all times. If they see that a company is in

trouble, there's no reason for them to stay if things are falling apart."

Anatomy of a Downsizing

As previously stated, downsizings affect smaller businesses more dramatically than larger businesses. Rick Fumo was quoted by Baggerman (1) as saying, "Small-business owners know that people are crucial to their success." Hence, it is in the best interest of management to understand the correct way to downsize and how to deal with the survivors. The following section, separates these activities into these two distinct areas. By implementing these tactics, a business should expect a minimal amount of low employee morale and decreased productivity.

IMPLEMENTING THE DOWNSIZING

Once the decision is made to implement a downsizing, it is necessary to have a meeting with all employees and outline what is about to happen. Optimally, this message should be delivered six months prior to the actual downsizing. However, this is not always possible. Regardless, some advance warning should be given, even if it is only a week. The announcement should be verbal and delivered by a person in the normal reporting structure of that particular department or functional area. The group should consist of no more than twenty employees. However, this may not be possible since some departments may contain between 25 and 35 employees. (10) To separate them into smaller groups would pose a logistical problem. The context of the message should be short and focus on the facts. (11) The message should stress that the reductions will be focused on functional areas and not on performance. Upon conclusion, a memo or letter should be passed out to each employee which reiterates the verbal announcement. (12) This will serve as a backup since the employee may not take in the full message or misinterpret the verbal message. It is necessary to do this at the beginning of the week. Jones (10) stresses that an announcement should never be delivered on a Friday since there is an increased probability that the employee will go home and obsess over the announcement. Some employees do not have an adequate support structure at home and the workplace also serves as their social outlet. In addition, by delivering the message at the beginning of the week, the employees will have the opportunity to communicate with front line managers or seek further clarification from management. It is mandatory that management keep communication lines open.

Unfortunately, the next step is to actually identify the workers who will not remain with the company. As with the initial announcement, it should be verbal and from someone in the supporting structure. In addition, the announcement should take place at the beginning of the week. In fact, employers in small communities go so far as to take into consideration important events that are taking place such as a football playoff game or local festival. when the message is actually delivered, the number of employees in the meeting usually varies by the similarity of their job functions. Middle-level managers and up should be treated on an individual basis whereas like supervisors and non-supervisory department members can be handled together in a group of eight to ten people. (10)

The managers who will carry out the downsizings should be instructed on communicating the message. There is nothing that can be said that will make the employee feel better, so the message should be short and to the point. In addition, the manager can expect verbal outbursts or abuse. In a situation like this, the company cannot afford to have a manager "wing" the message since it is of

utmost importance that the former employees' dignity be preserved. To do this, the manager should follow a guideline of key points that the message should cover. Overall, the message should take approximately seven to nine minutes to deliver. After the delivery, the displaced worker should be given a packet which outlines the severance benefits and assistance they will receive from the company. (10;11;12)

The tone of the message should be two fold. First, the downsizing is aimed at functions not performance. Next, this situation is the fault of the company not the individual. The former employee should not feel personally responsible for this outcome. Rather, the company should take responsibility of the elimination of job functions. By doing this, the company is preserving the dignity of the employee. (10;16)

The next management concern is what to do with the employees after the announcement. Should they stay and say goodbye to friends or should they leave the workplace immediately? Moskal (16) says that you should leave this up to the employee. Let them leave on their own timetable. Some leave right after the announcement and return the next day while others want to immediately clean out the work areas and say goodbye to friends. Historically, the displaced employees have not been a threat to security. Although this may be the case, it would be wise to take precautionary measures such as preventing computer access or entrance to security sensitive areas of the building.

In all cases, the employees should receive some type of severance. "Severance is the bridge between job loss and the next place of employment." (10) Although there is no standard package and the assistance offered varies by the job functions eliminated, it is wise for the company of offer resume writing and job location assistance. However, Kereger (12) points out that companies should not do this internally. He goes on to say that 90% of the companies do not know how to do this properly. One technique utilized by Jones (10) is to get the survivors involved in the job search. By keeping their "ear to the ground" they may help their former co- workers find new employers and help to relieve their own internal feelings of guilt.

Although the severance package seems expensive, especially for smaller companies, it should be thought of as an investment since the survivors are watching how the downsizing is handled. Moskal (16) supports this view by stating, "The survivors look to see if those terminated are treated with fairness, respect, and dignity. They want to know every detail of the financial packages that were offered to the non-survivors. They want to determine for themselves if the company was fair so they know what to expect if their time comes for involuntary departure. Management must be aware that the survivors are paying close attention to how the layoff is carried out." Fairness is not measured by the execution of the downsizing alone but also, by the severance package. Moskal (16) goes on the say, "Survivors also look to see if the organization provided tangible caretaking services to soften the blow for those who were terminated. These include severance pay, outplacement counseling, career counseling, aid in helping to find work with similar employers, and continuations of health-care benefits beyond the date of severance."

AFTER THE DOWNSIZING

At this point, the downsizing has been announced and executed. Consideration has been given as to

how and when the announcements were made. Reasoning for severance packages have been discussed. It is now time to concentrate on the second area of the downsizing, dealing with the survivors.

The remaining employees should be brought together in a formal setting. This is an opportunity for top management to acknowledge what has happened and discuss the new direction of the downsized company. The remaining employees must be reassured that the company is still intact and that they are not sitting on a time bomb. There are two key objectives to accomplish here. First, the formality of the gathering and acknowledgment by upper management serves as an opportunity for the remaining employees to grieve. Moskal (16) stated, "Funerals, weddings, and divorce provide a formal ceremony for acknowledging a transition. Ceremonies in the survivor setting can be as simple as lunch or as complex as an address by the CEO." Next, the fears of the remaining employees can be laid to rest when management seems to have a focus and direction for the company.

While planning for the downsizing, management is dedicating all of its time to creating the look of the new downsized company. As a result, the day to day work has been placed on the back burner. Now that the dreaded task of laying people off has been completed, it will be the natural tendency of management to address its backlogged work. Moskal (16) warns against this. "In the days following the downsizing, management must be visible and accessible. Management should aim to increase communication five to ten times the normal amount during stressful times." The managers and front line supervisors should visit each department of functional unit. The problem with this is that most managers do not know what to say. It is difficult for them to go out onto the work floor and visit with the surviving employees after they have made the decisions which shaped the current workforce. However, the manager can begin by discussing his or her current feelings which, in turn, should put the employees at ease. After this comfort level has been established, all areas which concern the employee can be addressed.

Hopefully, the direction of the company was established in the meeting initially following the downsizing. Next, this company focus should have been reinforced when managers visited each department or functional unit. At this point, each department or unit head should establish short range goals for their area to focus on. This gives the employees a tangible objective in which they can reestablish their confidence and a new status quo within the newly organized company. (16)

In order to emphasize the company's commitment to the displaced employees, the company should keep the remaining employees up to date on the displaced employees. This serves as a vehicle for retained employees to monitor the progress of the displaced employees since it is natural for them to be concerned about their former coworkers.(16)

CONCLUSION

Unfortunately the phenomenon of corporate, downsizings will continue for companies both small and large. Current data show that no company is exempt from it. It is for this reason that businesses should become educated on the proper way to execute a downsizing. There are definitely common attributes associated with a successful downsizing in that the trauma to both displaced and retained employees are minimized, productivity does not suffer, and the long range health of the company has been

insured. Hence, there is no reason for a company which is about to go through a downsizing to feel as though there is nowhere to turn. There is a process, it can be learned and duplicated, and it can be implemented by companies both small and large.

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DIVERSITY: THE FOUNDATION OF A QUALITY WORK FORCE

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ABSTRACT

The anticipated diversity in the work place will force organizations to recognize the unique needs and cultural backgrounds of their future employees and customers. Managers must learn to be tolerant of language and cultural differences. Organizations need to accommodate the desires of all employees; men and women, white and minority, American born and foreign nationals, young and old, if they are to have a stable work force and retain their competitiveness in the world of global economies and markets.

Changes will no doubt occur as a result of the differing backgrounds, sets of work ethics, and values which the new employees will bring with them into the work place. Those organizations which can adapt to workers from culturally different backgrounds will have the opportunity to attract and retain the most qualified people in these groups and bring forth the best performance from them. Moreover, those organizations which develop an employee population that reflects its customer base will have a business advantage, especially in a community which has a diverse culture. Thus, a culturally diverse organization should be able to meet the needs of its qualified employees and at the same time allow for its customers to be efficiently and professionally served, especially in a multicultural society and global marketplace.

INTRODUCTION

The changing demographics of gender, race, and color in the American work force will be dramatic in the next century. The majority of new workers will be women, African-American, Hispanics, and immigrants. It is estimated that by the year 2000, native-born white men will constitute only 15 percent of the new entrances to the American work force.(5) This increasing diversity in the work setting can become an organization's competitive edge, but it can also become a weakness if not understood and correctly utilized. Preparations must be made for the increasing work place diversity.

Many U.S. corporations have responded to the demographic trends by doing more than just passively accepting diversity, rather they are aggressively promoting diversity. The idea is that encouraging the best and the brightest, regardless of race, color, sex, religion, national origin, age, sexual orientation, or disability gives the collective group a competitive edge. The more diverse the talent pool, the greater the creativity, ingenuity, and number of innovative ideas that can be generated. These intellectual commodities are required for corporate success in a competitive world. (10).

These new corporate attitudes are different from earlier policies of equal opportunity and affirmative action established by the federal government. Under these policies, women and minorities were often hired into jobs and then left in their respective positions without further training or developmental opportunities. In contrast, diversity policies actively nurture nontraditional employees, as companies

now want them to succeed and stay. Companies that do not respond to the new work force composition will lose their competitive edge. Today's workers are less willing to lose their individuality and are beginning to celebrate being different. Workers are now less willing to get into the melting pot and may become less productive is required to do so. Diversity not only includes race, gender, religion, sexual orientation, and family background, but also any difference between people, including the way they make decisions and what they consider priorities. (8)

Reasons for Cultural Diversity Implementation

Originally work place diversity assumed differences should be eliminated and everyone, regardless of color or gender, would strive to be alike. The homogenization of the work place was based on the belief that those who already held positions in organization, typically white males, possessed the appropriate behaviors and skills to hold these positions.

Newcomers to an organization needed to adopt those behaviors and skills in order to acquire these positions. It was assumed that people who were different should assimilate into existing corporate culture, learning the behaviors, skills, and strategies of the white men who created and maintained the culture. (4)

The diversity objective today is not to assimilate minorities and women into a dominant white male culture, but to create a dominant heterogeneous culture that respects differences. (6) There will be no place for the "old-boy" white male system which is characterized by a single organizational culture intended to make employees conform to idealized behavior and commit to long-term organizational goals. (l) Ignoring cultural differences is a way of pretending that we are all equal and is a form of discrimination caused by ethnocentricism. People need more knowledge about cultural differences in order to understand different people, manage different people and value their differences. (2)

Ethnocentricism is the tendency to interpret or judge all other groups, their environments, and their communication according to the categories and values of one's own culture. Evaluation of others is done by standards that have been learned early in life, on an unconscious level, from the culture in which one was raised. Ethnocentricism may be the single major barrier to intercultural communication due to the fact that it assumes one set of standards is better than another. This attitude predisposes individuals to negatively judge the looks, actions, words, values, etc. of others with relative ease and creates built in biases.

The diversity of the new work force will force the company's needs, circumstances and philosophy to adapt for the culturally different worker. (1) Moreover, those organizations which develop an employee population that reflects its customer base will have a business advantage, especially in a community which has a diverse culture. (9)

Acceptance of a Culturally Diverse Organization

Insensitivity to cultural differences in the work place may create anxiety and frustration for managers and employees. However, solutions for the managers and employees lie in acquiring information about the cultural backgrounds and value systems of those with whom they work. The task of human

resource managers is to find constructive and economically feasible means of dealing with the challenges brought on by the new diverse work force. All managers and employees must be color and gender blind, as well as being free of ethnic and cultural bias. (l)

The following business strategies may help managers and employees to effectively deal with the different components of the diversified work force:

* Implementing training sessions focusing on creating awareness of cultural differences while avoiding the stereotyping of ethnic groups, race, gender and lifestyle. The training should enable all workers to have a change in behavior and attitude toward a culturally diverse work force. A goal of the training is to identify unconscious company values that work against minorities and women. (9)

* Upper management's commitment to reestablishing a new organizational culture. After completing an internal cultural audit, it is recommended that the organization identify its new organizational cultural approach. The internal organizational cultural is the body of unspoken and unexamined assumptions, values, and mythologies that make your world go round, this kind of cultural audit is impossible to conduct without outside help. (2)

* Understanding personal values and how they have been derived. Before individuals can appreciate others, they have to understand how they learned the messages that shape their perceptions, beliefs and values around such issues as race, gender, age, alternate lifestyle. etc. (2) It must be acknowledged that all sorts of people from various backgrounds and ethnic groups, with different values and attitudes make up corporate life. Projecting or imposing one's own culture and value system onto others must be eliminated,

* Improvement in communications throughout the organization. Upper management must be committed to strengthening a cultural diverse entity and must communicate to managers and employees an image of fully tapping the human resource potential of every member of the work force. This message assumes a diverse work force that creates an environment where everyone will do their best work. (9)

* Establish educational, community, and support groups. The initial awareness training is enhanced by continuously promoting diversity education among employees. Furthermore, by actively pursuing diversity awareness in the business community, customers and suppliers will become aware of your socially responsible attitude and new organizational culture. In addition, in-house support groups can respond to problematic situations and be an asset to your organiza-

tion. By utilizing educational opportunities for the better understanding of cultural diversity, management and employees will continue to become more diverse in their thinking and actions.

* Encourage personal and professional networking. Support employees sharing of ideas to improve the social climate and performance efficiency of the organization. Networking promotes the growth of individuals, as well as the organizations overall level of competency.(9) This synergistic effect not only enhances individual performance but also the entire organization as well as the surrounding community.

* Expect problems and prolong results. Not everyone, especially white males, will be please with the new diversity programs. Backlash cannot be avoided altogether, but it can be lessened by including white men at all levels of decision making and by keeping everybody informed. (7) It must be understood that when implementing a cultural diversity program results will not be immediate, as it may well take a couple of decades to see the positive effects of having a culturally diverse work force.

CONCLUSION

Organizations which learn to manage a diverse work force will hold several competitive advantages. First, they will have the opportunity to hire and retain the best talent among the new labor force. Companies which acquire a reputation as being a good source of employment for minorities, immigrants, and women will be sought out by workers in theses groups. An effective diversity program will help these employees be productive employees, thus reducing employee turnover and saving costly retraining dollars.

Secondly, companies with a work climate that supports diversity will encourage innovation. A diverse work force will bring a broad range of backgrounds, interest, points of view, and unique ways of solving problem to the organization. Proper training and education will allow managers to view worker, whatever their gender, race, or pace of birth, as individuals. Organizations where no one has an advantage because of race, sex, ethnic origin, or lifestyle will provide a greater sense of motivation and receive a greater commitment from their workers. In addition, companies which do not have the reputation for treating all employees without prejudiced will find it difficult to recruit and motivate women and minorities.

Finally, a culturally diverse organization that employs women and minorities of various cultures will enhance a company's ability to operate more efficiently and more productively within the domestic markets as well as global markets. As the market place is becoming more diverse, companies which employ a culturally diverse program will find it easier to promote their products and services in the competitive international environment.

A diversity plan provides the employees with the tools as well as the reasons to move toward valuing diversity. At the same time, it provides employers with a solid basis to plan and develop programs for the remainder of the 1990's and into the twenty-first century. Utilizing a work force diversity plan as a guide will enable the organization to successfully compete for a scarce resource, a qualified work force, in a rapidly changing environment.

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DEMYSTIFYING STRATEGIC MANAGEMENT: THE NEED FOR STRATEGIC MANAGEMENT IN SMALL BUSINESS FIRMS

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ABSTRACT

There is an assumption that strategic management is an exclusive domain of large business conglomerates. It is also believed that strategic management is not irrelevant to small business firms. This paper demystifies strategic management, and argues that small firms need strategic management.

INTRODUCTION

Over the past few decades, strategic management has become a prominent field of business study. Despite its centrality to all organizations, however, much of the burgeoning literature typically focuses on large firms (1; 13; 29). Until recently, small business firms have been virtually ignored in the strategic management research (36). Such a neglect conveys the impression that strategic management is exclusively a Fortune 500 firm phenomenon. Most of the small firms have given credibility to this assumption. First, they believe that strategic management is not relevant to them. Second, many small firms are ignorant of the value of anticipatory decision making. Managers of small firms are "unaware of the possibilities for such strategic planning and unappreciative of the value of spending time and effort in this endeavor" (7, p. 33).

This paper demystifies strategic management by examining its applicability to small firms. Research suggests that the small firm is a crucial arena for strategic management research (24). Contrary to the assumption that strategic management is exclusively a province of megafirms, it is proposed that small firms stand to benefit by adapting and applying some of the concepts of strategic management. Managing any business is a complex undertaking, and good management is a prerequisite for success and profitability. Though a business is small, its management cannot be considered as easy or requiring less skills than a large firm (29). Managing a small firm is even more challenging than that of larger firms because small firm management must deal with limited resources in responding to environmental constraints (19).

RESEARCH BACKGROUND AND ISSUES

The Small Business Act of 1953 which created the Small Business Administration (SBA) stated that "a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation" (32, p. 22). Such a firm typically generates less than $10m in annual sales and has fewer than 100 staff. over the years, the defining criteria for small firms have changed due to the fact that industries vary with regard to technical complexity and capital and labor requirements. Although the U.S. economy is symbolized by large corporations, this does not diminish the importance of small firms.

Small businesses are the pacesetters in the U.S. economic recovery, growth, and prosperity (29; 32). They constitute 99% of all nonfarm enterprises (34, p. 4). Literature abounds on the role of small firms in the U.S. economy, especially in generating jobs and stimulating growth (29; 32).

An objective assessment of the role of small businesses in the economy, however, requires that we "consider also its darker side, that is, the record of business failure, (16, p. 41). Paradoxically, while small firms are the engine that propels the U.S. economy, they suffer from a high mortality rate." Research shows small firms suffer from a high failure rate (4; 27; 34).

Small firms account for 99% of all business failure in the U.S. (34, P. 218). A study revealed that 53% of business failures and bankruptcies in 1980 occurred in less than five years from the firm's founding, and that 83% failed in less than ten years from inception (27). About 34% of the small firms that existed in 1982 had discontinued by late 1986 (4). The causes of high failure rate of small firms deserves exploring.

REVIEW OF LITERATURE

A study attributed about 52% of all business failures to "management issues," and as much as 90% of small business failure to incompetency of managers. Nine out of ten businesses failed due to lack of proper management (11, p. 20). Dun and Bradstreet identified factors such as neglect, disaster, fraud, inexperience, finance, and strategy as accounting for the high rate of business failure 110). Heavy operating expenses and inadequate sales and profits more often serve as metaphors for inferior quality of management.

The causes of small firm failure have two dimensions: external and personal factors. External factors include business cycles, interest rates, and interrupted supplies. Personal factors include lack of experience, mismanagement, poor business philosophy, and the lack of planning (13). Less than half of small business owners had formal plans prior to going into business. Many engaged in formal planning soon after commencing their businesses, but one-third could not recall ever having a formal business plan (30).

A study reported that firms that used strategic planning systems that combined a long-term perspective with an external focus provided higher returns to stockholders (22). Formal planning has the greatest value when the process and plans are consistent with the realities facing the firm; when managers are committed to the plans; and when top-level managers use their experience to integrate the firm's different parts (12). The high failure rate of small firms can be reduced by adapting and applying some of the strategic management ideas. Instituting a formal planning process could help small firms to improve their decision making. Small firms should be future-oriented in their operations.

STRATEGIC MANAGEMENT PROCESS IN SMALL BUSINESS FIRMS

Strategic management is a process of "decision making and actions which determine whether an enterprise excels, survives, or dies" (14). It is "a continuous, iterative process aimed at keeping organization... appropriately matched to its environment" (8). Content analysis of the literature relating to small firms planning practices yielded eight planning components: objective setting; environmental

analysis; SWOT analysis; strategy formulation; financial projection; functional budgets; operating performance measures; and control and corrective procedures (15). Small firms lack the resources required to execute all these steps. A realistic approach to strategic management it small firms must consider the resource poverty. A study proposes four steps: environmental analysis, strategy formulation, strategy implementation, and evaluation and control (36).

Environmental Analysis

Understanding of environments is crucial for small firm's survival. Environmental analysis enables firms to gather information on both the internal and external factors that potentially affect their operations. By analyzing internal environment, small firms are in a better position to identify their strengths and weaknesses. Internal analysis focuses on organizational, human resource, marketing, financial, and production aspects. Understanding of. the internal environment enables firms to rationally allocate their resources, optimize their strengths and minimize their weaknesses.

Small firms should also analyze their external environments to identify potential opportunities and threats. Generally, firms do not have control over external factors. But since external factors have greater impacts on small firms than on large corporations (17), small firms that recognize them are likely to be in a better position to make necessary adjustments in their operations than those which do not. The same argument applies with regard to innovations. Small firms are more vulnerable to technical change than do larger ones. Small firms are clustered in highly fragmented industries with many competitors.

Strategy Formulation

Strategy formulation involves a series of activities, such as the delineation of business mission, specification of objectives, and determination of policies. In formulating business strategy, small firms should develop mission statements embodying the rationale for their existence. A mission statement should differentiate a firm from others; it "should establish the individuality, if not the uniqueness, of the firm" (2, P. 31). The firm's mission statement is a framework that determines the specific objectives to be pursued. Finally, policy is a broad guideline that links the firm's strategy with its implementation.

Strategy Implementation

Strategy implementation is the process by which small firms put their policies into action. This is done through the development of specific programs, budgets, and procedures. This process might entail modification of organizational culture, structural design, and management style.

Evaluation and control Small firms' strategy must be periodically evaluated to ensure that the strategy is on tract in terms of meeting its stated goals. Evaluation provides the means of control. It also enables the management to take timely corrective actions should there be performance gaps.

PLANNING IN SMALL FIRMS

Strategic planning is perhaps the most crucial component of the strategic management process. Strategic planning "is a backbone support to strategic management;" thus, it "is inextricably interwoven into the ... fabric of management" (33, pp. 4, 3). Planning is a "thinking process which deals with the reasoned determination of a future course of action" (7, p. 104). It is a systematic process because "it is organized and conducted on the basis of an understood regularity" (33, p. 14). A commonality of ideas can be found among various views of strategic planning. Virtually all definitions emphasize the "future-orientedness" of strategic planning. Four components of formal strategic planning are: futurity of current decision, process, philosophy, and structure (33, pp. 13-15). These components can be summarized, thus:

Futurity of current decisions. The focus here is on the chain of cause and effect an actual or intended decision that a manager is going to make. Strategic planning looks at the alternative courses of action that are open in the future. It is the identification of opportunities and threats that lie in the future.

Process. As a process, strategic planning begins with the setting of organizational goals, defines strategies and policies to achieve them, and develops plans to ensure the implementation of strategies so as to achieve the ends sought.

Philosophy. Strategic planning is an attitude of mind and a way of life. It is more of a thought process, an intellectual exercise, than a prescribed set of processes, procedures, or techniques.

Structure. Strategic planning system links three major types of plans: strategic plans, medium-range programs, and short-range budgets and operating plans.

The process of strategic planning is as complex and elaborate as the methodology in use. A planning methodology refers to the procedures utilized in arriving at the objectives espoused by the business entity. The major difference between large firms and small ones with regard to strategic planning is on the methodology and scale. The scale of planning reflects the degree of complexity of the firms. Strategic planning enables the firms to anticipate the future and to devise courses of action that will culminate in a successful future. Organizational visions, missions, and goals jointly determine the scale of strategic plans.

Certain writers believe different management principles should be developed for small firms. They argue that a small business is not a little big business and that the very size of small firms creates a special condition distinguishes them from larger ones. Such condition require some very different management approaches (35). Another view is that the development of a theory of strategic planning based on large firms may be unsuitable for small firms (23). Still, some admit that "it is true that a firm wishing to establish a planning process should do so by adapting and modifying planning principles and concepts to its situation," but argued that "the operating practices within smaller organizations makes that modification difficult, if not impossible." (29). It must be pointed out that even a strategic plan developed for one small firm may be unsuitable for another. The scale of strategic planning should reflects the level of complexity of the firms. The size of a firm is an important dimension in the type of planning system it may adopt (33).

ISSUES IN SMALL FIRM PLANNING

Planning in small firms has several dimensions. The most important dimensions, however, are strategic versus operational planning and formal versus intuitive planning.

Strategic versus Operational Planning

Literature distinguishes between strategic and operational plans at two levels: scope and time horizon. Strategic plans embody the long-term goals of the firm, how resources will be deployed, and how the firm will position itself to achieve its stated goals. Strategic plans are more general, and usually cover a period of one-to-five-year time. By contrast, operational plans deals with setting of short-term goals for specific functional areas (finance, marketing, etc.). It entails day-to-day issues, and they often cover a period of less than one year.

It has been suggested that the top management of small firms should be more concerned with operational planning than with strategic planning. A study found that strategic planning was not related to improved financial performance of small firms, but that operational planning was positively related to performance (26). This is not surprising in view of the fact that small businesses are more concerned with day-to-day, here-and-now (operational) issues than with long-term (strategic) issues.

Formal versus Intuitive Planning

There are two fundamentally different ways by which managers plan for their firms (33). One is intuitive-anticipatory planning. In this approach, planning is done in the brain of the manager. It is based on the gut feeling, judgment, past experience, and reflective thinking the manager. The second is formal strategic planning. This is rooted in clearly established procedures, systematic collection of information and analysis of data. Formal strategic planning centers on an "explicit process for determining the firm's long-range objectives, procedures for generating and evaluating alternative strategies, and a system for monitoring results" (3, p. 198). Managers of small firms tend to rely heavily on intuitive-anticipatory approach as opposed to formal planning. Even where formal planning is attempted in small firms, they are usually spotty and unsystematic" (16, p. 457). Small firms need to invest time in strategic planning.

UTILITY OF STRATEGIC MANAGEMENT IN SMALL FIRMS

Strategic management process has considerable utility for small firms. it provides a unified sense of direction for the management. A 1990 survey by the national accounting and consulting firm of BDO Seidman is instructive. Of those firms with a strategic plan, 89% indicated that the plan had been effective. Reasons given for its effectiveness were that it had specific goals (64%), gave staff a unified vision (25%), and set a time horizon for goals attainment (11%) (35, p. 365). Strategic planning benefits small firms by causing them to explore new alternatives and to improve their competitive positions.

Instituting the strategic management process by itself spurs learning and creativity. Literature emphasizes the importance learning and experience associated with the strategic planning process (33). It has been asserted that the most important contributions of the corporate planning systems were actually in the "process" (21). Prior research suggests that firms that have a longer history of planning

outperformed those with shorter planning history (18). A study of 265 dry cleaners demonstrated that firms that had engaged in strategic planning for more than five years significantly outperformed, in terms of revenue growth and net profits, those firms with less than five years of strategic planning experience (5). The ability to understand and use strategic management practices depends on cognitive sophistication development, which in turn is partly a function of experience (6).

CONCLUSION

Small firms need to understand and appreciate the value of strategic management and its applicability to them. Planning skills can be developed by instituting the strategic management process. The key issue in this process is the desirability of anticipating and planning for change. Small firms without strategic plans are vulnerable to the wind of unanticipated change. Small firms are no longer immune to the vagaries in the world stage. Changes in the global economy has ramifications for small firms just as they do for megafirms. Globalization of the U.S. economy has drawn foreign competitors into an increasing number of domestic markets. Small firms must reckon with this emerging trend. Strategic management will equip small firms to better adapt to the changing environments. Although some of the reasons for the lack of planning in small firms valid, it appears understanding the importance of and demonstrating interest in strategic planning are the key issues for small firms. To achieve best possible results, "managers and staff ... must believe strategic planning is worth doing and must want to do it as well as they can" (33, p. 14). Small firms interested in strategic management can find help at little or no cost. SBA helps small firms by providing professional advice. They can also benefit from management services provided by SCORE. There are also centers or bureaus in the business departments of various colleges and universities which can assist small firm owners to set up a system for strategic management. Most of these are in the network of the Small Business Institutes Directors' Association. It is imperative to add that strategic management/planning is not a panacea for all business problems, but it can force small firms to think proactively, recognize threats, and devise means of dealing with them.

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DOES THE OWNERSHIP OF THE SMALL FIRM AFFECT GROWTH?

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ABSTRACT

This study examines the ownership structure of the small firm and its affect on the growth achieved by the small firm. A sample of small manufacturing firms was used to determine if goal conflict exists between managers and owners in small firms. Mann-Whitney U analysis of the growth of manager-controlled versus owner-controlled small firms found manager-controlled firms experienced greater relative growth than owner-controlled firms.

INTRODUCTION

Does the ownership structure of the small firm affect the growth realized by the small firm? Agency theory suggests a relationship between the firm's ownership structure and the strategies the firm pursues; strategy ensues from the ownership structure of the firm, the form of the contract between owners (principals) and managers (agents).

Agency theory suggests executives pursue personal goals in their strategic decisions which may conflict with owners' goals. Managerial goals include growth, smoothed income streams, enhanced power bases, reduced employment risk and enhanced compensation. These objectives of managers frequently appear to conflict with the profit maximization or increasing shareholder wealth goals of owners. Because of these conflicting goals, owners incur agency costs associated with executive incentive programs and monitoring activities (24).

The ownership structure of the firm affects who exercises control of the firm, and for the purposes of this study ownership structure and control will be used interchangeably.

Small firms, as well as large firms, pursue growth-oriented strategies (4; 12). The research on the structuring of organizations suggests that successful firms evolve through several ownership and strategic stages from entrepreneurial single-owner-single business firms to corporate-form diversified firms (3). Research bearing on the efficacy of growth-oriented strategies indicate that growth- oriented small businesses survive at twice the rate of non-growing firms (18). These streams of research provide small business managers/owners with incentives to grow.

A large body of research focuses on the Fortune 500 companies in the United States and similar sized firms in other countries. Several researchers report a systematic relationship between diversification strategy and economic performance for Fortune 500 businesses (20; 21; 15; 17). A few studies examine the strategies of mid-sized firms (12), but very little research focuses on small businesses. The Fortune 500 firms make up less than 1/10 percent of the firms in the United States. Small firms, business with less than 500 employees, make up the majority of firms, provide half the jobs and over 40 percent of business sales, a major force in the United States economy (25). The cumulative effects

of small business strategies have important consequences for the economy as well as for the individual firm.

RESEARCH QUESTION

Agency theory has been supported by studies of large firms, but does the theory help small firms make decisions? How are ownership structure and growth related in small businesses?

Agency theory suggests different levels of ownership control of the firm should result in different growth rates. Manager controlled firms should have a preference for high growth to minimize the managers' risks (1). owner controlled firms should prefer lower growth (and higher profit) (10). Owners, being more risk seeking than managers, would seek higher profits at the risk of less growth.

Research on small businesses identifies several conditions distinguishing small firms from large firms (7; 8) that could lead to different results for small firms. First, the restricted options of small firms due to size and resource constraints affect the strategies chosen by the small firm. Small firms may not, for example, have requisite resources or managerial skills to implement diversification strategies. Second, since small firms analyze and interact with their task environment differently than large firms (23), a different set of alternatives would be recognized by small firms compared to large firms. Third, the extended internal, interpersonal, interaction found in small firms compared to large firms (16) should lead to greater goal congruence among owners, managers, and employees of small firms. These factors suggest that the effects of agency theory on the small firm may be different than the effects found in the study of large firms.

Theories of organizational growth provide insight into the strategies that owners might use and the relationship to ownership and control. However, the research and theory use large (Fortune 500) firms as the basis for observation and theorizing.

Robinson and Pearce (19) found a lack of strategic planning in small business. They attributed the lack of strategic planning to lack of time, limited knowledge of planning process, lack of expertise, and lack of trust and openness. Welsh and White (28) argued that small size creates a special condition of resource poverty requiring different management strategies. This research suggests a need to examine theories developed for large firms from a small firm perspective.

Thompson (26) argued "our" culture prefers success over failure, and fitness for future action dominates the measure of organization success, not past accomplishments. Using comparison with other organizations as the measure of success, the relative growth of the firm provides a common measure of the firm's fitness. Size differences in firms affect the scale of opportunities and resources, and also affect the methods of accomplishing objectives.

HYPOTHESIS

Holl (10) argued that on average, management controlled firms will exhibit higher growth rates and lower profit rates than owner controlled firms. A plot of rates should result in two subgroups of points. His results suggest that owner controlled firms have higher profit rates and lower growth rates

than manager controlled firms, with variance and skewness being greater for owner controlled firms as hypothesized. The same results occurred when removing the bias of size among the firms, using matched pairs. When controlled for industry effects using matched pairs, however, these and measures of variance of profit, skewness, and distribution ratio varied in the hypothesized manner but not significantly, suggesting that control type does not affect growth.

McEachern (14) argued that non-manager owners prefer profit maximization more than owner-managers who may opt for nonpecuniary benefits ("perks"). He found owner-managed firms tended to retain more earnings and accept more stock market risk than either outsider owner-controlled or manager-controlled firms. Returns on common stock were highest for owner-manager firms, then for externally controlled firms, and lowest for managerially controlled firms (22).

The extended interaction of owners, managers, and employees of small firms should better align the preferences of owners and managers than would be expected in large firms, thus eliminating agency effects. Thus, both manager controlled and owner controlled small firms should exhibit the same goals. Conventional economic wisdom suggests the goal should be profit maximization not growth. Research distinguishing attitudes and behaviors of entrepreneurs (principal purpose profit and growth) and small business owners (principal purpose furthering personal and family goals) provides another view (2; 27). An entrepreneurial owner controlled firm may exhibit the same preference for growth as a manager controlled firm. Thus, small firms would be expected to exhibit similar goals regardless of ownership structure, but what that goal should be differs depending on viewpoint.

The following hypothesis tests this relationship: Manager controlled small firms will exhibit higher growth rates than owner controlled small firms

SAMPLE

Table 1 Sample Characteristics

MEASURE MEAN SDEV MEDIAN MAX MIN

TOTAL 8.23 7.95 6.39 79.75 .48 ASSETS $M

NET 7.86 5.24 6.73 23.08 1.0 SALES $M

EMPLYS 92.4 70.6 72.5 401 2

%MANAGER STOCK 28.1 20.9 22.5 99.9 .11

%OWNER STOCK 44.8 24.0 44.2 99.9 .77

OWNERSHIP CONTROL 2.44 .66 3 3 1

%GROWTH 9.6 23.8 6.8 182 -72.5 OF NET SALES

%RELATIVE GROWTH 5.1 23 1.3 173 -74 OF NET SALES

n = 274

This study used the population of small firms on the personal computer compact disc version of the Disclosures database (5), consisting of over 12,000 publicly held firms (2971 manufacturing firms), and containing information from annual and quarterly reports, and SEC 10-K filings (11). This study defined "small" as firms with less than 500 employees, total assets of less than $150 million, and annual sales of less than $20 million. These points provide the upper bounds of most definitions used in small business research (7).

Considering only manufacturing firms, firms in Standard Industrial Classification (SIC) codes 2000 to 3999, minimized, but did not eliminate, industry effects (838 firms). To further minimize the industry bias, the sample included only industries containing small firms with a variety of ownership structures and strategies. An additional constraint on the sample resulted from using only those firms with sufficient data, 274 small firms (see Table 1 for characteristics).

MEASURES

Ownership structure and growth constitute the constructs for this study. The categorical variable OWNERSHIP CONTROL categorizing the firms as manager controlled (1), weak owner controlled (2), or strong owner controlled (3) measured ownership structure. The continuous ratio variable (GROWTH) measured growth for Mann-Whitney tests (11) (see (11) for definitions).

The compound change in net sales for the period for each firm measured the growth of the sample firms. To provide a relative comparison of firms in various manufacturing industries, the study compared the firm's growth to the average industry growth of its primary industry, and then used this relative growth to compare firms. The primary industry of the firm provided the factor used to determine relative growth on the assumption that the largest industry the firm participated in had the most effect on growth. The study did not use a composite average due to a lack of data on the size of each market for the firm. The 1992 Business One Irwin Business and Investment Almanac (13) provided the mean growth rate of manufacturing industries from 1987 to 1990 used to determine relative growth.

METHODS

Nonparametric Mann-Whitney tests, for ranked ratio data provided the primary evaluation of the hypothesis. Nonparametric tests do not require the data to meet the strict assumptions of parametric tests, yet provide rigorous tests of the hypotheses (6). Since the test used ranks rather than just the mean used in the t-test, more information about the population entered the comparison providing a good, relatively powerful test compared to the t-test (29).

RESULTS

As an initial analysis of the population under study, the simpler nonparametric technique allowed

testing of the exact relationship proposed. The test used the Mann-Whitney test to rank the relative growth of firms.

Table 2 Mann-Whitney Test Comparing the Ranking of Relative Growth of Small Firms by Ownership Structure

Ownership Control Manager Weak Strong Owner Owner

Mean Rank 112.8 -- 82.4 Cases 26 -- 147 MW U 1241 -- z -2.85*** --

Mean Rank 84.4 58.8 -- Cases 26 101 -- MW U 784 -- z -3.16*** --

Mean Rank -- 120.3 127.4 Cases -- 101 147 MW U -- 6894 z -- -.77

$p < .005$

The test of the hypothesis, manager controlled small firms will exhibit higher rates of growth than owner controlled firms, found a significant difference between manager controlled smatrolled firms ($U=1241$, $p<.005$) (Table 2). Manager controlled small firms exhibited predominately high growth with a mean rank of 112 compared to strong owner controlled firms which were indeterminate with a mean rank of 82 (Table 2). If no differences existed, a mean rank of 86.5 and a median rank of 87 for the 173 firms in the two combined groups would be expected. Manager controlled and weak owner controlled small firms compared similarly (Table 2). No significant difference existed among weak and strong owner controlled small firms (Table 2). The results support the hypothesis, that manager controlled small firms exhibit higher growth rates than owner controlled firms.

Thus, the sample results support a relationship between growth and ownership structure.

DISCUSSION

The study found as the managers' ownership of the small manufacturing firm increased (the firm became more owner controlled), the rate of growth of the firm declined as predicted by theory. Manager controlled small firms exhibited higher rates of growth than owner controlled firms. This supports agency theory and the proposition that managers act in their own behalf, not necessarily the firm owners' behalf.

This study provides a means to determine the growth posture of small manufacturing firms based on their ownership structure. These results suggest small business owners and/or investors should determine their objectives for the small firm, explicitly communicate the objectives to their managers, and monitor the performance of the firm to insure the decisions made by managers support the owners objectives, not the managers objectives.

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ASSESSING OPPORTUNITIES FOR MARKETS AND INVESTMENTS IN EASTERN EUROPE: A CASE ANALYSIS OF ROMANIA

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ABSTRACT

With the emerging nation states of Eastern Europe, their focus has become oriented toward market-driven economies. The former socialistic structures provided only a limited array and level of consumer goods. Additionally, the industrial capital was not replenished adequately and there is considerable need for plant modernization. The questions remain of where to address the opportunities first and which opportunities provide the greatest promise of feasibility. The examination of this paper is developing a structure of analysis and prioritization of investments in these emerging markets as a blending of the existing realities and the theoretical foundations of enterprise development and behavioral sciences.

The questions are of critical importance to the entrepreneurs and within the framework of small business. While there are instances of major corporation involvement, the majority of activity is reflective of small, newly created enterprises. In filling the voids and responding to needs, there is a rapid development of small businesses.

CHARACTERISTICS OF EMERGING MARKETS

While each Eastern European market and its potential will differ, there are numerous similarities in these countries. While it is impossible to be exhaustive in either descriptions or detailing of the countries, several of the primary factors of Romania will illustrate the nature of the social and economic environments.

Romania is roughly the size of Oregon but has 23 million people compared to only 2 million in Oregon. While there are numerous histories and transitions that have occurred in Romania, the current situation is one of a constitutional democracy and a desired alignment with Europe through EC membership. The rail system is intensely developed, has some definite needs for modernization, but is the primary means of inter-city travel for the people. Inflation is oppressive with annual rates of 200-300 percent. (l) Several additional factors deserve more explicit examination due to their influence on market development.

Incomes have been modest but under the socialistic system rather even; there was little deviation from an average, either up or down. However, the limited income status of the people has resulted in very low levels of savings. The limited incomes likewise have been primarily spent on necessities leaving little for discretionary expenditures. Coupled to the high rate of inflation, the economic status of the

average individual is safe but not substantial, adequate but not comfortable. The paucity of personal incomes and wealth is one of the greatest hurdles to confront as investments are being advanced with new markets and new industries. The work ethic is strong and labor productivity considered as high. The literacy rate is over 98 percent and the university educational system well established. However, unemployment estimates range from 7 to 12 percent; with changes from state-owned to private-owned industries, unemployment is estimated to rise to as much as 20 percent. (1) Unfortunately, there are an insufficient number of employment opportunities to accommodate the interest of a strongly educated and skilled population.

Compared to Western Europe, the housing and health systems are substandard. Both of these economic sectors need substantial improvement. There is already evidence of additional housing units being built. However, the medical systems are plagued primarily by an inadequate supply of pharmaceuticals and advanced technology. The medical staffs are dedicated and well educated but have the limitations of inadequate facilities and equipment. Interestingly, there is a strong understanding and reliance on natural systems of maintaining health and even the curative properties of natural methods and elements. In summary, many of the factors that enable living comfort in the west are more limited in Romania.

The emphasis is on change. Not only has the political system and its institutions been completely overhauled, the economic system is rapidly moving in the same direction.(2) Private enterprise is quickly becoming the focus of the market driven economy with a chase by virtually everyone to develop a business entity. (3) The behaviors of the past are being replaced by new expectations and visions of economic prosperity. There is virtually nothing that has gone unchallenged except perhaps established religion; however, even that is experiencing encroachment from western religious organizations.

_____ (1)

These are estimates that were obtained from various persons responsible for development. When they are only estimates, the conditions of the labor marketing and the process of privatization provide a reasonable assurance of their veracity. The reader is to assess the relative magnitude of these data not the degree of precision. Within the environment of change, there are both expectations and opportunities.

The nature of the market system even next year will be radically different from the characteristics of today. (4; 5) However, beyond the pursuit of change for the excitement of the alternative, the processes must be undertaken with care and judgment. While some might argue that Romania should rapidly accelerate the rate of change, the jury is still determining the best and most effective method and rate of change in the Eastern European countries. (6) Certainly, as a restructuring of industries and investments in markets does proceed, it must reflect the character of the people and concurrently accommodate the realities of what is feasible. (7; 8; 9)

The emergence of small business and especially new enterprises in instituting change is readily apparent. In the absence of structure, the entrepreneurs are seizing the opportunities and challenges to establish the market structure--not only in the distribution but also in production. Likewise, the external interests are being focused on questions of identifying the opportunities invest, contribute and develop the Romanian economy. Again, these interests are focused at the formation and small

business level. The task is to encourage entrepreneurial activity while minimizing associated risks.
(10) CHANCE DETERMINANTS

The adoption of changes in the economic and marketing systems are dependent upon six factors taken from the discipline of the determination of product adoption:

* degree of newness. Institutions products, and systems that are radically different will have a slower and more difficult acceptance in the Romanian structure. * relative advantage. Those proposals, whether they be methods or products, that provide the greatest advantage over the existing conditions will have the more rapid advancement. * continuity. Any product or method which is a gradual change from the existing situation will be more easily introduced than those that depart dramatically from the established patterns. This is especially true with food products. * observability. This factor is important in several measures. First, to introduce new methods may require demonstrations and local tests where people can observe the change. Likewise, methods or products that are highly observable will have a more gradual acceptance due to the possibility of others observing a failed decision. * friability. If individuals are able to consume a small portion of an idea, method, or product, without making a total commitment, the introduction of these changes will be facilitated. * complexity. Generally, the more complex and technically difficult the change, the slower to acceptance. Therein, simplicity sometimes must prevail over sophistication.

As proposals, opportunities, and investments are evaluated, this listing of factors will assist greatly in assessing the possibilities of success. In Romania, while there are conditions and experiences that defy this listing, the listing is sound theoretically and for practical purposes until there is evidence to the contrary. The challenge is not finding opportunities but selecting those with the highest probabilities of ultimately being viable and successful.

INDUSTRIAL REALITIES

As a member of the Eastern Bloc countries, Romania inherited some most interesting industrial profiles. First, there are concentrations in selected industries: steel and textiles. In other areas, there is a limited level of industrial development - printing, telecommunications, and chemicals. (11) Compounding this unevenness is the antiquated levels of production machinery or capital goods. (12) Reinvestments and modernizations just have not been made and many of the industrial productive systems are as much as 30 years old. The results have been terribly inefficient and less than fully adaptive industries as well as some holes in industrial production.

Investments in industrial capital goods will be controlled by three factors:

1. efficiency development but limited by labor wages; 2. complements to domestic growth markets for existing or new industries; 3. international competitive advantages for existing or new industries.

As harsh as these constrictions may be, they are the reality boundaries of industrial opportunities.

Romania has a labor wage rate that enables it to compete in labor intensive production with any country in the world. Estimates of wages are U.S. $30-50 per month for semi-skilled labor. This has

enabled Romania to compete directly in the world market with finished textile products. However, these comparatively low wage rates severely restrict the investment of capital in any industry where the intent is to limit labor and move into more capital intensive production. At present, Romania's world advantage is its highly competitive labor costs and industrial changes that diminish those advantages could be counter productive.

There are some investments being advanced where even the low cost employee can dramatically improve their productivity. In the shoe industry, for example, equipment for stitching and forming shoes is being moved into the factories. However, fully automated shoe production is not considered attractive because of the replacement of one factor of production (labor) by a higher cost factor (capital equipment).

Where there are substantial gains that will be realized in the domestic consumer markets, investment in Romanian industries is encouraged and deemed judicious. Already there are programs to modernize the dairy and poultry industries. However, these investments are complements to the development of consumer markets and are not intended to drive or develop the consumer market.

Because of the relatively low wage rates, Romania has a great potential for competing directly in world markets. The variety of products that could be successfully exported is almost unlimited. As stated, Romania already competes successfully in the international textile markets but has considerable capacity and potential for greatly expanded world market penetration. The wine industry is considered to be the fifth largest in the world but only a limited portion is exported for foreign consumption. There are proprietary patents for machine tools and industrial production equipment but the fullness of these potentials has been constrained by limited industrial capacity. These known and identified industries are poised to rapidly enter the international arena and given even limited capital investments will move swiftly and successfully in capturing a substantial position.

Again, caution must be advanced: industrial investment for competition in the world markets must be focused in those industries in which Romania has a clear competitive advantage. Where there is a high labor component in production, Romania constitutes an ideal investment because of the cost advantages of the labor component. Where there are patent or technological advantages, again, the investment in Romania is attractive. However, caution must be exercised very carefully in other industries where there is a capital intensive production and the intent is to compete directly with the well established industries of Europe. That is not Romania's advantage and restraint must be exercised. However, given even these limits of caution and direction, there is an extensive number of industrial investment opportunities within industries directed toward international markets.

PENT-UP DEMAND VS. EMULATION DEMAND

It is readily apparent that Romania and the majority of the Eastern Bloc nations have not been privileged to the vast array of consumer goods and even industrial goods as experienced by the Western countries. The conditions reflect the U.S. in post-World War II except the U. S. had an accumulation of only six years of unmet demand compared to more than 50 years in the Eastern Bloc countries. Therefore, the disparity of demand and world markets is more dramatic and accentuated. Caution, however, must be exercised with regards to definitions of the demand disparities and how the

future may unfold.

At the close of WW II, the U.S. consumer had an accumulated demand which became known as a pent-up demand characterized by several years of shortages especially in consumer durable goods. However, as a companion to this demand, there was an accumulation of savings (limited by 1990 standards but still more substantial than prior to the war), which enabled the consumers to move quickly into the consumer goods markets once the products became available. While Romania has even more severe shortages of consumer goods, reflecting 50 years of shortages, there is the absence of any significant savings. What little personal savings has been assembled will be allocated in a very judicious and planned pattern. Furthermore, the credit mechanism that fueled U.S. consumer purchases are virtually non-existent and those that do exist have horrendous interest rates which severely restricts the demand for credit. The expectations of a Romanian ground swell in the market similar to the U.S. after World War II is totally unreasonable as driven by pent-up demand consumer demand development will driven by other economic and cultural factors.

The Romanians have a great interest Western fashion, culture, and living patterns which translate quickly in many of the Western consumer good There is a selective process in which not all habits and preferences of the West are accepted and those that are perhaps not in the same proportion. However there is a process of "emulation demand present which will become a major determinant of future consumer markets.

An understanding of emulation demand requires a thorough knowledge of the cultural and sociological forces and trends of Romania. These demands are a reflection of the very character of the Romanian people, are developed through their collective interests, and have been sifted from the vast array of alternatives available beyond their national borders. It is impossible for this assessment to be correctly determined by a foreign individual. Therein, a careful determination of emulation demand will require assessments from Romanian nationals as researchers.

Emulation demand may be one of the strongest and most controlling factors in consumer markets in the future. It is already apparent that people will sacrifice even traditional consumption to shift their expenditures into products that are emulations of other economic environments. These emulations do not necessarily fit traditional wisdom or are readily explainable by theoretical underpinnings. However, the Romanian consumers are establishing an entirely unique and distinctive consumption pattern, emulation demand, that if fully understood can be of significant importance in investing and developing additional marketing dimensions for consumers.

DISTRIBUTION INSTITUTIONS: HISTORICAL REPETITION

The distribution system of Romania and those of the Eastern Bloc countries are reminiscent of those of the U. S. of the 1920s. The channel structures are incredibly short, goods move in small and limited quantities, personal selling is a major component, and the task of purchase requires a substantial personal investment due to the nature of specialized distribution. The system has performed adequately where limited merchandise was available. However, the costs of the system are reflective of inefficiency: low turnover, distribution imbalances, and the absence of self-service, consumer involvement. For significant market progress to be achieved, the existing distribution systems and

channels must be either enhanced or innovations instituted. (13)

The natural tendency is to take the existing channel structures and move them directly and immediately into the advanced concepts of modern channel management. However, the limited ability to finance those changes places absolute and significant difficulties in that strategy. While there is already some modernization of channel institutions, it is gradual, performed by each individual channel member, and of limited capital intensity. Improvements in distribution efficiency and broadening of channel structures must be developed from alternative means as detailed in the following examples.

The repetition of some of the historical channels of the U.S. and other countries will be part of the solution. Borrowing from the collective past of marketing can be one of the most significant opportunities for moving Romanian marketing and market development forward. Several examples will assist in understanding the possibilities:

* Mobile dry goods and grocery vehicles. At one time, many of the remote and suburban markets of the U.S. were serviced by trucks, buses and vans that had been converted to traveling stores. These mobile market vehicles enabled consumers who were distant from the core central city stores to have a variety of merchandise brought to their neighborhoods on a scheduled basis. These mobile markets continued to be successful until the introduction of personal automobiles for every household. Romania has a severe transportation shortage and personal automobiles are considered in the luxury category. Likewise, rural villages are practically without any retail institutions. The distribution conditions of Romania lend themselves to an immediate and successful introduction of the mobile market concepts.

* Insurance coupons and collection books. More than one major U.S. insurance company of today gathered their momentum during the 1920s and 30s by having insurance collection routes. These routes were assigned to collectors who visited a policy holder every week on payday and collected the 25 cents of insurance premium. This mechanism enabled a great number of people to have insurance on a small weekly contribution who otherwise would not have been insured. Concurrently, it established the policy holder base from which these companies grew in the years that followed. The opportunity for replicating this system in Romania is obvious. Already, a similar program is being instituted in Bulgaria, a neighboring nation. The simplicity and broad consumer base encourages the development of insurance distribution employing the identical system as was present in the historical past of the U.S.

The implementation of historical marketing systems in Romania should not be considered shipping second quality methods to the developing economy. Rather, the conditions and opportunities of Romania are enabling the development of some simple, historically successful systems to be repeated within their economic fabric with the intent of ultimately building greater sophistication as conditions will permit. One must believe, however, that these historical institutions will not have the extended number of years of performance but will be compressed into the transition years. The arrangement of historical institutions will be limited only by the imagination and memories of those responsible for economic and business progress.

FOODS AND CHANGES IN DIETARY PATTERNS

Food as a basic component of every individual's and every family's expenditure pattern is an obvious area for consideration for both expansion and investment. Foods do constitute a major portion of the Romanian's disposable income. There are shortages of select types of foods, especially dairy products and protein, and there is an extremely limited array of processed foods in the market channels. Furthermore, the investment in food production, processing and distribution has been limited resulting in much of the food stuffs being in the direct farm-to-market channel structure. Therefore, one must consider the development of investments in the foods industries as a primary consideration.

There are points of caution that must be considered. First, dietary patterns regardless of their nutritional contributions and inadequacies are extremely difficult to change radically immediately and only carefully over time. Many food choices are culturally anchored and inextricably part of the consumer's life. (14) Additionally, the Romanians have become accustomed to the concept of "fresh" as a reflection of their dependency on the farm-to-market system. Changing their preferences from fresh commodities must be extremely well crafted. Where shortages have occurred such as with dairy products, the basic demand will suffice. But in other instances where processed vegetables might be introduced, difficulties will be encountered especially during the growing season when fresh produce is available in the local markets.

The Western diet is distinctively different from the Romanian diets largely because of the years of dependency upon processed foods that have developed in Europe and the U.S. In Romania, processed foods are in extremely limited supply, frozen foods totally unknown, and prepared meals would be considered as unacceptable, today. These food products would represent a material departure from the established dietary preferences of the Romanians. While eventually, processed, frozen, and prepared foods will creep into their acceptance, the introductions will be difficult and slow. Consideration must be given to those food types that are most like the traditional diets; therein, processed foods will undoubtedly be accepted most readily. Furthermore, refrigeration at the freezing level is extremely limited in households placing a further limitation on frozen food introductions. And prepared meals would be considered as an affront to the culinary abilities of the women, making their introduction the most difficult.

While foods do provide a great market promise, it is apparent that resolution of supply deficiencies of culturally accepted products is the entry point into the foods industry. It is believed that there will be some rapid progress into more sophisticated processing of food commodities, but the limitations of income and dietary preferences will severely restrict the broad market acceptance. Again, caution and discretion must be overlayed on the assessment of opportunities when examining the promise of the foods market.

The traditional wisdom of economic development is that the processes must transition through a normal and known series of phases to reach the advanced levels. There are those who likewise would argue that market development will follow the same premises and follow a defined series of development with increasing sophistication at each successive level. Therefore, the consumer markets and the products available in the consumer markets would follow the same sequence. Experience in Romania currently indicates the ability to circumvent the evolutionary process and move immediately

to advanced markets and product groupings.

The best means of demonstrating the presence of discontinuous markets is through examples - home electronics and computers. In the home electronics market, it is surprising to find substantial market penetration of video players. The presence of stereo systems likewise is startling and reflects a discontinuity of market development. The Romanians are as knowledgeable and as demanding of the current home entertainment industry as are the U.S. consumers. Vinyl records are in limited supply, prerecorded tapes are sold almost as impulse items, and video recordings are already making great penetration into the markets. These products do not reflect the corresponding level of technology of other product groups as one would find in Western markets; namely, home appliances, automobiles, and home furnishings.

Computers constitute another product category in which the Romanians are making rapid progress in both their demands and absorption. They desire the latest features, capacities that are state of the art, and speed in the CPU and peripheral equipment that is equivalent to the industry standards. However, while both professional researchers and businesses are acquiring their first computer system, older generations of systems are not evident anywhere.

The discontinuity of markets can best be explained by an understanding of the Romanian interests. To paraphrase their sentiments, they state that: "We want and demand quality products. We want equal access to modern technology. We want to be considered and treated as first class world consumers, not second class. And, above all, do not use Romania as a dumping ground for either old technology or substandard products. If choices of lesser products are to be made the Romanians will make their own choices in the market place."

CONCLUSIONS

The conditions, aspirations and economic realities of Romania are reflection of the characteristics of other Eastern Bloc countries. Their rapidly emerging interest and involvement in market driven economies will radically alter the behavior of their systems presenting both challenges and opportunities. The opportunities will be intertwined by conditions that alter conventional wisdom and traditional marketing.

Investors and marketers must thoroughly understand the uniqueness of each nation and its people. Western methods may be valid but each element must be carefully tested for validity. The growth and development dynamics have incredible potential but will become success realities only through meticulous assessment and orchestration. The integrity and dominance of national conditions will prevail, dictate and determine the performance of the future.

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INTERNATIONAL MARKETING AND ITS OPPORTUNITIES FOR THE ROMANIAN TRANSITIONAL ECONOMY

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The international economic environment is changing and new countries are entering the world's market. Perhaps one of the most spectacular changes is the appearance of the Central and East European countries, including Romania, on the international market arena. Information about these countries especially in terms of marketing, is required for an active participation. Sometimes the most difficult aspect to understand is a particular behavior of businesses and consumers, due to some cultural factors. This paper will underline some opportunities and difficulties (due to behavioral and cultural elements) that affect the process of international marketing. It is imperative that anyone entering the Romanian market understand and reflect these factors in their strategy.

Of all the Central and East Europe countries, Romania is probably still the least known, even though its potential both economic and human, may make it one of the most attractive markets. Romania is a Latin peopled country, whose language, Romanian, belongs to the same family as Italian, French, and Spanish. Surrounded by slavic cultures, it has a very tormented past, defending preserving its being and its culture. After a difficult and obscure period fifty years of isolation, Romania has suddenly and painfully reentered the world's stage.

Romania is now in a period of transition. It is moving from an entirely centralized, secret, and rigid economy to a market based economy. In this period, the way in which the change is perceive and accomplished from the inside is important, but of greater importance are the external perceptions and the external reactions concerning these changes. Besides what happens within the country the connections and the exchanges with the external world are vital. And when Romania as a business partner is less well known, both internal an international marketing have to bridge that deficit.

Despite this drawback, the potential of doing business in Eastern Europe, including Romania, is immense. However, even companies experienced in trading Eastern Europe are finding it hard to adapt to the more fluid political a trading environment that now exist there is a variety of details that the process of international marketing must develop to facilitate the achievement international business. The paper will not refer at all the elements outlined the field of international marketing, but to those that are the most significant. It must be noted even at this point that one of the most important elements international marketing is the cultural environment. While the economic situation and the political stability of a country are decisive in the decisions of a foreign partner, the cultural dimensions are the most critical. If the economic situation is strong and there is perfect political stability, the culture of people is much more difficult to be changed. Only in time can these changes occur. But first, the roots, the causes and the very nature of culture must be understood. This is the focus of the paper.

OPPORTUNITIES

Romania, despite the difficulties which it confronts, is a rich country, as measured by many factors:

geographic location, economic factors, human resources.

Geographically, the country has a harmonious relief (approximately 33% plains, 33% hills, and 33% mountains) that provides resources and opportunities both for agricultural and industrial development. Romania's geographic position is also very favorable: dual connections on Europe's major water ways - both the Black Sea to the Mediterranean and the Danube, which passes through seven European countries, to the North Sea.

The Romanian economy is on the way to becoming entirely privatized; an important percent of the national income is already provided by the private sector and many state enterprises are or will soon be private, shareholders companies (according to the Romanian Development Agency).

The economy is still an absorbing one, a" sellers' market" (the demand greatly exceeds the supply), with all the implications of those conditions: strained utilization of resources, forced substitutions in demand, and concessions in the quality of products. At first glance these are negative economic aspects, but they could provide a good environment for improvements. Despite the fact that the purchasing power is not very high, the Romanian market has a great potential.

Romania has a great potential for tourism: authentic life for a good quality agri-tourism, mountain regions for sports, trips, entertainment, the Black Sea coast, the Danube Delta (one of the few green paradises in the world) , painted monasteries of antiquity, and other architectural monuments. Because the infrastructure and the services are not the same quality, this deficiency can be an opportunity in terms of modernization, and investments.

Maybe the most important resource is the well trained and educated human factor, with great mobility, adaptability, and low wage rates. This human resource makes Romania unique in terms of the labor force opportunities among all the Central and East European countries and competitive in the total world economy.

The political environment is one of the greatest question marks for a foreign investor. Although some small, unavoidable frictions (separating or merging parties) exist, the Romanian political environment is stable.

Fortunately, Romania does not have the ethnic problems which are present in almost all the other Central and East European countries. The majority of the population is Romanian. Other nationalities have lived in harmony with the Romanian people for centuries. Often the problems that arise concern the Hungarian minority, and are overemphasized and promoted by extremists.

The Romanian spirit of nationality is very opened to human, cultural, and economic relations with other countries. Not only does Romania have this cultural and spiritual openness toward the world, but also it has an amazing adaptive ability. This adaptability will make relationships easier in both directions, from Romania to the other countries and from foreign countries to Romania.

Another important factor in the Romanian's business environment was the April 1991 passage of the Foreign Investment law. Under this law, foreign investors can own 100% of Romanian companies and

may invest in all sectors of the Romanian economy. The law also gives the foreign investor numerous incentives and guarantees. As the foreign investors have already noticed, "the speed with which the government has begun to develop the legal framework required for the implementation of its reform program is encouraging." (l) Romanian unification of exchange rates has made its currency, the leu readily convertible within Romanian borders, which has allowed Romanian exporters to increase their trade activity. Romania's best export prospects include furniture, machine tools, textiles, refined oil products, and drilling equipment. (2).

The Romanian Development Agency's strategy to attract foreign investments focuses on consumer products, infrastructure, agriculture, and services, particularly tourism. Investors are offered subsidies, including a corporate profit tax holiday for up to five years. Since 1990, when the legal basis for joint ventures was established, until March 1992 a total of 8,022 companies has registered a total of $268 million in foreign equity (3). In June 1993, Romania has registered the greatest number of joint ventures in Eastern Europe:

1. Romania -13,079 2. Hungary -13,000 3. Poland - 6,187 4. former Yugoslavia - 5,930 5. CIS - 5,223 6. Chehk Republic - 5,000 7. Slovacia - 1,985 8. Bulgaria - 350 (4)

A country's attractiveness to foreign investors can be measured by the total volume of foreign investments in that country. In June 1993 Romania was ranked fourth in Eastern Europe regarding total foreign investments:

1. Hungary - $5,464 mill. 2. Poland - $2,078.5 mill. 3. Chek Republic - $1,928.5 mill. 4. Romania - $ 700 mill. (5)

According to the Romanian Development Agency, the greatest foreign investors in Romania were, on October 11, 1993:

Country	Number of Companies	Capital
Italy	2,793	$90.58 million
France	948	$81.89 million
U.S.	1,405	$74.98 million

Concerning US trade, Romania continues to implement liberalized commercial legislation and realizes higher levels of multilateral financing. US exports to Romania rose 19% to $248.3 million and US imports rose 26% to $87.3 million in 1992. (6) With the Most Favored Nation status, United States exports and imports are expected to continue to increase.

There is an abundance of economic, statistical, and legal information about Romania readily available. The cultural factors that determine and generate these statistics are much more difficult to discover. The behavior of economic factors depends heavily on the qualitative variable of human behavior, which is a reflection of cultural factors. It is well known that businesses have been successful in a difficult or even hostile economic environment, while businesses operating in favorable economic conditions have failed because of "undiscovered" or unknown cultural aspects.

BEHAVIORAL AND CULTURAL DIFFICULTIES

A cultural and spiritual change can not be accomplished over night. It is a painful process because human behavior is a collection of patterns and habits that people have acquired over their lifetimes. Therein, an analysis of opportunities must begin by addressing the cultural structures of Romania.

Businesses

For years, Romanians have been taught that society provides equally under socialism. This false equity offered no rewards for the best, and every business had guaranteed survival, regardless of its performance. This system left its mark on the business behavior. Now, people must be educated to accept differences in income based on individual work performance, and businesses must fight in order to survive. In the centralized absorbing market, businesses did not pay much attention to marketing, to the way in which the products were conceived, packaged, labeled, displayed or advertised. This deficiency explains some strange aspects of marketing practiced today in the Romanian market.

A foreigner would be shocked in a Romanian store to find anti-mosquito spray together with musical disks, lamps, birthday cards, and other unrelated merchandises, on the same shelf. The first impression can be startling, but what is important is that Romanians are very eager to change these practices. There are already many private stores with the same image as stores of the western markets.

Marketing can not be transplanted into an organization; it must be felt, thought, understood. After 1989, the majority of state-owned enterprises have tried to improve their structure and to adjust their behavior according to the passing from a centralized economy to a market based economy. Previously, Romanian firms did not have a marketing department or marketing teams. They have created these departments. The problem is the way in which they created the marketing departments: they simply adopted the name of "Marketing Department" for the former "Supply and Sales Department". These newly created departments don't yet have the appropriate specialists and the power to influence the decisions made by a firm. Alternatively, an increasing number of state- owned enterprises and especially new private businesses have started to train their marketing people or to hire new, young specialists.

The marketing mix strategy of a Romanian firm, if it exists, is also difficult to understand. On a seller's market, with the demand greater than the supply, the products are easily sold without special marketing efforts, even if they don't entirely satisfy the consumers' needs. This manner of thinking and conceiving the products has to be changed, at least when the products are conceived for a foreign market. Price strategies are often limited to the cost of production method. Because distribution was centralized, appropriate channels of distribution have to be created. Communication is still awkward and ineffective if the other elements of marketing mix are not- correctly established.

The Romanian customs, habits, and way of doing business may be different and may create, especially at the first business meeting, small problems of thinking, discussing, and establishing relationships. Customs are not necessarily negative, but different. The cultural patterns of businesses must be understood and not disapproved. For Romania a partner is more important than for a foreign investor.

Many opportunities are behind mistakes and oversights, and they should be discovered and utilized. An Italian professor and businessman stated: "We have our way of doing business. You have only two choices: to change us, or to change yourself, in order to be able to do business with us." But a third choice is also possible. Partners in business are able to secure a profit, if both partners mutually adjust their behavior.

In addition to Romanian business habits, another difficult problem is the role of strategic marketing in the majority of the firms. Planning has historically been done at the corporate level and in a rigid manner. Many enterprises have never considered or even thought about the importance of a marketing plan for the immediate or long term. It can be very strange for a foreign partner to hear a Romanian manager state: "We don't have a marketing plan. We have enough real difficulties because of the financial situation of the entire economy. We produce what we know how to produce and we sell these products now, on the markets we have. Maybe later, when we surpass these difficulties, we will think about a marketing plan, too". Even if this statement could create concern, the development of marketing can be accomplished.

Doing business with Romanian enterprises requires the development of openness. For more than forty years, businesses kept secret all the data concerning their economic results (costs, profits, or losses). A sense of fear and mistrust still exists when businessmen are required to share information or to talk about financial results. Some potential investors could think that these business people are not informed or they are not good managers. Relationships must be designed and crafted to remove these historical and artificial barriers and move quickly but appropriately into solid and trusted patterns.

INDIVIDUAL CONSUMERS

Romanian consumers develop and respond to brand preferences in patterns very similar to the consumers of western markets. When Coca Cola was introduced as a new brand, even at a sample site, the Romanians were asking for a Pepsi - the brand with which they were familiar. Pepsi had become a generic brand representing all the beverages of the Cola family.

In a "sellers' market" is very difficult to find and to obtain a certain brand of product. Romanian consumers were used to accepting even products of lesser quality, that were not well presented, labeled, or displayed. They did not know how to assess a quality-price relation. Only currently are they learning to do this. This awareness explains the new requests for good products, nice stores, for better services in a hotel, or in a restaurant. Consumers adjust to the impact of the shift to a market economy by trying to increase their resources, their utility under a budget constraint, by changing their shopping and decision-making behavior. Consumer markets represent immediate opportunities. Since consumers have already started to value quality and are willing to pay for it, only good quality products will be able to gain the market. (7) Also, communication should be realized according to the realities of the Romanian market (language, symbols, values).

CONCLUSIONS

In the recent changed and changing Romanian economy, there are a lot of opportunities for investments and commercial exchanges as well as normal cultural and behavioral differences. If

behavioral and cultural problems are correctly perceived and understood, Romanian opportunities could be greater than the difficulties in doing business. What it is important to know is that these behavioral difficulties exist, but they can be surpassed with the awareness and the concern of both business partners, and that significant profitable economic relations can be established in international marketing.

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SBDC, SBI, AND SCORE IN THE EMERALD ISLE: MANAGEMENT ASSISTANCE PROGRAMS IN IRELAND

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ABSTRACT

Some may assume that small business management assistance programs such as the Small Business Development Centers, Small Business Institutes, and Service Corps of Retired Executives are somehow "American Exclusives". A look at Ireland shows that the sources of assistance for small businesses in the USA have well developed counterparts there. This paper covers some ways Ireland is similar to other nations, and some ways in which Ireland has its own distinctive Irish flavor.

INTRODUCTION

SBDC, SBI, and SCORE, familiar terms to most readers of this journal. And, since these terms have been developed in an American context, some may assume that small business management assistance programs such as the Small Business Development Centers, Small Business Institutes, and Service Corps of Retired Executives are somehow "American Exclusives". Not so. A closer look at one European Community nation, Ireland, shows that the sources of assistance for small businesses in the USA have well developed counterparts in the Emerald Isle. The next few pages cover some of the ways the Ireland is similar to other nations, and some ways in which Ireland has its own distinctive Irish flavor.

The purpose of small business assistance programs is basically the same across national boundaries. Information on the goals of Small Business Development Centers in the USA, for example, includes the following typical goal:

"We offer comprehensive counseling and technical assistance to present and prospective small business owners..."

This sounds similar to the rationale offered for small business assistance programs in Ireland. official policies of the government of Ireland, as the government of most other countries, continues to stress the importance of a strong small business sector. In a May 1993 document, Employment Through Enterprises, Ireland's Minister for Enterprise and Development Ruairi Quinn outlines ways to "put a new emphasis on building up small industry" and promised to continue to seek European Community help with programs for the "support of small and medium-sized enterprises (SMES)." Minister Quinn specifically listed "advisory services" as an important part of this picture (Government of Ireland, 1993, p.2).

Although Minister Quinn promises a "new emphasis" on small industry in 1993, he is following a tradition established earlier. In the mid 1980's, for example, the National Development Plan of Ireland

placed a major emphasis on the creation and development of small business in the effort to increase jobs" (Enterprise Development, 1989, p.2).

In both nations, small businesses are seen as important, and specific public policies encourage the development and maintenance of entrepreneurship and smaller firms. Additionally, both nations have launched business assistance programs to help bring about the attainment of these goals. While there are important differences, which will be described later, there are also significant similarities. For example, consider the following U.S. government supported management assistance programs: SBDC, SBI, and SCORE.

SBDC

In the US, we have a network of Small Business Development Centers, typically operating with funds from the U.S. Federal government supplemented by funds from state or local government, and/or academic institutions. These centers provide information and assistance on a wide range of topics, at a variety of levels. Some individuals come to SBDC with little more than an idea for a possible business. Other SBDC customers have existing businesses with specific problems in marketing, management, or financial planning. In many cases an SBDC will pay an adviser in a specialized field, such as international trade, to assist a client with a specific question. To the client, however, that help is free.

Business people in Ireland can get similar help, from a number of possible sources. The Golden Pages of the Dublin telephone book (equivalent to U.S. Yellow Pages) list about 500 organizations under business consultant, management consultant, and training consultant. Included are government sponsored organizations with functions somewhat analogous to the SBDC of the USA.

The Dublin Business Innovation Centre, for example, has a counseling service for entrepreneurs and prospective entrepreneurs. This Centre is one of four in Ireland and one of 70 in the European Community (EC) under the umbrella leadership of the European Business Network (EBN). The Dublin Innovation Centre, much like its counterparts on Limerick, Cork, Galway (and Derry in Northern Ireland), provides a variety of assistance programs. Like many SBDCs in the United States, the Innovation Centre helps link small firms into networks. The Centre operates an Incubator, giving new businesses office space and services at bargain rates (O'Sullivan, 1993).

The Centre also advises people on product development ideas as well as with business and managerial planning. But, there is an interesting difference: the Dublin Innovation Centre charges clients for consulting. A typical fee would be 250 Irish pounds per session (about $350 US as of August, 1993). While the Centre receives significant funding from the EC (through the EBN), and also receives funding from local Irish sponsors and government agencies, it also charges clients for its services. This point illustrates one major difference in the ways small business support programs operate in the U.S and Ireland. Services American SBDCs provide without fee are often charged for in Ireland. There are a number of other organizations providing management assistance to small firms in Ireland. One of the more important of these is the Industrial Development Authority, or IDA Through eight regional offices, the IDA provides a significant resource to the small business manager or the prospective entrepreneur. These offices connect the client to a variety of programs, including

counseling (IDA, Strategies for Success, p.16). In this case, the counseling would typically be free. While eight IDA offices and four Innovation Centres may not seem like much, it should be remembered that the population of Ireland is about 3 1/2 million people, roughly the same population as Philadelphia, Pennsylvania.

SBI

In the United States, more than 500 colleges and universities operate Small Business Institutes. The goals of the U.S. Small Business Administration supported program are two fold: To render useful management advice and counseling to small businesses, and to expose business undergraduates and graduate students to the world of real small business. Again, one finds counterpart programs in colleges and universities in Ireland. Ireland has a series of regional technical colleges, perhaps analogous to Cal Poly, San Luis Obispo or Renssaler Institute of Technology in the U.S.

The Irish schools typically have a city name followed by Institute of Technology. The Dublin Institute of Technology, for example, helped launch the "Project Development Centre" which provides an intensive year long program for new entrepreneurs. Twelve times throughout the year students are given 2 to 3 days of formal instruction in topics ranging from financial management to marketing. According to Centre manager Margaret Whelan, the great majority of those who complete this course actually end up with his or her own going concern (Whelan, 1993). This contrasts to the US SBI program where the student consultants focus on existing firms run by others. In fact, 1992 Guidelines for the US SBI program prohibit student consultant form taking a case assignment with a firm in which they are a close relative has a financial stake (U.S. Small Business Administration, Guidelines, 1992).

Another way Irish universities involve students in small business consulting is illustrated by the Marketing Development Program (MDP) operated at the Smurfit Graduate School of Business of University College Dublin. More than 30 firms a year, most of them meeting US SBA "small business" criteria, receive small business consultation from teams of MDP "advisors." Each of the 25 or so advisors spend an entire academic year of graduate work in the program, with no course work outside the MDP program itself. During the year a specific student will consult with half a dozen or so clients, each of which will get written and oral outbriefings, similar to those provided SBI clients in the USA. To any one company, the management assistance provided by the MDP looks very much like the management assistance provided SBI clients in the US. There are, however, significant differences. Again, the Irish client pays. The firms are asked to pay a nominal amount, often in the neighborhood of 500 Irish pounds (roughly $700 US), for the consultation. According to Program Director Professor A.C. Cunningham, the fee is intended to insure that the client pays attention to the advisors. A bigger difference between SBI and MDP is that students in an SBI course are taking other courses, and often working, while in the SBI program. MDP advisors are full-time for the entire academic year, after which they earn not a graduate degree but "Diploma in Marketing Practice."

SCORE

In the United States, more than seven thousand retired executives are on the roster of the Service Corps of Retired Executives. These SCORE volunteers give free advice and assistance to over 50,000

U.S. small firms annually. While the overall management and administration of the SCORE program is financially supported by the US SBA, the individuals giving the counseling work without pay, and the services are free to the business obtaining advice.

An almost identical system is in operation in Ireland, called "the Mentor Programme." Again, advice and assistance is provided to firms across Ireland, free of charge. Mentors donate their services, and are reimbursed for out-of-pocket expenses, from IDA funds (Irvine, 1993). Some 600 firms have been helped since the Mentor Programme was launched in December, 1988, and 380 mentors are on listed in the Programmes' files. As in the U.S., these volunteer advisors are typically retired, and are often skilled experts in specialized areas. Both U.S. SCORE counselors and Irish mentors sign confidentiality and conflict-of-interest agreements. (Mentor Programme, 1992). one Irish innovation which might be looked at in the States is the idea of specialized panels. Since 1991, the Mentor Program has supplemented its lists of generalists with 3 specialist panels. One panel of suitably experienced mentors works on start-ups, one on quality, and one on marketing.

The fact that retired business men and women are available to advise small business managers in both countries should not really be surprising. The idea does make excellent sense, and in years to come equivalent programs will probably exist around the globe. In 1992, the Irish Mentor Program hosted a meeting of the "European Association of Voluntary Business Advisors," and delegates of 11 European nations participated. The Association had been set up in 1986 to "link mentor-type initiatives throughout Europe which enable small and medium-sized companies to get expert advice from both national and international retired business executives" (Mentors of Europe Hosted, 1992). The U.S. score program also has international connections. A May, 1993 article in The Savant, the publication for SCORE volunteers, was headlined "SCORE member works in Hungary" (Score Member, 1993). So, once again, programs and trends noticed in one country seem likely to be evidenced in the other.

DIFFERENCES

While SBDC, SBI, and SCORE all have well developed Irish counterparts, it would be an error to conclude that both nations do the same things in the same way.

One of the most important differences in perspective is illustrated by comparing financial assistance to small firms. An Irish IDA representative put it "we give a lot of money to companies. You don't." (Martin, 1993). Although the IDA is now beginning to ask "is money the answer?" and is becoming more cautious about direct financial help, there is still a world of difference. The IDA has routinely provided capital to small firms, typically taking a 10 percent stake in ownership in exchange for the funding. A similar pattern in the U.S. is unthinkable, given the long tradition of business-government antipathy. While it is unlikely that the SBA, or even SBA-supported SBDCS, will begin taking ownership stakes in firms being assisted, this idea fits in smoothly in Ireland, where even an airline is owned and run by the government. The Irish attitude towards direct government involvement in business is closer to that found in Europe than in the USA. But even then, Ireland has its own distinct flavor. As one program manager out it "we have too long had a grant mentality here. We were not entrepreneurial. Fortunately, this is changing" (Whelan, 1993; Dependency Culture).

For the moment, however, grants are still a big part of the small business picture. An individual with

an idea can apply for fully funded entrepreneurship training at one of dozens of centers operated by FAS (Foras Aiseanna Saothair, in Irish), the Irish government's Training and Employment Authority. If selected, an individual can be paid to attend a full time twelve week course, which in most cases leads to a business start-up at completion (Martin, 1993). We should note, however, that comparable programs are being run where the trainees are not paid, and indeed pay to be trained. The Irish Management Institute's Business Development Program, with two-day residential workshops held monthly for 18 months, helps managers or owners in firms of less than 500 employees. Although the program has sponsorship which includes government agencies such as FAS and IDA, participants still pay a fee to participate. In 1992, the cost was 6800 Irish pound, or about $10,000 US (Irish Management Institute, Business Development Programme, 1992). The IMI runs an array of other courses, many of which target small business managers (IMI, Management Development Programmes, 1992-1993).

Another interesting wrinkle in the Irish array of programs is the heavy involvement of universities in actual business start-ups. The June 1993 issue of the Academics in Business: The IDA Newsletter for Academic Entrepreneurs listed more than a dozen university-business actual business links. One such story was about Noctech, set up in the Incubator unit at University College Galway in the 1980s. Noctech was launched as direct outgrowth of campus research in biotech, and now the firm has grown to the point where it has been taken over by a multinational biotech leader (Campus, 1993).

REFLECTIONS

All three U.S. based programs, SBDC, SBI, and SCORE, have well established counterparts in Ireland. Indeed, almost everything we see in the area of U.S. management assistance programs has its cousin in Ireland. From Incubators (Ireland has about 29, many at universities) to bankruptcy counseling, small businesses in both nations can find somewhere to look for help.

On the other hand, some interesting contrasts are apparent. Having the IDA take an equity position in assisted firms is atypical of U.S. government-funded programs. The Irish environment for entrepreneurship is also somewhat different from that in the USA. As Phillip Mullally points out, "the number of small firms in Ireland at one per five hundred population represent an opportunity. In America and European countries the number is around 1 per 250. (Mullally, July, 1993, p.3). Fortunately, many Irish agree, "there is evidence that the environment for enterprise in Ireland is changing and for the better" (Kenny, 1991, p.5). With the variety of programs available, one would think 30. What is yet to be determined is whether these programs have a significant impact on the entrepreneurial spirit. But, if programs are the answer, Ireland has little if anything to learn from the U.S.A. If anything, it is those in the U.S.A. who might wish to study what is happening in Ireland.

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EXPORTING AND THE IMPACT OF DYSFUNCTIONAL PERSONALITY STYLES

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Data gathered from Kansas City small businesses that are involved in exporting found dysfunctional personality relationships relative to the performance measure of change in overall sales level. These same personality variables (level of Type A personality and level of environmental monitoring) were positive and significant factors for the small businesses that were not exporters. There are strong implications for those small business owners that have been successful at the regional (United States) level and are now considering the international market.

INTRODUCTION

A significant difference in how we would approach the study of small versus large businesses revolves around the centrality of the individual and the impact of the individual on the fate of the business. As business organizations become larger, and the number of decisions needed to run the business grows, the impact of a specific individual is reduced, in large part due to the inherent limits of a given person to make the decisions needed to guide the strategic and operative activities of the business. Often, the establishment of formal rules based upon past experience is an attempt to remove major areas of activity and consideration from the need for new decision- making activities. Similarly, larger size forces greater decentralization of decision-making to individuals or groups that may specialize or limit their focus to the issue in question. We should be sensitive to a systematic tendency in the management literature to increasingly view the individual decision-maker as having less impact within the business organization.

This line of thinking disregards the reality of the small business experience. While some businesses start out as multiple-person joint efforts, most are the creation of a given person who dominates the decision-making of the business. Even if the business expands, the impact of this individual will remain considerable, often past the point of functionality. Given this, the way the individual adapts to his or her world becomes a critical factor in decisions that are made. since individual adaptive patterns, what psychologists term as "personality", can be functional or dysfunctional depending on their fit with the demands of the relevant situation, we need to ask two questions: (1) Are there inherently functional or dysfunctional adaptive patterns ("personality profiles")? (2) Are there situational contexts that may result in a usually functional personality profile becoming significantly dysfunctional?

The answer to the first question is that a number of personality patterns are inherently dysfunctional. Jeffrey Timmons (1990) lists six attributes that are found in the "non- entrepreneurial mind": perceived invulnerability, machismo, anti-authority, impulsiveness, external locus of fate control,

perfectionism, "know-it-all", and counter dependency. In turn, Timmons also lists a number of attributes that tend to be associated with successful entrepreneurial behavior.

The second question suggests that the universality of this second list can be challenged. If we were to ask in a general sense whether the situation impacts the viability of a given response, the answer would be "yes." The literature on leadership theory has recognized this for two generations. While there are disagreements about which leadership style or strategy works best in what context, any "one-size-fits all" leadership approach would be dismissed as naive.

This realization becomes even more applicable when we consider cross-cultural interactions. While the exact impact of socialization is unclear in personality development, the evidence of significant differences in culture, accepted behavioral patterns, and hence acceptable personality profiles from culture to culture is well documented and researched (Hofstede, 1984). Given this, a research question of significant interest would be that of whether personality profiles found to be associated with successful small business operations when dealing with a clientele from their own country would also be appropriate if the business person were to deal extensively with clients from other countries.

Past research (Hunt and Adams, 1993) suggests that small business owners who are strong "Type A" personalities, especially when they are also high "self monitors", i.e. highly sensitive to environmental cues, will guide their businesses to higher levels of profitability and especially to significantly higher degrees of year to year improvement in profitability than will other small business owners who score lower on one or especially both of these dimensions. However, these findings were seen in a population of business owners who were dealing with a clientele typically limited to their own country.

Would this pattern of findings hold if the businesses were to deal extensively with foreign clientele? For instance, what might we see if we consider a business person having to deal with three of our most likely international trading partners - Mexico, Japan, and Canada? In Hofstede's research cited earlier, significant differences have already been found on a number of cultural dimensions. For example:

(1) The United States and Canada score significantly below the world average on power distance (the relative inequality of power between bosses and subordinates); while Mexico, their potential trading partner in N.A.F.T.A., had the second highest score from across 40 countries.

(2) The United States and Canada were significantly below average in terms of uncertainty avoidance, while Japan was the absolute highest when age of respondents was controlled for. (3) The United States was the highest country worldwide on individualism, while all six of the Pacific Rim countries in the study were below average. (4) While the United States and Canada are above average on the Country Masculinity Index, Japan was not only the highest, but it was 16 points higher (on a 100 point scale) than the next country.

As can be seen in these examples, the potential for inappropriate dealings with a foreign client may be exacerbated by cultural differences. This leads us to the question of whether the Type A person -- characterized by aggressive competitiveness, time obsession, a tendency to juggle several projects at

the same time, and a lack of planning -- can mesh well with his/her counterpart in other cultures, where such behavioral patterns may not be viewed as appropriate. If these tendencies are not mitigated by a strong sensitivity to the different cues of the foreign culture, the possibility of a misdealing with foreign customers, business partners, government officials, and other relevant individuals or groups will be high. This, combined with the typically tight margin for error that small business persons operate with will result in the loss of both short and long-run opportunities.

HYPOTHESES TO BE TESTED

Hypothesis 1: Small businesses that export will have a different level of monitoring behavior, a different level of owner/manager personality type, and a different level of sales performance than those business that do not engage in exporting.

Hypothesis 2: The level of performance for both exporting and non-exporting small businesses will be positively related to the level of business environmental monitoring.

Hypothesis 3: The level of performance for both exporting and non-exporting small businesses will be positively related to the level of personality Type A for the owner/manager.

METHODOLOGY

Two independent surveys of the Kansas City area assessed the small business management practices, owner/manager personality, and business performances. The first survey, a stratified (by type of business), random sample of 1000 small businesses in the Kansas City area received a mailed survey. Two hundred eleven small businesses returned the questionnaires, with 165 of these judged usable. The response distribution was representative of the overall sample and represented the following business types: retail, wholesale, construction, manufacturing, service. The second survey included only businesses that are currently involved in exporting. One hundred and thirty seven survey questionnaires were mailed and there were thirty nine usable responses returned. Since the questionnaires were anonymous, no follow-up was attempted.

Statistical techniques used for the analyses are: t-tests, correlations, partial correlations, and ANOVA. Statistical results will examine for probable similarities and differences between the two survey groups and whether relationships exist among the variables within each group. Partial correlations, controlling for level of business assets and for number of employees, examine for relationships among the three variables: monitoring, personality, and performance.

RESULTS

Hypothesis 1

A t-test analysis of the two (exporting and non-exporting) group's means examined whether there is a significant difference between the two groups surveyed. There were no statistically significantly differences (for a two tailed comparison at the .05 level) between the two groups for level of monitoring, level of personality type, or sales performance. Hypothesis 1 was not supported for any of

the three variables: monitoring, personality type, or performance.

TABLE 1 T-Test Exporting vs. Non-Exporting Businesses

Level of Exporting Non-Exporting Type A Mean = 7.103 Mean = 7.207 Personality: SD = 2.845 SD = 2.881 N = 39 N = 164

t-test value = -.205, NS

Monitoring Mean = -.002 Mean = .003 Level: SD = 1.501 SD = 1.550 N = 39 N = 152

t-test value = -.0184, NS

Sales Per- Mean = 1.568 Mean = 1.707 formance SD = 28.501 SD = 17.923 N = 39 N = 164

t-test value = -.029, NS

However, in the comparison of the two groups an interesting fact was noted: all correlations involving personality type for owners of the exporting businesses have a negative relationship with level of monitoring and with sales performance. These same relationships for the non-exporting small businesses were all positive. The relationships between level of monitoring and sales performance were positive for both groups of data (see Table 2).

TABLE 2

Correlations for Performance, Type A Personality and Level of Monitoring

EXPORTERS (N=39) 1 2 3 1. Performance 1.00

2. Type A Personality -.0679 1.00

3. Level of Monitoring .1399 -.1929 1.00

NON-EXPORTERS (N=164) 1 2 3 1. Performance 1.00

2. Type A Personality .1398* 1.00

3. Level of Monitoring .1493* .0709 1.00

*P less than or equal to .05

Hypothesis 2

Examination of the level of performance for exporting and non-exporting small businesses, relative to their level of monitoring, found statistically significant results for non-exporters and no significant

results for exporters (see Table 3).

TABLE 3

ANOVA - For Performance as a Function of Level of Type A Personality and Monitoring Level.

Non-Exporting Business: (n=133) Source of Variation:

Main Effect (Personality & Monitoring) Degree F-value Signif of of Freedom F Individual Effect 2 4.217 .017 Personality 1 .579 .448

Monitoring 1 7.741 .006

Explained 3 3.086 .030

Hypothesis 2 is supported for non-exporting small businesses and is not supported for exporting businesses (see Table 2).

Hypothesis 3

The level of performance relationship with the level of personality type of the owner/manager was statistically significant and positively related for non-exporting small businesses (see Table 2). The same evaluation for exporting businesses did not find a statistically significant relationship (see Table 2).

DISCUSSION AND CONCLUSION

The evidence from two separate, geographically disparate sets of small business owners who engage in international business activities suggests that those business owners who are strong Type A personalities are likely to be concomitantly low self-monitors. The marginal performance of these companies in these studies, as compared with the results found in the authors' previous research cited above reinforce the findings of the earlier study, which showed that companies run by strong Type A - low self monitors were significantly lower performers than companies run by strong Type A - high self monitors. What is strikingly different in the international business subjects is the markedly negative relationship between being a Type A and a high self-monitor. This suggests the possibility of a dysfunctional decision-making approach on the part of many small business owners who decide to enter the international arena.

How might the above results best be understood. Howard Stevenson (1988) gives an important clue by recognizing the businesses oriented toward the entrepreneurial are opportunity driven, while administrative oriented businesses are resource driven. The entrepreneur sees the opportunity, seeks to be first to take advantage of the opportunity, and often worries about resource issues as they arise; the dominate mindset is "the first one in is the winner." This places the Type A entrepreneur in a vulnerable position, as the combination of lack of planning, exacerbated by the perceived need for quick action, increases the potential for devastating mistakes. While the administratively oriented

organization may not be willing to deal with many potentially worthwhile opportunities, its more deliberate decision-making process and greater resource base increases its likelihood for success, albeit with a large number of non-actions, i.e. missed opportunities.

What we may be seeing is that the high self-monitor owner may be approaching the decision to engage in international business dealings in a manner more closely resembling the administrative rather than entrepreneurial model. Faced with a number of environmental cues that are dissimilar from those found in local business dealings, the high self monitor may find that in his or her judgement, the company may lack the resources or ability to make needed adjustments to this markedly different business environment, hence, the decision may be to either (1) abandon pursuit of the opportunity or (2) take a more cautious reasoned approach rather than just charging in. The pattern of correlational results shows the absolute correlational relationship of self- monitoring to company performance to be virtually identical for the exporters versus locally oriented small businesses, while the correlational relationship between Type A and company performance becomes dramatically more negative. We would suggest additional replications of this study with other populations of exporters.

What then are the implications for the small business owner? Should international business opportunities be pursued? The answer is yes, but with the recognition that many of the ways of doing business that work in a local cultural context, where there is at least some sharing of values, beliefs, and behavioral styles, may not work in a cross-cultural situation. Being forewarned that our personality styles may be dysfunctional may almost seem like extended common sense, but in the "heat of battle," this is often lost, especially by the Type A person.

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NAFTA AND CULTURAL DIVERGENCE: POTENTIAL OR POTENTIAL PROBLEMS FOR THE SMALL BUSINESS OWNER

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As North America considers the North American Free Trade Agre- ement NAFTA the small businesses should be aware of historical research that may sound a warning. Hofstede's and Mulder's work on "Power Distance," "Uncertainty Avoidance," and "Individualism" show that these variables have a historical and significant difference when you compare, for instance, the United States business environment to the Mexican business environment. International business operations represent a myriad of challenges not found in one's own country. Recognizing these prior to having to deal with them is key to the first important decision in any business strategy: "Is it worth it?"

INTRODUCTION

A significant event awaits the American business community the likelihood of some form of free trade agreement between the United States and Mexico. At present, the proposed North American Free Trade Agreement (NAFTA) would result in a phased-in free trade zone encompassing Canada, the United States, and Mexico. While the current NAFTA proposal may not be the final plan that is accepted, it would be naive to assume that, in the face of increasing trends for regional trading blocs, that the United States and Mexico will not agree to significant reductions in the current trade barriers that exist between the two countries.

The increased opportunities for trade, establishment of produc- tion facilities, and other potential business activities can prove to be either a blessing or a curse. In this treatise, we would like to examine just how different are the Mexican and their North American neighbor's cultures along a number of critical issues. This is important because while the large-scale business organization often has the resource base to either withstand a period of adjustment or to hire specialists who may be able to provide immediate response to such significant differences, the small business usually has little, if any, slack resources to expend. Thus, the small business decision-maker is faced with a more limited set of viable options and/or greatly increased risk of failure. Given this, let us examine what the potential differences may be and what their implications may be for the United States small business owner.

The source of our data was a series of studies reported by Hofstede in 1984. While this data was collected in two waves, first in the late 1960s and then in the early 1970s and may be challenged from an age standpoint,(1) this data has the following advantages:

1. It is part of a larger survey covering workers in 40 countries, with over 72,000 respondents in the overall study. 2. Extensive reliability testing was used in this study: the median stability coefficient of the questions was .76.

Hofstede's methodology was as follows:

(1) Data was gathered from a cross-section of a multinational corporation with subsidiaries in almost 100 countries. The corporation employed almost exclusively nationals, and promoted almost exclusively from within. The data used in this study for cross-cultural comparisons was from the company's marketing-plus service organization as this was the sole part of the company that operated in all countries where the company exists. (2) One hundred sixty common questions, in 18 separate language versions, made up the initial questionnaire. Based on the results of the first wave of data collection, this was reduced to a core of 60 standard items and 60 optional items which were used in 1971-1973 to collect the data described here. Forty countries had sufficient numbers of respondents to allow inclusion of their data for purposes of cross- cultural comparison.

In Appendix A we will show the specific items used to measure each of the three cultural issues discussed in this paper.

The most obvious challenge regarding the age of the data is whether a given culture can so significantly change in 20 years as to render these results suspect or meaningful. To be sure, culture is dynamic, and individuals with higher educational attainment will be more likely to accept new values and beliefs, but will the level of variation be uniform cross different countries. Hofstede tested this issue in comparing the score on one of the issues under consideration - Power Distance (The relative ability of the boss to determine the subordinates behavior versus the subordinate determining the boss's behavior; hence the higher the score, the more the boss was an autocratic and more the organization is characterized by centralized, decision-making) and found the following:

1. on average across the 40 countries in the study, the score of occupational groups where the average respondent had a college degree (means=15.8 years of education) was 68 points lower than the score of unskilled plant workers (mean educa- tion=10.5 years). This is consistent with the common tendency for highly educated subordinates to be given increased discretion in decision making. 2. in Mexico, this spread was only 16 points (only India has a smaller spread at 8 points); this suggests a strongly en- trenched culture, where existing ideas and relationships are reinforced. 3. the most highly educated occupational group in Mexico had a higher average power distance index score than the lowest educated occupational group in Canada (where the spread between highest and lowest groups was 56 points).

A second comparison is also worth noting. There is a marked similarity in cultural differences when we group families of countries with common/similar roots. As will be discussed in more detail in subsequent sections, we will compare scores of the United States and Mexico across three cultural dimensions, using the data from Hofstede's 40 country comparison. Using the absolute differences between the United States score and each countries' scores on each of these three dimensions, the average absolute difference of the other 39 countries relative to the United States was 86 points. A review of the major cultural families 2 shows the following:

1. Latin America, Spain and Portugal. There were 9 countries in this "family". All 9 had above average cultural diverge versus the United States. In fact, 6 of the 8 most divergent cultures were in this "family", including #1 Venezuela at 150, and #2 Portugal at 143. Mexico was the 7th most divergent culture, being 139 points different. 2. The Far East. There were six countries in this regional family. All six scored above average in divergence from the United States. 3. Europe (Non British and Non Latin). There were 11 countries in this group. Only two (France and Belgium) scored above average, while the other nine were below average in cultural divergence from the United States. 4. The British Empire. There were eight countries in this "family". Six scored decisively close to the United States, including the three closest countries (Australia at 10, Canada at 14, and Great Britain at 18). Only India, with a divergence score of 86 (equalling the mean of the 39 countries) and Pakistan at 116 were fairly distant, and these are cases where the British culture was an outside influence upon long entrenched cultures.

These distinctive "family" similarities reinforce the premise that deeply rooted cultural difference exist. This suggests that it would be a shaky proposition to make a blanket assumption that major cultural transitions towards anything approaching cultural homogenization with the United States will occur if Mexico were to significantly increase the educational level of its population. Given this, we will proceed on the assumption that the respondents in Mexico and the United States at the time of this data collection, are still quite likely to be valid today.

We will examine three areas of significant cultural difference implications of these for the United States small business person. POWER DISTANCE

According to Mulder's (1976, 1977) Power Distance Reduction Theory, subordinates will try to reduce the inequality of power between themselves and their bosses, while the bosses will try to maintain or enlarge it. The question becomes one of how great a distance will emerge. Power distance is defined as the difference in the ability of the boss to determined the behavior of the subordinate as compared with the subordinate's ability to determine the boss' behavior.

Utilizing questions dealing with subordinates perceptions of the superior's style of decision-making, fear of disagreeing with the superior, and the type of decision-making style that subordinates prefer in their boss, Hofstede computed a Power Distance Index (see Appendix A for complete explanation). The results were as follows: Average of all countries in the study: 51 Mexico: 91 (second highest score of all countries) United States: 40 Canada: 39

Why might there be such a large disparity between Mexico and its northern neighbors? Hofstede lists 18 items that commonly differentiate countries with low versus high Power Distance Index scores. Of particular relevance to Mexico might be the following:

1. more traditional agriculture and less modern industry, 2. low perceived need for educating lower strata member of society, 3. less social mobility, 4. political power concentrated in the hands of an oligarchy, 5. centralization of political power, and 6. more static society.

From a managerial standpoint, the results are a far greater tendency towards autocratic/ paternalistic management, with high value placed on conformity, employee fear of challenging the boss, employee

reluctance to trust others (whether the boss or equal) ; while there may be sentiment for employee participation in decision-making, often this is more cosmetic than real. (Hofstede, 1984, pg. 92) The United States business person should recognize that attempting to import modern American theories of participative management may be an undertaking that is, at best, a strategy requiring significant up front development time. Also, the acquisition of trust or reciprocal loyalty may be difficult when this is rarely the norm.

UNCERTAINTY AVOIDANCE

A second dimension of national culture is the tolerance of uncertainty, as operationalized by (1) the degree to which business organizations demand adherence to formal rules and institutional ritual, (2) employment stability, and (3) tolerance for stress. Response to questions dealing with these three components were used to produce an Uncertainty Avoidance Index (see Appendix A). The results were as follows: Average for all countries: 64

Mexico: 82 Canada: 48 United States: 46

The relevance of this cultural dimension to United States business persons can be seen in the following issues where Hofstede reports that respondents from high Uncertainty Avoidance countries significantly differ from their counterparts in low Uncertainty Avoidance countries in that they have:

1.a preference for large versus small organizations. 2.a dislike of working for a foreign manager. 3.a lower ambition for advancement. 4.greater resistance to change.

These results suggest the following potential concerns when dealing with Mexico:

1. the small business may have a harder time recruiting quality personnel, 2. there is a strong likelihood that a local partner or manager will be needed, and 3. innovative approaches may be viewed with suspicion and/or disdain.

INDIVIDUALISM

The third critical dimension of national culture is individualism, which describes the relationship between the individual and the collectivity. Since the primary concern was the relationship of the individual to the business organization, Hofstede used a six item factor (see Appendix A) from a list of 14 "work goal" questions were used, and responses were scaled, with a range of scores from 0 to 100. The results were as follows: Average for all countries: 51 United States: 91 (the highest country score) Canada: 80 Mexico: 30

Hofstede found among the note worthy tendencies of persons in low Individualism countries are more likely to have a: 1. greater likelihood of wanting to work for a large company, 2. greater desire for security, and 3. greater conformity to tradition, with individual initiative being frowned on.

Again, we see that these work to the disadvantage of the small business owner.

CONCLUSION

The results of this study suggest that Mexico is indeed a significantly different culture in which to conduct business. These results call into question a number of real pitfalls that the United States business person will face in terms of establishing a company-owned and directed operation in Mexico. The question becomes that of (1) does the business person have the time and resources to overcome such obstacles, and (2) is direct involvement the most feasible strategy. While the large business organization may be able to answer yes to both questions, the small business should give serious thought before making any extensive commitments. While it may be seductive to shift operations to Mexico, the risk factor may prove decidedly hazardous. Less direct relationships, e.g. utilizing Mexican owned companies as subcontractors, marketing and distribution conduits, may prove a more satisfactory strategy. While the argument may be made that this will increase costs, it does offer the benefit of relatively painless interaction with Mexico, plus a low cost retreat if the situation proves untenable.

A critical question that we must ask is how quickly might Mexico's culture might shift once Mexico and United States become a common trading area. This could also be further refined if we were to consider different types of businesses, occupational groups of employees, and even geographic difference, i.e. "border cities" versus more geographically distant locations. Hofstede's research should not be viewed as a final answer, but rather as a foundation for further consideration and research. In fact, Hofstede includes in his text a condensed 33 question survey that could be used (Hofstede, pp. 283-286).

International business operations represent a myriad of challenges not found in one's own country. Recognizing these prior to having to deal with them is key to the first important decision in any business strategy: Is it worth it?"

APPENDIX A: QUESTIONNAIRE ITEMS AND COMPUTATION OF CULTURAL INDICES USED IN HOFSTEDE'S STUDY

1. Power Distance (Hofstede, pages 75-76) The Power Distance Index for each of the 40 countries was computed on the basis of the country mean scores for the following three question:

(a) Non-managerial employees perception that employees are afraid to disagree with their managers (1-5 scale)

(b) Subordinates' perception that their boss tends to make decision in (1) an autocratic or (2) persuasive/paternalistic way (% indicating either of these)

(c) Subordinates' preference for any style of decision-making but consultative (respondents were given 4 choices: autocratic, persuasive/paternalistic, democratic, and consultative).

The Power Distance Index was computed as: 135-25 (mean score of a) [the mean score of (a) was multiplied by 25 to give it a value range consistent with the other two items]

+ % of respondents indicating either 1 & 2 on item b

- % of respondents choosing consultative on item c

The constant 135 was added to give the country index a range of values between 0 (small Power Distance) and 100 (large Power Distance), although the theoretical range was -90 and +120

2. Uncertainty Avoidance (Hofstede, page 121)

The Uncertainty Avoidance Index was based on the country mean scores on the following three items

(a) Rule Orientation: Agreement with the statement "Company rules should not be broken even when the employee thinks it is in the company's best interest"

(b) Employment Stability: Employee's statement that they intend to continue with the company for (1) 2 years at the most, or (2) from 2 to 5 years (other choices indicating greater numbers of years were also included)

(c) Stress: as expressed in the mean answer to the question, "How often do you feel nervous or tense at work"

The formula for the Uncertainty Avoidance Index was: UAI=300 - 30 (mean score rule orientation) - (% intending to stay less than 5 years) - 40 (mean stress score)

Use of the constant 300 brings country index values to a range from 8 (lowest uncertainty avoidance country) to 112 (highest), with the theoretical range being -150 to +230

3. Individualism (Hofstede, pages 155-156)

Factor analysis of a list of 14 items measuring individual work goals results in the following 6 items being used as an individualism factor: "How important is it to you to..."

(1) have a job which leaves you sufficient time for your personal or family life (loading .86)

(2) have considerable freedom to adapt your own approach to the job (loading = .49)

(3) have challenging work to do - work from which you can get a personal sense of accomplishment (loading = .46)

(4) fully use your skills and abilities on the job (loading= -.63)

(5) have good physical working conditions (loading = -.69)

(6) have training opportunities (loading = -.82)

The Individualism Index was computed based on factor scores which rarely exceeded + or 2.00, which became the 0-100 index value range. BIBLIOGRAPHY

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1. Literature reviews using current databases did not produce any new or revised studies on this topic. For example, the authors checked ProQuest, the most comprehensive database of business oriented articles and publication, for relevant literature citations. Using the following topic headings (1) worker attitudes, (2) employee attitudes, (3) subordinate attitudes, (4) supervisory attitudes, (5) company culture, and (6) cross-cultural differences, each as related to Mexican workers and businesses resulted in 0 articles related to any of these topics. A similar review of ProQuest Dissertation Abstracts shows 2 dissertations of broad relevance - Ferkany (1993) and Thomas (1992). Both authors also indicated that literature reviews resulted in no relevant literature.

2. The other 5 countries in Hofstede's study would not be easily grouped together or in any of the above groupings.

SMALL BUSINESS AND THE INTERNATIONAL ENVIRONMENT

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ABSTRACT

The purpose of this paper suggests sources for gathering information about the international environment and for providing a framework for analyzing and evaluating the information on international opportunities.

INTRODUCTION

The international market place has become increasingly important for the United States. Especially since the European Economic Community approved the legal and political framework for a United States of Europe and the North America Free Trade Association may ultimately be sanctioned. For example, in the past foreign investment has outpaced world growth using Gross Domestic Product (Porter 1986).(1) Today, as the legal and political framework in Europe and North America begins to dismantle barriers to international trade, small business opportunities become possible. For example, where a small firm's domestic competitive position indicates maturity, intense price competition and slow growth, a decision to scan the international environment for growth opportunities maybe more appropriate for the firm.

U.S. SOURCES

In order to obtain information on international opportunities to set up possible contacts and identify an appropriate course of action, many states in the United States have agencies that focus partially and totally on international trade. California has an Export Finance fund, a World Trade Commission, and an Agricultural Technology Institute with a trade library service.(2) Missouri's Economic Development Commission in Jefferson City has an active program of attracting and promoting international trade. Many universities have centers that focus on International trade. Kansas State University in Manhattan, Kansas, has a International Trade Center. Similarly, University of Southern Illinois at Carbondale has a Center for International Business Education and Research. The federal government has similar agencies: the Small Business Administration, the Export-Import Bank, the Foreign Credit Insurance Association, the Department of Labor and Department of Commerce. Other sources of information include international banks and accounting firms (the big six).

INTERNATIONAL CONSIDERATIONS

The United Nations, the World Bank, the International Monetary Fund are major sources of statistical data, but computer data bases such as PC Globe - Version S an international computer data base contain important sources of specific information on 208 countries.(3) This data base provides information on the economy, health, education and communications. The economic category contains macro-economic variables such as Gross National Product per capital, agriculture employment as a

percentage of the male labor force and others. Similarly, health reports life expectancy infant mortality, while education reports literacy at different educational levels. However this quantitative data on economic, education, and transportation needs to be supplemented with qualitative information on geographic location, religious considerations and cultural dimensions. Hofstede's cultural dimensions are a start.(4)

Different customs and traditions that guide the culture of these nations generate different approaches to marketing products and certainly different methods of managing and understanding the culture. For example, the German worker, has high work intensity early in the morning and peaks before lunch and declines the rest of the day. The French worker has a low work intensity in the morning and peaks below the German worker, but stays level throughout the day.(5)

Besides generating a cultural understanding, the openness of governments to foreign investment, government procurement of goods and services and the political stability of the government increases the economic risk of new firms. Eastern European countries have substantial political instability and concomitantly do not have appropriate financial markets, western banking practices or favorable exchange rates.(6) Therefore, risk factors for foreign companies large and small increase dramatically. Consequently obtaining as much information on international opportunities and attending risks becomes more imperative. One study in the small business arena indicates firms that export do not monitor themselves any differently between international and domestic markets.(7) This could increase risk for those firms looking at international opportunities given the differences between countries.

FOREIGN SOURCES

Although international agencies are important sources for information, it is suggested that the prospective firm contact the Chambers of Commerce in the countries selected. Many times the Chamber of Commerce can provide all kinds of information on joint ventures, on channels of distribution, on site selection and on special government programs. In fact, most Western European countries like France have government programs that enable businesses to obtain grants and subsidies to help them start their business. For example, in France, the following information is an indication of what is available.(8)

Government R&D Grants

Grants of up to 50,000 francs per job created in R&D centres created in the area. Conseil General grants

Grants of up to 10,000 francs per job for large industrial projects with a workforce of over 30 persons and total investment in excess of 10 million francs.

Conseil Regional grants

Indirect funding for the purchase of land or business premises, ranges from 30,000 francs per job to a total of 700,000 francs.

Job training subsidies

Government and regional funds are available for job training and job upgrading programs.

Business tax exemption

A business tax is paid in one lump sum, which is then divided between the commune (3 to 25% of tax base) where the company is based, the department (7.5%), the region (1%) and the Chamber of Commerce (1%). All new companies are exempted from the business tax for two years. Some companies may be exempted for a period of up to four years.

Capital Requirements

In France, government regulations requires small business to have a minimum capitalization of 10, 000 Francs ($2000).

A FRAMEWORK FOR ANALYSIS

Once the sources of information are gathered the process of sorting usable information begins. Here a framework for analysis to identify what's important is presented.

The framework presented provides a comprehensive and practical approach to evaluating the international environment in five steps. This framework differs from other frameworks in that marginal costs and revenue are implicit in the model where as other suggested frameworks focus on explicitly on marginal costs and revenues.(9) Others scan the environment for alternative forms of growth based on marketing cost.(10)

1. To begin the process evaluate International Markets by grouping Countries on economic, geographic, political considerations, religious, and cultural similarities. For example, in the European Community of nations, the economic status of Europe's states would produce two categories. High economic status countries are France, Belgium, Netherlands, Luxembourg, Switzerland, West Germany, Denmark, Great Britain, Norway and Sweden. The low economic status countries would include Italy, Portugal, Spain and Greece. A geographic grouping would break countries into the following three groups: Northern Europe, Continental Europe and Southern Europe.

A religious group of countries almost coincides with the geographical grouping. The Northern Scandinavian countries and Great Britain are protestant along with the Netherlands and Northern Germany whereas Belgium, France, Southern Germany, Switzerland, Italy, Spain and Portugal are Catholic countries.

2. By narrowing the field to specific countries next gather specific information using U.S. sources, foreign sources and international sources such as:

Profits - target markets, customer profiles Labor Costs - wages, benefits Raw material availablility Access to Suppliers Availability of Capital - financial sources Export Requirements - transportation,

banking arrangements and tariffs Marketing Information on Price, Product, Promotion & Distribution Productive Advantages Management - workers needed - skills Tax Considerations and Special Economic Programs

3. Using a benefits and costs analysis compare the international market with the domestic market to ascertain the risks and the most profitable strategy and market. At the same time a SWOT analysis industry forecast and functional breakdown helps avoid gaps and overlays.

4. The new business decides which market has the best potential for the business - domestic or international.

5.Specific strategies and objectives are developed for whichever market has greatest potential and minimum risk.

Once the information has been evaluated the business needs to construct a strategy to reduce risk and maximize profit in the selected country or countries. For example, the Snickers candy bar has captured 11% of the Russian market. Now, with the impending tariff on the product, Snickers has to raise prices in Russia. Perhaps rather than exporting the company should consider establishing a subsidiary to produce candy bars in Russia. When business enters the international market contingency plans and strategies should be an integral part of the planning process. Many times what works in the U. S. does not work in other countries. For example, direct marketing over the phone works in the U.S. but does not work in Great Britain.11. Different cultural patterns dictate different strategies.

Regardless of the difficulties involved in exporting or considering other international ventures U.S. small business can easily with little cost gather information for possible opportunities. For example, advertising in the U.S. Department of Commerce paper USA Export or Foreign Publications could lead to contacts and direct sales abroad without any substantial financial outlay and provide important information on the demand for the product. If this approach does not work then the firm needs to consider the ramifications of licensing, partnerships, joint ventures and setting up subsidiaries. The EEC and NAFTA are here to stay and a more global approach to business can produce more benefits than losses. International market for U.S. small businesses exist, but strategies and opportunities vary depending on the stage of growth of the firm, the stage of market development and economic development of the country selected.

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MARKETING -Demographic factors -Selecting a channel of distribution -Pricing (high, low, competitive) -Promotion (media - like low or high context advertising)

PRODUCTION -Technology and Product Design -Technological Processes

FINANCES (SOURCES) -Cash Reserves -Loans -Stock bonds issues -Tax Credits

MANAGEMENT -Skilled & unskilled workers (costs) -Management Talent or use of consultants -Participation in local, regional and national government -Financial Programs to promote stability and maintain control of business.

STRATEGIES FOR MANAGEMENT CONSULTANCY THE CHALLENGE IN EASTERN EUROPE TO ASSIST SMALL AND MEDIUM SIZED COMPANIES A CASE STUDY AND DISCUSSION PAPER

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ABSTRACT

The objective of this paper is to give a better understanding of the factors determining management consulting strategies in Eastern Europe. On the basis of a case study which is still in process, some preliminary findings are reported which do influence the consultants determination of his consultation strategy in order to promote or to develop small and medium sized companies in Eastern Europe. Thereby, comparisons to research material in Western Europe assists in the analysis of the case study. In particular, the impact of the economic system is one of most explicit factors determining the consultation strategy. Furthermore, methodological problems are discussed in performing research in Eastern Europe as well as the implications of the findings to West European research on strategy.

INTRODUCTION

The need to have, the contribution of, small and medium sized companies in a free market economy appears to be without discussion. One finds a general understanding about the problems of small and medium sized companies and the services management consultants can offer to them in order to balance those inadequacies. The author of this paper has addressed this problem in a different piece of work. (Meyer 1992)

But what happens if both management consultants and small and medium sized companies do not exist in an economy?

This question is almost reality in East European countries. If one follows the policy of the European Community, the European Bank for Development and Reconstruction, the World Bank, the OECD etc. One regards the development of small and medium sized companies as the motor in the transition to a market economy (see also Cooper 1981). Again, as those countries miss out for obvi- ous reasons not on their knowledge but on their skills and ability to work under such free market conditions and to promote smaller companies, management consultants from West European countries are employed to assist the people in the East with their problems. Through their services, it is expected that the East European Countries are able to find ways to restructure the economy, to privatize governmental organisations in smaller units and to get the necessary training.

This task is a chance for management consultancy to develop further their professional image in their home countries. On the other hand this task becomes a problem in defining appropriate consultation strategies in the East. Based on the objective to develop a market economy, they are required to work under different social, economic and cultural conditions hampered by communication problems in

order to develop strategies or a masterplan to transform the economy.

However, this paper is not concerned to discuss further the strategy formulation process to transform the economy in Eastern Europe, but, to discuss the development of the necessary con- sultation strategies in order to comply with their tasks. This also should exclude the implied decision making process as it is not intended to analyze this problem. The objective of this paper shall give a contribution to the understanding of the con- tingency variables influencing the design of consultation strategies. Thereby, it is expected to develop future research in the area of management intervention.

THE RATIONALE AND APPROACH

Research in East European countries is difficult. The reasons can be found, for example, in the following constraints:

1. Due to the restructuring of the economy there are no possibilities known to research to identify a homogenous group of organisations which can be employed for quanti- tative research. The status and the independence of likely research units is unknown. Therefore, one has to stay in a system and cannot select single units within this system and analyze those independently.

2. The discussion in the current literature always takes assumptions a free market economy and that economic structures do not change in their foundation. This assumption cannot be transferred without reservations to research projects in Eastern Europe. The difficulty to integrate the problems of East European countries into a research design is to define a frame of references and a research rationale, when the theoretical foundation is inadequate and the feedback to the existing knowledge can be only a piecemeal to a rather undefined body.

In respect to this research, one needs to point out that the concept of management consultancy is neither very well founded or integrated in the existing theories of management (see for a further discussion of this problem Meyer 1992). The idea of management consultancy is based on the intervention theory whereas the reason for employment has to be found in the problems of dealing with change in every management area. Only in the ideas of Lewin (1958) this research find some support as one is dealing with a change of a whole economic system rather than with single organisations.

As outlined in Figure 1 this research is making a start to analyze the strategy consultants perform through intervention to achieve change. Thereby, an attempt shall be made to analyze the content of the employed strategy and the factors which influence the direction or process of a later strategy formulation process.

FIGURE 1: The Research Rationale

Contingency Variables | | Change V V Intervention - Economic <------- Consultation Strategy ------- Theory - Social

* to build up Λ Λ a SME sector | | Contingency Variables

The research problem has some associations to research on business strategy which is a well established section of management research. Hence, the rationale of the investigation has to be defined to give an understanding of consultation strategies to close the gap between the intervention and strategic or structural changes in an environment with an unknown future. Culture aspects, uncertainty and the contingency moment become here expected key factors in the design of a consultation strategy.

The approach uses qualitative research methods as outlined in the next section. Thereby, one finds the opportunity to give references to existing research in this area in order to evaluate the differences and the implications towards formulating a con- sultation strategy. Hence, this approach is a practical compromise in respect to its environment and offers several grounds for 'academic nitpicking', but, alternatives to start research in this area appear to be as yet unavailable.

The problems of small and medium sized companies becomes in this respect a good example as in both environments they are allocated similar roles, but, in Western European countries they are well established and in Eastern European countries they will need to be developed; including the so called 'entrepreneurial culture'. By using this example, it will be possible to demonstrate very simplistically strategies consultants need to give East European countries the resources to transform their economies.

THE METHODOLOGY

For reasons mentioned above, the method employed in this project is observation and case study. The author of this paper has had the opportunity to work in a consultancy company which is embarked on a consultancy project financed by the European Community in the Food Sector of Russia. As this project has just started, the investigation needs to remain on a level of initial observation and discussion of conceptual problems.

Nevertheless, the consultation strategy and the operationalisation of its stages have been defined which are of prime concern in this paper. Hence, it is possible to start some analysis in order to evaluate the environmental influences on a consultation strategy. The completion of such a case would only contribute to the precision of the results but it is unlikely to change the results a great deal.

In addition, this paper is able to refer back to research carried out in Europe (et al Meyer, 1992, Marner 1990). However, a direct comparison of results in both projects is not possible because of:

* different research design - European research was based on quantitative and qualitative research design

* time differences between the two projects

* difference in research units In the West European case one is able to identify single organisations and the effects of the environment and their relationship to consultants. In the East European case, it is only possible to identify units within a system which are not independent. Although the central planning bureau has been replaced, the system is still designed for governmental input. It is the task of the consultant to change this sys- tem.

This fact bears methodological weaknesses which one needs to accept at this stage and requires consideration in the interpretation of the results.

Despite the indicated difficulties of direct comparison it is still possible to make references to the factors influencing the consultancy strategy. The level of analysis appears to be sufficient for the identification of factors influencing the consultation strategy.

In consideration of the case study in process, the focus of this paper is in the identification of factors influencing the strategy but not on their measurement. Most measurements and statistical analyses are difficult to achieve in one case study as well as not very sensible as this approach primarily aims to an understanding. On the other hand, we are in particular able to include also the impact of culture towards such a strategy which is expected to have a major influence on such a consultation strategy and which avoids the description of the concept of culture by single traits. This approach has received considerable criticism in the past (see for further discussion Wipp, Rosenfeld, Pettigrew 1991). As a result, this paper will aim to define the factors and the analysis will allow us to draw some conclusions about the strength of particular factors influencing a consultation strategy.

THE CASE

The case study is based on a project in the Food and Vegetable sector in the Rostov on Don Region, Russia. Due to the problems of pace in this paper, a brief description will be given, however, sufficient to understand the later implications to a possible consultation strategy.

The Problem

The problems are that the food distribution sector is not able to serve the requirements of the people. As demonstrated in Figure 2, the governmental system is quite complex, inflexible in its operation and consists of huge organisations whereas there exists already a small functioning farmer market reacting to the needs of its customers. Thereby, food can be sold on free markets and through the governmental distribution system which is still operating under the old management system.

FIGURE 2: The Distribution System in Rostov (Problem)

Product Flow Rostov on Don Region

Government Distribution Farmer Market

---------- Farmer---------- | | / Processing Plant | / Packaging Plant <--- Centralised Sides | / | | Trans Regional | | Sales \ | | \ | | \ Wholesale | | | | | Shop Free Market | |
|_____Consumer_____|

Objectives of the Project

The objectives of the project are:

* to give short term assistance to ensure the basic food supply by improving the current system

* to develop a master plan for this sector in order to create a flexible food distribution system by: - separate, privatising the whole governmental system into small units - to give those units the capability to create competition and to survive in a competitive environment. * to give recommendations further necessary to implement the masterplan regarding necessary investments, know-how, technology, etc, as well as stimulating the process of change by the provision of examples

The Project Design

The project is organised into four different stages as demonstrated in Figure 3. In stage I and II we are dealing with the operational, i.e. short term problems within the existing system, whereas in stage III the consultants work strategically, i.e. starting to change the current system towards a more flexible and dynamic sector. This includes also the task of making proposals to separate the whole system into smaller units. The work in stage III also refers back to the work in stage I and II of the project as these are targeted towards the masterplan. In stage IV the consultant is ask i.e. to required to give examples or based on the definition of the necessary input needed to break up the system, he is required to give examples as a motivation factor and to provide examples are able to be copied elsewhere in the system. All stages entail necessary training sessions.

FIGURE 3: Project Diagram

Project Diagram: Rostov on Don

Stock Taking Stage 1 Rough Evaluation Operational | Level | Technical Assistance Stage 2 Improvements within the system (constraints) | | ---------- | | Sectoral Review Institution Audit Appraisal by comparing Identification of means for desired and actual dismantling vertically situation Integrated Structures and for Privatisation Strategic Level Stage 3 Master Plan Definition of Action Plan Identification of short and long term investments Definition of Training Programme ---------- Management and Training Programme Pilot Performance of Training Courses Level Setting Agendas/Process Initiative Stage 4 Pilot Management/Demonstration Shops

Tasks of the consultant at each Stage

Stage I: Stock Taking 1. Stock taking exercise 2. Preliminary financial analysis 3. Identification of immediate Key Problems Stage II: Technical Assistance 1. Detailed survey of the distribution chain 2. Evaluation environmental influences toward the distribution chain 3. Solving the identified immediate key problems as outlined in Stage I (Bottleneck Management) 4. Performance of first training sessions TA: Technical Assistance

Stage III: Development Masterplan A: Detailed Review of Sector/System Environment 1. to carry out a detailed market study incl. future trends 2. to appraise the current supply and demand incl. the evaluated consumer behaviour and the present distribution system 3. to appraise the effectiveness and capacity of each unit in the system in correspondence to future trends and actual situation 4. to

appraise the management and organisational structure of marketing and distribution channels in comparison to future trends and actual situation 5. to appraise the performance of government owned units by comparing those with corresponding private owned companies or shops 6. to continue the training sessions B: Audits of organisations Producing, Processing and Distributing Goods 1. to audit representative public owned units in the distribution chain 2. to evaluate the selected units in such a way to allow conclusions of their possibilities of being privatised at a later stage C: Development of a Masterplan To develop a masterplan in collaboration with the corresponding institutions and other personnel involved for the fresh produce sector. The masterplan should take particular reference of future needs of the units in the distribution system as e.g. technology, training etc. as well as their size/location in relation to future demand and supply.

Stage IV: Pilot Management 1. to establish a pilot shop in a popular shopping area ready to be transferred elsewhere in the system and supervise its operation 2. to select different units in the distribution system based on their willingness and motivation to move further in the change process towards a market orientated system 3. to plan and organize an intensive training programme

Key Notes to the Consultancy Approach

Despite the urgent needs in the region, the consultant team deemed it to be advisable to maintain a triangle approach as outlined in Figure 4 for the following reasons:

1. in order to ensure that short term recommendations give also the foundation for long term developments 2. to ensure that recommended changes stay in a similar direction with comparable approaches in order to void uncertainty and maintain credibility 3. to ensure a continuous training process 4. to start with the key problems having the greatest effect on liberalizing the system

As a result, the consulting team started to outline a rough evaluation of all three sections indicated which enabled them to get some knowledge of the system and the units participating. This triangle approach is also maintained in the following stages by the consulting team for more detailed studies up until the privatization and separation programme into smaller units. The question of comprehensiveness within the whole system, therefore, remains for the study and recommendations up until the privatization programme.

Figure 4: The Triangle Approach

The Triangle Approach

/ Study of the Process \ / - Product Flow \ / - Operation of System \ / - Infrastructure \ / * Evolution of Key Problems \ / \ Study of the Environment ---------- Study of the Institutions - Political/Social Agenda - Internal performance - Market Evaluation - Human Capital * Evolution of Strategic - External Collaboration Perspectives - Legal Framework * Evolution of Efficiency Means 1. Technical Assistance * setting priorities for immediate improvements 2. Master Plan * setting agendas for long term efficiency and stablization in order to secure future income and prepare a privatisation

IDENTIFICATION OF FACTORS DETERMINING THE CONSULTING STRATEGIES IN

EASTERN EUROPE

The Comparison between West European Countries and East European Countries

In analysing the case in order to identify those factors influencing a consultation strategy; criterias from the con- sulting literature which are regarded as important have been selected (see for example Klaile/Elfgen 1987, Meyer 1992). In addition the literature on organisational and strategic change has been evaluated (Carnall 1990, Kilmann et al, 1979, Pettigrew 1987). However, this paper will not discuss the criteria in more detail as most of them are self explanatory. Furthermore, the comparison to West European consultancy approaches are made as discussed above. The results are illustrated in Table 2.

Emerging Factors influencing the Consultation Strategy

In comparing both West European employment and the employment of management consultants in Eastern Europe, two levels of employment can be found and two different basis on which con- sultants need to develop their strategy:

1. the micro level:

on short term basis to assist with managerial problems and to provide them with the necessary know- how in order to give them a competitive edge

* This approach is used mainly in West Europe

2. the macro level:

on a long term basis to assist with problems to transform their economy in particular enabling their system to match supply and demand while giving them the necessary know - how to create competition and to create an entrepreneurial environment

* This approach is used mainly in Eastern Europe

Considering the basis on which consultants need to develop their strategy, the following factors of particular influence can be found affecting a consultation strategy in Eastern Europe:

1. Sponsoring Institutions:

The sponsoring institutions develop the terms of reference and i.e. the tasks and objectives for the consultants to perform. This excludes the consultant to carrying out his/her own investigations and the consultation strategy is directed by the prescribed framework.

2. Culture: Members of the consultation team and the local people are coming from different cultures. Communication problems due to language, empathy capabilities, etc. become more significant as national factors for successful consultancy and hence in consultation strategy. There are problems to

be overcome by Western style, Western arrogance towards their past achievements, etc.
_____ Table 2: The Comparison of Management Consultancy between West and Eastern Europe

Criteria West European Countries Consulting * to improve efficiency within any organization Objectives

Consulting Examples: Problem - development of different management areas - leadership - coping with growth - development of management techniques - implementing of new technology

Sources of organisational and strategic changes initiated by Problems a change in the market place

Consulting 1. Identification Stage 2. Problem Definition 3. Analysis 4. Recommendations 5. Implementation

Consulting Analysis of single problems in a comprehensive Approaches view of the particular organisation

Consultants Analysis Tasks Evaluation of Recommendations Training

Client private Owners

Consulting Single or Partner Consultants mainly Economic Team Background

Contact and Private Contacts or with the assistance of Selection institutions in industry and commerce. Selection only by the owner manager In case the assignment is sponsored assistance by the agency

Criteria East European Countries Type of Strategic Consultancy and Policy Consultancy Consultancy Long Term Assignments/Technical Assistance Troubleshooting Studies and Analysis

Client Source of Information Contribution Occasionally invited for participation in the project the terms of reference specify the client contribution

Consulting depending on the client and consultant Philosophy basic philosophy to achieve a change in the behaviour and belief to operate a system

Responsibility to perform the tasks according to the terms of references even if the receiving organisation fails to deliver their contribution

Culture both the client and consultant come from different countries and educated/live under different economic and political circumstances- Fear of western arrogance to be overcome scepticism of their professionalism, disregarding of past successes of the system etc

Timing independent from the need of the client often artificially held up through the administrative procedures in the sponsoring establishment which delays the mission. This implies additional

pressures to the first work of the consultants

_____ 3. Environment

The urgency of the problems puts pressures on the work of the consultant as this strategy demonstrated in the stages of consultation. Furthermore, the uncertainty of future developments in legal and economic terms require from the con- sultant to work in different models and the need to evaluate proposals under these conditions.

4. Knowledge:

This factor influences the consultation strategy through two aspects: the consultant has no knowledge about the system, conditions, etc., and the local people have maybe some general knowledge about a free market but no knowledge about the implications of such an economy to their daily life.

5. Information/Client Participation

The documentation of processes is often not very precise prepared, in a way unknown to the consultant and often unsuitable to the tasks for the consultant. Client participation is desired but impossible as the consultant needs to develop his/her own analytical tools; a type of documentation unknown to the client. Client participation is desired in the recommendation stage in order to avoid unnecessary speculations about future devel- opments. Although this paper intends to identify factors specifically influencing a consultation strategy and not directly dealing with the problems/ research on business strategy, it appears that some of the factors are comparable (e.g. Mintzberg 1989, Pettigrew 1987). Therefore, the question of the applicability of the findings to research on strategy in other areas needs to be considered. Encountering the fact that the stage of analysis is very broad and the factor environment needs more precision, it is still possible, however, to apply the findings to research on strategy in general. The main reason for this statement has to be found in the definition of a strategy as a body compromising goals, plans, resources and so forth in order to achieve an alignment between external environment and internal processes. This definition supports further the application of findings to research on strategy as a whole and the discussion of the implications of the findings in a rather holistic manner.

IMPLICATIONS TO THE CONSULTATION STRATEGY

By reviewing all determined factors it appears that the implications to the consultation strategy are very much deter- mined by the existing system in Eastern Europe, a situation which does not exist in Western Europe. In Western Europe change is performed and discussed in such a way that it starts to identify the problems and confront more the system and his resulting structures in order to achieve change. This is particularly the case in consulting small and medium sized companies where the consultant assists the manager after the consultation period in the implementation of his recommendations.

In Eastern Europe, one is dealing with a system directed to one central office which has been replaced. However, the system is still designed for governmental input. It becomes now the chance and opportunity for the consultant to take this role and give the system the necessary input. Moreover,

the consultation strategy must work through the system, first of all, in order to change it, and then to achieve the development of small and medium sized companies and the liberation of the economy. Hence the system becomes a determining factor towards a consultation strategy which is unknown to management consultants from Western Europe.

The other factors indicated above like culture, environment and so forth are also directed to the system or are influenced by it. Furthermore, consultants terms of references give the strongest evidence for the proposition. They are written up by the sponsoring institutions and political motivations to change the economic system cannot be excluded. On the other hand, there is a need for consultants to work through the system is to avoid/extend the uncertainty moment in order to maintain motivation by the people. As a result there is a need to perform small changes within the system in order to train the coping cycle (Carnell 1990) as well as prepare the people for an opening up of the whole system.

This finding does not contradict the quoted research on strategy as a whole, but certainly forces us to analyze in particular the environmental factor in more detail. Allowing for difficulties of comparison, one should be able to conclude that the often stated relationships strategy, structure, environment and sometimes culture certainly need some revision following the findings in Eastern Europe. The economic system has to be included in all factors on strategy research and has a considerable implications towards such a strategy which seems to be neglected so far.

For future research, this result has different implications which one needs to possibly consider to review the contingency variables in respect to strategy formulation. The first one is that future research needs to become more precise about the relationship between system and the resulting structures while defining strategies for change. This viewpoint also challenges the discussion of the relationship of cultural aspects to strategy and structures as culture and systems do form another relationship, as the evidence in Eastern Europe shows. Maybe this fact allows us to revise the definitions and analyses of the cultural factor as the current analyses are, according to the literature, unsatisfactory. It appears that the opening of Eastern Europe also offers the chance to review existing knowledge in a new light.

CONCLUSIONS

The research environment challenges the knowledge in the social sciences. It has been noted that the theories do not necessarily apply to the Eastern case due to a different culture or rationale in operating a system. Although they try to change it towards a market economy, it is fatal to believe that the people will give up the positive achievements of their past.

In the long run, academia must find a model of an economy which will probably be a compromise and direct comparisons will become weaker. This fact certainly inhibits the research process and these conclusions are also not free from various methodological weaknesses which one needs to accept at the start of a research like this.

The result of the case study, which is still in process, and the explicit impact of the factor system in their determination of a consultation strategy is unknown to us. These factors have been either disregarded or regarded as stable for obvious reasons. The changes in Eastern Europe give us the

chance to rethink the propositions of many areas of research and maybe to develop them further as outlined above.

In respect to management consultancy, it appears to be such that one needs to start to think of two types of consultancy although the general definition of consultancy has not changed so as to assist in order to cope with managerial problems. In both cases one finds that management has difficulties in performing change. Nevertheless, the scope of the problem has changed and requires an evaluation as to whether consultants need to diversify their own marketing strategy according to area of employment or whether there is a chance to form one global strategy. In both cases it allows them to strengthen the acceptance of their services, which is often the problem in Europe. The extensive employment in Eastern Europe now gives the profession the chance they have long since looked for.

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THE INTEGRATIVE CONSULTANCY APPROACH FOR THE PROMOTION OF ENTREPRENEURSHIP IN EASTERN EUROPE A WORKING AND DISCUSSION PAPER

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ABSTRACT

The paper discusses the German approach for the promotion of Entrepreneurship in Eastern Europe. It is called the integrative consultancy approach for the economy (German: Integrative Beratungsdienst fur die Wirtschaft) and is promoted by the German government (is. Bundesministerium fur wirtschaftliche Zusammenarbeit) and the Gesellschaft fur technische Zusammenarbeit GTZ (German Association for technical Cooperation). The target group of this approach is small business managers/prospective entrepreneurs as well as public authorities aiming to promote the small business community.

This paper will demonstrate how the concept of management consultancy and business promotion become one integrative part for the development of entrepreneurship. The approach has only recently been developed and promoted in Germany as a tool to assist with the problems in Eastern Europe. Therefore, empirical data cannot be given as such as projects of this nature do last for several years. Hence, this paper needs to remain as a working and discussion paper, but, already some important implications to entrepreneurship research and policy makers can be discussed.

INTRODUCTION

Entrepreneurship is a rather old phenomenon and the study of it provided many definitions and ideas, but, up to today researchers were not able to rely on an agreed theory. Hence, one finds in this area of research contributions from different disciplines (Bygrave 1993, Bull/Willard 1993) as for example anthropology, sociology, economics or psychology in order to research entrepreneurs themselves, their environment, their impacts on society, their development.

Besides the differences in the area of research, most researchers base their work on the assumption that the economic system itself remains stable. This assumption made research possible while regarding entrepreneurship as the engine to provide the dynamics needed for a constant regeneration and development of our economic system.

But what happens if the view of entrepreneurship changed and it is regarded as the motor to change an economic system?

This question becomes reality in the case of many Eastern European countries who are requested to create an environment which supports entrepreneurship. Thereby the shortage and limitations of the mentioned assumptions on entrepreneurship become an obstacle to transfer the necessary know-how to Eastern Europe. According to the current knowledge entrepreneurship is based on a market

economy system whereas a market economy is based on the existence of entrepreneurship. One depends on the other which prevents from adapting a simple argument attempting to create the desired economic system first in order to make our knowledge and ideas applicable to promote entrepreneurship in Eastern Europe.

There is a resulting vicious circle which appears to be difficult to break through but reflects the situation in Eastern Europe. This problem finds its implications on two levels as follows:

1. Research and Theory Level it challenges the existing understanding of entrepreneurship and our previ- ous research assumptions. Moreover, the shortage of the current knowledge becomes more obvious as one misses out on detailed studies of entrepreneurship in different cultures and societies. The existing research base allows only a description of the evidence rather than the background to approach such problems as in Eastern Europe.

2. Policy Level to develop policies and programs as a guidance for the country to maintain some degree of stability during the transition stage to a market economy. The required socioeconomic changes are fundamental and the needs of the population do not allow much time which puts additional pressure on the problem (Barth 1993). On the other hand, policy makers do need the necessary know-how and make this generally known in their country in order to let entrepreneurship and a market economy happen.

In between those two levels one is able to position consultancy services who are requested to assist in the development of entrepreneurship. Management Consultancy is by definition a helping service to introduce the know-how which currently does not exist in an organization, system or any social grouping. Often their main task, apart from problem solving, is as a training service in order to develop the knowledge requested by the target organization. In this case, therefore, their work should enable entrepreneurs and policy makers to develop the necessary measures without themselves having sufficient guidance by the existing knowledge.

The work of a consultant must be guided by a concept and strategy. In respect to the quoted problems above, as one solution, the German authorities developed a so called integrative consultancy concept in order to provide the strategy and framework for such complex tasks as in Eastern Europe (BMZ 1993).

The integrative consultancy approach tries to assist the public and private level simultaneously. Besides the German authorities international project sponsors like the European Community has also increasingly started to follow this idea. Nevertheless, this concept has been only recently implemented. Only previous experiences with providing technical assistance in Developing Countries can be used.

Despite this fact, this paper wishes to follow this consultancy perspective and elaborate this concept further as a tool to promote Entrepreneurship in Eastern Europe. It is expected that these discussions should already offer valuable insights in the promotion and understanding of entrepreneurship.

THE OBJECTIVE, RATIONAL AND COURSE OF THIS PAPER

The objective of this paper is to evaluate the integrative consultancy concept with its further implications to policy making and research on entrepreneurship. An attempt is made to bridge the ideas of entrepreneur- ship development and management consultancy in order to offer a fresh impetus to the field. The rationale of this approach is a rather inductive approach while trying to extend existing knowledge of entrepreneurship by a combination of two different angles of research.

The methodological course of this paper has to be seen as exploratory as the objective is embedded in an environment where it is not possible to refer back to an agreed theory of entrepreneurship and management consultancy. Hence, the methodological weaknesses of this paper reflect the weaknesses of the existing research base and can be outlined in the following points:

1. Research in entrepreneurship is very fragmented and concentrates mainly on areas such as, for example, employment creation (see for example Acs/Audresch 1993), its impacts to our economic society, entrepreneurial personality, life cycle models of business evolutions, etc (Bygrave 1993, Bull/Willard 1993).

2. The concept of management consultancy in order to promote entrepreneurship and a small business community is only supported by more anecdotal research (see for a further discussion Meyer 1992). Moreover, management consultancy has only recently gained some acceptance in providing their expertise to public and governmental authorities in order to deal with the problems of entrepreneurship. In Germany, this idea came mainly into force while dealing with the problems of reunification and restructuring.

3. Entrepreneurship research as well as other research areas cannot be transferred without reservation to the problems of East European countries due to various reasons, for example, of culture (Adler 1984). The knowledge has not been tested in a rather contrasting en- vironment.

4. Research in Eastern Europe analyzing the economic changes is based on observations but not based on detailed empirical research. The reasons have to be found often simply in the time factor which applies to the integrative consultancy approach as well. At the moment, this approach has only recently been implemented in Bulga- ria, Poland and Hungary.

As a result, this paper needs to remain at a working and discussion level outlining the idea and approach. Nevertheless, the value of starting such research has to be found in exactly those discussions. The problems demand a review of the knowledge and existing research in the promotion of entrepreneurship.

The course of this paper, in respect to its objectives, is lead by the following questions:

1. What are the problems in promoting Entrepreneurship in Eastern Europe? 2. What are the foundations and ideas of the integrative consultancy approach? 3. Why has the integrative consultancy approach been selected to solve the problems of promoting Entrepreneurship in Eastern Europe? 4. What are the implications to the policy and research level of this approach?

PROBLEMS IN EASTERN EUROPE TO PROMOTE ENTREPRENEURSHIP

The problems of promoting entrepreneurship have to be found mainly in the problems of transition (Testa 1993). However, the current literature appears for this problem not useful as the discussion is more lead by the objective of identifying factors which need changing rather than dealing with the change process itself. Because of this limitation and the noted observations in recent publications, the problem needs to be analyzed from two sides:

*the shifts the society has to make, as well as * the existing economic problems of newly privatized companies with special reference to small and medium sized companies.

Concerning the shifts the society has to make, for the purpose of this paper a demonstration given by a Russian Professor at a conference in Athens in 1991: Management Consultancy and Entrepreneurship will be used. She simply described the society in the form of a triangle with the old governmental system at the top. This triangle has been turned upside down, turning the apex to the bottom. If one follows this symbolic and imagines that power and property always stays on the upper level of the triangle; these two items will need to move up from the triangle apex to the bottom line. And this transition is what is confronted when the problems in transition in Eastern Europe are discussed.

In order to reallocate the property back into private ownership as a pre- condition for a market economy, huge privatization programs can be observed. In respect to the target of giving state property back to the people, this means has received already quite substantial critique. It has been forwarded that this means allows the 'Old Nomenclature' to remain and selects more the winners of the old system rather than creating a real reallocation of property in the sense that every person takes his share (Blanchard/Layard 1991). Some authors went even further and claimed that any form of privatization will create injustice in the society and cause problems (see for example Sirc 1992, Hodgera 1991).

In respect to the creation or promotion of entrepreneurship the measure of privatization becomes even more doubtful as often company directors become reinstated as business managers/owners. The distribution of shares to former employees also does not make them all entrepreneurs. The provision of property to new entre- preneurs appears to be currently a problem too. Because of this, most new businesses have to be found in the service sector or retail trade which can be started from their own homes (Van den Ven 1993).

On the other hand, the social status of an entrepreneur appears to be a problem in Eastern Europe which is likely to prevent people from becoming entrepreneurs. This is actually in contrast to most research in Western Europe which concluded that entrepreneurs perceive their increased recognition of their social status as an award. Referring to Tschepurenko's research (1993) in Russia, the status of an entrepreneur has meanwhile been accepted but is not supported by the society as a whole. From a prospective entrepreneur these are still wide ranging social engagements expected in order to prevent the image being conveyed of exploiting labour for the benefit of capitalism. The people in Russia, in particular, are a long way from having an entrepreneurial culture. Therefore prospective entrepreneurs need to overcome significant psychological barriers.

When reviewing the economic problems (Testa 1990), the difficulties prospective entrepreneurs will face can be pictured quite clearly. Most of those problem areas can be deduced from the experienced

problems of existing private companies in Eastern Europe. Table I should illustrate the possible problem areas as well as give some examples.

If both sides are reviewed collectively and one starts to categorize the problems of promoting entrepreneurship, four different sources can be determined as outlined in Table 2. Furthermore, this table also suggests the different groupings or levels where assistance is needed. The levels are as follows:

*existing and prospective private entrepreneurs *private and public organizations and institutions serving this group * government and governmental authorities setting the economic policy, economic framework and legislation.

THE INTEGRATED CONSULTANCY APPROACH

Definition

The integrative consultancy approach should be understood as providing consultancy to single entrepreneurs or companies as well as providing a contribution for the development of an entrepreneurial friendly environment (BMZ 1993). The latter recommendations should enhance further a successful implementation of the recommendations given to entrepreneurs through the development of proposals of regional development and economic promotion measures. Hence, this approach tries to combine management/business needs with the existing public socio-economic interests of regional development. Therefore, this approach has an integrated coordination and guiding function based on the experienced needs of entrepreneurs.

Methodological Background

As previously noted, the methodological background of this approach tries to integrate two concepts together:

*the concept of management consultancy *the concept of business promotion

a) Management Consultancy

The concept of management consultancy is based on the intervention theory (Argyris 1970; Blake and Mounton 1976) whereas the reasons for employment have to be found in the problems of dealing with change at every management level. The general approach of consultancy is based on a helping idea while providing technical but mainly methodological expertise to generate the information needed in order to promote the target group with their decision making process. (see for a further discussion Meyer 1992). TABLE 1: Economic and Management Problems of SMEs in Eastern Europe List of Problems: Small and Medium Sized Companies (SMEs)

PROBLEM-TYPE EXAMPLES/AREAS LITERATURE Marketing/ - the old Soviet Union is missing FAZ, October Distribution as a trade partner and market 1992; Spiegel - missing inner East European Market 8. March 1993 without compensation Nr. 10, s. - declining internal market 120 ff - trade

pattern to the western FAZ, 17.02.93 economies not developed FAZ, 23.02.93 - products do not fulfil western market standards Finance - missing revenue due to decreasing FAZ October and turnover 1992 Liquidity - difficulties to retrieve outstanding Spiegel, 8. Problems credit (bad pay moral) March No. 10 - currency problems and high interest 1993 rates FAZ, 14.02.92 Problem of - social security/services had been Spiegel, 8. old social incorporated in the task of a March No. 10 obligations company 1993, S. 128 - these obligations still remain with implications to the cost structure and international competitiveness - the social risk of redundancies which no company is able to perform Planning - SMEs miss out on a planable future FAZ Oct. 92 Problem - no consistent government economic policy, finance and banking policy, legal policy etc. - difficulties to analyze consumer market trends Management - missing management know how and Spiegel, 8. Problem techniques March No. 10 - no formalized (structured) decision 1993, S. 128 making processes and communication - missing understanding to perform organizational and strategic change - missing understanding to communicate with the market place - missing company organization and organized working procedures - no personnel policy and performance oriented wages - missing office equipment like EDP for receiving decision making oriented information Know-How - the inability of management and 9.Bericht der staff to perform their new tasks Bundes- - missing training possibilities and regierung vocational training schemes for the Nr. 12/4096, youth 75-76 Privatiza- - to develop socially acceptable The World tion - privatization schemes Bank: Food Problem - to select companies which create and and are able to sustain competition Agricultural - to deal with a policy mistake: Reforms in prices have been liberalized but the former also privatized companies have no USSR, 1992, means to react to changing price p. 98 situations or consumer demand FAZ, Oct. 92 - privatized companies still remain FAZ, 14.02.92 dependent within their old existing BFAI,17.12.92 governmental distribution structures FAZ, 16.01.93 - difficulty to change the focus of FAZ, 17.02.93 the companies from the system FAZ, 23.02.93 to the market Sirc 1992 Product - most products do not follow the 9.Bericht der Norm/ world wide norms and quality Bunde- Standard standards sregierung Problem - international trade promotions zur Entwick- often fail of because of this lungs-politik - SME miss out on guidance and Bonn Nr. resources to implement those 12/4096, standards S. 75-76 Infra- - existing transport system is unable The World structure to deliver materials and goods at Bank: Food Problem the right time, place and quantity and Agricul- - missing land to develop new cultural business sites Reforms in - unsatisfactory road, rail- the USSR, communication systems 1992 - unsatisfactory telecommunication - difficult access to the labour, market, raw materials, spare parts Service although those services companies The World Problem face problems, in return SME suffer Bank: Food from a weak support of: and Agricul- - financial services: banks, cultural insurances etc. Reforms in - management services: accountants the former consultants etc. USSR 1992, - environment services: surface, BFAI, road, rubbish etc. 11.06.92 - trade services: marketing agencies, import/export agencies etc. Currency - SMEs suffer from a unsatisfactory FAZ, Oct. 92 Problem currency policy of the government FAZ, 14.02.92 - high inflation which also increased BFAI, the costs of labour 14.02.92 - no access to international capital FAZ, 16.01.93 markets - high interest rates as a result of government policy to keep inflation down - difficult convertability of the local currency

TABLE 2: Problems in promoting Entrepreneurship

Problems in promoting Entrepreneurship by Source

SOCIETY ECONOMY MANAGEMENT INDIVIDUAL - Image of - entrepreneurial -

communicating - achieve- Entrepre- friendly physical with the ment neurship infrastructure market place notion - right of - financial sector - implementation - risk property - commercial of management taking - legal services - tools/ - taking issues - technology techniques own in- - taxation/ transfer - decision itiative income - training making pro- - social distribution opportunities/ cesses abilities - social skilled labour - leadership - flexi- network - access to - training and bility resource markets consultancy

b) Business Promotion

Since the task is to evaluate the German ideas of promoting entrepreneurship in Eastern Europe, this paper will concentrate on the concept of business promotion used by the German Chambers of Commerce (WNO 1991). According to their work, they identified the factors as listed in Figure 1 as important to promoting employment and entrepreneurship.

FIGURE 1: Factors of Economic Development

Geographical -> <-Infrastructure Position Natural Resources <-Supply of Labour Political -> | Developments \|/ <-Supply of Estates Economic -> Policy ECONOMIC Research/ DEVELOPMENT <-Innovation Regional -> POTENTIAL Resources Business Policy Intellectual and Regional -> HUMAN CAPITAL <-Cultural Self Esteem /|\ Environment | Internal/External Communication -> and Cooperation

Source: Wirtschaft zwischen Nord- und Ostsee (WNO) No 92, 1991, p. 27, translation by the author

Thereby it should be noted that certain factors have to be regarded as fixed factors and difficult to influence (like geographical location), while some are not controllable on the regional level (like economic policy) and others are able to be influenced. Moreover, it is interesting to note that while some of the mentioned factors are known already in entrepreneurship research this appears to be the only systematic collection. Nevertheless, these variables have never been forwarded collectively in research.

The recognition of these factors lead public agencies and authorities to the development of a circle of activities to promote regional competitiveness and employment shown in Figure 2. Due to a lack of space in this paper, every aspect of this circle cannot be discussed. Nevertheless, the important feature of this demonstration is the notion of a balanced approach of all factors. A concentration on one particular aspect or service of this circle would destroy its balance and, moreover, not contribute to a higher regional competitiveness and employment. Therefore, this circle needs to be always in equilibrium which requires an economic policy promoting a business friendly infrastructure, technology transfer, market access and consultancy. Although this approach has not been subject to detailed research, it finds considerable support in the development of business parks in Germany and other European countries. Economic policy applied through those centres or sides made it possible to ensure the supply of all demonstrated services which resulted in a high success rate of new enterprises.

FIGURE 2: Circle of Regional Business Promotion Tasks

EMPLOYMENT, CREATION JOB SECURITY, COMPETITIVENESS, COMPANY REGION

Management Consultancy - Business Start Up - Investments - Private/Public Partnership Business Contacts/Networking - Regional - National - International Industrial Sides or Business Parks - Acquisation - Consultancy - Estate Agent Promotion Strategies - Technology - Commercial Structure - Location - Tourism Marketing/Image Development - Informative Material - Public Relations - Meetings Project and Technology Innovation - Technology - Research Commercial Infrastructure - Buildings - Transport - Land

Source: Wirtschaft zwischen Nord- und Ostsee (WNO) No 92, 1991, p. 28, with own admentments by the author Finally, it is interesting to note that the consultancy component in this circle is an important and integrative part of promoting entrepreneurship in Germany. Following this circle leads to the conclusion that the promotion of entrepreneurship is not possible without providing prospective entrepreneurs with the necessary advice.

The PROMOTION OF ENTREPRENEURSHIP IN EASTERN EUROPE

Although one finds reasonable arguments to support the German approach of promoting entrepreneurship, unfortunately, copying those ideas directly to Eastern Europe is not possible. The earlier noted methodological problems prevent us from doing so. Furthermore, the German approach is, in the first place, mainly concerned with the development of employment rather than with the promotion of entrepreneurship itself. Although those two areas are often treated with a similar perspective, the required problems and methods are different.

Hence in response to the noted problems the questions needs to be asked more specifically: Which environment do entrepreneurs need to develop ?

Following this question, the author of this paper developed another circle called: the entrepreneurship support circle with particular reference to the problems in Eastern Europe. This circle is illustrated in Figure 3.

FIGURE 3: Entrepreneurship Promotion Circle

SMALL BUSINESS COMMUNITY ECONOMIC POLICY*PROMOTION OF ENTREPRENEURSHIP

- Extension Services - Infrastructure - Banking - Public Services - Training and Consultancy - Technology - Environment Services - Marketing/Sales Services - Commercial Services - Privatisation - Extension Services

Despite the fact that some of the variables in this circle have changed, one idea in particular has been maintained. This is the need of a balanced approach in order not to disturb the gravity of the circle. Although it is not possible to discuss all variables, their interdependencies, and the col- lective impact of each variable, one example should be given to emphasize the earlier point (see Sirc 1992):

The Banking sector in Eastern Europe was generally designed to optimize the distribution of governmental funds in accordance with their specific rules and regulations. Within the transition stage to a market economy, banks are required now to optimize their services in accordance with the services required by their clients. A concentration on this sector would mean that we develop financial services which cannot be used by the small business community as they don't have the human resources (training) knowledge of the market place to repay their credits. Hence, without the development of the other sector/services then advance banking service would never be used to its desired degree with its economic consequences.

In difference to the earlier circle this support circle for Eastern Europe requires a wider perspective. The promotion of entrepreneurship can not be targeted to the normal target groups such as production firms and handicrafts. There is a need to extend the existing knowledge to the associated areas or service areas of the small business community. Moreover, many services in the middle of this circle need to be provided by private companies as well, which are often by nature small. Hence, the suggested development of a small business community in Eastern Europe must adopt simultaneously an approach which supports the 'classical small business community' as well as its service environment. The promotion of entrepreneurship, therefore, needs to pass the middle and inner ring of this circle and must be embedded in a wider range of economic policy. The notification of this point represents a central aspect in the development of the integrative consultancy approach.

THE INTEGRATIVE CONSULTANCY APPROACH: A MODEL

Building up on the previous discussions as well as recognizing the market philosophy that small business development can only come through the marketplace itself, an attempt has been made by the author to model the integrative consultancy approach. Despite the fact that the status of model building can be only indicative, the model in Figure 4 tries to concentrate more on the relationship needed to build up the necessary support for smaller companies and entrepreneurs rather than trying to predict any certain outcome by the combination of a set of variables.

The central argument in this paradigm is that the development itself of entrepreneurship can only come through the market place (Brunner 1993). This requires from all groups a market orientated approach where the support units are required to give entrepreneurs the back-up in order to find access to the market place (Testa 1990). Therefore, the demonstrated relationships follow market economy principals whereby the state has no direct influence in the promotion of entrepreneurship. It is only possible to offer services to entrepreneurs through their own administration or by promoting/sponsoring commercial services.

FIGURE 4: The Entrepreneurship Support Paradigm

THE STATE * Design of Support Policy * Interested in Social Wealth * Setting Framework for Market Economy

COMMERCIAL SERVICES PUBLIC SERVICES Supply of different Business * Execution of Government Services e.g.: Policy * Financial/Banking Services * Information Networks * Trade Services * Training Facilities * Transport/Logistic * Industrial Parks * Management Services *

Innovation Centres etc. * Estate Services

MANAGEMENT CONSULTANCY * Provision of Management Expertise targeted to each participant * Provision of Information for comprehensive Support

TARGET GROUP Smaller Companies * Need of Management Skills * Need of Know How * Need of Sound Finances * Need of Infrastructure * Need of Planned Future

THE MARKET PLACE * Determination of the Price * Determination of future Developments * Consumer Selection * Source of SME/Fam/NGO Developments

Concentrating now on management consultancy, one finds that these type of services have been allocated a central role. Although consultancy should be a private service and is strictly speaking therefore a commercial service, in this model moved away from an organizational to a task orientated viewpoint. This allows management consultancy to be allocated as demonstrated in Figure 4.

The entrepreneurship support paradigm demonstrates the interaction between the different groups needed to make the development of entrepreneurship possible. Thereby, one of the primary tasks of consultants is to set up the lines of communication within the triangle: commercial services, public services and smaller companies so that the required services and smaller companies can develop and adjust to each other. These lines of communication which have been formally done through the central economic plan need to come through the market place while offering the various services. Management Consultants provide in every area of management and therefore process the knowledge to take such an integrative role. Considering the problems of Eastern Europe within this entrepreneurship paradigm, consultants:

* need to provide individual advice for managing change in existing support organizations as well as building up entrepreneurs able to sustain competition in a market economy

* need to provide collective advice on the basis of proposed strategies of individual organizations to formulate a comprehensive long term entrepreneurship development strategy. This master-strategy should give the framework to set up a sustainable change and development process.

In respect to the employment of management consultancy, in Table 4 some possible areas of employment have been illustrated. Thereby, the need becomes apparent to develop a regional development plan first as each sector will need the information from other sectors in order to formulate its own strategy and for the consultants to give continuous advice.

This request from the consultant work requires a constant monitoring and evaluation system which is an implemented part in this approach. In this respect it should be mentioned that not all those tasks can ever be carried out by single consultants and become a programme itself. At the moment this approach is run by the international and sponsoring authorities and needs to be taken over by local authorities which can be public or private organizations and if possible, integrated in their work, as for example, in Germany by the Chamber of Commerces. This institution attempts to act as an intermedia between private firms and public authority while providing private managers with information and

training opportunities.

DISCUSSION: NEW APPROACH OR ONLY A DIFFERENT PACKAGE?

After the introduction of the integrative consultancy approach, one may conclude that in particular German approaches of business promotion have been only reshaped to solve the problems of Eastern Europe. Although one needs to accede to some degree that the considered components of the integrative consultancy model are quite comparable, there are two aspects within this model which distinctively differentiate the approach used in Germany itself.

These two aspects exist within the role of consultancy. First of all, management consultancy is viewed here with a double role of advising entrepreneurs on their own business venture and business environment to build up the infrastructure to make the development of a small business community feasible. Secondly, management consultancy is allocated a coordinative role. Based on the noted experiences with smaller companies, consultants are able to advise the identified supporting groups accordingly under a previously defined overall small business support strategy for a certain region.

In accepting those two arguments and giving this approach a right to stand on its own, the next question is to determine whether this approach is suitable for the problems in Eastern Europe. In this respect there are two central aspects which match up with the noted difficulties in promoting entrepreneurship. The first one is the know-how problem and the second aspect is again the need to set up lines of communication between the different participants within the small business community. The latter aspect in particular has been performed earlier by the centrally determined economic plan whereas now this type of communication needs to take place via the market mechanism.

The nature of management consultancy allows one to allocate this service in the center of the triangle. Consultants are able to provide the nec- essary know-how to compensate for the input given earlier by the economic plan.

TABLE 4: Possible Areas of Consultants Employment Possible areas of Employment within the Integrative Consultancy Approach

Entrepreneurial Private Public Policy Management/Small Services Services Advice Business Management

* Business * Development * Technology * Tax and Start up of Transfer Subsidies * Management of Consultancy * Telecommuni- Programs Growth Services cation * Training * Decision Making * Development * Training Programes * Marketing, Sales of Banking Services * Infra- Distribution Products * Information structure * Controlling, * Development Centres * Privatisa- Financing of Trade * Technology tion * Human Resource Services Transfer Management * Family Boards

In this function management consultants are able to maintain an operational system, to set up the noted lines of communication and are able to change an interactive system as needed for the development of entrepreneurship under market conditions. For those reasons it is possible to support this approach as a tool to solve the problems of promoting Entrepreneurship in Eastern Europe.

IMPLICATIONS TO THE INTEGRATIVE CONSULTANCY APPROACH

Following the way of discussion in the introduction, the evaluation of the implications of this approach needs to be on the two identified levels: * Policy Implications * Entrepreneurship Implications

a) Policy Implications The integrative consultancy approach allows the government to change from a central governing role to a more regulating and supporting role in the economy. Nevertheless, it requires policy makers not only to follow and implement the recommendations given by consultants but also to support consultancy itself. Considering this problem, in many West European countries comparable models do exist to promote the use of consultants. Furthermore, they must also allow local management consultants to find support from their international counterparts. The idea of consultancy for consultants also finds value in this particular case.

In order to follow such an approach there are some huge investments required (for the implementation of recommendations and promotion of consultants). Although in particular Western authorities are financing the initial ideas, huge capital requirements still remain for the implementation of this approach. Considering the financial situation of most East European countries, a major problem exists here which makes it questionable if the full benefits of the model will be realized.

Most of all, policy makers must put particular emphasis on the mentioned monitoring and evaluation system at different levels. Moreover, they are required to determine at a very early stage a local organization which will take over the tasks performed now by international expertise. The success of this approach will depend largely on the degree to which this integrative system becomes a part in the development and implementation of their own economic policy (Brunner 1993).

b) Research Implications

The level of present discussions needs to be evaluated at a research - formulation stage where it suffers particularly from insufficient support. Therefore, the status of model-building has to be seen as indicative rather than properly formulated according to social research standards (Bygrave 1993). However, the problems have been noted earlier and need to be found first of all, such as a pragmatic approach to guide the research which will sustain this criticism.

The important relationship the integrative consultancy approach tries to focus on is the formation of an entrepreneurship friendly infrastructure (see also Winiecki 1992, Testa 1990, Bull/Willard 1993) and consultancy for the creation of entrepreneurship. In recent entrepreneurship research, the attention has been more given to analyze the entrepreneurial drive, existence of market niches, professional and social background and so forth to explain entrepreneurship rather than the economic framework. The emerging relationship of this research has also been suggested by Van de Ven (1993) and Brunner (1993) without having been put forward for research. The need for the incremental approach to build up entrepreneurship within this model through the assistance of consultants requires a review of the understanding of promoting entrepreneurship.

Research approaches will also require increased research of the environment as a comprehensive

whole rather than selecting certain variables. This appears to be a demand for inductive qualitative entrepreneurship research with attention to hypothesis testing and theory building. Nevertheless, the latter point joins the constant discussion in the social sciences where this case illustrates just another case. Finally, there appears to be also a requirement to extend the definitions of entrepreneurs according to the support circle. There is a demand for more service companies and the professions as well as their practices are by nature managed by entrepreneurs. This group only rarely found consideration in this field of research but appears to have an important role in developing entrepreneurship.

A FINAL NOTE

The problems and challenges in Eastern Europe require a review of existing knowledge of promoting entrepreneurship as it encounters applicable difficulties. In particular, existing knowledge gives insufficient support to tackle the problems in those countries.

The demonstrated model tries to bridge the ideas of business promotion and management consultancy into an integrative concept in order to give a fresh impetus to the countries in Eastern Europe and to entrepreneurship research. The problems allow management consultants to present themselves as a partner to the small business community as well as opportunities in entrepreneurship research and theory building. The opportunity now exists to define new ways but requires courage, research and policy wise to leave old traditional values and rules in order to find new ones (Bull/Willard 1993). This applies in particular to en- trepreneurship research and maybe models like this provide some guid- ance.

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EXPORT PERFORMANCE OF SMALL AND MEDIUM SIZED FIRMS: THE IMPORTANCE OF MANAGERIAL CHARACTERISTICS

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ABSTRACT

In recent years small and medium sized firms have taken their first steps towards internationalization. Exporting, the preferred mode of internationalization of smaller firms, has become more important and increasingly more difficult due to increased global competition. Thus, it is important to understand all the factors that make a small firm a successful exporter. This article reports on the findings of a study of small and medium sized Greek firms and the relationships between their export performance and four characteristics of their decision makers. The four characteristics are: age of the decision maker, fluency in foreign languages, number of years that he or she has lived in a foreign country and educational level. The statistical analysis of the data strongly supports correlations between export performance and two of the variables, educational level and fluency in foreign languages.

INTRODUCTION

During the last twenty years empirical studies of small and medium sized exporting firms have traditionally focused on firm-related variables. For example, several recent studies have attempted to investigate relationships between organizational characteristics, marketing strategy and export performance, the usefulness of export specialists in facilitating international expansion, the impact of managerial perceptions on performance of exports, differences between high and low involvement exporters, and differences in exporter practices, attitudes and problems by size of firm, among other topics (1; 2; 3; 4; 5).

However, very scant attention has been paid to the special characteristics of the decision makers and their influence on the export performance of their firms. The majority of the noteworthy studies in this area have attempted to assess the manager-related characteristics of exporting in contrast to non-exporting firms (5; 6; 7). Only one recent study, to the authors' knowledge, has tried to identify differences in a wide array of firm and managerial characteristics as they influence the export involvement of firms (4). It is conceptually obvious that especially for small companies the personality and the special characteristics of the decision maker can be detrimental to the success of the firm in international markets and it is important for consultants working in advising managers of smaller firms to understand which decision makers are more likely to be successful. This study will attempt to outline four special features of the decision makers of small and medium sized Greek firms

and their relation to the export success performance of the corresponding firms.

METHODOLOGY

To collect the data used in analyzing the special characteristics of the decision makers of small and medium size firms reporting successful export performance, a mail questionnaire was used. Mail surveys have been used extensively in previous export research studies (3; 1; 4; 5).

Managers of small and medium sized Greek firms formed the population of the study, conducted in the early Summer of 1993. The companies included in the questionnaire were drawn from the "Greek Export Directory," published by the Athens Chamber of Commerce. Additional secondary sources were consulted to determine which of the companies fit the description of a "small or medium sized enterprise." Only firms with up to 500 employees were qualified to participate in the study.

A random sample of 400 companies was drawn from a total population of 2000 exporting firms. All the sectors of the economy were adequately represented in the sample and there was not a single sector which was overepresented. Out of the 400 original questionnaires 36 were returned by the postal service either because a company had moved without leaving a forwarding address or because it was not longer in business. Following a second mailing and direct telephone contact of the firms that did not return their questionnaires, 126 usable responses were collected for an effective response rate of 34 percent. The response rate is considered to be average when compared with similar surveys targeting small businesses.

MEASURING EXPORT PERFORMANCE

Measuring performance has been one of the major problems of empirical studies dealing with small businesses. Most of these companies tend to be privately owned and are, as a rule, reluctant to disclose sensitive financial information to strangers. Especially when dealing with Greek firms the problem is exacerbated.

The vast majority of the studied firms were family owned enterprises. Tax evasion tends to be widespread in Greece and business owners are not willing to disclose their financial records. From this background it becomes apparent that traditional measurements of financial performance, like return on investment, were almost impossible to use. Instead, the researchers decided to use two nontraditional measurements of export performance.

Respondents were asked to indicate their companies, export performance by stating the percentage of firms' sales obtained by exporting. This measurement has been used widely in literature (3; 8). Its limitation is, of course, that firms might export a large percentage of their sales at a loss. In this case they could not be characterized as successful exporters. To overcome the limitation of this measurement a second more robust variable was also used. Respondents were asked to rate the profitability of their sales abroad in relation to their sales in their domestic market and to also rate whether the growth of their sales abroad had been higher in comparison to their sales within Greece during the last 5 years. A 5 point Likert scale was utilized to rate the responses on these two questions. Both of these questions were combined to create a second measurement of export

performance.

The questionnaire was originally composed in English. Because the majority of the studied population would have been unable to fully understand it in the original, it was translated into Greek. The Greek version was then backtranslated into English by a separate translator to ensure its validity. A pilot study was conducted to ensure that the questionnaire was easily understood by Greek businessmen. No significant changes resulted from the pilot study.

MANAGERIAL CHARACTERISTICS

Recent studies have established a relationship between the educational level of the managers of a firm and the export propensity of the company (3; 9; 5; 10). The relation between the educational level of the decision makers of the firms and their export performance was investigated.

Research has also shown that if a firm has managers that are immigrants or have lived abroad for a number of years it is more likely to export (3; 10; 11). Less than one percent of the Greek population are immigrants (although the recent influx of economic refugees from Albania and other former Eastern block countries it is certain to change that in the near future). However, a large percentage of managers have lived abroad either going to school or working. Therefore, it is possible to investigate whether a correlation exists between small or medium sized firms which have managers that have lived abroad and high export performance.

Managers that are able to speak foreign languages are expected to be more cosmopolitan and more willing to conduct extensive business with foreigners (4). Therefore, companies that have decision makers which speak foreign languages are expected to have a higher export performance than companies which have monolingual managers.

The age of the decision maker has been shown to play a significant role in the export propensity of the firm, with companies that have younger managers tending to be more willing to venture abroad (12; 13). Younger managers are expected to be more knowledgeable about the international environment and therefore the export performance of their firms is expected to be better. These theoretical considerations resulted in the subsequent hypotheses:

HYPOTHESES TO BE TESTED

Hypothesis 1: The educational level of the managers of small and medium size firms will be positively correlated to their export performance. Hypothesis 2: The number of years that a manager of a small or medium size firm lived in a foreign country will be positively correlated to the export performance of the firm. Hypothesis 3: The number of languages that a manager of a small or medium size firm speaks will be positively correlated to the export performance of the firm. Hypothesis 4: The age of the decision maker of a small or medium size exporting firm will be negatively correlated to the export performance of the firm.

RESULTS

Pearson's r correlation analyses were utilized to determine if there are significant relationships between the export performance of small and medium sized firms and their decision makers' educational level, age, fluency in foreign languages and the number of years that they have lived abroad.

Pearson's r correlation for the export performance of the small and medium size firms and the educational level of their decision makers is:
_____ TABLE 1 ABOUT HERE
_____ The empirical results of the study show a correlation between the education level of the decision makers and the export performance of the small and medium sized firms. Education can explain .6661 of the export success variable measured according to the perceptions of the decision makers and .5309 of export performance if measured as a percentage of total sales. Both correlations are significant at the .0001 level and it is extremely unlikely that occurred by chance.

The second hypothesis examined whether a positive correlation exists between the export performance of a small or medium size firm and the decision makers, residence in a foreign country for an extended period of time. _____
TABLE 2 ABOUT HERE _____

A pearson's r analysis did not discover a significant correlation between either measurement of success performance and the years that a decision maker lived abroad. These results do not support the second hypothesis and subsequently there does not appear to exist a relationship between the decision makers, residence in a foreign country and the export success performance of their companies.

The third hypothesis examined whether there is a correlation between the number of languages that a decision maker of a small or medium size firm is fluent in and the export performance of his firm.
_____ TABLE 3 ABOUT HERE
_____

A pearson's r analysis of the data showed a support for he third hypothesis. According to the perception of the decision makers, measurement of export performance there was a .6424 correlation between the number of foreign languages that the decision makers were fluent in and the export performance of their firms. Similar results were observed with the second measurement of export performance, utilizing percentage of total sales. The correlation was .6075. In both cases the results were significant with the probability the results are occurring by chance being .0001.

The fourth hypothesis examined whether a relationship exists between the age of the decision makers and the success performance of the small or medium size firms that they are directing. More specifically the question was whether firms led by younger executives are more likely to be successful in international markets. _____
TABLE 4 ABOUT HERE _____

A pearson's analysis of the data showed that a relationship existed only for one of the two measurements of export performance, the one derived according to the perceptions of the decision

makers. The export performance measurement calculated as a percentage of total sales was not supported at all. However, even the correlation between age and the measurement that was supported, although significant, was not strong, showing a negative correlation of -.3591. Therefore the hypothesis that firms with younger managers show a better performance on their exports can be supported, but, albeit, it is not a strong explanatory variable in trying to predict the export behavior of firms.

CONCLUSIONS

The export performance of the small and medium sized Greek firms studied here is more highly correlated with the educational level and the fluency in foreign languages of their decision makers than with their age or their residence in foreign countries for extended periods of time. This research clearly suggests the need for governmental and private trade promoting agencies which assist managers to increase their exports to pay close attention to the educational level of the managers of small and medium sized companies. They also need to provide them with easily accessible translating services to alleviate their fear of the "language barrier" when dealing with foreign customers. Moreover, consultants working with small firms should try to assist managers who do not possess high level of education or fluency in foreign languages in hiring the right people which are going to assist them in successfully expanding abroad.

Further research is needed to determine if managers of small firms in other countries possess the same characteristics as Greek firms and whether the findings of this study can be generalizable in other nations which have different cultures. In addition, additional managerial characteristics need to be studied to determine the degree of their correlation to the export performance of small and medium sized companies.

APPENDIX

Success Measurement Variables How does the profitability of your international sales compare with that of your sales within Greece? ___International sales are much more profitable ___International sales are slightly more profitable ___International sales are about as profitable ___International sales are slightly less profitable ___International sales are much less profitable

During the last 5 years your international sales have grown: ___Much faster than sales within Greece ___Slightly faster than sales within Greece ___About the same with sales within Greece ___Slightly slower than sales within Greece ___Much slower than sales within Greece

Approximately what percentage of your company's total sales are made to buyers outside Greece? ____%

TABLES As it was stated earlier, two measurements of export success were used. SuccessPercent, represents the success measurement of export sales as a percentage of total sales. SuccessPerception represents the perception of the decision maker of the profitability of export sales in relation to domestic sales and the perception of the decision maker of the growth of export sales in the last 5 years in comparison to domestic sales.

Table 1 Impact of Education on Success Success Perception Success Percent r .6661 .5309 n 120 116 p <.0001 <.0001

Table 2 Impact of Years Living Abroad on Success Success Perception Success Percent r .1039 .2350 n 118 117 p N.S. N.S.

Table 3 Impact of Foreign Language Knowledge on Success Success Perception Success Percent r .6424 .6075 n 121 114 p <.OOO1 <.0001

Table 4 Impact of Age on Success Success Perception Success Percent r -.3591 -.0679 n 116 113 p <.0001 N.S.

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SMALL BUSINESS OPPORTUNITIES IN EASTERN EUROPE

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ABSTRACT

During a recent research trip to Eastern Europe, sponsored by the Center for East European Studies in Pittsburgh, I was able to observe first-hand Hungary's transition from central planning to a free market economy. The focus of my research during the trip was to identify the advantages and disadvantages of doing business in Hungary, especially for small business. Through this research trip I found that Hungary, along with other Eastern European countries provide access to the European Community through joint ventures with small Eastern European enterprises. Hungary in particular may provide a prime opportunity for foreign businesses to enter the vast European Community marketplace. Its approach toward privatization, strategic location, political stability, well-educated workforce, low tariffs, well-developed transportation and utility systems, and friendly attitude toward American entrepreneurs have already made Hungary the country of choice for several American businesses looking for opportunities in Europe.

INTRODUCTION

As Hungary moves rapidly from central planning to a free market economy, the country may prove to be a good choice for American business investment in Europe. Hungary's approach to privatization and its associate membership in the European Community (EC) along with the country's strategic location, political stability, well- educated workforce, low tariffs, welldeveloped transportation and utility systems, and friendly attitude toward American business interests make it a likely candidate for businesses looking for European trade opportunities.

Among Eastern European countries, Hungary was the most eager to adopt a free market economy after the fall of communism. Central planning was never popular with the majority of Hungarians and was never fully implemented by the Hungarian government (1). Many small businesses in Hungary continued to thrive in the shadow of central planning. Entrepreneurship was alive in Hungary even though the country was under communist rule.

OPPORTUNITIES FOR U.S. SMALL BUSINESSES

Although Hungary's language and distance from the United States may be barriers to entry for some, small businesses are likely to find willing joint venture partners in Hungary. Hungarian joint venture candidates can be small enterprises. For example, in the Summer, 1993 edition of Invest in Hungary twenty-five invitations to invest in joint ventures were listed. Nineteen of those opportunities were companies with less than $5,000,000 in annual sales (2). In the first three months of 1993, 471 Hungarian joint ventures were established between Hungarian enterprises and foreign interests. The total capital investment in these joint ventures was $100,000,000, or just over $200,000 per joint venture. Thus, joint ventures with foreign investors can involve small investments (3).

A United States small business that sees a joint venture "fit" with a Hungarian partner could position itself well for the vast European Community marketplace. Hungarian businesses are eager to establish joint ventures and are particularly receptive to United States joint venture partners; thus, a Hungarian joint venture may be a better choice for entry into the European Community marketplace than a joint venture in one of the current EC member countries. ADVANTAGES OF DOING BUSINESS IN HUNGARY

Privatization Approach

The Hungarian government chose to implement privatization of its government-owned industry through joint ventures. This approach provides opportunities for foreign businesses to enter the Hungarian marketplace with relative ease. Through the joint venture, a foreignowned business enters into an agreement with a Hungarian enterprise to operate a jointly owned Hungarian business. Generally the Hungarian enterprise provides an established customer base, property (real estate, buildings and machinery), and employees. The foreign business provides expertise, modern equipment, training and the hard currency to modernize the business. According to McDonald (1993), "The reality is that most newly privatized companies need dominant, experienced shareholders to compensate for the weaknesses of managers never before exposed to best business practice. Without the support and prodding of such shareholders, Eastern companies tend to operate very much along the lines learned in the days of central planning, insider control, and relentless focus on production. Oldguard managers simply lack the skills and experience to convert a company from its old communist predilections to a genuine market orientation. But when these same enterprises receive support from strong, capable - most often Western - shareholders, they have shown that they can perform to international standards and even outperform some leading Western competitors." (4)

Strategic Location

A prime advantage of doing business in Hungary is its location. Hungary shares borders with seven countries, including one Western European country (Austria), five Eastern European countries (Slovakia, Yugoslavia, Croatia, Slovenia and Romania) and one of the Soviet Republics (Ukraine).

In 1991 Hungary, along with Poland and Czechoslovakia, was granted associate member status by the European Community. Although fullfledged membership in the EC is not guaranteed, Hungary is looking forward to full EC membership after its required ten-year associate membership expires in the year 2000.

Political Stability

Unlike surrounding Eastern European countries, Hungary is politically stable and is likely to remain that way. It is an ethnically homogeneous country with a rim of Hungarian population surrounding most of the country (particularly in Slovakia to the north and the Transylvanian section of Romania along Hungary's southeastern border). Hungary does not have the factional ethnic subgroups typical of its East European neighbors.

Hungary has a parliamentary government with free elections. Its governmental structure is similar to

its West European neighbors. Several political parties thrive in Hungary and are represented in Parliament. According to Gary Gallagher, the Commercial Attache at the U.S. Embassy in Budapest, Hungary is well situated for trade with both the East and the West. He said: "Not only because of its geography, which cannot be underestimated; it has strong transportation routes, trucking, a highway system, the Danube, air links, tremendous trading skills with both the East and the West and a political situation that is the envy of the region, if not the world. All of these things combined make it a fantastic springboard for trade with both the East and the West." (5)

Well-educated Workforce

Hungary has mandatory education through age 16, similar to the United States. It has a well-developed system of higher education, with 3year "colleges" (similar to community colleges in the United States) and 5-year universities. Both colleges and universities are disciplinebased. For example, the Budapest University of Economic sciences and Jannus Pannonius University in the southern Hungarian city of Pecs are both 5-year universities solely dedicated to education in economics (and now business administration).

Only about twenty percent of high school graduates in Hungary pursue higher education, but nearly all of them finish their education and graduate. Thus, the percentage of Hungarians with college and university degrees is near the U.S. percentage.

Higher education in Hungary is tuition-free. Colleges and universities are fully supported by the Hungarian government. Education is highly regarded throughout Eastern Europe, thus most of Eastern Europe's population is well educated. English has replaced Russian as the predominant second language taught in Hungary's secondary schools and universities.

Well-developed transportation and utility systems

Hungary is now part of the EC rail system, well-known as one of the most reliable rail systems in the world. Although Hungarian highways do not measure up to U.S. interstate standards, they are adequate for cross-country trucks and busses. The Danube is a navigable waterway with an abundance of barge traffic. The Danube provides a bulk transportation system from Vienna, Austria, through Budapest, then south through the length of Hungary into Yugoslavia. The country is also well-served by the modern Budapest airport.

The electric utility system in Hungary provides abundant power for its industry and ten million inhabitants. About twenty-five percent of Hungary's electric power is supplied by a single nuclear power complex located near the center of the country.

Low tariffs

In an attempt to encourage foreign trade, the Hungarian government recently eliminated nearly all restrictive import tariffs. All imported goods are subject to a five percent import duty, but high restrictive tariffs remain on only a few products, such as tobacco and alcohol.

The Hungarian government has taken an aggressive stand on free trade. Foreign enterprises are encouraged to do business in Hungary through import/export, privatization, joint ventures or branch offices. The elimination of restrictive tariffs on nearly all imported products is a signal that Hungary is ready to do business in world markets.

Friendly attitude toward Americans

Although the Hungarian people are depending on Western Europe for some help, they realize that they will need the Americans to invest their "hard currency," provide technical and marketing expertise, and help modernize the country's industrial base. American business investment is viewed by Hungarian workers as their primary hope for long-term economic survival. They also see the Americans as experts in free enterprise.

All but a few Hungarian businesses have been cut off from government support. Hungarian enterprises have been left on their own, to survive or die in the free market economy. These businesses are bloated with employees through the central planning policy of full employment. They must either find privatization partners or survive on their own. Either way they must trim their workforces, causing massive unemployment. American investment is viewed by Hungarians as their primary hope for jobs and a comfortable standard of living.

Hungarians have already seen the impact of U.S. investment in Hungary, with a major commitment by General Electric (over three hundred million U.S. dollars invested in Tungsram Corporation), a new Ford manufacturing plant, a major investment in manufacturing by Levi-Strauss, and a recent privatization of the country's largest aluminum producer by Alcoa. About half of all foreign investment in Hungary is American (6).

The Hungarian people need both hard currency and jobs. They see the prosperous Americans as providers of both.

DISADVANTAGES OF DOING BUSINESS IN HUNGARY

Doing business in Hungary has its disadvantages, although some problems are already being solved. Disadvantages include Hungary's soft currency, its restrictive property rights laws, an antiquated and inadequate telephone system, and a small market.

Soft currency

Most East European and Soviet Republic countries are having problems with their domestic currency, and Hungary is no exception. The Hungarian forint is worthless paper outside the country, and is occasionally not accepted inside Hungary. For example, the forint is not accepted on international trains passing through Hungary or at gambling casinos in Budapest.

Hungarian citizens are only allowed to exchange a maximum of $150 (U.S.) per year into hard currency; this limits their ability to purchase imported goods or travel outside the country. To attract the best and brightest employees, especially bilingual workers, foreign businesses often offer salaries

in hard currency.

Repatriation of profits is an important issue for anyone doing business in another country. Such repatriation is permitted in Hungary without restriction. However, if profits are earned in Hungarian forints, there is a limit on converting these funds into hard currency (7). If a foreign business expects to spend most of its profit inside Hungary, or if a substantial portion of a business, product is exported to countries with hard currencies, currency conversion is not a major issue. But if a business wants to repatriate profits earned in forints, currency conversion could pose serious problems.

Restrictive property rights

With one notable exception private property ownership in Hungary is, from a practical standpoint, restricted to Hungarian citizens. If a foreign business expects to have a presence in Hungary, property ownership could pose a problem. The notable exception allows a foreign business to own enough property to conduct its day-to-day operations. This allows ownership of business property by the foreign enterprise, but foreign employees have not been permitted to purchase residences and businesses are not permitted to buy additional property for speculation or future expansion.

Foreign employees must rent housing from Hungarian citizens. Since adequate housing is scarce in Hungary, rental rates are high. For example, a two-bedroom apartment in downtown Budapest rents for about $2,000 (U.S.) per month. Although recent legislation allows foreigners to purchase residential property if permission is granted, most foreigners will find it much cheaper and easier to rent (8).

Telephone system

The Hungarian telephone system is woefully inadequate for the new demands placed upon it since the fall of central planning. It is still government owned and there is no plan to privatize the telephone system.

It is important for businesses moving into Hungary to negotiate an adequate number of telephone lines. Some businesses have resorted to pay phones to conduct their day-to-day operations since they underestimated the number of telephone lines necessary for expansion. Since the Hungarian government is vitally interested in foreign businesses expanding into Hungary, especially businesses that will bring hard currency into the country, they are willing to be generous in negotiating telephone lines. However, after a business is established in Hungary, it is difficult to get additional lines.

The average Hungarian citizen must wait about five years for a telephone line. only one in nine households in Hungary has telephone service, thus businesses that rely heavily on residential telephone service (telemarketing firms, for example) may need to wait until the telephone system is improved.

Small market

To put Hungary's size in perspective, the entire country is about the size of the State of Indiana in the

United States, both in population and in land area. Any business contemplating expansion into Hungary should consider the small size of the Hungarian market.

Hungary's associate membership in the European Community may, however, provide an entry into a much larger European market, perhaps exceeding 4 trillion dollars (9). There is, of course, always a risk that Hungary will not be accepted as a fullfledged member of the European Community. Also, European Community free trade applies only to goods produced in EC countries. Thus, American products shipped into Hungary do not qualify for the free trade provisions of the European Community agreement.

CONCLUSION

As Hungary moves toward a free market economy, opportunities exist for small U.S. business owners to take advantage of the Hungarian business environment. Although problems exist, especially with Hungary's domestic currency, property laws and telephone system, the advantages of an early entry into Hungary's emerging marketplace may far outweigh the problems. Hungary's close tie with the European Community, with a good chance that it will become a full member of the European Community by the year 2000, makes it an attractive choice for businesses trying to break into the European Community market.

Several large American businesses have already successfully moved into Hungary. "Big six" CPA firms have established offices in Budapest, and these offices are growing at a rapid pace as they find unfilled niches in Hungary's emerging free enterprise system. The American hotel industry has found the Hungarian market hospitable and their establishments are thriving. Ford recently built a new manufacturing plant in Hungary and is planning another. General Electric manufactures a substantial amount of the world's lighting equipment in Hungary, and LeviStrauss produces a large share of the world's jeans supply there. These companies have all found Hungary to be a friendly place to do business, with a government eager to promote economic development and free trade. Since these large businesses paved the way for American's entry into the Hungarian marketplace, the time is right for small businesses to take advantage of this new international opportunity.

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"EXCUSE ME, DO I EXIST?" A SURVEY CONCERNING EQUAL STUDENT OPPORTUNITY IN THE SBI PROGRAM

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ABSTRACT

This paper reports on incidents of discrimination toward students reported by SBIDA members who direct SBI consulting teams. In addition, members share their pedagogical approach to assigning students to clients and clients to student teams. A brief literature review and outline of applicable Federal Statutes is included. With a response rate of 25%, it provides exploratory information and a basis for discussion and further research. Some form of discrimination in the consulting process toward students by the client, by other members of the student consulting group, or by class members was reported by 23% of the respondents.

INTRODUCTION & LITERATURE REVIEW

The research for this paper grew out of a complaint of gender harassment by a student participating in a group consulting project within a university class. There are several federal statutes which may apply in determining whether an incident arising out of the SBI consulting process is an actionable offense. These statutes would include The Civil Rights Act of 1964, Title VI and Title IX of the Education Amendments of 1972, the Disaster Relief Act as amended, and the Small Business Act.

This brief review concentrates on sexual and gender harassment. We encourage our colleagues to study additional aspects of student discrimination. For example, Lang (5) discusses barriers to the educational achievement of blacks, and Wang (14) looks at discrimination in higher education against Asian Americans.

Sexual harassment began to be recognized as a social problem with the publication of the Redbook survey in 1976 (7). With the 1986 United States Supreme Court decision in Meritor Savings Bank FSB v. Vinson (106 S.Ct. 2399 (1986)) Cole (3) writes (numerous footnotes omitted): one no longer can dismiss a claim that sexual harassment is a type of sexual discrimination in terms, conditions, or privileges of employment prohibited by Title VII of the Civil Rights Act of 1964, [42 U.S.C. s 2000e-2 (1982)] as a novel theory or as beyond the intent of Title VII's drafters...

Title IX of the Education Amendments of 1972 [20 U.S.C. sections 1681-1686 (1982)] is another way to seek damages for sexual harassment. The law provides that "no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance..... [20 U. S.C. s 1681 (a)]. The case of Alexander v. Yale University recognized a cause of action by a

student for sexual harassment under Title IX [459 F. Supp. 1, 3-4 (D.C. Conn. 1977)].

The student who complained to one of the authors about being excluded from participation in the student consulting group labeled the behavior "sexual harassment." Such exclusion did seem to the author to be a form of creating a "hostile, intimidating, or offensive environment" as described in the EEOC guidelines. Indeed a review by Bennett-Alexander (1, p. 142) entitled, "Hostile Environment Sexual Harassment: A Clearer View," concludes: In brief, any activity aimed at one gender, an activity to which they would not be subjected to but for their gender, is probably prohibited under Title VII.

Nevertheless, the literature was further searched for aid in clarifying this exclusionary kind of behavior. One publication was particularly helpful in this regard because the authors designate one form of sexual harassment sometimes described as verbal harassment or abuse as "gender harassment: " Gender harassment is considerably less dramatic in its manifestations than sexual harassment, but because it is more widespread, it seems more pernicious. It consists of discriminatory behavior directed against individuals who belong to a gender group that the aggressor considers inferior...

The courts have not yet held that female students have a right to study in an atmosphere free of discriminatory intimidation and hostile or derogatory attitudes toward women, but such a conclusion follows logically from the series of sexual-harassment decisions to date and may be expected to form a part of the forthcoming Department of Education guidelines .... Under the concept of equal educational opportunity, a female student should be able to pursue her academic career without being subjected to unwelcome sexist and sexual innuendo or any other form of verbal or physical sexual harassment. (4, pp. 4-5, 1 1).

The National Advisory Council on Women's Educational Programs, after evaluating the student environment, wrote this working definition: Academic sexual harassment is the use of authority to emphasize the sexuality or sexual identity of a student in a manner which prevents or impairs that student's full enjoyment of educational benefits, climate, or opportunities (11, p. 7).

Further discussion of sexual harassment on campus can be found in the U.S. Department of Education (12) publication, Sexual Harassment: It's Not Academic; a guide from the College and University Personnel Association (CUPA)(8); Wetherfield (I 5); Small (9); Benson and Thompson (2); and Stein, et.al. (10). It is important to know that failure on the part of the professor "to take immediate and appropriate corrective action" when a student reports harassment in the consulting process can result in legal liability for the college or university as an employer (See Appendix I for regulations which may apply to students, (6; 13). See Appendix 11 for legal liability as outlined by the EEOC Guidelines (6).)

METHODOLOGY

The Survey. This survey of the SBIDA membership sought to answer the research question: Have members of SBI consulting teams experienced discrimination? The authors were also interested in the pedagogical approach used to assign students to teams and teams to clients. A five-page questionnaire was designed to gather the data required to accomplish the objectives set forth in the study design.

The cover letter introduced the topic of the study and encouraged member response. The questionnaire dealt specifically with SBI teams and their relationships with their clients as well as the relationships among team members. It sought specific examples of various types of discrimination including harassment and collected data on methods used by faculty members to remedy complaints of discrimination. A copy of the questionnaire which includes the frequency distributions can be found in Appendix 111.

The Demographics of The Respondents. Questionnaires were sent to the 440 members on the SBIDA membership list. A total of 110 questionnaires were returned for a response rate of 25%. Faculty members comprise eighty seven percent of the respondents, and 83% are SBI directors. Eleven percent were SBDC directors, and 4% were SBDC employees, with 6% responding "other." Eighteen percent of the respondents are female, and 77% are male; 82% are non-minorities, 6% minority, with 12% non response. Ages vary from 6% for the 20-34 group, 47% in the 35-49 category, 43% in the over 50 group. Forty five percent of the respondents have been working with SBI projects for five years or less, while others (17%) have 1520 years of experience. The educational institutions represented were 67% public, 26% private (7% no response). Urban location represented 24%, mid-sized city was 26%, and a large (50%) no response. Institution size was categorized as 27% small, 38% medium, and 29% large (NR 6%). Projects completed by the respondents during the last year varied from zero to 65, with most the majority doing between 10 and 20 projects per year.

RESULTS

Assignment of Students to Teams. Twenty nine percent of the respondents give consideration to minimizing possible discrimination when assigningstudents to consulting teams. Examples include: * Do not put 3 males and 1 female or 1 females and I male in a group unless that is their choice. * Split up foreign students as typically their written English is poor. * Try to put a cross-section of characteristics on each team.

Assignment of Teams to Clients. Twenty four percent of the respondents give consideration to minimizing possible discrimination when assigning teams to SBI clients. Examples include: * The students pick companies they want to work with. * I look for common interests and relevant background--nothing else. * Refuse assistance to clients who indicate prejudice. * Once a homosexual client made sure students had no reservations. * Try to match Hispanic students with Hispanic business owners if I perceive that the business person is more comfortable speaking Spanish. * A black client who needed a marketing study specifically asked for a black student team. * A woman's wear store asked that the team have lots of women on it.

Student Input. Seventy Seven percent of the respondents collect input on the projects which students prefer, and 66% collect input on preferred group membership. Compatibility between the consulting team and the SBI client is taken into account in team assignment "sometimes" or "often" by 72% of the respondents.

Assignment Criteria. Respondents were asked whether the following criteria were utilized in assigning students to SBI projects. Responses are given in terms of the percentage who checked the criteria.

Previous job experience 71% College major or minor 79% Computer skills 46% Academic standing 39% Observed leadership behavior 41% Match with client needs or requests 76% Student preference for project 71% Student's preferred team members 50% Gender, race or color, national origin, etc. 16% Transportation or geographic constraints 54% Other 6%

Student preferences were taken into account 15% of the time, client preferences 4% of the time, and both client and student 18% of the time. Examples include:

Based on the needs of clients I try to provide the best "professional" assignment of students and I do consider a gender tolerance. However, I have had all male or all female teams. Sometimes I can foresee problems with a client and with student consultants. Some cases are particularly important and sensitive--I put my "best" teams on these. I often put my "problem client" with my "problem team" to consolidate my headaches in one place.

Student Awareness. The respondents indicated sources of on- campus learning about discrimination and ways to seek help or report incidents. Responses. are given in terms of the percentage who checked the criteria.

Orientation 53% Student Handbook 46% Academic course 13% Brochure 9% Newsletter 4% They are not explicitly informed 28% Other 15%

An increased awareness and/or reporting of discrimination incidents, including sexual harassment, during the recent past at their college or university was reported by 30% of the respondents.

Student Complaints of Discrimination. Some form of discrimination in the consulting process by the client, by other members of the student consulting group, or by class members was reported by 23% of the respondents.

Types of Discrimination

Discrimination toward women 45% Discrimination toward blacks 14% Discrimination toward foreign students 23% Discrimination toward a student who was both female and foreign 5% Peer conflict 9% Other 5%.

Remedies included involving the client (5%), counseling (5%), and solved by the team (1%). Only (6)% both counseled and reported the incident.

Examples include: * One time I had a client who was continually asking my consultants out to dinner. I suggested all three women accept the invitation and ask to be taken to one of the most expensive restaurants. They didn't have any problems after they accepted as a group. * A female student was treated very rudely and patronized by a male client .... I canceled the case and found a suitable one for my students. * Forced client to deal with the student(s) in question. * The offending students admitted they discriminated against a black student group member and apologized.

Examples of discrimination reported include: * Main problem is attempting to date female students. *

Female students reported overt sexual statements from male client.... * Basically the female felt that no one was listening to her and that the client ignored her input in favor of what the guys had to say. * Black student left out. Counseled team--black student included. * I had assigned a Japanese student to a project and the client was reluctant to cooperate....

SBIDA Membership Awareness.

Aware of federal directive requiring one to report an allegation of discrimination. 45% Where SBI related discrimination would be reported: a) Usual SBA contract 48% b) An appropriate official at their school 46% c) Others, including the client, various university officials, SBA official other than usual contact 28% d) Do not know who to notify 15%

How an incident was dealt with: a) Investigated and took action 20% b) Investigated/reported: a university official only 27% c) Investigated/reported: SBI/SBA & university official 27% d) Resolved the incident by themselves 23% e) other 20%.

Respondents were asked to describe the outcome of administrative efforts to address student civil fights complaints. Efforts were reported as: Good 15% Don't Know 17% Adequate 10% Other 3% Improving 13% No Response 39% Inadequate 4%

Are Guidelines Needed? When respondents were asked if they would welcome guidelines from the SBA to help instruct students on the behavior expected of both clients and students to provide a discrimination-free learning environment, 57% said "yes," 26% said "no," and the non response rate was 16%. Comments included: * Yes, having such official information would provide students with knowledge that such activities are inappropriate and unacceptable. * Yes, but rather than have SBA do it, I would rather have SBIDA do it for the SBA. * Yes, but keep it to one page! * I already have guidelines. I have not had a problem, I do not anticipate a problem. * No, this is a matter between SBI Director, students and clients. * No, use the golden rule and common sense--I think this is dangerous ground. * No, we do a good job now.

Familiarity With Discrimination Guidelines. Sixty five percent of the respondents have attended seminars or workshops on sexual harassment, 50% attended seminars on avoiding classroom discrimination, and 63% have received other types of awareness training dealing with providing a good learning and teaching environment. Seventy three percent of this training was university sponsored, and 46% attended at a professional conference.

Civil Rights Laws prohibiting discrimination in federally assisted programs such as SBI are adequately understood by 49% of the respondents, 37% have a vague understanding, while 10% say they do not understand these requirements.

Statistically Significant Findings. (1) Male respondents are more likely than females to have attended awareness training or seminars on sexual harassment. ($X2 = 88.49$, 4 df, sig. .00000) (2) Females are more likely - than males to welcome guidelines from the SBA on a discrimination-free learning environment. ($X2 = 21.37$, 4 df, sig. .00027) (3) Females are more likely than males to give consideration to minimizing possible discrimination or harassment in assigning students to consulting

teams. (X2 = 40.27, 4 df, sig. .00000) (4) Females are more likely than males to collect student input on preferred group membership. (X2 49.16, 4 dr, sig. .00000)

DISCUSSION AND RECOMMENDATIONS

Our research reveals that SBIDA members who direct student consulting teams attempt to configure student teams and client assignments into effective working relationships. Nevertheless, the data collected provide areas where improvements can be made. The following recommendations should improve the process.

1. The SBA Office of Civil Rights Compliance should request an ad hoc SBIDA Committee to draft a policy statement explaining to students their rights and duties as members of a SBI consulting team.

2. Further research and analysis should be done to evaluate ways in which the SBI program can enhance the learning environment for minority and foreign students.

3. The SBIDA membership should become more cognizant of the effects of racial and gender harassment on student learning. Benson and Thomson (1982, p.236) conclude that "the prevalence of sexual harassment has the cumulative effect of eroding women's commitment to careers in male-dominated areas." 4. With national emphasis on minority entrepreneurship, SBIDA should consider efforts to attract more minority students to the SBI program.

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IMPROVING SBI PROGRAM EDUCATIONAL QUALITY THROUGH FEEDBACK A SURVEY OF FORMER SWT SBI STUDENTS

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ABSTRACT

Considerable and increasing attention is being given to the quality of Small Business Institute program consulting services provided to small business clients. While this key element of the SBI mission deserves all the attention it receives, the second (educational) SBI mission element also deserves attention, quality measurement, and continuous improvement.

In an effort to learn how well our educational SBI mission is being performed at SWT, graduates who completed the SWT SBI program during the period 1986-1992 were surveyed. They were asked why they enrolled in SBI, what experiences were of value to them, how they rated their SBI program experience, and what recommendations they would offer for SBI students and SBI programs of the future.

This paper reports the findings of the survey and discusses ways to use former-student feedback to improve SBI program quality.

INTRODUCTION

As SBI directors, we remain constantly and acutely aware of the importance of small business to our economy and of the importance of providing quality assistance to small companies.

Our material and financial resources are those of our schools and universities, supplemented by grant funding from SBA. Our key resource, however, is human ... our SBI students. Without them little or no business assistance could be provided.

While SBI students are key resources in performing the business assistance element of the SBI mission, we sometimes tend to overlook another, equally important SBI mission element: Service to the SBI students themselves.

This survey of recent SBI graduates was conducted primarily to determine whether and how SBI was of personal value to them, and to ask for inputs on what SBI students and program directors should concentrate upon in the future.

THE SURVEY

A cover letter and two-page survey (Appendix 1), designed by current and former SWT SBI directors, was mailed to recent graduates who participated in the SBI program between 1986 and 1992 using addresses provided by the SWT Alumni Association. Of 417 graduates who completed the SBI program, addresses were available for 352 individuals. Of 352 surveys mailed, 12 were returned for lack of current addresses. Of the 340 surveys mailed and not returned by the Postal Service, 74 completed survey forms were received, for a response rate of 21.8%.

SUMMARY OF RESPONSES

Reasons for Enrolling

Former students were asked to scan and rank a list of reasons for enrolling in the SBI program. Rank assignments of "1" were counted and converted to percentages shown on the tabulated survey at Appendix 2 (totals exceed 100% because of multiple "I" rankings).

Nearly half of the respondents (48.6%) ranked real-world experience top as a reason for enrolling in SBI. Learning about small business management was top-rated by 41.9%. Learning about consulting was ranked top by only 12.2%. Remaining reasons listed were ranked first by 10% or fewer respondents (Appendix 2).

Write-in reasons cited for SBI enrollment included favorable recommendations by other students, seeing new perspectives, "fun and different", and ability to apply theory.

Perceived Value of SBI Experience

Respondents assigned ratings of "1" (no value) to "5" (great value) to items on a list of factors. Average ratings are shown on the tabulated questionnaire at Appendix 2.

Learning to work with a team was the top-rated factor, with an average rating of 4.3, closely followed by learning about small business management at 4.2. Developing good work habits was rated 3.7 as a valuable experience factor, followed by learning to be/select consultants and making career decisions (each rated at 3.0). Remaining list items received average value ratings between two and three (Appendix 2).

Respondent write-in comments indicated that SBI was of value in performing other coursework (especially policy and strategy), in learning time management, in learning to be comfortable around executives and managers, and in learning to approach problems step-by-step rather than rushing in.

Overall Program Value

Asked to rate their overall SBI program experiences on a 1-5 scale, respondents returned average overall value ratings of 3.9 (as seen at the time of program completion) and 4.0 (as viewed from today's perspective).

Asked to rate positive or negative recommendations they would make to friends considering SBI participation, respondents stated they would recommend SBI to a friend who was a student (positive rating 4.6); or to a friend who was a business owner (positive 4.5).

Telling About SBI

Most respondents reported telling others (e.g., friends, family, future students, business owners, co-workers, employers, chambers of commerce, prospective entrepreneurs, lenders) about their SBI experiences. Some provided names of individuals they had told about SBI and some provided specific business referrals.

Would Graduates Use an SBI Team?

Asked whether they would use a student consulting team in their current positions, only 40% responded "yes"...however, write-in comments revealed that many respondents checked "no" because they were working in large organizations (See demographic tabulations, Appendix 2). Many respondents apparently felt their companies were too large to use SBI teams; a few stated that their firms relied on professional internal or external consultants.

Advice for Current and Future SBI Students

The most frequently-stated item of advice for SBI students was to take SBI seriously. Students were also advised to spend maximum time with clients, listen carefully and adapt to their needs, and not to procrastinate or take short cuts. Also included were more light-hearted recommendations, such as "do it", "get in with both feet", and "enjoy." However, "be serious" advisories far outnumbered admonitions to "have fun."

Recommendations for the SBI of the Future

Many respondents made general recommendations, e.g. "keep up the good work". Other, more specific recommendations included:

-Teach owners to be fishermen, don't just give them a fish. -Promote SBI more, both to businesses and students. -Make sure clients know students' limitations. -Require students to spend more time with client managers. -Cater to younger, less-organized businesses. -Feed back to former students on how clients are doing. -Have professors do field work with students. -Screen clients better to be sure they want and need help. -Get other (nonbusiness) majors involved. -Require SBI for all business majors. -Define client needs more precisely before assigning team. -Have students actually work in client firms. -Select clients based on presubmitted desires of students.

SBI Reunion Nearly half of the respondents (43%) were in favor of holding SBI reunions in conjunction with future Homecomings. Of those not in favor, some stated that they did not have time or lived too far away. Reunion format suggestions tended toward social gatherings with former faculty and clients present. One respondent suggested a banquet with local, regional and SBA officials present, media coverage, and a highly successful SBI graduate as speaker.

Respondent Characteristics

Average respondent age was 27 years. Male respondents represented 72% of the total. Average reported graduating GPA was 2.95.

A large proportion of respondents (40%) were employed by service firms. Self-employment was reported by only 15% of the former SBI team members. Other category statistics included Manufacturing at 16%, Government 5%, Nonprofit organizations 4%, Unemployed 5%, and "Other" (typically respondents just graduated, in graduate school, or in military service) 14%.

Because many respondents worked for very large organizations, average reported company sales came to $2.5 billion and reported number of company employees averaged 15,000. Average number of persons supervised was 19. Job titles ranged from CEO to technician. A large group of the respondents (42%) reported earnings of $20-30 thousand, with 22% reporting $30-40 thousand. Two individuals (both older and established in their own businesses) reported earnings over $100 thousand (For details see Appendix 2).

DISCUSSION

Real-world experience, currently used at our school to promote SBI enrollment, was confirmed as the major reason for student involvement in the program. Learning about consulting, also used in student recruiting promotion, was not confirmed as being of major importance.

Learning about small business management was highly rated considering the large number of graduates now working in large organizations. This could mean that, having learned about the downside of small business management, graduates chose to steer clear of small companies, or it may be that they intend to start their own companies later, as a few indicated.

Graduates assigned very high ratings to their overall SBI experiences. Negative ratings (one graduate cited a personality conflict with the SBI director and a few felt their clients not sufficiently interested) were few in number. Although many graduates felt they would not be able to use SBI assistance in their current positions, all other response categories (recommendations they would make to students and business owners, advice to students, and recommendations for the future SBI) strongly supported the overall SBI value ratings.

Considering the fact that the survey group was composed of young graduates, average present age 27, advice for SBI students to "be serious" was rendered with surprising frequency. This tendency for respondents to advise taking SBI seriously may be a sign of current conditions in the work environment, or may possibly reflect hindsight on the part of respondents who could have been more serious as students.

Recommendations for the SBI of the future contained many items worthy of increased emphasis. SBI is almost certainly underpromoted, although efforts to document and increase awareness of SBI achievements are now much more intensive than in the past. Feedback to students (and faculty) on how clients are doing would be of considerable value, even though many clients may be difficult to

track having moved, changed company names, or gone out of business. Programs with sufficient resources to publish newsletters would have the best chance of keeping track of past clients and students. Client screening to determine true willingness to work with student teams is something most SBI directors do to the utmost of their ability; however, responses showed that insincere clients occasionally slip through.

Some respondent recommendations could have adverse side effects. For example, excessive pre-refinement of client needs deprives the SBI team of diagnostic experience. Excessive field work with teams by professors would make faculty advisors de facto "team leaders" and leave little decision-making experience for the students. Required SBI for all business majors is a flattering recommendation, but for most schools the sheer number of students and teams would drain school resources and dilute program quality. Selecting clients to match prestated student interests might work in some small programs. Although SBI is project- oriented and not an internship program, internship programs could function as sources of SBI clients and students, and implementation of long-term SBI team recommendations could certainly provide the basis for internships after SBI teams have done their work and disbanded.

RECOMMENDATIONS

1. That surveys of former SBI students be used on a continuing basis as a way to insure that the educational mission of SBI is being well accomplished and as a source of ideas for program improvements.

2. That former student survey results be shared among SBI directors, and used in consolidated form as a way to remind funding providers that the SBI mission is twofold: to educate students as well as to assist small businesses.

3. That more SBI directors establish feedback loops with former students and clients, using newsletters, homecoming reunions, and other media to strengthen SBI program recognition and continuity.

SMALL BUSINESS INSTITUTE CONSULTANT QUESTIONNAIRE

I ENROLLED IN THE SBI PROGRAM: (Please rank 1,2,3) ___To learn about consulting ___To learn about small business management ___To get real-world experience ___To prepare for future job/job search ___Because I was tired of classroom courses ___To gain team experience ___Because I needed an elective ___Other_____

MY SBI EXPERIENCE WAS OF VALUE IN:

No Great Value Value Getting my first job after graduation 1 2 3 4 5 Getting my present job 1 2 3 4 5 Getting a promotion in my job 1 2 3 4 5 Starting a business 1 2 3 4 5 Learning to be a consultant 1 2 3 4 5 Learning to select/use consultants 1 2 3 4 5 Making a career decision 1 2 3 4 5 Learning about small business management 1 2 3 4 5 Learning to work with a team 1 2 3 4 5 Developing good work habits 1 2 3 4 5 Learning about government regulation 1 2 3 4 5 Writing my resume 1 2 3 4 5

Participating in Job Interviews 1 2 3 4 5 Other business courses, e.g._____ 1 2 3 4 5
Other_____ 1 2 3 4 5

OVERALL RATING OF MY SBI PROGRAM EXPERIENCE: No Great Value Value As seen at time of program completion 1 2 3 4 5 As seen from today's perspective 1 2 3 4 5

MY RECOMMENDATION TO THOSE CONSIDERING SBI PARTICIPATON WOULD BE: Negative Positive To a good friend who was a student 1 2 3 4 5 To a good friend who owned a business 1 2 3 4 5

I HAVE TOLD THE FOLLOWING PEOPLE ABOUT MY SBI EXPERIENCE:

I WOULD USE A STUDENT CONSULTING TEAM TO ASSIST ME IN MY CURRENT JOB/POSITION/ORGANIZATION Yes__ No__ Reason(s)
_____

MY ADVICE FOR PRESENT-DAY AND FUTURE SBI STUDENTS:
_____
_____

MY RECOMMENDATIONS FOR THE SBI PROGRAM OF THE FUTURE:
_____
_____

INFORMATION ABOUT MYSELF (Optional): Employed by: Self ___ Manufacturing firm ___ Service firm ___ Gov't org ___ Nonprofit org ___ Unemployed ___ Other ___

Industry/Major Product or Service _____

Organization size: Total Employees ___ Annual Sales $___

Current job title_____ Number supervised_____

Current annual salary or earnings range (Please circle): $0-10K $10-20K $20-30K $30-40K $50-75K $75-100K Over $100K

Present Age ___ M/F ___ Major ___ Grad year ___ Approx GPA___

Interested in a Homecoming SBI reunion: Yes ___ No ___ Suggested reunion format_____

OTHER COMMENTS _____
_____
_____

THANKS VERY MUCH FOR COMPLETING THIS QUESTIONNAIRE. WE WILL FEED OUR SURVEY FINDINGS BACK TO YOU THROUGH XXX ALUMNI PUBLICATIONS AND/OR FUTURE SBI MAILINGS. YOUR INPUTS WILL BE USED TO IMPROVE THE XXX SBI PROGRAM AND PROVIDE RECOMMENDATIONS TO SBI DIRECTORS AT OTHER UNIVERSITIES. YOUR ASSISTANCE IS GREATLY APPRECIATED.

APPENDIX 1

SMALL BUSINESS INSTITUTE CONSULTANT QUESTIONNAIRE (TABULATED)

I ENROLLED IN THE SBI PROGRAM: (Please rank 1,2,3) 12.2% To learn about consulting 41.9% To learn about small business management 48.6% To get real-world experience 9.5% To prepare for future job/job search 6.8% Because I was tired of classroom courses 5.4% To gain team experience 5.4% Because I needed an elective 5.4% Other

MY SBI EXPERIENCE WAS OF VALUE IN:

No Great Value Value 1 2 3 4 5 Getting my first job after graduation 2.3 Getting my present job 2.3 Getting a promotion in my job 2.1 Starting a business 2.3 Learning to be a consultant 3.0 Learning to select/use consultants 3.0 Making a career decision 3.0 Learning about small business management 4.2 Learning to work with a team 4.3 Developing good work habits 3.7 Learning about government regulation 2.5 Writing my resume 2.4 Participating in Job Interviews 2.6 Other business courses, e.g. 2.7 Other 3.2

OVERALL RATING OF MY SBI PROGRAM EXPERIENCE: No Great Value Value

As seen at time of program completion 3.9 As seen from today's perspective 4.0

MY RECOMMENDATION TO THOSE CONSIDERING SBI PARTICIPATON WOULD BE:

Negative Positive To a good friend who was a student 4.6 To a good friend who owned a business 4.5

I WOULD USE A STUDENT CONSULTING TEAM TO ASSIST ME IN MY CURRENT JOB/POSITION/ORGANIZATION Yes 40.5% No 59.5% Reason(s)

MY ADVICE FOR PRESENT-DAY AND FUTURE SBI STUDENTS:

MY RECOMMENDATIONS FOR THE SBI PROGRAM OF THE FUTURE:

INFORMATION ABOUT MYSELF (optional):

Employed by: Self 15% Manufacturing firm 16% Service firm 40% Gov't org 5% Nonprofit org 4% Unemployed 5% Other 14%

Industry/Major Product or Service

Organization size: Total employees 15,000 Annual sales $2.5B

Current job title Number supervised 19

Current annual salary or earnings range (Please circle): $0-10K-1.4% $10-20K-15% $20-30K-42% $30-40K-22% $50-75K-9.5% $75-100K-1.4% Over $10OK-2.7% (No Response-7%)

Present Age-27 M/F-72%/28% Major-V Grad year-V Approx GPA-2.95

Interested in a Homecoming SBI reunion: Yes-43% No-57% Suggested reunion format

OTHER COMMENTS

APPENDIX 2

THE STATE OF THE SMALL BUSINESS INSTITUTE: IMPLICATIONS FOR CLIENTS AND CONSULTANTS

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ABSTRACT

Twenty-one years after the Small Business Institute (SBI) program began as a pilot program, the Small Business Administration (SBA) resource continues to make assistance available to small business owners and managers throughout the nation. The program also provides educational opportunities to student counselors in over 500 universities. This paper reports on the state of the SBI in 1992 and provides implications for small business clients and student consultants.

CONSULTING ASSISTANCE BIASES

Small business owners are reluctant to engage the services of outside consultants. The reasons for their apprehensions are familiar. Many feel that the use of an outside consultant would be an admission of inadequacy or failure, while others do not believe the assistance consultants provide will be useful. There exists an additional fear that the consultant might share with competitors information gained through the consulting engagement reducing the client's competitive edge. Still others believe they cannot afford the cost of consultants (2).

Krentzman and Samaras (2) described some common sources of help, other than traditional management consultants, sometimes used by small businesses. These include:

* Literature * Friends * Professional Advisors (bankers, lawyers, accountants, etc.) * Board of Directors * SBA Resources - Small Business Institutes (SBI) - Small Business Development Centers (SBDC) - Service Corps of Retired Executives (SCORE)

THE SBI PROGRAM

The SBI began in 1972 as a pilot program sponsored by the SBA. The program was designed to provide managerial assistance to small business owners by utilizing the knowledge, skills, and expertise available through the schools and colleges of business throughout the United States. The intent of the program was to allow student consultants, under the guidance of professors, to apply the knowledge and skills they received through college courses to problems experienced by small business owners. In 1974, the SBI became a permanent program (5).

Both corporate executives and academicians believe the consulting provided to small businesses through the SBI program is beneficial to both the small business community and the students. John

Sloan, former Executive Director of the National Federation of Independent Businesses, indicated that the SBI had two primary advantages. First, the SBI brings troubleshooting to the business. This allows the consultant to examine all aspects of the business rather than just hearing about a specific problem from the client. Second, contrary to many of the classroom experiences, the SBI program provides an opportunity for students to become immersed in the realities of running a small firm (1).

Some academicians believe the SBI is advantageous to alternative consulting options because the academic consultants (students) not only provide creative solutions to problems, but also teach clients how to solve their own problems. This type of experience benefits the client in the long term. Also, students usually bring a fresh point of view and a broad understanding of management to the consulting experience rather than technical knowledge of a specific industry (1,2).

COLLECTION OF CLIENT DATA

Before beginning the SBI consulting experience, SBI clients complete an SBA Form 641A, Request for Counseling. On this form, the SBI client provides demographic information about the small business and its owner and indicates the area in which the small business needs assistance. The form contains a list of 12 broadly-defined areas of assistance. The clients select only the one area in which the business most needs help. Upon completion of the consulting project, information from these forms is transmitted to the central SBA office in Washington, D.C. and tabulated quarterly. The tabulations, including year-to-date figures, are summarized in the SBA's quarterly Management Information System (MIS) Report.

The SBA's Office of Business Initiatives, Education, and Training (BIET) also conducted an SBI client survey during fiscal year 1992 (FY92) to obtain client perceptions of the consulting they received through the SBI program. Due to the confidentiality agreement between the SBI clients and consultants, the SBA does not maintain a record of SBI clients' names and addresses. Consequently, the SBI Director who was responsible for the client's consulting was the only one who could contact the client.

BIET employees selected a random number of SBI schools to participate in the survey. Each SBI Director at the selected schools received a package of instructions and approximately 10 surveys, cover letters, and business-reply envelopes. The instructions indicated that SBI Directors were to distribute these surveys to their most recent clients. The SBA officials requested that Directors with more than 10 clients make additional copies of the surveys and distribute them to all current clients. As a result of this methodology, the number of clients who actually received the survey is not known. Approximately 470 clients responded to the survey.

THE SBI IN 1992

Despite the reluctance of many small business owners to seek outside assistance, approximately 125,000 small businesses have received assistance from the SBI consultants during the past 21 years. In FY92 alone, nearly 6,000 small businesses received approximately 600,000 hour of free consulting from more than 500 SBI programs in the United States (4). Each client received an average of 100 hours of consulting. The U.S. government made this consulting available to small business owners by

providing budget of $3.015 million to the SBI program in FY92. Each SBI program received $500 per case to cover consulting expenses. The majority (47%) of the clients surveyed in the 1992 SBA Client Survey valued these consulting services between $1,000 and $5,000. Several clients (16%) placed a value of at least $5,000 up to $50,000 on the services they received.

Client Expectations

Clients revealed their expectations of the SBI consulting team on the SBA Form 641A prior to the beginning of the consulting project. An overwhelming majority (62%) of the SBI clients in 1992 indicated they needed marketing or sales assistance. The next area of assistance needed most was for business startup or acquisition (13%). Figure 1 shows client expectations of the consulting experience prior to the experience.

FIGURE 1

Client Expectations Prior to Consulting

Types of Assistance Requested by SBI Clients on SBA Form 641A

Startup/Acquisition ----------| Source of Capital -------| Marketing/Sales ----------
----------| Govt. Procurement --| Accounting Records -------| Financial Analysis --------| Inventory Control ----| Engineering/R&D - Personnel ---| Computer Systems ---| lnternational Trade --| Bus. Liquidation/Sal -
|_____ 0 20 40 60
80 Percent Responses

Following the consulting experience, survey respondents indicated the areas they had expected the student consultants to address. Although these varied slightly from their Form 641A requests, most of the respondents (72%) indicated they expected the student teams to conduct or address marketing research issues. Many expected to receive assistance with business startup, business plans, and financial planning. In the survey, clients selected multiple areas they expected to have addressed, while on the SBA Form 641A they selected only one area. Figure 2 shows the clients' expectations as indicated on the survey. Although the choices on the form and the client survey differed, small business clients believe their greatest need is in the marketing area.

FIGURE 2 Client Expectations Stated After Consulting

Problems Clients Expected Student Counselors to Address

Starting a Business ----| Mkt. Research ----------| Accounting ----------| Legal -| Technical ------| Business Plan ----------| Financial ----------| Feasibility --
----------| Prod./Inventory ---------| Other -----|
|_____ 0 20 40 60 80

Recommendations Made by Consulting Teams

Based on the areas in which recommendations were made, the consulting teams addressed the clients, primary consulting needs. Marketing recommendations were made in nearly 80 percent of the cases. Student consulting teams also provided management and financial assistance in a large number of cases. (See Figure 3.)

FIGURE 3 Recommendations Made by SBI Consultants

Areas In Which Recommendations Were Made Technical ----------| Management ----------
-| Financial ----------| Marketing ----------| Accounting -----
----------| Other ------| No Recommendations --|
|_____ 0 20 40 60 80 100 Percent
of Responses

Recommended Changes Implemented

Results of previous studies (2, 3, 5) show that small business owners and managers are often reluctant to implement the changes recommended by consultants. Small business clients indicated that consultants offer costly recommendations without fully understanding the business, goals. A lack of faith in the consultant's expertise increases the probability that the small business client will not implement the recommended changes. Although the consultant is highly qualified and has a great deal of expertise, a lack of rapport with the client often leads the client to question the consultant's credentials and ability to provide assistance.

SBI clients implemented many of the recommended changes made by the student consultants. Approximately 52 percent of the clients made changes in their current marketing research efforts or implemented new marketing research programs. Over 30 percent of the clients prepared or revised the company's business plan as a result of the consulting experience. (see Figure 4.)

FIGURE 4 Recommended Changes Implemented by the Client

Areas in Which Recommended Changes Were Made

Starting a Business ----| Mkt. Research ----------| Accounting ---------| Legal --|
Technical ----| Business Plan ----------| Financial ----------| Feasibility ----------|
Prod./Inventory ----------| Other --------|
|_____ 0 20 40 60 80 Percent
of Responses

Client Evaluation of SBI Consulting

The survey provided the clients with an opportunity to evaluate the consulting assistance they received from the SBI student teams. The clients rated the consulting assistance by indicating their level of agreement to the following phrases. Each phrase completed the sentence that began with "As a result of receiving the consulting assistance, I believe that"

* my business will decrease costs. * my business will identify and locate its major problem(s). * my business will be more profitable. * my business will increase sales.

Nearly 40 percent of the clients agreed that their business costs would decrease as a direct result of the assistance received from the SBI consulting. Since the clients received the surveys shortly after the completion of the consulting project, it may have been too early for the client to know whether the SBI consulting would have an impact on business costs. Approximately 40 percent of the clients said they were undecided on this statement.

The SBI student consultants received very favorable evaluations from the SBI clients on the remaining three statements. Clients (74%) felt strongly that they would now be able to identify and locate the business, major problem(s). From a financial perspective, 67 percent of the clients said they expect their business to be more profitable and to increase sales as a result of the consulting provided by the SBI teams. The anticipated increase in profitability may be a result of either the expected decrease in costs or increase in sales.

Overall Evaluation of Consulting Services

SBI clients also rated the SBI student teams using some more general evaluation statements. Clients again indicated their level of agreement with the following statements:

* The counselors met all my needs satisfactorily. * I could not have readily obtained the same level of assistance from another source at an affordable price that I received from the SBI. * I would recommend SBI's counseling assistance to other small business people who need help.

The SBI student consultants satisfactorily met the consulting needs of 81 percent of the survey respondents. An additional 10 percent were undecided, leaving another 10 percent who felt their needs were not completely met.

In addition to placing a high dollar value on the assistance provider by the students, 84 percent of the SBI client respondents said they could not have affordable received comparable assistance from another source. (See Figure 5.) Their responses to this statement could be indicative of their fear of high fees from outside consultants. SBI Directors can expect word of mouth publicity from these SBI clients. Approximately 93 percent of the respondents said they would recommend the SBI's consulting assistance to other small business people.

FIGURE 5 Client's Rating of SBI Consulting

Client's Overall Rating of SBI Counseling Percent 100 ---------- | | | | 80|----------| | | | | 60|---------- ----------| | | | | 40|---------- ----------| | 37 37 | | | | | 20|-------|----------|----------15----------| | | | | 9 | | | | | 2 | 0|_____|_____|_____|_____|_____|_____| Excellent Very Good Good Fair Poor

Client Demographics

The SBI program is not limited to those individuals who have previous experience with the SBA. An overwhelming number (79%) of the SBI clients are not current SBA clients. Only 21 percent of the SBI clients in FY92 indicated some type of SBA client status such as borrower, applicant, 8 (a) client, etc. Although neither the client survey nor Form 641A allowed clients to indicate experience with the SBDCs or SCORE chapters, many SBI clients do have experience with all three SBA resources.

The predominant legal structure of the SBI client businesses includes both corporations (36%) and sole proprietorships (35%). Only eight percent of the client businesses are partnerships while 21 percent are S-corporations.

SBI clients include business operations in many industries. Approximately nine percent of the clients indicated they are in the startup phase of their business and did not specify an industry. Most of the clients (43%) are in the service industry with the remainder divided between wholesale (5%), retail (27%), construction (2%), and manufacturing (13%).

The educational backgrounds of the SBI clients reveal that SBI student consultant teams are working with small business owners and managers who have advanced training. Approximately 20 percent of the clients have post graduate degrees and 39 percent have undergraduate degrees. Only 15 percent of the SBI clients indicated that they did not have any four-year college background. However, three percent of those clients are graduates of community or junior colleges.

The majority of SBI clients in FY92 were male (54%). Additionally, 23 percent of the SBI clients were female owners/managers while the remaining 23 percent of the clients' businesses are owned/managed by both men and women.

IMPLICATIONS FOR SBI STUDENT CONSULTANTS

SBI consultants must be able to help small businesses respond to the dynamic market conditions in today's economy. The small business owners and managers need more than just good ideas. They need assistance in implementing those ideas and in being able to identify and resolve their problems when the consultants are no longer around. The following list of implications for SBI student consultants is based on the findings of earlier studies, the 1992 SBA Client Survey, and the FY92 MIS report.

* Consultants need to spend time with the small business owner/ manager, the company's employees, and customers to gain an understanding of overall business operations. * Consultants need to build rapport with the small business owner/ manager to gain the client's confidence. * Consultants need to clearly explain their function to the small business owner/manager. * Consultants need to help the small business owner/manager become self sufficient in identifying and solving business problems. * Consultants need to incorporate the assistance of outside resources when dealing with specific technical issues. * Consultants need to provide recommendations that are financially feasible for the small business client. * Consultants need to provide the small business owner/manager with referrals for continuing assistance upon completion of the consulting project.

IMPLICATIONS FOR SBI CLIENTS

Small business consulting through the SBI program provides many benefits to the small business owner/manager. Some of these benefits include:

* SBI teams are able to work on a variety of business-related problems. * SBI teams can make recommendations tailored to specific businesses. * SBI teams can assist in developing a business plan. * SBI teams work "free." * SBI teams can help small businesses improve their business, performance.

Business owners must be willing to take criticism or negative assessments. This assessment can be helpful if taken with an open mind.

Once the small business owner/ manager has gotten beyond the barrier of asking for assistance, they need to play an active role in identifying and solving their businesses' specific problems. Some suggestions for dealing with student consultants follow.

* Treat them as consultants, not students. Treat them professionally as you would want to be treated. * Recognize this is a learning situation for both you and the students. * Try to see things from the SBI team's perspective and disagree if necessary. * Participate actively in the consulting experience. * Share pertinent business information with the consultants. * Approach the consulting experience with an open mind.

SUMMARY

Consulting through the SBI program has been available to small business throughout the country for over 20 years. While over 125,000 small businesses have benefitted from these consulting services, many more hundreds of thousands of small businesses have not had such an opportunity. These businesses may not know about the program or may not have been able to participate for various reasons. However, those businesses that have participated indicated that their businesses improved as a result of the consulting services.

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SMALL BUSINESS TRAINING AND EFFECTIVE PROCESS CONSULTING

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ABSTRACT

Most SBI cases reflect the expert consultation model in which information is gathered and recommended solutions to client problems are provided in written and oral communication from the student teams to the client. This method is the traditional consulting model, but fails to emphasize the ability of the client to meet the same challenge in the future. The SBI case is simultaneously an opportunity for the students and the small business owner to learn how to approach business problems, whether those problems are general business planning, marketing studies or accounting and financial systems. This paper considers the consulting models presently in use within the SBI program and suggests the alternative of the process consulting model. The process consulting model would involve the client in the definition of the problem, brainstorming solutions and the choice of final recommendations. As a result of the client involvement in the process, the client will be more independent of the SBI in the future.

INTRODUCTION

A client-based, system oriented approach to management consulting has been suggested by Edgar Schein and is called process consulting. "Process consultation is a set of activities on the part of the consultant that help the client to perceive, understand, and act upon the process events that occur in the client's environment in order to improve the situation as defined by the client."(5) In a process consulting mode the consultant seeks to assist the client in the development of the problem definitions and possible solutions. Process consulting can be contrasted with expert consulting where the client relies on an expert to define the problem and make recommendations. The expert mode is assumed in the Statement of Work and in the Small Business Institute Director's Manual.

A Small Business Institute (SBI) case study begins with a client who has perceived a problem and identified the SBI as a source of assistance. The Small Business Administration (SBA) requires the clients to complete a Form 641, "Request for Counseling," indicating their need for assistance. They are asked to summarize their needs in brief form, for example, "marketing/advertising help," "help with my accounting information or system," or "overall business planning." Such a request for help is then answered by the assignment of a student team which analyzes the problem as described by the client, gathers sufficient information, often refine the problem definition and makes a recommendation to the client to solve the problems as finally identified.

Some studies of client reaction to this process have found that students are often not sufficiently expert, or lack general and industry experience to make the recommendations that are presented to the clients. Further, clients would prefer more involvement with the team, and would like the team to have access to more information than is presently the case and for the recommendations to be more practical and less theoretical(7; 1). Others have found that while a slight majority of clients conclude

that the SBI process resulted in a long-term impact on decision-making or the way that business was conducted, fully 47% of the respondents disagreed (2). Overall, attempts to measure the effectiveness of the SBI program have been inconclusive.

The SBI case concludes when the client has received a final case report addressing the problems identified by the student team. it is not required that the client understand the process behind the report, or more importantly, that the client be able to duplicate the results if faced with a similar problem. The SBI process could be improved by considering the client because the same process that is designed to educate the students could leave the client self-sufficient.

This paper is organized into two sections. Section one reviews the elements of the SBI approach to counseling and relates the approach to the models of consultation. The second section reviews the benefits of using the process consultation approach and sets out a possible implementation within SBA guidelines.

SMALL BUSINESS INSTITUTE CONSULTING

The SBI approach to consulting assumes, "the student team will be responsible for identifying problem areas, developing or selecting alternative courses of action, and make appropriate recommendations for correcting the problem areas in the firm."(4) Thus, the expert model is assumed and the deliverable is a case report which presents the analysis and recommendations. The process is defined as, "direct contact between the student team and the client, detailed analysis of the client's business, thorough research, and a useful case/project report."(4)

Even expert consultants cannot work isolated from the reality of their client's visions and problem definitions. The SBI Director's Manual recognizes some of the shortcomings of the expert model suggesting, "Help the client become self-sufficient. Too much help, on the one hand, or exaggerated goals which cannot possibly be reached on the other, are both demoralizing."(4) In most cases the expert model is not the best way to arrive at the objective. SBI directors are encouraged by the Small Business Institute-Director's Manual to involve the client in the process: "Participation in the SBI program by the client should be a learning experience in analyzing problems and making decisions. When the term ends and the team leaves, the client should be able to carry on alone."(4)

If the client is to be made self-sufficient then this objective needs to be formally considered along with our student oriented objectives. This paper argues for inclusion of a process consultation approach in SBI cases. If client self-sufficiency is highlighted through the inclusion of process consulting techniques then each case will conclude, not only with recommendations, but a client that has practiced decision making, is comfortable with the details of the analysis and can duplicate the results. Students will be more likely to have participated in a successful client relationship, realized that business people do not know all the answers, and are anxious to learn.

PROCESS CONSULTATION

Process consulting has distinct advantages over the traditional approach of expert/client consultant. The major advantage is the inherent difficulty of calling students, "expert" which can only be true in a

relative sense. Further, since there exists a natural tendency of any human system to resist change it is understandable that for some clients SBI case studies are not particularly useful. A new model built on the assumption that the real problem involves a lack of decision-making ability or process, rather than lack of expertise would seem to offer real prospects for improved client satisfaction. Further, such a model emphasizes a teachable skill, rather than experience which is so often a prerequisite for satisfactory expert consultation.

In the standard undergraduate setting, SBI cases are the product of twenty to twenty-five year old students who have not completed their baccalaureate education. These individuals have only recently reached relatively sophisticated levels within their chosen course of study and most often have none or modest business experience. Some specific tools have been taught in a variety of business and other classes, but these have a distinctly theoretical approach and direct application to business problems has often been lacking. Accordingly, most SBI clients are not assigned to teams containing "experts," in any real sense. On the other hand, the student team is under the supervision of a faculty member who may qualify for the role of "expert." However, if the expert mode is to be successful then sufficient client contact must be maintained.

Human systems like all systems are resistant to change. Inertia is a quite natural defense against change and must be overcome in any consultation engagement. The client has taken the first step by requesting help. The client would be much more likely to accept recommendations for change if they developed out of a process in which they felt they had some stake. It is quite natural for an individual to resist change if the change is suggested by a consultant who lacks credibility (on any number of dimensions), if the change appears to be negative or uncomfortable, or if the result is costly and requires some risk.

The advantage of the process consultation model is the high level of client involvement in problem identification, the development of competing solutions, and final decision making. The involvement of the small business owner brings experience and relevance to the group process. This group process is more likely to arrive at realistic solutions to business problems.

Process consulting resolves each of the criticisms itemized above. Process consulting reduces the need to have experience or knowledge to offer effective assistance. The experience and knowledge often resides in the client. A good process can help the client to reach effective decisions informed by all the subtleties known by the client.

The process consulting model works well with a client that is willing to invest significant time in the project. Small business owners are extremely busy, making process consulting difficult to coordinate. If this model is to be used successfully the client must be convinced that the project is worth the investment of time.

PROCESS CONSULTATION IN THE SBI CONTEXT

The tasks in a process consulting engagement change only marginally. The same amount of research must be performed, surveys mailed and results analyzed, financial estimates made and critically evaluated. The tasks are similar, but the individuals performing them would be different. The

consulting process becomes the focus of the engagement. Members of the client's staff (even if it is a sole proprietor) must be involved as decisions are made about sources of data and industry information, the design of the survey, and interpretation of any information gathered. It is critical to plan each meeting very carefully so that time is not wasted, and so that the client can perceive that the minutes spent with the group indicate progress toward a clearer definition of the problem or toward its solution.

The student consultants must be trained to plan meetings, delegate work assignments and to guide the client to solutions. The students will be learning skills that are directly applicable to most career choices, not only careers in consulting.

There is significant increase in the amount of time required by the client and possibly some for the students. Time spent on the project would also be reorganized and would focus on developing a logical, sequential business solution. The client will not have to do all the detailed work, such as data entry, library work, etc., but they do need to be involved in planning meetings where the usefulness of such work is identified and the assignments are made. They must have a feel for the magnitude of the work involved.

The recommendations that arise from this process should be reduced to writing as they develop and not postponed to the end. The recommendations are a natural part of the process, and should be accepted as the case progresses. The writing of the recommendations will be a joint effort. In most cases, the students will do the drafting and review of the recommendations, but in some cases, the client will be the best person to do that work. As a team atmosphere develops this shared work will also seem natural.

The final report and presentation will serve a different purpose under a process consultation model. The report is an opportunity to delineate the effective work of the process and to identify differences of opinions or competing solutions. The final presentation of the report to the client serves much the same purpose as a debriefing. Both the client and the student team are familiar with the contents. The objective of this final meeting is to review the work, discuss remaining issues, and to complete the learning process.

MODES OF OFFERING SBI SERVICES

SBI cases are assigned within a number of course contexts. The process consultation model works best within a consulting course because of the clear emphasis on the decision-making process. Since the process consulting model is a different approach to helping someone make decisions it could function well in a small business management course taught from that perspective. The higher level of coordination required would make it difficult and less effective in a setting where the cases have been distributed to a variety of senior courses reflecting the required expertise.

Teaching senior or graduate students how to facilitate a meeting is a necessary part of teaching process consultation. It also is a lifelong skill that would be well worth the investment of class time. Such a curriculum would involve listening as well as good communication skills.

Faculty often resist this form of consultation because they are accustomed to playing an expert role in the classroom and perhaps in their consulting practice. The process consultation model can be an effective classroom technique in addition to consultation model. Any faculty who have experimented with various group learning pedagogies are familiar with the benefits of the dynamics that can develop in such a classroom setting. The process consulting model converts that same energy to the interaction between the student consultant and the client. Finally, notice that this model is a teachable skill, while expertise requires experience.

IMPLICATIONS FOR RESEARCH

The amount of cases presently using varying amounts of process consultation techniques is an empirical question. SBI case supervisors and directors could provide the benefit of their experience and assist in fine tuning the approach in the classroom. Finally, the satisfaction of the clients is the ultimate measure of success and research should be directed at the improvement of client satisfaction given the process consulting model over the more standard expert model. The Small Business Administration can position the SBI program as simultaneously offering training to college and university students and to the small business owners who are clients in the process. The emphasis will have long run effects on businesses and the communities served by the SBI program.

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THE SMALL BUSINESS CONSULTING COURSE: CONTINUOUS IMPROVEMENT THROUGH TQM AND WAC

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ABSTRACT

This paper describes efforts to improve SBI courses by utilizing principles and practices of "Writing-Across-The Curriculum" (WAC) and TQM. We illustrate how to reduce defects in the teaching-learning process by augmenting the consulting case with a series of "supporting assignments" that are continuously improved from semester to semester. The assignments are designed using a "competency model" that helps students iprove their proficiency in producing outputs similar to those they must produce as entrepreneurs and professsional managers.

INTRODUCTION

As American industry exhorts business schools to adopt practices such as TQM, experiments in Continuous Improvement (CI) are being tried on many campuses. Unfortunately, almost all such efforts concern only the universities' peripheral and support functions (e.g., admissions, registration, parking, campus security, etc.), not in the core educational functions of research and teaching. (1)

While many professors now mention TQM in their classes, only a few pioneers have incorporated its principles and practices into the way they teach. These pioneers typically try to "empower" their students. Some involve their students as course "co-owners", responsible for handing down better courses to future students. Others form student teams based on complementary learning styles, and some have even designed their course and teacher evaluations around some principles of CI: absence of fear, responsibility for one's own learning, improved problem-solving skills, and working in teams. Such teachers typically ask their students to evaluate the course several times - rather than just at the end of the course - and use histograms and control charts to continually modify the course based on student feedback. Not surprisingly, such teachers typically receive top ratings for their efforts. Also, not so surprisingly, they almost never enjoy the active support of their deans or other university administrators - knowing full well that lack of top management support guarantees failure for any organizational change effort. (2)

CONTINUOUS IMPROVEMENT OF THE SBI COURSES

If, as such examples indicate, TQM can improve the teaching-learning process, then the SBI course is an ideal place to try. It is well-defined: a manual for it exists, (3) as well as a compendium of sample curricula. It has been taught for over 20 years, and is presently offered on over 600 campuses. Workshops are held annually where teachers can exchange experiences on it, and a growing body of reserach on it exits as well.

The application of TQM to the SBI course can be described in f ive stages: (a) identifying the customers, (b) defining quality in measurable terms, (c) analyzing defects in the teaching- learning

process, (d) identifying opportunities for improvement, and (e) implementing the principles of continuous improvement.

Identifying the Customers

It is now widely accepted that TQM succeeds in only 20 percent of the organizations where it is tried, and these organizations share a common characteristic: obsession with exceeding customers' expectations. Many organizations fail at TQM because they can't or won't measure customers' expectations. Several studies have concluded that resistance by teachers and administrators alike to see students as customers is the major barrier to applying TQM in universities. (4)

Two examples of this reluctance are particularly telling. One is found in last year's attempt by a SBIDA committee to define quality. It defined four standards. (5) They concerned whether the local SEI's mission was consistent with that of the school and with national SBI; whether the local SBI director was a full-time faculty member; the SBI director's career prospects and case load; and whether the program was conducted in accordance with SBA's Statement of Work. None concerned whether students learned anything useful. A second example comes from Harvard where J. I. Cash, Jr. , the MBA program chair, declared that, "I have never and will never think of students as customers." (6) The remark, of course, upset Harvard MBA candidates who pay and average of $45,000 in tuition and fees, and forego about $125, 000 in income to attend the school.

To overcome this reluctance and find the "real customer" think of which customers you would most regret losing. SBA can easily be eliminated; its price of $500 per case, while welcome, sometimes does not cover the marginal cost of following its Statement of Work. SEI directors could even eliminate clients - sacrificing the educational advantages of live cases, but avoiding the hassles of the real world. Many of us would most regret losing the students; for without them there is no education. Thus, despite our reluctance, students are the real customers.

Defining Quality

Having found our customers, we must identify their expectations and then define and measure quality. Fortunately, two customers - the SBA and our clients have fairly clear expectations. The SBA's are spelled out in its Statement of Work and our clients' expectations are clarified in the contractual documents the 641, 641A, and the contractual letter. Unfortunately, students' expectations vary widely. Some want a BSBA or MBA through minimum effort, others enroll simply to prolong adolescence, and a precious few are seriously preparing for a career.

Lacking well-defined requirements from our "real" customers, how can we define quality? Quality gurus such as Crosby defines it as conformance to requirements; (7) Juran as fitness for use; (8) and Deming as precision of effort. (9) Some SBI directors argue that the duality of the SBI teaching-learning process concerns learning how to set up new businesses and to improve existing ones. Ames (10) argues that SBI courses provide opportunities for students and clients alike to become more proficient in business analysis and performance improvement.

It is impossible, for example, - in Crosby's words - to conform to requirements if customers dif f er as

widely in their requirements as do our students. Many firms misuse the "fitness for use" definition by shipping goods that do not meet requirements, but which will "get by". Many universities, sadly, follow similar practices - admitting unqualified students and neglecting to suspend students with low GPAs in order to maintain enrollment, graduating anyone who has enough required courses and a C average regardless of whether they are, capable of making a living, and so forth. Thus the gurus' definitions are only rough guides.

In order to turn these concepts of quality into something measurable, let us define the quality of an SBI course as: an increase in, relevant competence of students for a given level of time and effort by students and teachers, We can illustrate the definition as follows:

Qual=[Comp(t(1))-Comp(t(0))]/Effort

The denominator - the level of time and effort - is easily measured. For example, take a three- hour SBI course lasting is weeks where the students are expected to spend two hours preparing for each hour in class. A course with 25 students provides over 3,000 hours in which to increase students, proficiency to desired levels (and satisfy clients and the SBA).

Defining the Numerator - Competence

Several professional bodies have developed competency models for their members. The landmark competency model was published in 1983 by the American Society of Training and Development. It defined competency as an area of knowledge of skill which is critical to the production of key outputs, and it defined output as a product, service, or information which must be produced by someone in a role for use by people in other roles. (11) Each competency in the model has behavioral anchors, which were defined as brief scenarios exemplifying how a competency might look when used in relevant situations. Other professional bodies - the American Management Association and the Association for Quality and Participation (AQP) - have similar models. (12)

Exhibit 1 contains excerpts from a draft competency model for SBI students. Each competency has three levels of proficiency - Basic, Intermediate, and Advanced. Each level has several "behaviorally anchored" descriptions that students and teachers can use to assess student performance, and to set goals.

Exhibit 1: A Draft Competency Model for SBI Courses (Excerpts) Example Behaviors Illustrating Levels of Expertise

The COMPETENCY: Basic: Intermediate: Advanced:

Computer Skills: Under- -After attending several -After Passing a Profi- -When a client re- stands and is able to use review sessions, the ciency test on spread- quests help in select- computers. student writes a memo sheets, the student ing a PC-based ac- to the client on a word creates a simple cash- counting system,the processor, spell checks flow forecast for a case system, the student it, and prints out two study on a computer seeks out alternative copies. that predicts cashflow accounting packages, - Etc. shortages for several evaluates them, and months. recommends one to - Etc. the client. - Etc.

Industry research skills: -When analysing a case, -When preparing a -When helping pre- Can quickly learn the key the student finds the report for a client pare a business plan, variables that define an relevant sectoral statis- firm, the student the student finds all industry or sector (e.g., tics and several related locates the RMA relevant literature, critical issues, distribution articles about the ratios, the U.S. Indu- uses industry data channels, inputs, outputs, industry of the firm. strial Outlook, inter- bases, contacts ind- information sources, ...) - Etc. views industry ustry experts, deve- experts, selects news lops an interview articles, and uses guideline, adminis- trade journals. ters it, and writes an - Etc. excellent report. - Etc.

Presentation Skills: Ver- -When asked to present -When she notices the vally presenting inform- a customer survey, the client having trouble ation so that the intended student gets and keeps understanding her purpose is achieved. the group's attention by charts and graphs, the standing up, reviewing student adjusts her the major points and presentation by defining clearly presenting the certain terms and pausing data. Her eye contact and checking understand- remains with the group ing often. throughout. - Etc. - Etc.

IDENTIFYING AND REMOVING DEFECTS

Good management practice teaches that workers can rapidly increase their performance if we remove barriers and defects in the work process. TQM provides tools for finding and removing the defects, and a rationale for doing so: "You can't inspect quality in." Exhibit 2 provides examples of "defects" in the teaching-learning process for SBI courses. The five sources are grouped according to Kirkpatrick's evaluation framework for training and development. (13) This framework helps us evaluate the learning process along four dimensions: enjoyment, learning, application, and results. Source A - low marks that students give instructors - is a rich and readily available source of defects. Sources B and C are SBI teachers' common complaints about the way students carry out class assignments. Source D consists of clients, perceptions of past live case projects, and Source E are typical employers, requirements for graduates.

EXHIBIT 2: Defects in the Teaching-Learning Process (Excerpts from Assessments of SBI Courses)

LEARNING LEVEL Source A: Students' course evaluations 1. Course objectives should be clearer. 2. Teacher should explain the course requirements better. 3. Teacher should communicate in a more understandable way.

Source B: Students' "defects" in preparing supporting assignments 1. Student failed to read assignment. 2. Student got side-tracked, went in wrong direction.

Source C: Students' "defects" with central assignments (client projects) 1. Students lacked computer skills. 2. Free riders: Student failed to do share of the project.

APPLICATIONS LEVEL Source D: Clients' response to survey's on central assignment 1. Students should learn about my industry faster. 2. Teams need to meet more often with the business owner. 3. Student reports need to provide more useful information.

RESULTS LEVEL Source E: Employers' reactions to our graduates 1. Be able to work on enterprise improvement project teams. 2. Write and speak clearly and make good presentations. 3. Be able to use word processors and spreadsheets.

Few college teachers are trained to systematically analyze and remove such defects. Instead we haphazardly try out tools that are readily at hand such as the computerized test banks, transparencies, videos, and discussion guides provided by publishers. Or we take training-the- teacher programs that promise students some relief from our lectures. What we need instead are tools like those in TQM to allow us to deeply analyze teaching-learning processes. Unfortunately, the seven tools of TQM - control charts, Pareto diagrams, flow charts, etc. - that work so well with production processes are less useful at finding defects in teaching-learning processes.

Fortunately, some appropriate tools are available from the Writing Across the Curriculum movement. WAC is based on the common sense notion that critical thinking - the foundation of business problem solving - is enhanced by writing, both formal and informal. Setting thoughts down in writing helps clarify thinking. WAC researchers routinely ask students to tape-record their thoughts as they work through assignments. They analyze such records before redesigning the assignments that make up their courses. WAC researchers conclude that successful courses are "assignment centered" rather than text and lecture centered. WAC courses emphasize using content rather than merely acquiring it. (14)

WAC courses are designed around a "central assignment." The teacher first analyzes the needs of the students and the objectives of a course and then designs a "central assignment" and a series of "Supporting assignments". Courses thus consist of supporting assignments (e.g., literature searches, case analyses, exercises, problems, tests, etc.) that increase students' proficiency in tasks required to do central assignments - such as team consulting reports for small businesses.

Designing Supporting Assignments

Each supporting assignment should meet a real student need. Exhibit 3 is an excerpt from an assignment designed to overcome a common "defect": "SBI student teams take too long to learn the client's industry." To successfully complete this assignment, students must use several sources to answer the questions posed in a case. They read assigned textbook chapters, look up standard references, and talk with people familiar with the industry. Later, having become more proficient, they repeat these activities on their central assignment for their client.

EXHIBIT 3: Excerpts from a Supporting Assignment

TO: Junior SBI Consultants FROM: Senior Consulting Manager SUBJECT: Learning about an Industry

Objective: This assignment will help you avoid a common consulting error: making superficial recommendations before knowing enough about a client Is industry. Our clients often tell us that it takes new consultants too long to learn about their industries. Learning an industry quickly is often vital in our business. Having the courage to ask what you need to know, being ingenious in finding resources to learn from, and asking the right questions are key "success skills".

Your role: In the first stage, you are an advisor to companies in the "contract furniture" business. You has been approached by the principals of a firm who want your opinion on the five questions at the end of the case.

Checklist: This assignment will be assessed as follows.

Before class: Standard Actual Time(min) Time _____ I read the text: Chapter 3. 30 _____ _____ I quickly read the case, and answered the last three questions on it 45 _____ _____ I looked up furniture manufacturers in the RMA Financial Statement Annual. 30 _____ _____ I found two industry trade journals. 30 _____ _____ I wrote a good industry description. 45 _____ Maximum time: 180 _____ A good supporting assignment has several features:

1. It contains evaluation criteria so that students will know beforehand how their work will be judged. Developing the criteria forces the teacher to think through just how student effort will be graded. Evaluation criteria take different forms, but checklists that students can check off as they complete each step are common.

2. The evaluation criteria form job descriptions that help students work productively. Such documentation is similar to that required of companies whose customers want to deal only with certified suppliers. Such standards are the core of ISO 9000, which includes a standard-setting body for education and training institutions." Assignments are thus like documented job descriptions to be continually improved, and replace the hastily devised homework that students copy from the chalk board as the end-of-class bell rings.

3. Assignments specify student roles. in some stages they are consultants to the principals in a written (or "dead") case, and in others they are consultants to real clients in their tilivell central assignment. Specifying roles reduces defects by telling students who the audience is. It helps stop them writing to the teacher, and builds professional communication skills.

4. Good assignments specify standard times for each important step. This reinforces the contract made at the beginning of the course to increase students' competency for a given level of time and effort. Students record how long each step takes, and the data is occasionally graphed as statistical control charts. Students are encouraged to complain about things such as "too much homework" or "the computer terminals are always tied up". Such complaints become opportunities to discuss how to work more effectively and efficiently, how to team up, and exchange hints. Complaints provide opportunities to reinforce the principle that management's role is to remove roadblocks to successful job performance. They also afford opportunities to discuss principles and tools of CI such as worker involvement, quality circles, and statistical quality control.

5. Good assignments often involve students in evaluating their own work. An important WAC teaching skill is dealing with a heavy load of written work while avoiding burnout - having student teams critique each others, informal writing, grading informal writing only for critical thinking skills, etc.

Implementing Continuous Improvement

To continuously improve the supporting assignments it helps to think of them as stages in a manufacturing process. For example, when teaching TQM have each SBI team select a different supporting assignment, and collect data about it, including the time class members take to do it. They then analyze the problems they encountered, produce cause-and-effect (or fish bone) diagrams, create Pareto diagrams that highlight the most significant problems, and redesign the assignment for testing in the next term. Students in subsequent semesters appreciate doing assignments that have been redesigned by those who went before. The risk of contamination is minimal. Since supporting assignments involve easily substituted cases and new clients, knowing last term's answers is of little value to next term's students.

SUMMARY AND SUGGESTIONS

Many SBI teachers already use WAC techniques, of ten by accident, to help students do consulting cases. Continuous Improvement will come from continuously rethinking the supporting assignments that lead to the central assignment in the light of what we can learn from our students, from each other, and from teachers and researchers in other fields.

An important step will be to develop a better research framework - something that WAC teachers have been doing for over 20 years. This paper has suggested that the framework include competencies and defects in the teaching-learning process.

We can share our research on effective teaching-learning in several ways. We will need a team of SBI teachers who are interested in CI. In addition to publishing papers on effective teaching- learning in proceedings and journals, we can add sessions to the pre-conference workshop on CI - similar to case-writing clearing houses. The next edition of the SBI Directors' Manual" could contain examples on designing and improving supporting assignments. Future versions of the recent national entrepreneurship education conference in Little Rock could also be a place to exchange good assignments. These are only a few ways to better prepare our students for the world of CI, TQM, (and future acronyms), and show the business world that we, too, are serious about lowering the cost of producing products and services that meet customers' expectations.

REFERENCES (Available on Request)

THE SBI PROGRAM AND STUDENT OUTCOMES: A STUDY OF BUSINESS POLICY CLASSES

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ABSTRACT

This study represents a preliminary inquiry to determine the value of combining SBI and Policy into a singular curriculum. A comparison of this combined format was made with the traditional Policy course. A slightly modified Job Diagnostic Survey (5) and a skills/usefulness scale (9) was administered to assess the difference between the two groups. Results suggested that the combined format met or exceeded the outcomes of the traditional Policy course.

INTRODUCTION

Changing demands in the workplace require more than just technical competence from our business school graduates. Fontenot, Haarhues and Hoffman report that employers are also demanding ... skills in leadership, problem solving, oral and written communication, along with attributes of motivation and assertiveness" (3, p. 56). Their study comparing the effectiveness of Small Business Institute (SBI) courses and Business Policy courses in developing desired student skills indicated that policy courses were more effective in developing analytical skills and that SBI courses were more effective in developing interpersonal and operational skills.

While the comparative design of the Fontenot, et al. study did document the singular value of SBI projects, it is important to extend this stream of research and assess the possible synergies from Business Policy courses that integrate SBI projects into their course curricula. Furthermore, since the Business Policy course and SBI project are configured to maximize student related outcomes, it is also important to assess the task design characteristics of the learning experience. Therefore, the purpose of this study is to compare the student related outcomes and task design characteristics of Business Policy classes that integrate SBI projects into the course curricula and Business Policy classes that do not. A secondary purpose will be to provide confirmatory evidence for the study conducted by Viswanathan, Fontenot and Hoffman (15) that the SBI program provides valuable training for business students enrolled in the program.

Before specifically examining the study conducted to accomplish these objectives, background information providing the foundation of the study is in order. This will be done by providing a brief discussion of the business policy course, the SBI program, and Jobs Characteristic Theory.

BACKGROUND

Business Policy

Business Policy is the designated capstone course for the Bachelor of Business Administration degree. The intended objective of the course is to integrate students' knowledge in various functional areas of

business into a comprehensive view of the firm as it interacts with the competitive environment (16). A combination of related activities is typically used to achieve this objective. Lectures present concepts associated with strategic management, while direct participation in a business simulation and case analyses requires students to apply these concepts to actual organizational situations.

Small Business Institute

The SBI program was introduced in 1972 to provide free consultation to small businesses using advanced business school students. Initially, this interaction was intended primarily for the purpose of preventing further Small Business Administration (SBA) loan losses. It was envisioned that the program would, however, evolve to specifically address all small business problems (2).

Even though the worth of the program to small businesses was often questioned (10), the value to students was not (2, 13, 8, 11). Where these early studies tended to support the benefits derived by students from a conceptual point of view, recent research has suggested a need to empirically evaluate the SBI's contribution to the educational process (3).

At the university under study, SBI student projects are an integral part of the curricula in two sections of Business Policy. The professor in charge of these sections is responsible for developing the small business client, forming student consulting teams, assigning a faculty advisor to the team, assigning the team to a client, assessing the progress of consulting teams, monitoring Small Business Administration (SBA) documentation, and assuring the quality of completed student reports. In addition, the course is structured around the SBI projects to ensure that the integrity of both requirements (Policy curricula and SBI case quality) is upheld.

Skill Development

Project-oriented courses help develop student skills by requiring a practical application of theoretical concepts learned in the classroom (1). The process of integrating theory and practice under "real world" conditions appears to enhance students' technical and interpersonal effectiveness of SBI programs in developing desirable workplace skills Hoffman, Fontenot and Viswanathan (9) constructed a skills/usefulness scale to measure student perceptions of skills and knowledge acquired in the SBI class for quantitative versus non-quantitative student majors. A modified version of this instrument was later used by Fontenot, Haarhues and Hoffman (3) to compare the skills and knowledge acquired in SBI courses and Business Policy courses. In absolute terms, both courses were perceived as useful in developing analytical skills, interpersonal skills, operational skills, and career usefulness. In relative terms, SBI courses were perceived as being more useful in developing interpersonal and operational skills, while Business Policy courses were perceived as being more useful in developing analytical skills and career usefulness.

Task Design

The challenge faced by the Business Policy professor is how to best configure course activities to maximize student related outcomes. Conceptually, configuring course activities is similar to designing jobs for enhanced performance. Research suggests that job analysis and design techniques developed

for work environments can be used successfully in an educational setting (16, 17).

The Job Characteristics Theory is a comprehensive framework of task design processes developed by Hackman and Oldham (6, 7). At the center of the theory are three critical psychological states. These states are seen as primary determinants of personal and work outcomes. That is, to the extent there is experienced meaningfulness, experienced responsibility for work outcomes, and knowledge of results, there should be high internal work motivation, high quality work performance, high job satisfaction, low absenteeism and low turnover. The rise of these critical psychological states is, in turn, predicated on the presence of five core job characteristics. The theory further recognizes the moderating role of individual differences by including. individual growth need strength.

The Job Diagnostic Survey (JDS) translates the Job Characteristics model into a practical tool for diagnosing jobs before re-design and then evaluating the effects of the re-design effort. The JDS (5) measures perceptions of core job characteristics, critical psychological states, growth need strength, internal work motivation and job satisfaction. The JDS is a refinement of the earlier Yale Job Inventory (4), and was designed specifically to measure each of the variables in the Job Characteristics model.

METHOD

Subjects

The subjects for this study were 178 senior level undergraduate business students at a state supported university. The students were enrolled in the five sections of Business Policy taught during the Fall semester of 1992. The five sections were taught by two professors, one of whom taught the two sections with SBI projects.

For statistical comparison each professor's classes were combined into one group. Sixty-nine (69) students in the combined SBI/Policy classes and 109 students in the traditional policy classes were administered the survey. A reasonably comparable sample, in terms of academic background and sex, was obtained, and no adjustments were required.

Measures

The JDS was used to collect perceptions of core job characteristics, critical psychological states, growth need strength, internal work motivation and job satisfaction. Only minor changes in the wording of the JDS were made to adapt the instrument to the classroom setting. The skills/usefulness instrument used by Fontenot, et al. (3) was administered to collect perceptions of skills and knowledge acquired in the classes. Minor changes in the wording of the questionnaire were made to adapt the instrument to the research setting, and a seven point scale was used to maintain consistency with the JDS.

Procedure

To capture the influences of course related activities, the instrument was administered late in the

semester. Participation was voluntary with no rewards or inducements offered. On a predetermined date, both professors announced in class that they had been asked to participate in an important study and administered the questionnaire.

Research Questions

Although Fontenot, et al. (3) had laid the foundation for continued research into the usefulness of the SBI program for participating students, no studies exist that actually address the value of the SBI program conducted in Business Policy classes. In light of this fact, this study was viewed as a preliminary inquiry into the area. Therefore, several general hypotheses were developed.

HI: Core job characteristic skill development will be greater in those classes that include the Policy curriculum as well as SBI compared to those classes that only include the Policy curriculum.

H2: Critical psychological states development will be greater in those classes that include the Policy curriculum as well as SBI compared to those classes that only include the Policy curriculum.

H3: Affective outcomes will be greater in those classes that include the Policy curriculum as well as SBI compared to those classes that only include the Policy curriculum.

H4: Individual growth needs will be enhanced in those classes that include the Policy curriculum as well as SBI compared to those classes that only include the Policy curriculum.

In addition to testing the above research questions, a comparison of the results will be made against management norms as established by Job Characteristic Theory (14). This is important to ensure that both course designs are meeting their academic obligation.

Analysis of Results:

Results from both class groups were compared using simple t-tests to determine if the groups were similar. This was accomplished for each section of the survey instrument: job characteristics: psychological states; affective outcomes: and, job growth needs. Table 1 provides a breakdown of the answers received in each group, and Table 2 provides the actual statistical significance results of this comparison.

TABLE 1

OVERALL RESULTS BY CLASS

POLICY CLASS (NUMBER = 109) VARIABLE MIN MAX MEAN S.D. SKILL 2.0 7.0 5.86 1.04 IDENTY 1.0 7.0 4.83 1.30 TSK SIG 1.0 7.0 5.44 1.55 AUTONMY 2.0 7.0 4.50 1.19 FEEDBK 1.0 7.0 4.47 1.28 FDBKAG 1.0 7.0 4.95 1.43 MEANING 1.0 7.0 5.01 1.30 RESPNSIB 2.0 7.0 5.11 0.94 KNOWLEDG 1.0 7.0 4.15 1.56 GEN SAT 1.0 7.0 4.78 1.24 WORK MOT 2.0 7.0 5.81 0.90 GROWTH N 1.0 7.0 5.38 1.20 MPS 7.0 295.8 112.98 58.30 ANAL SKL 2.0 7.0 5.80 0.96 INTR SKL

1.0 7.0 4.35 1.29 OPER SKL 1.0 7.0 4.49 1.27 CAREER U 1.0 7.0 5.06 1.35 AGE 21.0 35.0 23.07 2.05 GPA 2.0 4.0 2.72 0.38

SBI/POLICY CLASS (NUMBER = 69) VARIABLE MIN MAX MEAN S.D. SKILL 4.0 7.0 6.19 0.84 IDENTY 2.0 7.0 4.78 1.37 TSK SIG1 1.0 7.0 6.10 1.37 AUTONMY 2.0 7.0 5.07 1.17 FEEDBK 1.0 7.0 4.43 1.31 FDBKAG 2.0 7.0 4.96 1.15 MEANING 1.0 7.0 5.46 1.30 RESPNSIB 4.0 7.0 5.66 0.75 KNOWLEDG 1.0 7.0 4.30 1.52 GEN SAT 3.0 7.0 5.73 0.89 WORK MOT 1.0 7.0 5.86 0.88 GROWTH N 2.0 7.0 5.58 0.98 MPS 6.3 295.81 31.64 58.22 ANAL SKL 4.0 7.0 6.06 0.74 INTR SKL 3.0 7.0 5.70 1.11 OPER SKL 1.0 7.0 4.62 1.52 CAREER U 2.0 7.0 5.57 1.16 AGE 21.0 41.0 23.36 3.07 GPA 2.1 3.4 2.67 0.34

TABLE 2

T-TEST RESULTS

Variable General Description P Value Core Job Characteristics

Skill variety greater skills needed .0239* Task identity task closure allowed .7910 Task significance outcomes important .0039* Autonomy freedom, independence .0024* Feedback feedback from work .8509

Experienced Psychological States

Meaningfulness work is meaningful .0293* Responsibility responsible for outcomes .0001* Knowledge of results final outcomes known .5253

Affective Outcomes

General satisfaction independent thought used .0001* Internal work motivation work stimulating/challenging .7159 Motivating Potential composite score** .0405*

Skills/Usefulness

Analytical skills use and growth of anal. skills .0409* Interpersonal skills use of interpersonal skills .0001* Operational skills use of entrepreneurial skills .5642 Career usefulness prepares for future career .0101*

Demographics

Age .4923 Grade Point Average .3464 _____ * Indicates a significance difference between groups. ** Score was computed using the following formula: MPS =((Sk. var. + task id. + task sign.)/3)(autonomy)(job feedback)

When examining those variables concerning basic job characteristics, three specific areas showed

statistical significance between groups. It is not surprising that students felt that greater skills were necessary in the combined course than in the Policy class alone. The students enrolled in the courses were in their last semester of undergraduate work and had been subjected to an almost exclusive focus of major corporations as opposed to the small business community throughout their four year academic career.

Two other variables showed even greater significance within the job characteristic variables. Task significance (was the outcome important?) and autonomy (can one student make a difference?) were justifiably important in the combined class. Students had been placed in an environment where not only were they expected to learn a concept, but also to directly help an individual or individual business. Most students readily accepted this added challenge from a group perspective as well as from an individual perspective.

Two variables, not significance, deserve showing some significance, deserve some discussion. The two groups did not differ on task identity (closure) and a highly related issue, feedback. The nature of the SBI project as well as the regular Policy curriculum, usually affords a high degree of ambiguity up to the last few days of class. The survey was administered before either class had all their graded measurements returned. This would naturally effect a student's perception of closure and feedback from the task.

Figure 1 graphically demonstrates the relationship of these variables discussed above. In addition, except for the area of autonomy, the combined SBI/Policy course out performed the standards established for a traditional business setting.

The effect the combined course had on the experience of psychological states was also interesting. The SBI students experienced more work meaningfulness as well as a feeling of responsibility associated with their projects. Once -again, the issue of concern over grades may well have affected the third psychological state, knowledge of results. In addition, as is the case with many SBI projects, the team is unable to witness many of their recommendation implementations.

As can be gleaned from examining Figure 2, both the SBI/Policy and Policy courses may be considered as academic exercises when compared to the management norms of a traditional organization. While a legitimate attempt may be made to make the course as realistic as possible, it is still a classroom experience.

Under affective outcomes, it was obvious that the SBI students had a higher level of general satisfaction. This is easily related to the opportunity to accomplish a "real world" project as opposed to another text book exercise. The variable of work motivation showed no statistical difference even though there was a slight increase in students' scores.

Once again, both the SBI/Policy course as well as the traditional Policy course fared better than management norms. This can be seen in Figure 3.

There was only one variable that did not show significance in the categories involving growth opportunities. The work was motivating, increased analytical and interpersonal skills, and was seen as

useful for future employment. It did not, however, increase operational (entrepreneurial) skills. A possible explanation for this could be that many of the students recognized the difficulty involved in running a small business, and this increased their apprehension to do so.

DISCUSSION/IMPLICATIONS/LIMITATIONS

As stated in the opening paragraphs, the main purpose of this research was to assess the appropriateness of combining SBI requirements into the Policy course curriculum. The statistical results obtained from analysis provided generally favorable support of this combination. In all cases of comparison included in core job characteristics, psychological states, and affective outcomes, the combined class performed as well if not better than the traditional Policy curriculum.

In addition, as was suggested from the Fontenot, et al study (3), job growth needs were adequately met by this combined format. Management norms for an organizational setting were also generally equaled or surpassed.

There are several areas of concern, however, that should not be dismissed simply from the results of this study. The SBI course, regardless of the instructional format, is an academic challenge and should only be taught by someone with the experience to convey the difference between major corporations and the small business community. In addition, not every faculty member is willing to commit to the extra time and energy necessary to combine the two approaches to learning.

Further, it should be pointed out that this preliminary inquiry into the usefulness of a combined course is just that, a preliminary inquiry. Others that use this format at their institution should be encouraged to further this vein of research. REFERENCES

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USING SIX SIGMA TO MEASURE AND IMPROVE CUSTOMER SATISFACTION

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ABSTRACT

The quality movement has led many companies to transfer tools and techniques used in the manufacturing arena to service processes. While many companies have set a goal of zero defects in production, few have extended the concept to other areas of operation. Researchers are beginning to explore the possibility of using six sigma to measure and improve customer satisfaction. Although a base of literature describing six sigma exists, research on the use of six sigma in customer satisfaction measurement has not yet been published. Six sigma is used here to measure the number of dissatisfied customers (defects) and is presented as a tool for developing strategies to improve customer satisfaction. Researchers believe the technique can be used beneficially by small businesses to improve customer satisfaction measurement and customer service. This is illustrated using data from a customer satisfaction survey conducted for a small luxury automobile dealership.

INTRODUCTION TO SIX SIGMA

Zero defects is a management standard that lays out a clear statement that the job must be done right the first time, perfectly, with no errors. Philip Crosby created the concept nearly three decades ago. Many Japanese companies effectively implemented the concept during that period. Meanwhile, zero defects was initially introduced in the United States as a motivational tool, and failed. The concept of possible near-perfection returned in the mid 1980s in the form of a technical document at Motorola called "Six Sigma Mechanical Design Tolerance." Six Sigma is a way to measure the probability that companies can manufacture or produce any given unit of a product (or service) with zero defects. The goal at Motorola is not just to "manufacture defectless products, but to eliminate defects throughout the organization. The Six Sigma crusade that began at Motorola has since spread to other companies continually striving for excellence (1,2,4,5,6).

Six sigma is the rating that signifies "best in class" with only 3.4 defects per million units or opportunities. The primary use of six sigma in measuring zero defects has been in the manufacturing industry. Most United States manufacturing firms on average rate below four sigma. In 1990, IBM was at an average level of three sigma while Motorola was operating at a level of four sigma. Comparatively speaking, whatever the industry, most good companies averaged a level of four sigma at the beginning of 1990, with the exclusion of domestic airline flight fatality rate with an average greater than six sigma. For example, airline baggage handling, doctor prescription writing, payroll processing, restaurant billing, and journal vouchers all rated four sigma (6).

STATISTICAL SIGNIFICANCE OF SIX SIGMA

In statistics, sigma denotes the standard deviation of a set of data. It provides a measure of variability that indicates how all data points in a statistical distribution vary from the mean (average) value.

The normal distribution represents many data sets in business. When data follows a normal distribution, 99.73 percent of the data points lie within + three sigma from the mean. Now consider that a company uses a single-stage (one step) process with a natural variation from the mean to manufacture a product where the mean value is the ideal specification of the product. Consider that design specification allows for a + four sigma variation about this ideal mean value. About 99.9937 percent of the products fall within a + four sigma range about this mean. That leaves 0.0063 percent outside the range. This translates to a total of 63 parts per million (defects) that will fall outside the defined range, both above and below the specification limits. (See Figure 1).

The 63 defective parts produced per million products may not appear too large a number of defects (though it is not zero). But, in addition to the natural variation of a process, Motorola executives found that the mean value itself is susceptible to a shift of up to + one-and-one half sigma. When this happens, for the single-stage process discussed above, 99.379 percent of the products fall within the + four sigma range. This would leave 0.621 percent or about 6,210 parts per million (defects) outside the specification limits. (See Figure 2). The yield (number of non- defective parts) is now significantly reduced.

The above discussion is based on a single-stage production process: Real world production is a multistage process and products consist of many components. Each stage of the overall process and each component of the product is subject to the levels of errors described above. The statistically independent yields for each stage or component are multiplied to get the overall yield.

Let us consider a 100-stage process, where each stage has a + four sigma design specification range. The overall yield would be 53.64 percent within the specification limits. That would leave 46.36 percent outside the limits, or 463,600 defective parts per million products.

Most manufacturers use three sigma processes to meet four sigma specifications, resulting in a large number of defects. However, when specifications are set at ?six sigma, near zero defects result. This is true even when the process mean shifts and when multi-stage processing is involved. The overall yield at different sigma levels (specification limits), with multistage processes or multiple components, is shown in Figure 3.

If a design can accept a + six sigma variation of the process, i.e. twice the normal process variation, then 99.99966 percent of the products will be within specification limits or there will be no more than 3.4 defective parts per million made. This is true of a single-stage process. Even when there are 100 stages in the product manufacturing process, the defect rate will only be 3,390 parts per million. Figure 4 shows that for any defect level there is an associated sigma level. It must be noted that this is for a single part or process step.

FIGURE 3

OVERALL YIELD (Distribution shifted + 1.5 sigma)

Number of + 3 sigma + 4 sigma + 5 sigma + 6 sigma stages/parts

1 93.32% 99.379% 99.9767% 99.99966%

10 50.08% 93.96% 99.768% 99.9966%

100 0.10% 53.64% 97.7% 99.966%

1000 0.0% 0.20% 79.24% 99.661%

FIGURE 4

DEFECTS PER MILLION AND SIGMA LEVEL

Number of defects per Associated million opportunities Sigma Level

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66,810 3.0 22,750 3.5 6,210 4.0 1,350 4.5 233 5.0 32 5.5 3.4 6.0

Motorola's worldwide benchmarking in 1986 found that the Best-in-Class companies had six sigma quality, while Motorola had only four sigma quality. Many firms operate at three sigma levels (zero percent yield at three sigma for 1000 stage process) and have almost no chance of producing defect-free products. To compare these sigma levels consider the following example. When we consider spelling errors, three sigma corresponds to 7.6 misspelled words per page in a book. But, four sigma corresponds to about one misspelled word per chapter in a book, while six sigma would mean one misspelled word in all the books contained in a small library. This logarithmic relationship between the number of sigmas and rate of errors implies larger sigmas lead to excellence in product quality.

ADAPTING SIX SIGMA TO CUSTOMER SATISFACTION

While many companies have adopted the concept of zero defects in manufacturing processed few have extended it to customer satisfaction. In order to do so, companies must have a complete understanding of what creates satisfaction and loyalty among its customers.

Customer satisfaction is rarely based on contact with only one person or one aspect of a company. Many facets of the business, such as customer service, product or service delivery, product quality, etc., impact satisfaction. Therefore, customer satisfaction is a multi-stage process rather than a single-stage process. This means that it is even more difficult to reach a level of six sigma in the customer satisfaction arena.

Many customer satisfaction surveys provide customers with an opportunity to rate their overall

satisfaction with the company's products or services. For example, customers might be asked to rate their overall satisfaction with the company on a seven-point scale where seven means the customer is very satisfied and one means the customer is not satisfied at all. Using the mid-point as neutral, any ratings below four, on a seven-point scale, indicate a dissatisfied customer.

The results of six sigma analysis in customer satisfaction conducted on 11 different companies are in line with the average sigma level of production processes for most good companies (four sigma). These 11 companies included manufacturing, retail, and service firms. The sigma levels of these companies ranged from 2.9 to 3.7 on overall satisfaction. The average sigma level for these studies was 3.1. A comparison of the percentage of customers satisfied and the sigma levels for overall satisfaction is shown in Figure 5. Figure 5 illustrates that a company that satisfies as much as 98 percent of its customer base can still be below four sigma on customer satisfaction. This indicates that six sigma analysis is a more stringent measure of customer satisfaction than percent satisfied.

FOCUSED IMPROVEMENTS

The results of a customer satisfaction study conducted for a small luxury automobile dealership are presented here to illustrate how six sigma analysis can be used to measure and improve customer satisfaction for a small business. The owner of the dealership commissioned a customer satisfaction study to examine the level of satisfaction with the services provided by the dealership. A random sample of nearly 4,000 customers received a survey by mail. Nearly 14 percent of the customers returned the survey by mail to an independent third-party research firm. The analyses are based on responses of 547 customers (13.7 percent response rate).

Ninety-one (91) percent of the customers indicated that they are satisfied with the products and services provided by this business. Customer loyalty is also high as indicated by the large number of customers who are willing to recommend the business to others (89 percent) and to do business with the company again (92 percent).

Figure 6 shows the relationship between satisfaction (measured by the customers' perceptions of the company's performance) and the corresponding sigma level. Since sigma is a function of the customer's satisfaction level, there is a direct relationship between satisfaction ratings and sigma levels. As satisfaction ratings increase, sigma levels increase, indicating fewer dissatisfied customers.

THE EFFECT OF CUSTOMER EXPECTATIONS

While it is important to decrease the number of dissatisfied customers, decisions on how to do this should not be made arbitrarily. The customers should be the driving force behind such decisions and improvement strategies.

Focused improvement requires an emphasis on attributes with high customer expectations. There is, therefore, a perceived need to attain higher sigma levels for these attributes. In the automobile dealership study, many high expectation attributes had a low (three or lower) sigma level. The graphical presentation in Figure 7 can be used to draw immediate attention to those attributes that have lower performance levels. This facilitates focusing improvement efforts on customer-defined

priorities.

Customer satisfaction is dependent on error-free performance. But, not all error-free performance translates to proportional gains in customer satisfaction. Conversely, in some cases, customer satisfaction can be gained even if high sigma levels are not achieved. Higher sigma levels for certain attributes do not translate to correspondingly higher customer satisfaction scores; while some attributes with higher satisfaction scores do not necessarily have a very high sigma level. The significance of the attributes themselves may need to be examined further in these cases.

The relationship between customer expectations, performance (sigma) levels, and the customer satisfaction scores for the different attributes needs to be analyzed as outlined above. The relationship between these scores for the automobile dealership is shown in Figure 8. While the expectation ratings do not have a direct impact on the sigma level as calculated here, management should focus improvements on those areas where expectations exceeds expectations, yet the sigma level is far below six sigma. However, the sigma levels for this study are in line with the averages found in the earlier mentioned satisfaction studies.

ZERO LOST CUSTOMERS

While "zero defects" in customer satisfaction has still not been achieved, high customer satisfaction leads to fewer lost customers. Also, customer satisfaction is itself a moving target with constant changes in customer expectations. A more significant goal that a company could focus on is to achieve six sigma levels in maintaining customers, which is to try to attain zero lost customers. An additional goal should focus on developing customer loyalty. The value of a loyal customer and the cost of a lost customer are two compelling reasons to pursue the goal should focus on developing customer loyalty. The value of a loyal customer and the cost of a lost customer are tow compelling reasons to pursue the goal of zero lost customers and increased customer loyalty (7). Studies show that customer retention results in above-average profits and superior growth in market share (8). The significance of customer retention and customer loyalty should not be lost, especially in an economy where budgets are continually shrinking.

BEYOND SIX SIGMA

Six Sigma is certainly not the finish line in the quest for zero defects or satisfaction among all Customers. Many companies are now expanding the use of six sigma to non-technical areas of the company such as customer service and customer satisfaction. Continuous improvement of the six sigma approach at Motorola has led to "six sigma centered" or a goal of two defects per billion. While this focus on technical quality continues, attention at Motorola is also being focused on other areas of organizational activity. Three specific areas of emphasis include administrative processes, customer defined and measured quality, and cycle time improvement for new product development and introduction. For instance, procedures for closing accounts at the end of each financial period have been shortened from two weeks to three days, with an ultimate goal of one day. Such company-wide efforts to improve quality will continue to have a strong positive impact on customer satisfaction (3).

CONCLUSION

Most businesses do not have millions of customers. However, the concept of zero defects can be applied to any company regardless of the number of customers by using the percentage that falls outside the limits. For a company with only 1,000 customers and 10 employees (or stages) that have an impact on customer satisfaction, the difference between + three sigma (499 dissatisfied) and + four sigma (60 dissatisfied) is 439 dissatisfied customers or nearly 44 percent of the company's customer base. The chance of operating a business with no dissatisfied customers increases dramatically as the number of employees who come in contact with customers decreases or the number of aspects impacting satisfaction decreases. It also increases when the customer is made to go through a process with fewer stages. Therefore, there is a need for simplified processes with fewer stages. Process simplification is essential to reduce the number of defects and thereby increase customer satisfaction.

Hence, six sigma is used as a statistical device for measuring quality. Its use allows for the comparison of products and services of varying complexity on a common basis. Six sigma is a common metric that can be used across an organization whether in production or customer satisfaction. It also provides for a common basis for benchmarking against competitors or Best- in-Class organizations or tracking improvements from year to year. Since higher sigma indicates lower errors or less dissatisfied customers, it is a measure of how well an operation is performing.

Small and large companies have equal opportunities to use this technique for measuring customer satisfaction. The data needed for six sigma analysis in customer satisfaction are simplistic and can be gathered at low cost through daily interactions with customers or through an extensive research study. Regardless of how the data are collected, six sigma analysis is available to and useful for any manager who is willing to learn how the customers feel about the business, performance.

The emphasis of the six sigma analysis of customer satisfaction discussed in this article was on external customers of an organization. This approach can apply equally effectively when analyzing an organization's internal customer satisfaction. This will provide a method to measure improvements in internal processes that ultimately reflect in improved external customer satisfaction.

FUTURE RESEARCH

Since the application of six sigma analysis is new to customer satisfaction research, much research on the topic is yet to be conducted. From a small business owner's perspective, the key issue is to determine how to use six sigma analysis to evaluate and improve customer satisfaction.

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TOTAL CUSTOMER DELIGHT: RETURNIWG THRILL TO TOTAL QUALITY MANAGEMENT

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ABSTRACT

This paper will examine customer satisfaction, offer Total Customer Delight as a more appropriate alternative, and show how TCD can be implemented as part of a small business TQM Program through the use of the SOAR Peak Performance model, Schein's recent concepts of change anxieties, and recommended components of an effective TQM implementation program.

INTRODUCTION

Total Customer Satisfaction frequently promoted as an integral part of Total Quality Management (TQM), is not only contrary to the customer service concepts of Deming, but also sends a message that may hinder the effective implementation of TQM. A concept more representative of the underlying philosophy of TQM is Total Customer Delight (TCD).

BACKGROUND

Let's revisit what Deming had to say about customer service more than three decades ago:

"What you need are customers that are more than happy. You need customers that boast about your product. Just to have the customer satisfied is not enough. Just to meet specifications -- what you think the customer requires--

You'll have to do better than that. (It is) very important to have customers who brag about buying your product or service. Just to be satisfied -- that will not keep you in business." (14, pp.29-30)

Much of the current TQM literature promotes Total Customer Satisfaction as an integral component. For example, John D. Blodger defines TQM as, "A strategic, integrated management philosophy based on the concept of achieving ever higher levels of customer satisfaction." (4, p. 14)

However, what is being provided with satisfaction? Word Perfect 5.1 characterizes satisfaction as contentment, enjoyment, fulfillment, happiness, pleasure, humoring, indulgence, pleasing. These are not undesirable outcomes; customers could do far worse. But, as Deming, Schlossberg (12), and others urge, businesses must go far beyond satisfaction if they are to succeed.

IMPLEMENTATION OF TCD/TQM

The following section discusses TQM with an emphasis on Total Customer Delight that is currently being implemented in a multiple store laundry and dry cleaning chain. The organization for this section will be an adaption of an implementation plan suggested by Holpp. (6)

Phase 1 - Start-up: Creating The Vision.

This phase concerns developing the company's vision statement, developing a mission statement, and synthesizing these into a vision trigger.

TQM must start at the top. "If there is one vital ingredient for a successful TQM effort in a small firm, it is the CEO's visible and unreserved commitment to TQM. Without it, other managers will hang back." (1, p. 24)

Effective organizational performance begins with creating and implementing a vision. This can be stated simply: without vision, people and organizations perish.

Warren Bennis confirmed this by noting, "The single defining quality of leaders is their ability to create and realize a vision." (2, p. 194)

What determines the road to results . . . to successful performance? It is a combination of interacting factors represented by the SOAR Peak Performance model depicted in Figure 1. This model, an adaption of Norman R. F. Maier's classic causal sequence model (7, p. 21), suggests that Results are the products of an interaction between the Situation and the Organization which leads to Activities that ultimately lead to Results. If an organization is going to SOAR to peak performance, the Leader, as an integral part of the Situation, must influence the organization's activities to achieve Results.

Leaders are currently facing a decrease in power defined as influence potential. (5) Laws, regulations, changes in social norms, among many other factors have restricted leaders' ability to influence.

The Leader (CEO) is but one of a myriad of forces influencing the business. (9) Given the effect of these forces, the leader has insufficient power to push the company toward results. A "magnetic" personality isn't enough; something more is needed to pull the organization toward results, and this is the role of a strategic vision as depicted in Figure 2.

The company's vision developed over a period of years was to be respected as a valued community citizen, regarded as a responsible employer, recognized as a quality cleaner and positioned as the second largest firm in terms of sales dollars in its metropolitan area.

To carry out the vision, a mission statement was developed using the format of a customer pledge. This pledge is posted in each store and is discussed at each employee meeting. But the pledge is not enough. The vision and mission statements needed to be refined into a brief vision trigger to give everyone a clear and simple idea to remember. The one developed by the company was:

"Ready to wear when promised."

This vision trigger captures what customers have told the dry cleaning industry: their garments ready to wear when they are promised by the business.

A corollary to the vision trigger is that customers should not pay for the broken promises. Therefore,

the second part of the vision trigger is:

If we don't keep our promise, you don't pay.

What has become increasingly bothersome as this writer has implemented these ideas is that they have the ring of customer satisfaction, not of delight. Doing what the business is supposed to do does not generate excitement, ecstacy, etc. The dry cleaning company is now trying to move up to "thrill" by implementing the following phases.

Phase 2 - Awareness and Education: Sharing The vision and Soliciting Feedback

In this phase, communication with the main stakeholders: owners, managers and employees is continued with an emphasis on feedback.

Feedback is necessary to see if employees understand the road the company wants to travel. One way this was initially done was through a contest.

The responses were distributed to each employee and discussed at meetings to focus on the TCD/TQM objective.

Phase 3 - Selecting Performance Targets: Developing Business Objectives and Critical Success Factors.

An example of a business objective adopted by the company is:

Achieve $2 million in sales with a before tax cash balance of $200,000 at Fiscal Year 195 year end.

Adoption of TCD/TQM means a complete rethinking of company plans from vision to specific tasks as suggested in the SOAR Peak Performance model.

However, as the firm "unfreezes" (11, p. 11) from the old ways of doing business, it will face two types of anxiety recently suggested by Ed Schein: Anxiety 1 is caused by fear of changing; anxiety 2 is caused by fear of not changing. For change to occur, anxiety 2 must be greater than anxiety 1. This is accomplished by reducing the fear of doing something new and increasing the fear of not doing something new. (11) Top management must create psychological safety in making this transition. How was this accomplished in this company?

One method adopted was to use a powerful strategic vision to reduce the fear of changing and increasing the fear of not changing. This vision was enhanced by the company's influential leaders denigrating "business as usual" and praising implementation of TQM.

This is another reason why TQM must be endorsed from the top. Leaders must paint a portrait of the new strategic vision's potential and feasibility. The following phases discuss several critical success factors that are being used.

Phase 4 Reinforcing Implementation: Achieve Immediate Successes

This phase involves identifying areas where immediate successes can be achieved.

Chuck Holland, founder of QualPro, has suggested, "If quality improvement is to even take root, let alone flourish, it must achieve bottom-line results immediately. If you don't hit home runs upfront in the quality-improvement effort, it'll fail. (Dramatic successes early on) are the most important factor for long term improvement." (3)

Phase 5 - Empowering Employees: Giving Employees The Ability To Implement The System

This phase changed the management structure of the company by giving employees the tools necessary to implement TCD. (12)

In the dry cleaning business, empowering employees to execute the, TCD strategy means giving employees the power to make adjustments.

Counterpersons were empowered to adjust any claims up to $50. A claim form would be completed and a receipt obtained from the customer. Customers could have the option of cash or 1 and 1/2 times the claim in free cleaning. The store would retain the garment for inspection by the manager and feedback to the counterperson.

Claims above $50 would be referred to the store manager. Damaged garments would be sent to the International Fabricare Institute (IFI) technical lab. If the cause was determined to be a manufacturer's defect, the garment was returned to the customer, together with a copy of the lab report. If the cause was a store error, the customer would be paid the depreciated value of the garment according to standards established by IFI or 1 and 1/2 times the full value in credit at the customer's option. These general guidelines were subject to modification by the plant supervisor, e.g. immediate settlement of the claim if the damage was caused by the store. This-liberal credit polic, was viewed as a form of advertising and monitored to stay within .25 percent of gross sales.

Another area of concern to counterpersons was making adjustments when the pledge wasn't kept, e.g. a shirt had a button missing so it was not "ready to wear." Counterpersons were specifically empowered to make these adjustments and to keep a simple record for follow-up purposes.

Phase 6 - measuring and monitoring ongoing Performance: Tracking Implementation Progress

This phase carries out two of the basic tenants of management-to measure and to monitor expectations as part of the TCD/TQM journey. Tom Peters has quoted Soshitsu Sen XV, "A monk once asked his master, 'no matter what lies ahead, what is the Way?' The master quickly replied, 'The Way is your daily life.'" (10, p. 7) The company adopted several approaches to measuring and monitoring the Way.

Several years ago the company developed a series of performance ratios for laundry, dry cleaning, alterations and other company functions. These were based on a work-in/labor ratio. Analysis of critical success factors in the industry and in the company revealed that this relationship was the most

critical. Over the years, the company decided on targets of 4.0 for laundry and 3.2 for dry cleaning, e.g. work-in divided by the labor necessary to process the work-in. Adjustments were made for training new employees, equipment downtime and other such factors. Within the past two months these ratios were verified by the International Fabricare Institute.

HAS TCD/TQM MADE A DIFFERENCE?

The company had a $180,000 negative cash flow through November, 1992, and was projecting a $60,000 negative cash flow in December, usually one of the best months.

The phases outlined in this paper were initiated. Some techniques were carried over from the past and others were newly introduced. By May-June, 1993, the cash drain was halted and the company is now meeting all obligations. TCD/TQM is making a difference and will continue as the implementation process continues.

CONCLUSION

1. Total Quality Delight more accurately reflects Deming's customer service philosophy. 2. The SOAR Peak Performance model asserts performance is enhanced when an impelling vision is created to "pull" an organization toward meaningful and demanding goals. 3. There are several key sequential phases in the implementation of TCD/TQM. 4. An organization to change must go through an "unfreezing" step. This "unfreezing" involves two anxieties: anxiety 1 is the fear of changing; anxiety 2 is the fear of not changing. For an organization to "unfreeze", anxiety 2 must be greater than anxiety 1. 5. Confidence in changing to TCD/TQM must be enhanced while challenging "business as usual." 6. TCD/TQM can make a difference if employees are empowered to make key decisions. The essential factor is that customers, both internal and external, must be more than satisfied; they must be thrilled to become champions for the company.

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FIGURE 1

The SOAR Peak Performance Model

L - S--O - A - R

L-Leader A-Activity S-Situation R-Results O-Organization

FIGURE 2

The SOAR Peak Performance Model

L - S--O - A - R - V

V-Vision

A SUCCESS VS. FAILURE PREDICTION MODEL OF THE MANUFACTURING INDUSTRY

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ABSTRACT

This survey study presents a success VS. failure (S/F) prediction model for the manufacturing industry (S/F = f [staffing, management experience, education, age, partners]) with a significance level of .001. Using discriminant analysis, the manufacturing model accurately predicts 95 percent of the surveyed successful and failed matched firms as being successful or failed. The model explains 84 percent of the variance of contributing factors to success vs. failure. Entrepreneurs, investors, lenders, suppliers, educators, consultants, and public policy makers can benefit from using the manufacturing startup business success vs. failure prediction model developed through this study.

INTRODUCTION

There has been a high rate of business failure in the United States, with an acceleration of the problem over the past five years to a record 87,266 failures in 1991; up 43.7% from 60,746 in 1990, (7). Dun & Bradstreet (2, i) defines business failures as "firms involved in court proceedings or voluntary actions involving losses to creditors." Both Chapter 7 and Chapter 11 companies are considered failures. Firms that go out of businesses without loss to creditors are not considered failures, they are discontinued businesses. Dun & Bradstreet Business Failure Record identifies causes of failure, but according to Corman & Lussier (5), these variables are actually symptoms rather that causes of failure.

DEVELOPMENT OF THE MODEL

Startup Business Success VS. Failure Variables

Based on the review of the literature, listed below are fifteen reasons for business failure. These variables are based on seventeen studies that identified three or more variables as contributing factors to business success vs. failure. See table 1, for a listing of each study identified as supporting or not supporting each variable.

Capital. Organizations that start undercapitalized have a greater chance of failure than businesses that start with adequate capital.

Record keeping and financial control. Firms that do not keep updated accurate records and do not use adequate financial controls have a greater chance of failure than businesses that do.

Industry Experience. Startup organizations that are managed by people without prior industry experience have a greater chance of failure than businesses that are managed by people with prior industry experience.

Management Experience. Startup organizations that are managed by people without prior management experience have a greater chance of failure than businesses that are managed by people with prior management experience.

Planning. Startup organizations that do not develop specific business plans have a greater chance of failure than organizations that develop specific business plans.

Professional Advisors. Startup organizations that do not use professional advisors have a greater chance of failure than businesses that use professional advisors.

Education. People without any college education who start a business have a greater chance of failing than people with one or more years of college education.

Staffing. Organizations that cannot attract and retained quality employees have a greater chance of failure than firms that can attract and retain quality employees.

Product/Service Timing. Firms that select products/services that are too new or too old have a greater chance of failure than firms that select products/services that are in the growth stage.

Economic Timing. Firms that startup during a recession have a greater chance to fail than businesses that start during expansion periods.

Age. People who start a business at a younger age have a greater chance to fail than older people.

Partners. A business started by one person has a greater chance of failure than a business started by more than one person.

Parents. Startup owners whose parents did not own a business have a greater chance of failure than owners whose parents did own a business.

Minority. Minorities have a greater chance of failure than nonminorities.

Marketing. Startup owners without marketing skills have a greater chance of failure than owners with marketing skills.

The Literature Startup Business Success vs. Failure Prediction Model

S/F = f (capital, record keeping and financial control, industry experience, management experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age of owner, partners, parents owned a business, minority, marketing skills).

PURPOSE AND HYPOTHESES

The purpose of this study is to develop and test a model that will predict startup business success VS. failure of manufactures.

Hypotheses 1 - 15:

Ho: Successful and failed manufacturers start with equal resources for each variable in the literature model. Ha: Successful manufacturers resources are greater than failures.

The responses of the successful and failed manufacturer owners/CEOs are tested for differences for each of the fifteen variables.

Methods

The population from which the sample is selected for this study is limited to the six New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont). The population of failed businesses includes both Chapter 7 and Chapter 11 companies. From the generated bankruptcy court records mailing list it is not possible to tell startup firms from older ones, or in which industry the firms compete.

Based on a cost-benefit analysis, the sample frame is limited to Chapter 11 companies due to the difficulty in locating liquidated manufacturing owners. The questionnaire was mailed to the owner/CEO of each manufacturer filing Chapter 11 during the most recent year with a name that sounded like the firm is a manufacture, and to each Chapter 11 correspondent's successful company match. Matching is based on size, age, industry, and location.

The percentage of failure responses returned is not calculated because the sample frame included both startups and older manufacturers and nonmanufacturers. Nonresponse was not a problems with the successful companies because of extensive followup. A 71 percent response rate was received from successful company matches. Twenty-two success vs. failure matched questionnaires are analyzed. This sample size is large for a study that surveys failed manufacturers.

To determine the validity of Chapter 11 firms representing manufacturing failures, an attempt is made to find out the number of companies that end up going out of business. The search revealed that this data is not available. However, The Administrative, Office of the United States Courts did conduct the Statistical Analysis of Chapter 11 (Flynn, 1989) in cooperation with Ernst & Young. The results show that only about one out of 15, less that seven percent, of Chapter 11 cases which have been closed so far, were closed after confirmation of repayment of debt to creditors. it is estimated that only 10-12 percent of Chapter 11 cases result in a successful reorganization of the debtor's business. Although the claim that 90 percent of Chapter 11 companies go out of business cannot be made, this study supports the validity of using Chapter 11 manufacturing owners as a representative sample of failures.

In this study approximately ten percent of the respondents are actually in Chapter 7 proceedings. The responses of the Chapter 7 companies are compared to the Chapter 11 companies to determine differences in responses. Of the 32 questions compared, only one question response was significantly different at the .05 level. Therefore, it can be inferred that the dominantly Chapter 11 sample is a valid representation of failures. The sample failure frequency distributions are compared to the failure population by state and industry. There is no significant difference between the sample and the population for any of the six states or manufacturing classifications at the .05 level.

Nonresponse bias is minimized in this study by including initial nonrespondents in the sample and by comparing statistically the initial nonrespondents' data to that of the initial respondents to ensure that there is no significant difference. Approximately 10 percent of the sample includes initial nonrespondents. Of the 32 questions compared for failures, only two question responses are significantly different at the .05 level. For the successful comparison, one question response is significantly different. Test results infer that the sample is not significantly problematic due to nonresponse bias.

RESULTS

The questionnaire includes 39 questions for successful and 40 questions for failed manufacturers. The fifteen most relevant questions identify starting resources. This data is used to test the model and hypotheses. See table 2, for a list of the descriptive statistics and zero-ordered correlation matrix.

Manufacturing Startup Businesses Success vs. Failure Prediction Model

The fifteen variable literature model is tested using stepwise discriminant analysis to determine which variables are distinguishing factors between success or failure.

S/F = f (staffing, management experience, education, age, partners)

The ten variables excluded from the model include: capital, record keeping and financial control, industry experience, planning, professional advisors, product/service timing, economic timing, parents owned a business, minority business ownership, and marketing skill. For the standardized canonical discriminant function coefficients and functional statistics, see table 3.

TABLE 3 Discriminant Analysis Results

Variables (a)

Staffing 1.31** Management Ex -.79*** Education .78*** Partners .49*** Age .41**

Functional Statistics

Canonical Correlation .84 Eigenvalue 2.45 Wilks' Lambda .29 Chi-Square Model 20.43 Model Significance Level .00** Grouped cases correctly classified 95.24%

(a) Variable figures are standardized canonical discriminant function coefficients. ** $p < .01$ *** $p < .001$

The startup business success vs. failure prediction model will reliably outperform random classification of success vs. failure over 99 percent of the time. The model will accurately predict a specific manufacturer as being successful or failed 95 percent of the time. The model explains 84

percent of the variance of contributing factors to manufacturing success vs. failure.

Hypotheses Test

There is no significant difference in starting resources of successful and failed manufacturers for thirteen variables (87%) . See table 2, for a comparison of all f if teen variables. The successful manufacturers did start with significantly less difficulty staffing (p. < .01) than failed manufacturers. Reject hypothesis 8. Do not reject hypotheses (or accept Ho) 1 - 7 and 9 -15. Hypothesis 7, education, is not rejected, even though it is significantly different (p. < .10), because the hypothesis is a one-tailed test. Successful manufacturers are predicted to have the more favorable resources for all variables.

Why are there inconsistences in the literature and discrepancies between the literature and this study? For most of the major variables identified in the literature as being factors contributing to success or failure, one or more other existing studies state that the variable is not a contributing factor, see table 1. The literature states that the successful businesses should have the more favorable resources. The successful manufacturers do have the more favorable resources for five of the fifteen variables. Successful manufacturers started with greater capital, have more years of industry and management experience, have less difficulty staffing, and started during better economic times. However, only staffing is significantly different. Unexpectedly, the failures in this study have the more favorable resources for seven of the fifteen variables, and three are equal. The failed manufacturers develop more specific plans, use more professional advise, have a higher level of education, better product/service timing, are older, have more partners, and greater marketing skill than successful manufacturers. However, only education is significantly greater (.10). Further research is need to explain these discrepancies.

The correlation matrix, table 2, shows that of the 105 correlations, for the five variables retained in the model, two correlations are significant. Age is related to management experience and education. The relationship between age and management experience makes sense; as one ages years of experience can increase. However, age and education are not necessarily logically related. The mean age of successful and failed owners is 40.

To insure that multi-collinearity is not problematic in the model, age is dropped as a variable and stepwise discriminant analysis run again. The significance level, canonical correlation, and accuracy of the revised model drops. Therefore, multicollinearity is not considered problematic in the manufacturing model presented earlier.

IMPLICATIONS AND CONCLUSIONS

There are at least seven groups that can benefit from using the manufacturing startup business success vs. failure prediction model developed in this study: entrepreneurs, investors, lenders , suppliers, educators, consultants, and public policy makers. Entrepreneurs can assess the probability of success or failure before starting a business. Investors and lenders may be able to avoid manufacturers with a high probability of failure. Suppliers may decline credit, or limit it to high risk manufacturers. Educators and consultants can make these other groups aware of the model, and help them to use it.

Public policy makers can use the model when selecting assistance either to prevent failure or to promote further growth.

When the seven groups use the startup business success vs. failure prediction model, it is important to realize that the model is not meant to replace existing decision making techniques. The model is to be used in conjunction with exiting techniques to improve decision making. The model does not provide numerical guidelines for variables distinguishing success from failure. Judgement must be used when the model is applied. For example, management experience states that a startup firm managed by a person without prior management experience have a greater chance of failure. However, the model does not indicate a specific number of years of experience that are need to be successful. The user must look at the list of variables in the model and subjectively assess the strengths of the firm for each variable. If the firm is strong on some variables and weak on others, a judgement call is needed, and other decision criteria previously used become increasingly important.

The model is tested on manufacturers with a median number of employees of less than 50; only three employ 100 or more people. The sample of manufactures is limited to the six New England states. Results may be different for larger startup manufacturers, for manufacturers in other parts of the country, and for nonmanufacturers. Further research that will enlarge the sample size by expanding the geographic area outside of New England is recommended.

When the above mentioned seven groups use the model, society can benefit because through direct and indirect ways we all lose when our limited resources are misallocated.

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TOTAL QUALITY MANAGEMENT IMPLEMENTATION: CHALLENGES OF A DEFENSE CONTRACTOR

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ABSTRACT

Total Quality Management (TQM) has developed into a major philosophical movement among American businesses. Limited empirical or conceptual research has been done to evaluate the effectiveness of its implementation as a competitive strategy. This paper uses the 14 original concepts of W. Edwards Deming as a theoretical framework. A case study of a small contract manufacturer presents the difficulties encountered when implementing TQM in the job shop environment characteristic of government contracting.

INTRODUCTION

One principal challenge of American business is the implementation of a holistic management system that will improve its competitiveness in the global economy. Total Quality Management has received much acclaim as a result of its success in transforming Japanese corporations into major competitors (Deming, 1986; Imai, 1986).

Price and Chen (1993) describe TQM as a management system which requires a change of attitude and priorities of day-to-day operations. It also requires a long-term commitment from senior management. Price and Chen advocate TQM as a philosophy of management that must be tailored for a particular environment. Easton (1993) suggests that the major components of a TQM management system are: (1) customer focus; (2) the critical role played by leadership; and (3) the importance of widespread employee involvement.

Is the implementation of TQM different in large versus small firms? An article written by John Ryan details how Vaughn L. Beals at Harley-Davidson used TQM management philosophy to turn around the failing motorcycle manufacturer. Carmen (1993) describes how Southern Pacific Railroad used TQM as survival strategy. Kolesar (1993) describes the implementation of TQM at Alcoa. Since these examples are large firms, they do not address the unique characteristics of implementing quality management systems in a small firm.

Price and Chen (1993) illustrate the implementation process of TQM in a small high-technology company. They point out significant differences of the quality characteristics displayed as firms move from the startup phase to small and eventually into the mature phase. They suggest that as companies grow, reliance on individuals is replaced by formalized policies, procedures and teamwork. As firms emerge from small to mature, a hierarchical management structure is created. Quality systems become less people focused and more process focused. This paper highlights some of the problems of TQM implementation that are unique to an emerging firm.

Easton (1993) suggests that it is difficult to implement TQM outside of repetitive manufacturing and

service environments where the basic production process is readily apparent and can be defined in specific detail. He suggests that more complex and abstract activities cannot be stabilized or continuously improved. Contract manufacturing involves more complex activities with a greater variety of functions, therefore experiencing greater difficulty improving processes. Easton also maintains that the results- oriented perspective of most managers is an impediment to management-by fact techniques that are process-oriented such as TQM. The subject of this study represents a complex environment that has used management by exception and an autocratic, results- oriented management style.

This case explores the unique problems of implementing TQM in an emerging government contract manufacturer. The analysis is based on interviews, memos, and minutes from meetings obtained by the author as a manager with the firm during the implementation period. It addresses the difficulties of implementing TQM as a strategic management philosophy using Deming's 14 points as a theoretical model.

BACKGROUND

The subject of this case, referred to as an aerospace defense contractor (ADC) to preserve confidentiality, is a civilian and military contractor that manufactures aerospace ground support equipment. It was started in a garage by a husband and wife in 1979. ADC grew to over 400 employees and $20 million in sales revenue by 1987.

The company's primary business was fabricating metal products to the specifications of Federal Government agencies such as NASA, the Department of Defense (DoD) and their large prime contractors. The primary method of competing for contracts was to respond to a request for proposal (RFP). RFPs were evaluated by the respective agency based on three main criteria: (1) price; (2) technical understanding and capability; and (3) management capabilities.

As a contract manufacturer, ADC did not have a specific product line. Instead they sold manufacturing services such as: (1) cutting and bending; (2) welding; (3) machining; (4) painting; and (5) heat treating. Each agency request was initiated with drawings and statement of work. Each response involved creating a bill of materials, a labor estimate and subcontractor cost estimate, based on a make-buy decision in the estimating process.

It is important to note that the processes employed for each contract were similar. Products tended to be one-of-a-kind and with relatively small quantities. Therefore, the learning curve had to be reestablished for each contract. Assembly line production was rarely possible. Retooling of machines was frequent and producing runs were often too short to build fixtures that would improve the frequency of meeting or exceeding contract specifications. The following section discusses how TQM was implemented at ADC relative to Deming's 14 principles.

TQM IMPLEMENTATION AT ADC

1. CREATE CONSTANCY OF PURPOSE--Deming's first principle suggests that in creating a constancy of purpose firms must do three basic things. First, the firm must constantly look for ways to

innovate in terms of new methods of production, new materials, and new skills and training. They must also put resources into research and education, and constantly improve the design of products and service.

There are many problems inherent in a government contracting environment that inhibit TQM implementation. The contracting procedures of most government agencies are based on the principle of developing and issuing specifications to potential bidders. Because of the litigious nature of the process, there is a tremendous burden for contracting and technical personnel to be very exact in announcing those specifications to eliminate potential conflicts and protests from unsuccessful bidders. This limits the amount of creativity encouraged by the contracting system to seek innovative and technologically advanced solutions. Rather than identify general problems and allow contractors to develop creative solutions, specifications are usually based on previously acquired services and products.

If the contractor proposes a more creative and cost-effective method, the company may be deemed unresponsive and eliminated from the competition. The contractor has the option of offering an alternate proposal. Experience suggests a low probability of contracting personnel favorably judging proposals that do not conform exactly to request for proposal because of the difficulty involve in comparing it to competitors. New technology is unfavorably considered in many cases because it has not been thoroughly tested by government personnel and testing methodology standard may not yet be developed for quality inspection.

Considering the environment in which ADC operated, innovation was not a commonly accepted method of operation. It was more expedient and cost-effective to perform to exact specifications, even when the drawings are obviously flawed or inadequate. Otherwise contract disputes would disrupt delivery schedules and delay cash flow.

Putting resources into research for new product development or improvement was not appropriate for a contract manufacturer. Research was limited to investigating new manufacturing processes, computer software, computer-aided design, and computer-controlled machinery.

As suggested by Easton (1993), investment in training was confined to basic production processes. ADC operated an ongoing training program for production employees that included blueprint reading and manufacturing mathematics.

2. ADOPT NEW PHILOSOPHY--Deming (1986) posits that American business must adopt a new philosophy to be competitive in the global economy. Although DoD has historically restricted competition to American firms for security reasons, Federal officials began a quality management initiative to improve cost and efficiency among its contractors. In some cases, RFPs required contractors to implement TQM principles as part of the evaluation criteria. ADC management embraced the new philosophy as expressed in the following mission statement: "Dedicated to continuous improvement in the quality of our products and services. Our people are applying their skills and trust to better serve each other, in order to serve you our customers." This mission statement was the first step in the implementation of a TQM program.

As ADC grew and DoD increased its' interest in TQM, the CEO of ADC became an active member in the TQM movement. The CEO made speeches supporting the concept at government-sponsored conferences and helped form a support group made up of other defense industry contractors. Consultants were brought in to train managers and staff. A survey was conducted to determine some problem areas of the company.

Subsequently, a company-wide quality management team was formed representing a cross section of the company, to address the problems presented by the survey. According to meeting minutes, the team initially focused on: (1) a profit plan; (2) innovator of the month awards; (3) suggestion program; (4) TQM training for team members. Workers in production jobs were empowered to interview and hire potential employees in their respective departments.

One problem with the company-wide process improvement team was its focus on improving the overall conditions of the firm using the survey responses to set the agenda. The survey suggested that most of the problems centered on ineffective management.

Coincidentally, the company-wide team began meeting around the time financial statements were produced revealing a degenerating financial position of the company. Contrary to Deming's philosophy, the process improvement team responded by focusing on a pay incentive program to compensate for the semi-annual cost of living adjustment that was cancelled by management. Once it became apparent to the team that top management was not responsive to their incentive program the emphasis shifted to the poor performance of the top management team. Dissatisfaction throughout the company prompted the owner to fire or demote the three executive officers of the firm. The CEO hired a General Manager who had been the Air Force TQM facilitator to foster Quality Management among defense contractors, such as ADC. Ironically, after three months in office he disbanded the team saying "we can't implement TQM until we start making some money."

Morale sagged as profits further declined. Workforce reductions created more distrust of management. Employees felt that the process improvement findings discovered during the brief implementation of TQM were now being used to eliminate positions. TQM became associated with layoffs.

3. CEASE DEPENDENCE ON INSPECTION--Standard operating procedures for defense contractors, such as ADC, was to require compliance with a variety of military standards based on 100% inspection. Quality control departments were expected to be at least 10% of the total production workforce. The Federal Government maintained a resident quality inspector on the premises of ADC to do random inspections and to review quality assurance procedures. Toward the end of the 1980's more contracts were being awarded that required statistical control charts as a means of evolving the defense contracting community toward quality improvement. New and complex weapon systems were established with TQM requirements. To qualify as a member of this reduced supplier base, companies were required to reduce the number of subcontractors, and implement statistically based process improvement techniques. Preference was given to contractor who qualified as a "blue ribbon" contractor. Eligible contractors were awarded this designation based on performance criteria such as: percentage of defects, cost overruns, timely deliveries, and the use of statistical quality control techniques.

At ADC, statistically based methods were implemented only to satisfy contactual requirements. Information gathered was not used to identify processes that were out of control, which would isolate special causes and contribute to improving processes. Based on Deming's (1986) principles, the company-wide TQM committee should have been disbanded in favor of departmental process improvement teams that utilized the statistically generated data to improve processes throughout the company.

4. MINIMIZE TOTAL COST--Another difficulty faced by defense contractors in implementing TQM was the Government's standard policy of awarding contracts to the low bidder. Successful prime contractors were also required to award to the lowest bidding supplier. Although some consideration was given to the frequency of defective products, it was difficult to justify to government auditors any decisions based on qualitative factors that affect total overall cost.

In many cases, the Government considered any strategic, long-term alliances with suppliers as collusion. Also because contracts were for minimal quantities, contractors were not able to negotiate favorable terms in consideration for repetitive purchases. The brief time limit for bid responses did not allow for thorough investigation of a supplier's track record of defective products and timely deliveries. Often outdated government specifications required materials that were either out of production or available from a limited number of sources.

5. IMPROVE QUALITY AND PRODUCTIVITY--The job shop nature of government contracting prohibited efficiency techniques associated with assembly line productin processes. It was not cost effective to maintain an inventory, except standard supplies. The requirement of job cost accounting made allocating cost from inventory ineffective or costly. Because many custom-made parts requiring long lead times were not readily available from supplier inventory, "just-in-time" inventory procedures were difficult to implement. The penalties for late delivery were too great to risk late delivery of an inexpensive, but necessary component. Short production runs inhibited high utilization of equipment because of frequent changes of tooling and dies. There were limited applications for simple and mechanized material handling devices.

Since ADC did not have a proprietary product, improvements should focus on manufacturing as a service. As Deming (1986) suggests a job shop should focus on improving the company's understanding of the customers needs. In contract manufacturing, these needs are clearly articulated in the contract and the statement of work, supported by drawings. The process begins with articulated a response to the customer's needs in the proposal. Customer engineering drawings are used to produce a bill of materials, a labor estimate and work orders and a schedule. Improving the accuracy of the bid increases the number of contracts won and insures a reasonable profit margin.

One source of improvement is increasing the slope of the learning curve in the bidding process by bidding on similar projects or products. Because of the emphasis on growth, management often pursued dissimilar contracts with small quantities, dissimilar processes, special tooling, unusual materials, unique skills, or frequent interruptions in the process flow. This consumed extra time in the bidding process, and project initiation which included work orders, scheduling, material ordering, tooling, and machine programming. When each project is unique, it is difficult to improve a process. Efforts to automate the process using computer technology were difficult because of rapid growth and

the lack of good software for contract manufacturers.

6. INSTITUTE TRAINING--ADC operated an ongoing training program for production employees which included blueprint reading and manufacturing mathematics. There was no on-the-job training for production support and administration workers. There was some training by consultants on implementation of TQM. Self-paced instructional materials were made available by the TQM team.

7. INSTITUTE LEADERSHIP--Deming (1986) suggested that the job of management was to focus on leadership. Supervisors should not manage by numerical objectives (MBO), whether they are based on financial goals or work standards. Defense contractors typically manage projects by tracking bid versus actual cost budgets. This macro-level information identifies overruns in cost elements, by job. It does not provide information on what is wrong with the process.

Work orders were written for each project, detailing standard production processes, procedures and labor estimates. Because the corporate culture was influenced by a high percentage of former military and civilian government employees, there was an effort to write work procedures for every job and function in the company. This obviously did little to empower workers to be creative and innovative. Leadership in a TQM environment involves empowering workers to correct process flaws. This was a difficult transition for a defense contractor focused on cost budgets and work standards.

8. DRIVE OUT FEAR--The prevailing method of management by the owner was based on the concept of devil's advocacy where a suggestion is subjected to negative scrutiny by other members of the team. Consequently, there was an inherent fear associated with mistakes made during attempts to innovate.

Intense reprimands replaced constructive criticism. A management- by-exception style focused on mistakes. This precipitated fear of introducing new concepts to management.

9. BREAK DOWN BARRIERS--Despite a verbal commitment to TQM, the CEO reverted to a more autocratic style of management when faced with challenges. Aggressive empire building by certain senior managers contributed to the barriers between employees and departments. Coordination meetings between senior management were purposely avoided.

10. ELIMINATE SLOGANS--Slogans such as "do it right the first time" were encouraged. As Deming pointed out, workers always intend to do it right the first time. This diverted attention from trying to understand what is causing errors in the process.

11. ELIMINATE WORK STANDARDS--The predominant management technique employed at ADC was management-by-exception. During the implementation of TQM, management became concerned about profits on quarterly financial statements. Schedules were altered and procedures were ignored in an effort to improve cash flow.

Deming (1986) emphasized the danger of putting too much emphasis on short-term financial performance at the expense of creative leadership techniques that would empower the workforce to continually find innovative ways of improving quality.

12. PRIDE OF WORKMANSHIP--There was no systematic way of determining where errors were occurring in the process. Because attention was focused on the person and not the system, workers did not identify their defective workmanship for fear of retribution. This inhibited pride in workmanship.
13. EDUCATION AND SELF-IMPROVEMENT--ADC management did encourage emplyees to attend post secondary education through a tuition reimbursement program. A few employees were allowed to attend industry seminars for self-improvement, recognizing that employees are the most valuable resource of a firm.

14. EVERYONE INVOLVED IN THE TRANSFORMATION--The company's CEO was actively involved in the concept of TQM. Only one of the three senior officers of the firm came to team meetings as an observer. As Easton (1993) indicates the roles for management and technical staff are often not developed. As a result, managers feel their role is to promote the importance of quality and to motivate the workforce. Easton maintains that the vast majority of quality improvement must come from management and technical staff. Unfortunately, senior management at ADC viewed TQM as a threat to their autocratic management style and thwarted the effort. In retrospect the transformation could have been more successful if the involvement of the workers was confined to improving processes in their respective areas and not with the strategic management of the firm.

DISCUSSION AND CONCLUSION

By identifying the pitfalls of TQM implementation in a job shop environment, this paper explains the barriers to adopting the TQM philosophy in emerging government contractors. Analysis of the ADC case offers practitioners insight on how to improve the implementation of TQM as a management strategy.

Although there was a reasonable attempt to implement TQM principles at ADC, the effort failed due to very basic reasons. First, the focus of the improvement was not on the processes within the organization. Second, the senior level management and others were not committed to the idea, preferring an autocratic style. Top management was enthusiastic about the concept, but did not know how to the concept, but did not know how to correctly implement it. Finally, ADC experienced problems unique to implementing TQM in an company performing contract manufacturing services for government agencies.

Although it provides valuable insights, this paper has limited generalizability. That is partially due to the nature of TQM as a management strategy. Because it focuses on specific processes that are unique to a firm, it can not be tested by sampling the population. Furthermore, understanding TQM requires rich data which is best discovered by qualitative methodology such as the case study.

This paper extends the literature by using Deming's 14 points as a theoretical framework to evaluate TQM implementation. There is additional work needed to develop a consensus on a theoretical framework to pursue empirical research in this area that can evaluate the financial impact of TQM as a operationally consistent strategy. REFERENCES

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EXPANDING QUALITY MANAGEMENT IN SMALL BUSINESS: MAPPING THE TERRAIN

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ABSTRACT

The authors propose a map-model for expanding quality management in small business. The map-model is applied to the SBI program to demonstrate the value of the model and the viability of the SBI program as a long term strategy for expanding local, national or global small business management.

INTRODUCTION

Building a case for how to expand quality management in small business is a task fraught with potholes. There is little dispute that there is such a need if the purportedly high failure rates of small business are any indication. There has been little agreement on what the failure rate of small business is but the findings have ranged from a low of 10% to a high of 50% in the first year alone with few businesses remaining after five or ten years (7; 14; 10; 15; 6; 16). As for what small business includes, usually those with either fewer than 100 employees or 500 employees are the guidelines generally used by the SBA's Office of Advocacy (24). Such definition include from 97 to 99.7% of all approximately 21 million businesses in the U.S. (24).

As for the definition of quality management, quality appears to be in the eyes of the beholder or stakeholder which can be the community or country in which a business operates or its networks, its suppliers, congress, other owners, lending institutions, investors, the employees and so forth. Are there U.S. standards which might feed into total quality measures or is it IS 9000 standards necessary to address quality at an international competitive level? The owner may measure quality management by ROI, whereas an employee might measure by salary and work environment, and the community by job creation and support of its causes.

And though there is a range of definitions for small business, who or what is a small business manager? Is s/he the owner? founder? heir apparent? someone in the organization designated president or is it a manager lower in the organization than the CEO?

There is still little agreement on common definitions of an entrepreneur who must be the one who practices entrepreneurship and runs the small business is in fact the manager/CEO (4; 12; 13). Harold P. Welsch's 1992 International Entrepreneurship and Small Business Bibliography has twenty pages of entries addressing definition from pages 30-50 (27).

Discussing the expansion of quality management for small business might best be looked at in a visual model. A map-model is proposed to display some of the variables involved in expanding quality management (see 3; 22; 18 for mind mapping) because it captures the complex yet interrelated issues involved in expanding quality management in small business.

The Process

Using this model, a "classical" research study could be designed to determine what works now. Then trainer/educators could supposedly replicate the desired outcomes by selecting the appropriate characteristics of the small business (in #3 in map/model), and the manager to utilize the appropriate method in order to expand quality management as defined (2) by a particular constituent group (1). For example, using the SBI program as the expanding mechanism and the SBA as the constituent group, current and recent SBI clients could be studied to determine (using The Map--Illustration 1) a way to expand quality management in small businesses based on past success. There has been a constant attempt to assess the quality of the student consulting experience in terms of contribution to quality of management (1; 2; 5; 8; 11; 17; 19; 20; 23; 25; 26). The criteria that are used vary widely from increase in numbers of employees, to increase in revenue, to increase in profitability, to satisfaction measures of client and or students.

ILLUSTRATION 1 -- THE MAP-MODEL

1. Constituent Stakeholders - Community - City, Council, State, National, International - Investors - Customer - Suppliers - Networks - Direct Customers - Managers - Employees - Students - Owner(s) - Congress - SBI Analysis - Universities/Educational Institutions - Banker/Funding Sources 2. Definition of Quality Management - IS 9000 Internationally - Total Quality of U.S. - Objectives of Constituents - Industry Standards - Ideal 3. Small Business Under 500 Employees - Incubators Clusters - Stage of Growth - Thrift Consignment Carts Second Hand - Home Base - Rapid Growth High Tech. - Legal Form - Type/Industry - Feasibility Start up - Local, National, International - Informal Economy Cash - Organized Markets - Flea, Antique, Strip 4. The Manager/Entrepreneur? - Education - Years with company - Owner - Functional Specialist - Gender - Race Ethnicity - Age - Knowledge - Skill - Behavior - Attitudes 5. Expand How - Executive MBA's - SBI - Interning - SBA Information Center - Mentoring - Training/Consulting - SBDC - Other Resource Providers - Universities

I. For this example though, in the illustration we use SBA as primary stakeholder (#l on Map-Model).

II. Assume the SBA definition of quality (#2). These outcomes might be that the business is still in business one year after consulting, that revenues have increased greater than the inflation rate, employment has increased. Any one of those outcomes would indicate quality SBI consulting and quality small business management.

There are other factors which might be more appropriately selected as measures of success. If the SBA is being driven by perceived congressional demands for quantifiable results in area of increased revenues and employment, then where do perceived needs of the business owner fit in? The owner possibly wants to increase profitability by cutting costs--neither increasing revenues or employment. The instructor of the class may want to do feasibility studies or take cases on verge of bankruptcy . . . businesses who truly cannot afford consulting in the private sector.

III. What are the characteristics of the small businesses which were able to meet criteria for having quality management (#3)? E.g., what characteristics in terms of size, place in industry/geographic

complexity (what city, county, state, nation(s) operating in), legal type, stage of growth, how long business?

IV. Then what are the characteristics of the small business owner/managers who headed the businesses with quality management as identified in #4 (e.g., age, race, gender, education, major/functional background). What knowledge, skills, behavior, attitudes do those individuals have? Which skills, attitudes, knowledge, behaviors were important?

V. What were the characteristics of the SBI programs (#5) that delivered that consulting that resulted or coincided with expanded quality management? E.g. quarter, semester, year long; how long in operation, run as part of a class, which class, what consulting philosophy (process vs. content).

Theoretically, expansion of quality management in small business comes about in a more planned fashion by matching the resources that work for expanding with the definition of quality by the relevant stakeholders) with the type of small business and manager for whom that will be the most successful. What are the statistically significant relationships? If one determine what works now, other SBI Directors or other providers should be able to replicate the process by controlling the selection of the characteristics that work now. What combination from each of #1 through #5 will achieve the definition/indicators of quality management in #2 on the Map-Model?

USEFULNESS OF MODEL

1. Identifies relevant constituents/stakeholder. 2. Enables focusing on whose definition of quality is being used and what each really wants. 3. Clarifies-specifies where and what business is in order to determine for what kinds of characteristics will what work? 4. What kind of skills, attitudes, behaviors needed for whoever the manager is in that set of circumstances. 5. To determine the best way or ways to develop the quality management needed if it does not now exist. 6. Proposed as a loop to signify continuous reinventing/continuous learning. 7. Prevents reinvention of wheel. Enables building on past strengths.

WEAKNESSES/CAVEATS

1. Does not adequately depict change, impact of information technology and uncertainty. Bolts of lightning should be added along with mine fields and a semi-perpetual motion gyroscope perched precariously on the edge. 2. Need to add a #6 which identifies trends which may impact the model. 3. Usually the data is not available to perform such an assessment. 4. Since the future is seldom the same as the past, designing quality management education using what worked yesterday may be fatal flaw of the utility of the classical research model.

The SBI itself as used in this illustration is a teaching/learning process model which should be a significant strategy to expand quality management in certain small businesses with certain entrepreneur/managers, in an SBI program with a particular learning philosophy. As Stephenson, Konarski and Phillips strongly argued after surveying a decade of SBI clients, "the SBI plays a key role in the field of education for students and the business owner/entrepreneur by contributing directly to the owner's internal capacity to manage the business in the future" (1991, p. 324).

Drucker (9) talks about partnership with the responsible worker being "the only way to improve productivity." He calls for the need to build continuous learning into the organization thus requiring organizations to become both teaching and learning oriented. (See also 21, The Fifth Discipline.) Consultant/trainers/university instructors must model the teaching/learning paradigm thus encouraging the continuous expansion of quality management in small business regardless how the map changes.

Relying on what worked in the past or what the current quality scheme is for tomorrow's direction is no panacea. There will be something beyond IS 9000 and we are still struggling with TQM which preceded it!

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A SCORECARD FOR CONDUCTING A SMALL BUSINESS PERFORMANCE REVIEW

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ABSTRACT

The purpose of any type of performance evaluation process should be to review business activities and ensure that the performance is as planned. To meet the needs of a small business, the evaluation instrument should be universal in nature and contain elements found in several typical audit formats such as management audits, marketing audits, and accounting audits. A performance evaluation scorecard specifically designed for small businesses that can be used from either an internal or external perspective was developed. The evaluation questions are designed to gather information and focus attention on the planning and performance processes, key strategic variables, and observable trends. The process of completing the performance evaluation scorecard on a regular basis allows users to assess performance strengths and weaknesses quickly and use the results for evaluation, control, and planning purposes.

INTRODUCTION

The importance of evaluating overall organizational performance has long been recognized by large organizations. Evaluation approaches can range from simple internal reviews to complex and often costly audits by independent parties. Typically, performance reviews have been conducted in the financial area, but they can be equally effective in identifying the need for improvement in other functional areas. However, the literature appears to be devoid of a comprehensive tool designed to meet the evaluation needs of small businesses. In response to this void, a performance evaluation instrument specifically designed for small businesses that can be used from either an internal or external perspective was developed.

The purpose of any type of performance evaluation process should be to review business activities and ensure that the performance is as planned. To meet the needs of a small business, the evaluation instrument should be universal in nature and contain elements found in several typical audit formats such as management audits, marketing audits, and accounting audits. These audits should not be considered mutually exclusive or unrelated. It could be argued that social responsibility audits should be included when evaluating the performance of small businesses. However, the primary social concerns of small businesses as reported by Thompson and Smith (1991) are customer relations, product quality, employee concern, and profitability. These issues are all addressed in the previously listed audit formats. Therefore, it would seem redundant to conduct a separate social responsibility audit.

The evaluation questions developed are designed to gather information and focus attention on the planning and performance processes, key strategic variables, and observable trends. A "yes" response

to any of the questions on the evaluation form indicates signs of acceptable outcomes while a "no" response may indicate potential problems which could lead the user to take corrective action. Some questions by their very nature could guide the user to action. However, other questions, specifically in the finance and accounting areas, may require guidance for selecting the appropriate corrective action. When this occurs, more detailed descriptions are provided for the user. The key evaluation categories and questions that will provide an overall picture of a firm's performance are presented in the performance evaluation scorecard in Appendix A.

It is important to remember that evaluations should be focused on strategic control points that are under the owner's or manager's direct control and which can result in improved efficiency and/or effectiveness. Strategic control points should focus on key activities or sets of data, be comprehensive in nature by covering a broad array of activities, and provide an opportunity for corrective action. In keeping with the spirit of Kaplan and Norton (1992), the proposed performance evaluation scorecard for small businesses includes questions designed to create a balanced viewpoint by focusing on the three areas of management, marketing, and finance. Suggested Components of a Management Review

Management reviews can be conducted in three ways: 1) review and evaluate qualitative performance standards; 2) compare the accumulated performance data to planned quantitative objectives; and 3) survey customers, employees and/or suppliers. Understanding the time constraints facing almost all small business people, the luxury of using surveys was not selected for this evaluation instrument. However, surveys may be used on a less frequent basis to validate perceptions and findings obtained from the proposed evaluation process.

Brossy (1986) outlines several qualitative and quantitative performance measures for assessing chief executive officer (CEO) performance that should be useful in evaluating the performance of owners/managers in any size business. Although noting the usefulness of quantitative standards, he emphasized the significance of focusing on qualitative measures such as:

1. Establishing Strategic Direction, 2. Implementing Strategy, 3. Building a Key Employee/Management Team, 4. Providing for Succession, 5. Employee/Labor Relations, and 6. Community/Government Relations.

The importance of strategic issues (the first two categories) was highlighted by Watts and Ormsby (1990) in their study of small banks. They found a definite relationship between planning (both operational and strategic) and organizational effectiveness. Additional emphasis was placed on the significance of focusing attention on the next three categories which encompass human resource issues. They noted that, "Small banks that comprehensively dealt with the personnel issues of staffing, training, and development, promotion and compensation, and employee performance standards were significantly more efficient" (p. 34).

To assess the presence of an established strategic direction, it is necessary to answer the following questions:

1 . Has the external environment in which the business operates changed? If yes, have changes been made to align the business with these changes?

2. Has a mission statement (the reason for the business's existence) been written? If yes, does it reflect the current vision of the owner-manager?

3. Have specific goals been published for the next two to five years? If yes, how much progress has been made toward accomplishing these goals?

The effectiveness of strategy implementation can be assessed by answering the subsequent questions:

4. Do employees understand the strategic direction of the business and are they dedicated to achieving the stated goals of the business? If no, what changes have been planned to improve commitment?

5. Have programs and procedures been established to insure consistency in quality and quantity of goods and services produced and provided? If no, have time frames been set to either write and/or update these documents?

Key human resource issues may be evaluated by asking the following questions:

6. Have key individuals who are capable of assuming more responsibility been identified? If yes, what type of training have they received or are they scheduled to receive?

7. Has someone who could either purchase the business or manage the business in the owner's absence been identified? If no, are plans being made for the eventual disposition of the business?

8. Are records maintained on tardiness, absenteeism, accident frequencies, and turnover? If so, what steps have been taken to improve each of these areas?

9. Are performance evaluations and wage and salary adjustment records maintained on all employees? If yes, are productive employees recognized and compensated on a competitive basis and are poor performing employees counseled on improving and/or dismissed?

10. Have employees with extended service been given proper attention and consideration in matters of scheduling, vacation preference, and other available benefits?

Community/government relations issues may be evaluated by asking the next questions:

11. Have clear guidelines for ethical behavior been established and communicated to all employees?

12. Does the business return value to the community by creating jobs, protecting the environment, and/or supporting charities and cultural activities?

Suggested Components of a Marketing Review

"Marketing strategies and programs can quickly become out of date" (6, p. 559). Therefore, it is important to review periodically how effective and efficient a firm's marketing efforts are. Although several approaches (2; 3; 6; 10) to reviewing a firm's marketing efforts have been suggested, all agree

on the importance of systematically reviewing marketing efforts. By combining the formality found in the classic marketing audit components presented by Kotler (1991) with the services components presented by Berry, et al. (1991), a comprehensive review of marketing efforts can be achieved.

Kotler (1991) extols the virtues of disciplining oneself to engage in strategic control by having an independent party critically review a firm's marketing effectiveness. Although it may be desirable to engage an independent party to complete this task, a firm may undertake this project on a more limited basis. Berry, et al (1991) recommend reviewing a firm's marketing effectiveness by looking not only at the tangible side of product offerings, but also the service side of a firm's offerings. It is vitally important in today's competitive environment to pay particularly close attention to the service element in a business's operation. The key areas of qualitative and quantitative assessment recommended by these authors to evaluate overall marketing performance are:

1. Marketing Orientation, 2. New Customer Marketing, 3. Existing Customer Marketing, and 4. Service Quality.

There are several specific questions suggested by Berry, et al. (1991) which have been incorporated into the proposed scorecard to help evaluators assess marketing performance.

To assess the current marketing orientation of a firm, it is necessary to answer the following questions:

1. Is marketing research about the needs and satisfaction levels of customers done regularly?

2. Are employees who do not interact with customers aware of how their jobs might influence customer satisfaction?

The effectiveness of the firm's efforts to attract new customers can be determined by asking the subsequent questions:

3. Are formal strategies in place to attract new customers?

4. Are employees prepared and motivated to sell to customer prospects?

5. Is the organization capable of delivering on the promises made to attract new customers?

The ability of the firm to serve existing customers successfully can be assessed by asking the next questions:

6. Are employees properly trained and are they motivated to perform their service roles?

7. Are existing customers offered concrete reasons for doing more business with the company?

8. Are existing customers made aware that their patronage is valued?

9. Is sufficient attention paid to solving customer problems when they occur?

10. Do the facilities, personnel and communication materials of the organization appear attractive to customers?

Service quality issues may be evaluated by answering the following questions:

11. Does the organization offer tangible evidence of the quality of its services?

12. Can customers depend on the organization in general and on all employees to respond to their needs?

Performing a review by asking critical questions about these key marketing areas should allow the evaluator to identify potential problems and opportunities and improve overall marketing performance (6). A "no" response to any of these questions could indicate a potential deficiency in an organization's marketing efforts and therefore lead to further analysis and action.

Suggested Components of a Financial Review

Although there are numerous financial criteria that could be examined (1; 7; 12), the following key areas have been identified for evaluation purposes: Budgeting, Ratio Analysis, and Inflation Adjusted Trend Analysis. Budgeting is the most commonly used planning and evaluation tool. This type of information allows the evaluator to identify quantifiable objectives and determine if these objectives were achieved (12). Therefore, when reviewing financial performance, it is important to base performance comparisons on budgeted targets. The budget can be as detailed as desired, but should, at a minimum, contain: (1) monthly and yearly sales, expense and purchase budgets, (2) a capital expenditures budget, and (3) a budget of projected cash flows. Budgets should be updated monthly, based on information obtained from the previous month's performance. Several questions that can help one access the budgeting process include:

1. Is a sales budget prepared for each month of the coming year?

2. Is an expense and purchases budget prepared for each month of the coming year?

3. Is a capital expenditures budget prepared for each month of the coming year?

4. Is a budget of projected cash flows prepared for each month of the coming year?

A "no" response to any of these questions could indicate a potential deficiency in financial planning and the need for corrective action. Although explanations of financial analysis can be found in many accounting and financial management textbooks, key explanatory information has been incorporated into the following discussion due to the critical importance of financial performance.

The management of cash, accounts receivable, inventories and fixed assets is important when evaluating financial performance and can be accomplished through the use of ratio analysis for

predictive purposes (1). "Analysts have used ratios to help evaluate companies' financial health since the beginning of the financial discipline" (7, p. 28). A ratio by itself does not provide particularly useful information. It is only when a ratio is compared with some predetermined standard or results from previous accounting periods that a true picture of performance can be obtained (1). Although literally hundreds of ratios can be calculated, only the more commonly accepted ones have been selected and are necessary for financial performance evaluation purposes: Return on Investment (ROI), Current Ratio, Accounts Receivable, and Inventory Turnover.

Return on Investment is a measure of a manager's ability to control expenses. It is comprised of two elements-margin and turnover.

MARGIN X TURNOVER

Net Operating Income X Sales ---------- ---------- Sales Average Operating Asset (1)

Margin measures the amount of each sales dollar remaining after the operating expenses have been deducted. The lower the operating expenses, the higher net operating income and margin will be. Turnover is a measure of the number of times each dollar of operating assets has been used to produce a dollar of sales. Turnover measures a manager's control over investments in operating assets. The lower the investment in operating assets, the higher the turnover will be.

The key is to make each dollar invested in operating assets work harder. Using this information, the return on investment or earning power of the business can be improved in three ways. ROI can be increased by:

* increasing sales at a faster rate than the corresponding expenses increase,

* decreasing expenses more than sales decrease, or

* decreasing the operating assets used without changing the sales or operating expenses.

The current ratio, one of the oldest and most widely used ratios (12), is a measure of whether or not the cash flows from current assets will be sufficient to meet the current liabilities of the business.

Current Assets ---------- Current Liabilities (2) A comparison of the current assets to the current liabilities shows how many dollars of current assets are available to cover each dollar of current liabilities. Although a relatively high current ratio is often desired, caution should be exercised when analyzing this ratio since a very high number may suggest that too much inventory is on hand, or that the accounts receivable are not turning over quickly enough. There are several ways to improve the current ratio:

* sell fixed assets and use the cash to increase current assets or pay off current liabilities,

* use long-term borrowing to purchase assets or pay off current liabilities, and

* use current assets to pay off current liabilities.

One of the key concerns in any business should be how quickly it completes the accounting cycle; that is, how quickly inventory is being sold and the resultant accounts receivable are being collected to purchase more inventory. This will vary according to the type of business; however, by using industry standards or past experience along with budgeted projections, relative performance targets can be established.

The accounts receivable turnover shows how often the receivables are collected during an accounting period. For example, if the turnover is six times per year, the average waiting time for the collection of a receivable is two months; if it is four times per year, the average collection period is three months. A receivable turnover that is too high may result in money being tied up in receivables that could be put to use in purchasing more inventory. If the receivable turnover is too low, it could indicate a credit policy that is too tight.

Annual Credit Sales ---------- Average Trade Accounts Receivable (3) A related performance measure that can be evaluated is the average collection period on accounts receivable. This performance standard will indicate the average length of time it takes to collect an account receivable. As the days required to collect receivables increases, the owner's need for capital also increases.

360 Days ---------- Accounts Receivable Turnover (4)

Inventory turnover also shows how efficiently the capital invested in inventory is being utilized and indicates how quickly it is being converted into sales. A low inventory turnover may indicate that excessive stock, obsolete stock and/or slow moving stock is on hand. A high turnover may result in a loss of customers due to stockouts on popular items. However, keep in mind that there is always a trade-off between overstocking and the possibility of running out of an item occasionally.

Cost of Goods Sold ---------- Average Inventory (5) Another related measure, days inventory on hand, indicates the average length of time inventory is being kept in the business. Since items kept in inventory have a tendency to lose value if retained too long, careful attention should be directed toward managing these assets.

360 Days ---------- Inventory Turnover (6) Several questions one can ask to begin ratio analysis are:

5. Has the Return on Investment been calculated for the most recent accounting period?

6. Has the current ratio been calculated for the most recent accounting period?

7. Have the accounts receivable turnover ratio and average days in receivable ratio been calculated for the most recent accounting period?

8. Have the inventory turnover ratio and the average days in inventory ratio been calculated for the

most recent accounting period?

9. Have these ratios been compared to those of past accounting periods, industry standards and/or projected ratios?

A "no" response to any of these questions would indicate the need for further analysis and potential corrective action. However, a "yes" response may still indicate the need for corrective action if the results are not as planned or desired.

A cursory review of year-to-year revenues can often provide a false sense of growing vitality when inflationary growth is being viewed rather than real growth. To determine the real sales growth of a business, it is necessary to adjust each year to constant dollars, thereby reflecting the impact of inflation. By adjusting for inflation, a true picture of a firm's financial performance can be obtained. The typical yardstick used to adjust for general inflation is the Consumer Price Index (CPI) although other indices may be used. The following two questions should be answered to complete the evaluation process: 10. Have tolerances been established for all quantifiable performance targets?

11. Have the sales, cost of goods sold, net income and other relevant figures been adjusted to determine the effects of inflation?

Current information on the CPI can be obtained from the Monthly Labor Review (9) which can be found in most libraries. Any base year may be selected to review a particular time frame. As a general rule, it is advisable to review at least a three-year period, although a five-year period is preferable. The adjustment factor is then obtained by dividing the CPI for each of the successive years by the CPI for the base year. For example, if a five-year period is selected using 1987 as the base year, the following information on the CPI would be used.

Year CPI Adjustment Factor

1987 340.4 1.00 1988 354.3 1.04 1989 371.3 1.09 1990 391.4 1.15 1991 408.8 1.20 1992 420.3 1.23

Once the adjustment factor is known, it can then be divided into the reported revenue figure to obtain a true financial picture. For example, reported sales figures of a firm may have shown steady growth each year from a base of $100,000 in 1987 to $123,000 in 1992. It may appear as if the firm has grown, but, in reality, it has had stagnant sales when inflation is taken into account ($123,000 / 1.23). If a more detailed analysis of the effects of inflation on the finances of a firm is desired, this same process can be followed on any of the firm's reported financial data.

A comparison of actual performance with desired performance or a predetermined benchmark provides valuable feedback on managerial effectiveness. These benchmarks may be based on either published industry standards or competitive standards that are accepted as norms in an identified competitive environment. This knowledge allows for better decision making in the future, as well as providing a basis for current evaluation.

To avoid unnecessary corrective actions, acceptable tolerances should be established for each

performance measure. A tolerance comprises the amount of variance between budgeted and actual performance that is acceptable before corrective actions are needed. When budgeted amounts are set or benchmarks are established, a corresponding tolerance for each evaluation category should also be established, eg., + 2%. Therefore, when analyzing results, if the actual amount is equal to the desired performance level plus or minus the set tolerances, there should be no need for concern. However, if the variances are trending toward or exceeding the predetermined tolerances, one needs to analyze the results and take appropriate corrective actions.

To focus attention on the categories that will provide the most meaningful results for corrective action, a system of highlighting information that may need managerial attention is recommended. By combining a system that utilizes predetermined tolerances and red, yellow, and green highlighting pens, attention can be focused on specific action areas and priorities can be established. Simply marking quantifiable performance results with red, yellow, or green highlighting pens serves to focus attention on those areas falling outside of acceptable tolerance limits (red), moving away from those targets (yellow), or meeting desired objectives (green). A system of using reds, yellows, and greens proves to be very effective since most individuals have been conditioned to the meaning of these colors through years of driving.

When the performance reviews indicate that a standard is outside an acceptable upper or lower limit of tolerance, it should be highlighted in red. However, if it is simply trending toward one of these outer boundaries, it should be highlighted in yellow. While most individuals quickly recognize the importance of focusing attention on areas where performance is below standard, they are often not as responsive to areas where performance is exceeding expectations. It is important to be reminded that, if performance is above expectations, something is wrong in the planning process, and these very positive results may soon lead to problems in other planning assumptions. If performance review results indicate that the activities are as planned and on target, then they can be marked in green.

SUMMARY

To answer the question of how well a small business is performing, a straightforward approach that is easy to prepare and interpret on a regular basis is required. In this spirit, we have developed a format focusing on the critical areas of management, marketing, and finance that can be easily assessed and adapted to all types of small businesses. The process of completing the scorecard on a regular basis allows users to assess performance strengths and weaknesses quickly and use the results for evaluation, control, and planning purposes.

A "yes" response to any of the questions on the scorecard indicates acceptable levels of performance, while a "no" response may indicate potential problems and the need for collective actions. In some cases, the wording of the question itself will direct the user to an appropriate course of action. In other situations, where the question does not provide guidance, suggestions have been included to assist the user.

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DOES SBDC TRAINING IMPROVE FINANCIAL MANAGEMENT SKILLS?

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ABSTRACT

Small business's primary source of external funds, bank loans, has been declining dr 1990. Only three of every four loan applications were approved in 1992 while only 4 businesses even applied for loans.

A study was designed to determine the extent to which business operators are prepare increased needs of cash allocation and conservation. A mail survey was used to gath sample of SBDC course graduates and from a general sample of small business operator

Respondents were presented with statements representing a variety of events which af Topic statements focused on common errors in cash flow estimates, distinguishing bet and short-term financing needs, understanding business cycle effects, and coping wit

Unfortunately, evidence from survey responses did not indicate any significant super understanding among SBDC-trained operators than that of small business operators in Survey findings, however, clearly pointed towards common cash flow understanding def shared by both sample groups. Limited understanding of predictable business cycle e to distinguish between long-term and short-term needs and uses of cash, and misunder cash flow effects of sales growth were clearly identified as problem areas. Improve of these concepts would enable entrepreneurs to more effectively cope with limited e

DECLINING FINANCIAL RESOURCES

One of the greatest obstacles currently facing small business is the shortage of ext resources. A drought in bank loans, the primary source of external financing for mo has been going on for twelve consecutive quarters. Business lending began declining when the total for U.S. banks was over $620 billion and had fallen to $534 billion b of 1993. (13)

While this decrease in funds available from banks affects businesses of all sizes, a magnitude results in a disproportionate burden on small businesses because of the re decline. Blame for the loan drought lies with the banks, regulators, and Congress. began to reduce lending for fear of becoming fatality statistics in the wave of bank occurring in the late 1980s. (8) Bank failure is almost always the result of loan lo most common characteristics of failed banks is a large portfolio of commercial and i For banks, the solution was simple--reduce loans to businesses to reduce risk exposu added to the initiative taken by banks to reduce risk in their loan portfolio in the of the new risk-adjusted capital-to-assets ratio requirements of the banks' regulato the simple capital-to-assets ratio. (11) Since loans, especially commercial, are per assets, the new regulations are designed to encourage banks to reduce high risk asse holdings of low risk assets. This is interpreted to mean reduce loans and increase securities.

Success at this goal is evident by the fact that by September 1992, for the first ti held more government securities in their vaults than their holdings of commercial an (7)

In 1991, Congress compounded the problem of limited funds to business with an act wh a trend of "head-hunting" among bank regulators as legislation represented an over-r wave of bank failures. Examiners who are basically unsympathetic to banks' profitab are examining loan portfolios with a fine tooth comb. When they see loans they do n imposing restrictions such as limiting ability to branch, merge, pay executive salar putative actions. (9)

While this series of events may be reducing risk among banks, it is devastating to s relying on bank loans. The process of screening out marginal accounts hits this gro than large businesses. A Gallup survey for Arthur Andersen's Enterprise Group and N Business United revealed that only three out of every four businesses applying for l successful in 1992. Only 48% of small businesses applied for loans. (10)

Access to bank loans is not likely to improve anytime soon even though this continue priority for small business groups seeking help from President Clinton. (1) Bureaucr created by the trend to reduce risks in bank loans will continue to limit funds for is more essential than ever to efficiently utilize limited financial resources and b ways to make them go further in the business.

A study was designed to determine if training in financial management provided throu courses improves the expertise of business operators to deal with constraints of lim financing. The purpose was to determine if they have sufficient understanding of ca and techniques of financial resource leveraging to make funds go further in covering business.

THE SURVEY

The Louisiana Small Business Development Center (LSBDC) needed assistance in determi well continuing education programs were providing clients with information on financ management. The Northeast Louisiana University Small Business Development Center an Business Institute have been measuring various aspects of financial planning and man among small business owner/managers, accountants, bankers, and students for several results of those efforts have been presented and/or published previously. (3, 4, 5,

These studies have consistently shown that there are some deficiencies regarding sma financial planning and management in the groups tested. In 1992, the Louisiana Smal Development Center engaged the research team in testing the financial planning and m knowledge of SBDC continuing education clients. To provide a comparison benchmark f clients, a national group of small business owner/managers was also tested.

The national sample was drawn from a list of Dun & Bradstreet clients with fewer tha employees and excluding "professional" listings. Multiple location businesses were central management location only. A sequentially drawn probability sample of 500 wa this list. A list of Louisiana SBDC clients was obtained from lists of participants continuing education workshops provided by delivery units throughout the state. A s probability sample of 300 was drawn from the SBDC list. Seventy

Dun and Bradstreet (D&B) clients responded providing a return rate of 14%. Louisian Business Development Center clients returned 43 questionnaires for a return rate of up study was attempted.

The questionnaire was a series of thirteen assertions regarding small business finan management during various phases of the life of the small business. Respondents wer strongly agree," "agree," "disagree," or "strongly disagree" with each assertion. T have been used in previous studies by the research group and have been revised as ne to constructive criticism by colleagues on many occasions. The assertions are prese of this paper while numerical details of responses are included in the Appendix.

PLANNING AHEAD

Small Business survival requires that the owner conserve cash as much as possible an plan for all future cash needs. Statements B, D, and M focused on this requirement.

Statement B said, "During start-up, owner's money should be reserved as much as poss operating needs for cash flow break even it" The correct response is to agree with because of extreme scarcity of this resource. SBDC trained sample respondents did v

statement with 100% in agreement compared to 90% correct responses from the D&B samp

Statement D said, "Survival cash (cash to cover operating needs to cash flow break e arranged for when negotiating start-up financing." Agreement is the correct respons are more receptive to a loan request that is part of a detailed financial plan for t firm's operation. Financial projections have been identified through surveys as the requirement for initial debt acquisitions. (12) A request for survival cash when bil as evidence of inadequate planning.

SBDC trained respondents scored only slightly better with 95.3% agreeing compared to the D&B sample agreeing. However, the correct current response rate for both groups only 2.3% of the SBDC group and only 4.3% of the D&B group responding incorrectly.

Statement M said, "In a young small business, initial improvements in cash reserves away for possible later use." Cash conservation does not stop after clearing start-u Liquidity crises will arise in later stages of the firm's life cycle. The correct r to be as frugal as possible with cash, building a "rainy day" reserve.

SBDC trained respondents scored only 76.7% correct on this statement compared to a c response rate of 84.3% for the D&B group.

BIAS IN CASH ESTIMATES

New entrepreneurs tend to be overly optimistic when it comes to sales and revenue fo However, if they are aware of the types of common estimation errors, they can prepar then go back and temper the numbers to allow for the bias tendencies. If a loan app followed this procedure before presenting a financial plan to a bank loan officer, i message that the applicant is more knowledgeable than the typical borrower and gain acceptance of estimates by the lender. Statements C and E focus on some of the more estimation errors anticipated by bankers.

Statement C said, "Small Business borrowers applying for start-up loans usually esti expenses, and sales quite accurately." Since cost and expenses estimates are typica sales projections are usually high, the statement is incorrect and the correct respo Unfortunately, the SBDC respondents with 79% correct responses did worse than the D& with almost 89% correct responses.

Statement E said, "Small business owners' estimates of working capital needs in star are usually too low." This companion statement to C concerns cash needed to finance Agreement is the correct response. The SBDC sample group with 93% correct responses lower than the D&B group but only by a slight margin since the other group scored 95 differential is not a matter of as great a concern as the unfavorable differential o because the size of the differential is relatively small and because over 93% of the answered correctly.

IDENTIFYING LONG-TERM AND SHORT-TERM NEEDS

Proper identification of the length of time funds will be tied up in assets is essen planning. Only self-liquidating needs i such as seasonal working capital, can safel short term loans. All permanent or long term needs should be financed with either l equity. Statements A and F were designed to test understanding of this concept.

Statement A said, "Equipment and fixtures for a small business should be financed us sources of funds rather than long-term sources." The correct response is to disagre a long term use. Only 42% of the SBDC trained group responded correctly, but this w higher than the 37% correct responses from the D&B group.

Statement F said, "In start-up situations, permanent inventory investments should be short term sources of funds." This is also a permanent need as base inventory will h requiring a continuous investment of funds. The correct response is to disagree. S

respondents did better on this statement with 58% correct compared to only 46% for t groups. However, on both of these two statements SBDC respondents scored unacceptab percentages even though they were higher than the D&B group.

UNDERSTANDING BUSINESS CYCLE IMPACTS

Swings in business cycles have created numerous liquidity crises and other financing many small business operators simply because they did not understand predictable imp prepare for them. Four statements I, J, K, and L, are representative of predictable cycle changes which often present problems for the novice entrepreneur.

Statements I and J concern cash flow effects resulting from changes in current sales said, "In a well managed small business, cash reserves will go down during the decli business cycle." Statement J, concerning the opposite trend in the cycle said, "Duri stage of the business cycle, as soon as sales begin to pick up after a recession, ca improve." Both questions focus on the patterns in cash flow caused by the effects of on inventories and accounts receivable. In the initial cycle decline, cash balances due to collections of accounts receivable created by sales in previous periods and a cash reinvested to restock inventory. On the other hand, a sudden increase in sales necessity for larger cash investments in inventory, thereby reducing cash balances. is to disagree on both statements.

Neither the SBDC group nor the D&B group did very well on these statements dealing w cash flow effects caused by business cycles. On Statement I the SBDC group scored l D&B group with 37% correct responses compared to 49%. On Statement J correct respon both groups were equally low at 40%.

Statements K and L concern two factors responsible for the cash flow effects which w point of Statements I and J. Statement K said, "Inventories should be reduced durin decline stage of a recession." Statement L, focusing on another current asset item, receivable will increase during the recovery stage of a business cycle." Both statem Inventories should be reduced and adjusted to changes in sales volume. When recover accounts receivable, but not cash flow, will increase simultaneously with sales.

SBDC trained respondents scored only slightly better than the other group on Stateme compared to 74%. Percentages for both groups, however, should have been higher. On L the SBDC group scored well at 91% correct responses compared to 83% for the D&B gr

COPING WITH SALES GROWTH

A common misconception among small business operators is the belief that sales grow all financial problems. Nothing could be further from the truth because rapid incre cause a liquidity crisis due to time delays in the cash conversion cycle before cash assets to support larger sales can be recaptured to pay bills. (2) Statements G and problem and one common solution to it.

Statement G said, "Rapid growth improves cash flow and liquidity for small businesse opposite cash flow effect occurs. Correct response is to disagree. The SBDC group on this statement with only 56% correct responses while the D&B group scored 72%.

Statement H said, "Increasing price is one of the best ways to control growth and im in a small business firm that is growing too fast." This solution addresses the cas two fronts. First, a higher selling price generates larger cash contributions from the reduction effect on total units sold reduces the amount of inventory needed and, the amount of cash allocated to inventory. Neither the SBDC trained respondents nor group did well on this statement with only 42% and 40% correct responses.

INTERPRETING SURVEY RESULTS

Findings of the survey revealed weaknesses in understanding of critical financial fa

flow in small businesses among those responsible for decision making. Evidence from in general, did not indicate that persons with SBDC training were significantly bett make key financial decisions than were small business operators without the training statements presented to survey participants, SBDC trained operators outscored the ge population sample on only seven and in most of those instances the differences were

A significant contribution of the study was identification of specific types financi which small business operators from both sample groups need additional training and The fact that scores are low on some topics suggests that improved education on thes enable entrepreneurs to more effectively solve at least some of their problems.

The weakest area among the subjects covered in the survey was a lack of understandin of cash flow effect to expect as business cycles change. Correct responses to both subject, I and J, were in the 40% range or less. Second on the list of topics for w improve financial management skills is distinguishing between short-term and long-te Correct responses ranged from 37% to 58% on Statement A and F dealing with this subj on the list of priority topics is the need for better understanding of cash flow con sales growth. Correct responses from both groups ranged from 40% to 74% on Statemen H related to this topic.

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APPENDIX

Responses to Statements by Dun & Bradstreet
Sample Small Businesses

Statement	Strongly Agree	Agree	Dis-agree	Strongly Disagree	No Response	Total	Number Respondents
A	27.1%	32.9%	32.9%	4.3%	2.9%	100%	70
B	47.1	42.9	8.6	0.0	1.4	100	70
C	1.4	7.1	60.0	28.6	2.9	100	70
D	50.0	42.9	4.3	0.0	2.9	100	70
E	55.7	40.0	1.4	1.4	1.4	100	70
F	5.7	45.7	40.0	5.7	2.9	100	70
G	5.7	20.0	47.1	27.1	0.0	100	70
H	4.3	35.7	45.7	12.9	1.4	100	70
I	7.1	42.9	41.4	7.1	1.4	100	70
J	12.9	47.1	32.9	7.1	0.0	100	70
K	28.6	45.7	22.9	1.4	1.4	100	70
L	17.1	65.7	14.3	0.0	2.9	100	70
M	30.0	54.3	11.4	2.9	1.4	100	70

Responses to Statements Sample
SBDC Course Graduates

Statement	Strongly Agree	Agree	Dis-agree	Strongly Disagree	No Response	Total	Number Respondents
A	18.6%	34.9%	32.6%	9.3%	4.7%	100%	43
B	48.8	51.2	0.0	0.0	0.0	100	43
C	2.3	18.6	53.5	25.6	0.0	100	43
D	58.1	37.2	2.3	2.3	0.0	100	43
E	51.2	41.9	7.0	0.0	0.0	100	43
F	9.3	32.9	37.2	20.9	0.0	100	43
G	11.6	32.6	41.9	14.0	0.0	100	43
H	11.6	32.6	32.6	20.9	2.3	100	43
I	9.3	48.8	32.6	4.7	4.7	100	43
J	7.0	53.5	34.9	4.7	0.0	100	43
K	16.3	60.5	16.3	0.0	7.0	100	43
L	4.7	86.0	7.0	2.3	0.0	100	43
M	27.9	48.8	18.6	2.3	2.3	100	43

HOW SOME U.S. FIRMS DEVELOP A QUALITY PROGRAM WITHIN THEIR MANAGEMENT PRACTICES

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ABSTRACT

TQM is becoming a driving force for the 1990's as it deals with tools and processes involving change, reengineering, teamwork, recognition, commitment to continuous improvement, integration of all functions of management, benchmarking, value-added and meeting customer's requirements, relevant TQM characteristics and financial strategy drivers are identified and discussed. Since no previous study to date, has separated the impact of TQM on financial management activities, this paper limits itself to identify current financial practices and to focus on the use of debt financing and company restructuring to illustrate a TQM application.

INTRODUCTION

In order to examine the impact of total quality management (TQM) on financial management practices, it is necessary to explain what TQM is and to identify some financial management practices.

Briefly defined, TQM is a structural system for creating organization- wide participation in planning and implementing a continuous improvement process that exceeds the expectation of customers.

The TQM pioneers however, came up with different approaches for TQM implementation. For instance Deming's (1986) process starts at the top and works down, while Juran (1987) starts with middle management and works both ways.

With regards to financial management practices, it is necessary to identify and separate short-term and long-term financial activities that preoccupy financial executives in practice. Broadly stated, these include working capital transactions in the short-run such as cash management, accounts receivable management, inventory management, and short-term liability management. A study by Susan Belden (1993) on the challenge of small business in adapting to changing global economic conditions focused on nineteen financial management practices as listed in the Appendix.

Some of the long-term activities of financial executives include capital structure determination, capital budgeting, the cost of capital, mergers and acquisitions, divident policies and globalization.

IDENTIFYING PRESENT FINANCIAL PRACTICES

The last decade has witnessed vast changes in corporate finance and the world economy. New techniques, vocabulary and practices have surfaced in the world of finance such as the valuation of derivative securities, options, futures, leverage buyout, swaps, floating rate notes, convertible Eurobonds, junk bonds, currency linked bonds, zerocoupon bonds, etc.

Recently, a study of trends in the financial management process by Alan Reichart and Erica Gilbert (1993) found that six financial techniques have been utilized by companies in their 1990-1991 survey; these are:

- Projected cash budgets - Sources and uses of funds - Net present value - Internal rate of return - Projected expected return - Sales forecasting models

Relevant TQM characteristics and financial strategy drivers

Small and medium sized businesses have to simultaneously keep track of the twin factors characterizing TQM programs implementation and the strategy drivers behind financial management practices. The literature focused on the ten following success factors:

- Top management commitments - Incentives and rewards - Long term focus - Training - Employee empowerment and participation - Middle management involvement - Vision - Knowledge - Resources - Communication

Strategy drivers facing CFO's include profitability, internal and external growth, competitive advantage, cost leadership, research and development, innovation, globalization, market share, and shareholders wealth maximization.

Implementing total quality management differs not only from one company to another but among companies level of performance: lower- performing, medium-performing and higher performing organizations. For instance one should not expect world class-benchmarking from a lower performing organization as it suffices to just stick to basics for such organization. A GAO study on the application of TQM by twenty companies since the mid 1980's concluded that "the diversity of companies studied showed that quality management is useful for small companies (500 or fewer employees) as well as large; and for service companies as well as manufacturers... these companies improved their performance on average on about two years and a half." The study has identified specific improvements by companies that adopted formal TQM practices; namely "better employee relations, decreased employee turnover, improved attendance, higher productivity, greater customer satisfaction, increased market share, improved quality and lower costs resulting from increased reliability, on-time delivery, and improved profitability. (GAO/NSALD-91).

Since there are no systematic studies on financial practices used by small businesses beyond accounting and record keeping; this paper examines financial practices by mediumsized and large companies that have been surveyed in longitudinal studies.

A recent study (1993) has shown that five areas have been identified in the finance literature as useful to CFO's and other financial practitioners. In the short-run thirty eight percent of the firms continue to use break- even analysis even though its usage rate over the years fluctuate among companies. The use of cash management models increased from 62% to 70% in the 1980's decade while inventory models increased from 56% to 60% for the same period.

In the long-run the use of capital budgeting techniques deemphasized accounting rates of returns and

emphasized the use of net present value and internal rate of return as the most appropriate criteria to select or reject investment proposals.

Another technique used by financial practitioneers which is experiencing increased usage in the 1990's is hedging borrowing costs and hedging to control costs of raw-materials.

Gitman and Maxwell (1985) found that a majority of firms they surveyed in the Fortune 1000, spent a larger part of their time on working-capital management.

Moore and Reichert's study of Fortune 500 in 1983, found that most of the firms used financial decision-techniques in working-capital; capital budgeting and operations research. more specially, they reported that 86% of their sample used risk-adjusted discount rates in their capital budget- ing process (NPV & IRR).

In their later study of Fortune 500, Moore and Reichert and Byler found that while the percent of corporations using a variety of financial techniques increased moderately between 1980-1985. They further noted that the greatest improvements happened in international financial management to hedge foreign currency risk and cash management models.

Nearly 94% of the surveyed companies make use of formal financial management models according to the authors. About 67% of reporting companies use financial and operating leverage, 78% use sales forecasting models, 90% use sources and uses of funds, 70% use cash management models and about 60% use accounts receivable and inventory management models.

With respect to the allocation of resources, less than 50% of the sampled companies used the accounting rate of return; 63% used the pay-back method, however, both of these methods have significantly declined from a decade ago. The wide spread of computers is leading businesses to-focus on process-value analysis which identifies major tasks that result in cost reduction and opportunities to improve the organization. It has also helped businesses of any size to adopt activity-based costing to determine areas of strength that add value and areas of weaknesses that shrink or destroy value of the organization.

With a customer's focus, financial managers can reengineer their practices to improve operating performance and share holders value. While this paper is exploring a systematic approach to analyze the TQM im- pact on financial practices which have been previously identified, the author limits himself to a major financial activity, namely the extent of use of debt financing by firms that engaged in restructuring their organization to survive and compete in the world market place.

IMPROVING OPERATING PERFORMANCE AND SHAREHOLDERS' VALUE THROUGH THE USE OF DEBT

Non-financial corporations debt use increased 70% between 1983-1988, more than two thirds faster than the growth of nominal GNP. This leads to ask the question: do high levels of debt increase the efficiency of businesses i.e improve operating efficiency and creating added value to their owners.

Proponents of high leverage, claim the answer is yes and point out to success stories of companies which used highly leverage transactions such as the twenty five billion dollars takeover of RJR Nabisco. Insiders have to work harder and smarter to maximize profits and pay off debt obli- gations. Traditionally businesses have used debt as a source of finance to take advantage of their tax benefits. However they soon realized that the costs of bankruptcy and reorganization offset the tax advantage. Therefore CFO's have to actively manage their debt financing in an optimal fashion through balancing these two costs.

Jensen argues that there is a good rationale for incentive based increased use of debt. This implies that leverage buyouts are not just tax gimmicks as increased managerial incentives are powerful to cause noticeable improvements in operating performance and in shareholders value. This has been clearly demonstrated through successful mergers and acquisitions resulting in enhanced cash flows and earnings per share. Steven Kaplin (1989) has shown that company restructuring and leverage buyouts require businesses to implement some TQM methods to increase ownership and at the same time to control their heavy debt service. Kaplin has examined the effect of increased use of debt on company performance and on returns to investors between 1980-1986. He found that the operating return on assets increased by 36.1% in the two years following the buyout, its free cash-flows increased by 85.4% during the same period while its ratio of capital investment expenditures to total assets decreased substantially compared to industry average.

CONCLUSION

The integration of TQM in financial management practices is in its infancy stage. Due to this fact, there is no study showing the impact of TQM in the finance function. A very preliminary attempt has been made in this paper to identify and analyze both TQM concepts and most popular financial management practices as shown in their respective literature. The author limited his discussion to the use of financial leverage by businesses which have successfully managed their debt and restructured their organizations along a TQM concept.

APPENDIX

1. The preparation of financial statements

2. Ratio analysis of financial statements

3. Pro-forma financial statements

4. Ratio-analysis of pro-forma statements

5. Preparation of cash budgets

6. Comparing actual financial results with forecasts

7. Comparing current year's results to previous year's

8. Cash management

9. Marketable securities management

10. Accounts receivable management

11. Accounts payable management

12. Inventory management

13. The acquisition of shortterm funds

14. Capital budgeting

15. The determination of the average cost of capital

16. Management of the debt/equity funding mix

17. Long term funds acquisition 18. Tax management

19. International financial management

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THE EFFECTS OF GROWTH ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED BUSINESSES: IMPLICATIONS FOR STRATEGY

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ABSTRACT

The question of how small and medium sized businesses grow has remained relatively unexamined. Using descriptive and multivariate analysis and a sample of 238 businesses, we identify characteristics and antecedents of growth. Our results show that there is indeed a cost to growth, and that successfully growing firms have managed to successfully offset these costs with profitability. Furthermore, only return on assets, as opposed to return on sales, is positively associated with growth in size. These results raise important questions about the importance of proper measurement as well as strategy. Slow, progressive growth by strategic choice, rather than by default, is raised as a possible effective strategy for some smaller businesses.

INTRODUCTION

The growth dynamics of businesses have been linked to important structural and administrative processes. The best known studies on growth (7, 1) have centered on problems of organizational structuring. What these studies make clear is not only that different growth stages require different structures, but that even successful firms are in a continuous state of conditional survival, survival contingent on successfully adapting to an oftentimes rapidly-changing environment.

In an effort to more clearly understand the conditions under which smaller businesses operate, and to draw implications from these to strategy, we examine the relationship between financial performance and growth. Using a longitudinal sample of small businesses, we begin by comparing size, profitability, and liability across industries in order to present a picture of the financial environment in which these firms operate. Using multivariate analysis, we then attempt to identify determinants of growth across different environments.

GROWTH AND FINANCIAL PERFORMANCE

The area of financial performance has been identified as being especially problematic for smaller businesses. O'Neill and Duker (10), for example, showed that "failed firms ... reported higher levels of debt than their successful counterparts." Among other vulnerabilities, Solomon (14) identified lack of economies of size and inadequate capitalization as problem areas for smaller businesses. Schuman and Seeger (12) found that only four percent of their sample of smaller businesses focused their planning on the area of finance.

Financial performance has been the preferred measure for "success," and has been operationalized variably as ROA, ROS, increased market share, growth in assets, liquidity, survival, etc. Thus, in a

typical study, the performance variable is the "dependent" variable and the variables are assumed to be complementary, if not substitutes, for each other. The issue gets more complicated when growth is introduced as an indicator of success. It is a well-known fact that growth consumes cash (16). Therefore, growth in size of the firm decreases the short term profitability of the firm and is also likely to decrease the amount of energy that the firm can devote elsewhere (1). Since growth in size is a positive indicator of performance, it warrants consideration along with financial performance variables. However, since growth is likely to be, at least in the short run, a user of firm resources, it is likely to run counter to other measures. Because it uses resources of the firm, it is likely also to be a result of previous financial performance -- a firm cannot grow unless resources have been garnered beforehand. Therefore, unlike other studies that have used financial performance as effect, we investigate financial performance as antecedent to growth, thus allowing us to ask the question, "What aspects of financial performance help predict the occurrence of growth, or further investment in the firm?'

The area of financial performance under conditions of growth has typically been addressed only at the theoretical level. For example, Murray (9) posits that growth imposes a cyclical pattern on financial performance. That is, when the firm is investing in growth, profitability dips due to liability incurred; when the investment begins to pay off, financial performance begins to climb to an optimal level, after which it may be time to make another investment which results in an additional dip in financial performance, and so on.

Product and industry life cycles are also associated with growth.. Life cycle effects (6, 13, 5) and the overall economic status of certain regions provide the central arena in which competition occurs. We attempt to control for these effects by including variables for age, industry, and region in the analysis. Over and beyond these, however, there remains some degree of variation in growth that may be attributed to a firm's strategic direction. That is, controlling for industry, product, etc., some firms will grow while others will not, and some firms will decide to grow more quickly than others. It is this added variation of growth dynamics that we seek to investigate.

DATA AND METHODOLOGY

Data used in this study were originally collected by Dun and Bradstreet for the purpose of creating credit reports for clients. For this analysis, small businesses are defined as firms employing fewer than 500 employees (8) and with sales of less than five million dollars annually (4). Performance data are for the year 1980. Percentage growth in total assets, our measure of growth, is percentage growth over the three year period 1980 to 1982. We use a three-year period because we feel that it allows enough time for most investments to have some impact but does not allow so much time as to confound the investment with some other cause. We use only non-minority firms for this analysis.

insert Table 1

The sample of 238 firms is described in Table 1. Successful firms, both in terms of performance and longevity, are oversampled, however, as the standard deviation measures reflect, much variation in performance is captured. On the average, the firms experienced a 15% increase in sales, a 19% increase in profits, and a 28% increase in size over the three year period. The mean age of the firms

was 21 years, with an average of 132 employees.

As part of our analysis, we first divided our sample of firms into three groups: loss-firms, or those experiencing no increase or decrease in total assets over the three year period 1980 to 1982; slow or intermediate-growth firms, or those with growth up to 50% of their 1980 size; and quick-growth firms, or those with growth exceeding 50% over the three-year period.

In addition to performing descriptive analyses, path analysis was used to test causal models of determinants of growth. OLS regressions were first used to identify direct effects. Because we were also interested in exploring the issue of indirect effects, variables having direct effects on percentage growth in total assets were then used as intervening variables in the analysis. With the regression results in hand, we attempted to specify a path analytical model that would most accurately fit the data with LISREL. Because presentation of both regression and path analytical results would prove redundant, only the path analytical results are presented in the analysis section.

RESULTS

Table 2 presents means for selected variables for loss, slow, and quick growers. Results for size differ according to whether one focuses on number of employees or total assets. Loss firms tend to have fewer employees than either quick or slow growth firms (results statistically significant), and while the average for quick growers is the highest for the three categories, the difference between slow and quick growers is not statistically significant. In terms of total assets, however, slow growth firms have the higher mean total assets, but the difference between slow and loss firms is not ,statistically significant (that between slow and quick growers is significant only at the .1O level). In summary, there are no definitive patterns among the three types of growth with regard to size.

insert Table 2

Age

On the average, slow growth firms are older than loss firms. The difference between quick and slow growers is not statistically significant.

Financial Performance: Liquidity

A more highly-leveraged position for quick growers is reflected in their lower mean liquidity, but the results are only significant at the . 10 level for the comparison of quick and slow growers. Quick growth firms possess lower levels of working capital, significant at the .05 level for the comparison between slow and quick growth firms and at the .1O level for comparing loss and quick growth firms.

Financial Performance: Profitability Firms that grew more quickly in total assets are clearly the most profitable. Quick growth firms have the highest mean percentage growth in return on sales and return on assets (at statistically significant levels).

In summary, the clearest differences in this comparison are those for liquidity and profitability. Quick

growers, while less liquid, netted more impressive performance over the three-year period 1980-1982. These differences, however, are not so remarkable as to suggest that quick-growth firms subscribe to a strategy of growth through heavier liabilities and/or leveraging.

insert Figure 3

Again emphasizing the exploratory nature of our research, Figure 3 presents results of the path analysis. Only those paths that added to the statistical fit of the models were included. Asterisks denote statistical significance levels. Chi-square goodness of fit information, provided with the figure, indicate that the specified model fit the data well.

Noticeably absent from the model are regional and industry effects, implying that these dynamics apply to growing firms in general. As in the study conducted by Van Fleet and Van Fleet (15), the effect of age is also not significant, although it did contribute to a better-fitting model. The finding is supported by the work of Adizes (1), who argues that the "age" of the firm is not to be measured chronologically, but rather, by the ability of the firm to balance the opposed forces of flexibility and control.

Direct effects of total assets in 1980 on future growth in total assets are negative, implying that larger firms grow more slowly. However, 1980 total assets had a positive effect on number of employees, which in turn, led to positive growth in total assets. Thus while the direct effects of size on future growth are negative, the indirect effects through number of employees suggest that greater size tends to beget more employees which in turn leads again to greater size.

Results show that almost all of the effects of financial performance are mediated by profitability; however, the significance levels and signs associated with the effects of profitability make interpretation of the results more difficult. ROA and ROS have opposed effects on growth. ROA is also shown to have a positive impact on ROS, suggestive of a positive impact of efficiency on return on sales.

Examined more carefully, ROA and ROS are both profitability measures, but they are substantively as well as computationally different. ROA is a ratio of after-tax profits to total assets; ROS is a ratio of after-tax profits to sales. Thus, the former tends to measure efficiency while the latter tends to incorporate marketing and other sales enhancing activity. As the results show, ROA positively effects ROS; however, their differential impact on growth in size is what is at question here. More explicitly, for growing small to medium-sized businesses, what are the effects, if any, of ROA and ROS, both profitability measures. For growth in size, greater returns on assets, tend to beget greater size. Greater returns on sales tends to beget smaller size. This may be indicative of two types of strategies, one based on investment on capacity and another based on investment on marketing-related activity. If profitability of the firm is based on acquisition of assets and returns on those assets, and assuming that the strategy works, then greater ROA will lead to further growth of total assets. If however, the bottom line is dependent on marketing and other salesrelated activity, the emphasis will not be on growth in total assets, but rather, on marketing activity.

It could also be that, if any resources are sacrificed over and beyond others in realizing growth, these

will tend to be resources usually allocated to marketing. Thus, growth may have a cyclical impact on ROS, as Murray and others suggest, but not on ROA. These results underscore the fact that profitability measures do not necessarily serve as effective substitutes for one another, and that researchers should be careful in determining how their particular measure(s) of success are causally linked to other variables under investigation.

Indirect Effects

Total liabilities has a negative effect on ROA at a statistically significant level. This effect is relatively straightforward -- the more liabilities the firm faces, the less the return on assets.

All other indirect effects on percent change on total assets occur through ROS, which is affected by liquidity (+) total liabilities and working capital (-). One clear and understandable pattern for effects on ROS does emerge -- the less indebted the firm, the higher the return on sales. This pattern is evidenced by the effects of liquidity and total liabilities.

This is not to suggest that keeping, profits, or not investing them, is good for the firm. First, increased working capital has a negative, not a positive effect, on ROS. Secondly, although the effect is relatively small, increases in sales-to-fixed assets ratios (FAT) are shown to have a negative effect on ROS. Higher FAT ratios are indicative of companies that are utilizing their fixed assets to maximum capacity; growth firms are likely not to be in this situation since they are more likely to be building for future capacity. Third, greater total assets does have a significant and positive effect on ROS, implying that greater overall size, and past investment, does pay off. Finally, ROA itself has a positive effect on ROS. Thus past investments made to strengthen the efficiency of the firm are shown to ultimately increase ROS.

The underlying pattern is one of maintaining a balance between short-term profit or efficiency maximization and long-term effectiveness. A part of this balance is controlling debt, as the effects of liabilities and liquidity show.

Since the path analytical model specified here is for the whole sample of small firms, which includes firms that lost total assets as well as those that grew at varying rates, we felt that a different pattern might emerge if we considered only the quickest-growing firms. We hypothesized that, because these firms were growing at an impressive rate, they might display unique patterns of their own.

insert Figure 4

Figure 4 shows the best-fit path analytical model for the 45 quick-growth firms in our sample, or those that had a percentage growth in total assets of greater than 50%. Surprisingly, the previous model of growth provides an even better statistical fit for this subsample. Moreover, the mediating effects of ROA and ROS are now significant at the .025 level and are shown to have a stronger effect than before.

Given that the results are fairly stable across the two models, we will discuss only the few differences between them. First, the direct effect of size on future growth is no longer statistically significant. The

tandem relationship between size, number of employees and growth does remain significant. It appears that growth in our sample is occurring, not through technological advancement, which would have technology replacing manpower, but rather, through cumulative growth which involves adding to what is already there. This suggests that, at a general level, the firms in our sample were not responding to a necessity to replace one technology with another, but rather, to increase capacity through cumulative growth. Total liabilities in this model negatively affects number of employees and ROS. Thus the greater the total liabilities, the smaller the size of the company in terms of manpower and the lower the return on sales. In essence, the greater the liabilities, the more it appears that the firm was small and the more heavily indebted. Interestingly, however, the negative effects of total liabilities on ROA disappears (i.e. is not statistically significant). This suggests that indebtedness affects sales-related activity more so than activity related to capitalization of assets. That is, the quicker the growth, the more likely that the firm will suffer from market-related activities as they incur liabilities.

Whereas increased liquidity predicted a positive increase in ROS in the last model, here it similarly affects ROA. Thus the higher the liquidity of the firm, the greater its profitability. In the previous model, increased working capital was associated with lower ROS, here this effect is not significant; however, increased working capital is linked to fewer employees. This suggests that firms involving less labor intensity tend to have the most cash on hand. However, as in the last model, our overall results show that keeping profits, or not investing in future growth, is not necessarily a desirable trait. The only remaining effect is a negative association between age and ROS, which is in line with the industry and product life cycle literature.

The differences between the two models are not considerable in terms of overall implications. The underlying pattern is still one of maintaining profitability while at the same time investing for future efficiency and/or effectiveness. in essence, profitability serves as an important mediator of continued growth. And, it is on profitability that the growth of smaller firms seems to be based.

SUMMARY

The pace of growth for smaller businesses is dictated by their ability to pay -- the more profitable, the greater the growth rate. Though the descriptive analysis showed that quick-growth firms tended to be more leveraged than the rest of the sample, the causal models show that their profitability tended to compensate for that debt. Thus proven performance, rather than aggressive pursuit of perceived opportunities or a "get there first" mentality, fuels the-engine of growth. These results are encouraging in that they present a healthy picture of self- support among our sample of smaller businesses.

Our results indicate that ROS is more (negatively) sensitive to the effects of growth than is ROA. It appears that it is return- on-sales which is cyclical vis a vis the realization of growth; however, only further research will enable us to ascertain why this differential pattern exists. We speculate that these results might: 1) allude to financial patterns established by pursuing either a marketing or asset-based strategy or, 2) reflect the fact that marketing-related activity is the first to suffer the consequences of added investment in growth.

Even with the negative association between growth and ROS, the fact that both ROS and ROA

mediate the process of growth suggests that the amplitude, or up-and-down fluctuation of investment and return on investment is not as drastic as would he implied by models advocated by cyclical notions of growth and by often- published stories of firms growing at remarkable rates.

An incremental investment strategy based on profitability is more strongly supported as an operational strategy among our sample of firms than a quick growth strategy. While highly-leveraged and risky deals might be the stuff of entrepreneurial legend, it appears not to be representative of successfully developing small firms in general. Instead, these firms appear to balance growth and profitability, remaining fairly liquid while also investing in the future.

To the extent that this pattern reflects the actual practices of successful small businesses, then the viability of incremental growth as an explicit growth strategy should be considered. Though tenuous, these findings open up the possibility of incremental growth as a strategic choice for accomplishing entrepreneurship, and not as an indication of lackluster performance. As well, this analysis addresses two substantively- important questions often asked by the small businessperson. First, "Given the characteristics of my firm, how much should I be investing in future productivity?" Secondly, "Given the characteristics of my firm, how often should I be investing in same?" As research becomes more sophisticated, more informative rules of thumb standards of investment and reinvestment for particular market niches should become available. Regardless of whether future research supports or modifies these findings, these two important questions should continue to be addressed.

Clearly, in rapidly-changing industries and in the case of the nation's innovative smaller businesses, an incremental and purely profitability-based approach to growth would be disastrous. As mentioned in our introduction, smaller businesses do account for a respectable proportion of new innovations. For those firms, speed-to-market is all important. Under these circumstances, first mover advantages would be important and larger investments more necessary. However, not all smaller firms are engaged in speed-to-market or innovation-dependent activities. Indeed, the firms in our sample seemed to be engaging in cumulative growth as a group, or adding to already-existing equipment or assets. This alludes to market niches that are not characterized by technological succession and/or innovation.

For the foregoing niches, incremental growth might be desirable for a number of reasons. Among the most important of these is the lessened probability that firm growth will exceed the financial resources to pay for it. The relatively shallow pockets of the small business sector dictate that -a commensurate restrained growth strategy follow (See also, 11).

In short, because both the financial and personnel resources of smaller firms tend to be limited, investment strategies borrowed from larger firms may expose them to unnecessary risk in the form of more frequent and more severe penalties from projects that are too costly and/or complex. For those small businesses whose existence does not ride on mastering the newest fads, technologies or structures, getting there first will not beget a competitive edge if it stretches the firm's resources to intolerable levels. Given the lower level of marketing expertise among the smaller businesses, they are more apt to invest in projects that go awry; given the lower level of capital resources, they stand to be more severely impacted by a failed project.

Life and product-cycle theorists would assert that the choice of slow versus quick growth would be contingent on the evolution of the industry or product life cycle. We contend that life-cycle considerations are very important, but should not be considered as the whole story, especially in the case of smaller businesses. First, for many small businesses (e.g. liquor stores, cleaners, restaurants, beauty shops, pet stores, funeral homes, hardware stores, etc.) life cycles are nebulous. Secondly, smaller business have more to lose from over-investing in growth than their more capitalized, portfolio-laden counterparts. Finally, even within the parameters of life cycles, there is enough flexibility in time horizon to entertain the strategy of progressive versus quick growth.

It is possible that the patterns identified here are the result of recessionary periods. The early 1980's were very similar to the recessionary period of the early 1990's. However, the persistence of the growth pattern, even among the quickest- growing firms, suggests that incremental growth has been institutionalized among many smaller businesses. Clearly, further research is warranted in order to bridge the two critical dimensions of time and space. Small, growing businesses represent a unique and important population within the U. S. economy. Because they represent such a vita part of our economy, more research that exposes the problems and pitfalls of growth is needed. This research has attempted to identify discernible patterns of financial performance associated with a general sample of competitive firms. Much more detailed examination is needed so that the labor of students of business will align itself better with what is actually proving effective in the field.

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Table 1. Selected Descriptive Statistics for Sample (N - 238)

VARIABLE MEAN STANDARD DEVIATION Total Assets (1980) $382856 $367072 Total Liabilities (1980) $171092 $222944 Fixed Assets (1980) $ 85808 $155679 Working Capital (1980) $143550 $165037 # of Employees 132 106 Liquidity (1980) 4.20 7.27 ROS (1980) .07 .07 ROA (1980) .18 .20 % Increase in ROS .15 .57 % Increase in ROA .19 3.12 % Increase in Total Assets .28 .66

MAJOR INDUSTRY GROUPINGS* MAJOR REGIONS* Construction 31% (74) West 25% (59) Manufacturing 16% (38) Mountain 6% (15) Transportation 3% (8) West South Central 8% (20) Wholesale 21% (49) West North Central 2% (06) Retail 16% (38) East North Central 12% (29) Service 7% (17) South Atlantic 2O% (47) Mid Atlantic 18% (43)

*Percentages may not add up to 100% due to rounding and elimination of some categories with less than 1% representation

Table 2. Differences In Means Among Loss, Slow, Quick Growth Firms

Variable Loss Slow Quick

Number of Employees 107.82(ac) 137.44 155.20 Total Assets 376,254.57 412,817.13(f) 307,169.33 Age 18.82(d) 22.12 18.67 Total Liabilities 171,295.31 174,283.00 161,725.60 Return on Sales .07 .07 .06 Fixed Asset Turnover 36.33 39.75 52.13 Liquidity 4.38 4.53(f) 3.00 Return on Assets .18 .16 .20 Working Capital 148,552.94(b) 156,327.66(e) 99,981.18 % Growth in ROS -.12 (ac) .13(e) .58 % Growth in ROA -.34(a) .08(f) 1.26 % Growth in Fixed Assets -.03 .34(e) 1.18

(a) Difference between loss quick growth firms significant at .05 level (b) Difference between loss quick growth firms significant at .10 level (c) Difference between loss and slow growth firms significant at .05 level (d) Difference between loss and slow growth firms significant at .10 level (e) Difference between slow and quick growth firms significant at .05 level (f) Difference between slow and quick growth firms significant at .10 level

COMPETITIVE ADVANTAGE WITH INFORMATION TECHNOLOGY, CAN SMALL BUSINESS PLAY?

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ABSTRACT

Many smaller organizations are unfamiliar or uncomfortable with the application of information technology (IT) to gain a competitive advantage. In larger organizations however, greater emphasis is being placed on gaining a competitive or strategic advantage with IT. To level the playing field, small organizations must learn to incorporate IT in their strategic plans. This paper reviews the basic concepts of strategic IT applications and examines two small organizations involved in utilizing IT for strategic advantage. One organization was able to reap the benefits of IT while the other strug-

gled and eventually failed.

INTRODUCTION

Most of the classic examples of strategic IT applications are attributed to large organizations like American Airlines, Frito-Lay and McKesson Drugs (1,3,7,8). It is possible to find examples of "small" organizations (2) succeeding at implementing strategic IT applications. Close examination however, reveals most of these "small" organizations to have annual sales in the $10's of millions of dollars. What about the law firm with four attorneys or the venture capital funded start up with revenues under a million dollars? Can these truly small organizations benefit from the potential of strategic IT applications?

The benefits and rewards that an organization receives from the successful implementation of a strategic IT application can be enormous. But the costs of development and the risk of failure must be carefully assessed in order to avoid a potentially fatal mistake. As with most investments, the high returns of strategic IT applications involve high risks.

After providing an overview of strategic IT applications, this paper examines two small organizations that became involved with strategic IT applications in the early 1980's. The first organization, a four attorney law firm, appears destined to fail from the start. The second organization, a venture capital funded start up, appears to be a certain success story. The two organizations are so dissimilar that they lie on two ends of a continuum. One end of the continuum represents those "most likely to succeed" and the other end represents those "most likely to fail."

The eventual outcome for each firm surprises eventhe novice observer. The "most likelyto fail" law firm not only succeeds; it is able to maintain the competitive advantage for nearly ten years. The "most likely to succeed" new venture not only fails; it loses over $12 million of capital in four years. How could such a turn of events occur? The similarities and difference between each firm are identified to gain insights into the reasons for success and failure. The paper concludes by highlighting the lessons to be gained from the two example organizations.

STRATEGIC IT APPLICATION DEFINED

Like the generations of computer hardware, the application of IT to organizational problems has also passed through generations. In the first generation (typically the 1950-1960 period), the emphasis was on the application of IT to improve organizational efficiency. The emphasis of the second generation (1970-early 1980's) was to apply IT to improve organizational effectiveness. The early- 1980's ushered in the beginning of the third generation, namely strategic advantage (1,3,6,7,8). The hallmark of this latest generation is gaining strategic or competitive advantage with IT.

A strategic IT application involves applying information technology to one or more of the key objectives of an organization. The operative words in this definition are information technology (IT) and key objectives. IT encompasses a broad range of products and services. Generally any given IT product or service can be classified as computer hardware, computer software or telecommunications.

The key objectives of an organization are a short list of things that the firm must do right. These key objectives are generally developed to achieve the mission stated for the firm. The mission (4, pp. 24-32) usually is derived from the vision. Experts in the field of strategic planning recommend the mission and objectives to be a written part of an overall plan.

When an organization attempts to apply some combination of information based products and services to a key organizational objective, the seed of a strategic IT application is sown. Just as planting an acorn does not always produce an oak tree, planting the seed of a strategic IT application does not guarantee a competitive advantage. For an IT application to be considered strategic it will affect competition in one of three ways identified by Porter and Millar (8).

1. It changes industry structure and, in so doing, alters the rules of competition.

2 . It creates competitive advantage by giving companies new ways to outperform their rivals.

3 . It spawns whole new businesses, often from within a company's existing operations.

If the application of IT does not have the potential to fulfill one or more of the above items, there is high probability that the application will fall short of being strategic. A given application considered to have strategic potential should first be assessed in light of the three items above. Any given application can provide a valuable contribution to the organization; very few achieve the high returns of a strategic IT application.

THE LAW FIRM - HIGH PAYOFF WITH MINIMAL RISK

The "sure to fail" success story involves a four attorney law firm attempting to develop a strategic IT application that falls within Porter's (8) second area. The managing partner has a vision for his firm to be household name in a relatively large midwestern city. The year is 1981 and all but the lowliest of personal computers is beyond the reach of many truly small organizations. Larger law firms are installing minicomputers with word processing and some are experimenting with stand alone word processing on personal computers. Word processing is being installed to achieve a cost re-

duction and speed the turnaround time of documents, but since many larger law firms are adopting the technology, there is no competitive advantage.

The managing partner is aware of the potential for IT, but is not enamored with technology. He does however, see a role for IT in helping him achieve his vision. He began his practice by focusing on the middle and lower end of the market where the fees are less lucrative. This particular market creates the need to make up smaller fees with higher volume. The need to handle higher volumes necessitates the need for automation. Bankruptcy is selected as one of three specialty areas.

He doesn't want the IT application to take the form of a glorified word processing program where a typist fills in data fields on standard forms. His idea is to create a program that automatically generates all the documents with only a small amount of initial input. He embarks on achieving his vision with two key elements. First, he creates a marketing program to convey his message to specific target groups. Second, he hires a consultant to evaluate the possibility of automating the bankruptcy forms creation process. Wanting to keep the equipment costs low, he chooses an Atari home computer. The consultant said it couldn't be done.

With a constant eye on the goal he hires a relatively inexperienced programmer to begin application development. He believes the programmer is the best person for the job since he is "not encumbered by the knowledge that it couldn't be done." Within a short time the program is operational and the law firm is handling 100 bankruptcies a month. For nearly ten years no other law firm in the city acquires a computer system with half the capability of his bankruptcy program.

The application, originally written in BASIC, is later moved to an IBM PC. Enhancements are made to the application until 1991 at which time it is replaced by a commercially available product. Until that time, no commercially available package was able to perform as quickly and effectively as his bankruptcy program. For ten years he maintains a competitive advantage that helps him achieve his initial vision. During this ten year period he develops a reputation that carries to this day. Today, he isn't resting on past successes. He is continually looking for ways to use IT to provide him an advantage over his competition.

DON'T BE TOO SUCCESSFUL, YOU MAY FAIL

The "most likely to succeed" story of failure involves a venture capital funded start up attempting to develop a strategic IT application that falls within Porter's (8) third area. It is late 1983. The founder is well versed in strategic applications, having developed his knowledge at IBM and other large corporations, including a large hospital management company. His idea is to apply the financial management tools of his employer to the private practice of physicians. His vision is to "become the American Express" of medical claims processing and payments.

His forward thinking idea is years ahead of its time. The innovative application of IT so impressed venture capitalists that he is able to secure an initial $10. million in start up funds with a forty page business plan. Not one, but two venture capital firms are willing to risk their capital. The plan is innovative and the founding team is solid.

Essentially the strategic IT application reduces the administrative paperwork for doctors in submitting medical claims for payment. The system electronically links the patient records, the physician, the insurer and the banking community through a central switching facility using a magnetically encoded patient credit/insurance card. The concept is well planned and elegant in its simplicity.

Talented people are added to the core founding team, the finest hardware is installed, software is developed and telecommunication facilities are installed. Physicians purchase the service, the banks create the credit portion of the offering; but a key insurance company balks at accepting the electronic claims and refuses to provide eligibility information. For over two years the start up struggles to succeed in two small markets.

As a "last ditch" effort, the start up offers to essentially become a front end processor for the key insurance company or create some form of alliance. The insurance company refuses the offer. In July, 1987, the decision is made to cut the losses. The venture capitalists stop providing any addi-

tional funding. Operations are terminated and the assets of the corporation are to be liquidated as quickly as possible.

A number of acquirers examine the corporate wreckage, including the founders former employer. Within six weeks of the service termination, the insurance company that did nearly everything it could to make the start up fail, purchases the assets of the company. Today, the service is thriving in its original concept and is operational in thirty states. A number of technical difficulties and missed opportunities surfaced during the short life of the start up, but the failure to anticipate the threat from one of the key players is at the heart of the failure.

At the closing of the assets sale, one of the venture capitalists asks the insurance ompany why they are paying $1. million when they could have had the service essentially for free? An insurance company representative responds by saying that "we want to be in control." The insurance company was so intent on acquiring the failed corporation that it hired one of the former executives of the failed start up to plot acquisition strategy. By all measures the assets were purchased at bargain prices.

SIMILARITIES AND DIFFERENCES

Both organizations are similar in a number of ways. The lead person in each organization has a vision for the future. The vision includes the application of information technology in a manner consistent with Porter's three areas for gaining competitive advantage. The applications are innovative and push the limits of the technology at the time of innovation.

A number of differences exist in the example organizations. The law firm does not have a written plan or a knowledge of strategic information technology as does the start up. The law firm is thinly capitalized and pursues the goal at a moderate pace. The start up is highly capitalized, if not overcapitalized, and pursues its goal very aggressively. Many of the employees likened the situation at the start up to a child attempting to run before learning to walk.

LESSONS GAINED

Lesson #1: Anticipate the risks of succeeding as well as failing. At a minimum, a competitive response may reduce or neutralize the initial strategic advantage (1). A set of negative outcomes can also occur including the possibility that the application consumes more resources than anticipated, or it fails to generate the anticipated benefits. Sometimes strategic applications have a Pandora's Box effect. This effect may take the form of having a competitor create an application to meet and exceed your application, creating a disadvantage for you. A worst case scenario would be to evoke a re-

sponse that could put you out of business.

Lesson #2: Creativity is more important than capital. Good ideas can be tested with small amounts of investment. Look for innovative ways to apply IT directly to the objectives of the organization. The law firm was able to minimize risk by using low cost equipment and a programmer with less than one year of experience. The creativity inherent in the new venture application is evident from the magnitude of funding and the number of funding sources.

Lesson #3: Vision is required, but written are plans are not mandatory. Many small organizations are criticized for not doing good strategic planning and documenting their plans. The lawfirm has no written plan. They did however, have a vision which could be translated into specific, actionable objectives. The objectives therefore may take the form of a mental plan, a typed document, or handwriting on a cocktail napkin.

CONCLUSIONS

The above two examples are based on two small Midwestern companies. One continues to this day under the original manager. The other is a subsidiary of a large midwest insurance company. These examples are both ends of a "probability of success" continuum in developing strategic IT applications. They clearly demonstrate the double edgednature of strategic IT applications. When properly conceived, planned and executed, the rewards are great. Poor planning, lack of commit-

ment, or inadequate resources can result in missed rewards or organizational damage.

In addition to the lessons of success and failure, this paper demonstrates that the development of strategic IT applications is not solely the domain of large and medium size companies. Small companies can reap the benefits of a strategic IT application. Given the increased pressures created by global competition, IT may be the one tool that allows the small organizations to successfully compete at home and abroad with any size organization.

Follow up activities into strategic IT applications within small organization will be conducted in two areas. First, additional cases of small organization experience in identifying and developing strategic IT applications are required to validate the above lessons. A second area of investigation is to explore the potential for expert systems as a strategic IT tool in small organizations.

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ESTABLISHING A SMALL BUSINESS SOFTWARE LIBRARY FOR SBI/SBDC COUNSELING: PC-SIG ON CD-ROM

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ABSTRACT

In today's highly competitive environment, the ability of a small business manager to obtain vital information about his operations is critical to his success. Data that provides information on financial status, customer profiles, pricing, costs, etc., are essential tools needed to extract extra profit from a company's customer base, and even survive. In our SBI program, we encourage our student counselors to search a computer library called PC-SIG Software Library for programs which would help provide their clients with appropriate information to help solve a particular problem or take advantage of an unforeseen opportunity. This paper describes the establishment of a small business software library based on Shareware and Public Domain software for effective SBI/SBDC counseling.

AN OVERVIEW OF PUBLIC DOMAIN AND SHAREWARE

While there are many topics to discuss and share with you about the establishment of a useful small business software library, first you need an understanding of Shareware and Public Domain software. It is estimated that there are well over 85,000 shareware programs available (1). Each day that number increases. What exactly is shareware? Shareware is a participatory marketing strategy. Basically, it is a way for a programmer to distribute and sell his software just as a commercial software company does. In this respect shareware is commercial software that is marketed differently. It doesn't have the flash of fancy packaging, nor does it have copy protection devices. There are no large advertising budgets to support or thousands of employees to pay. Therefore, it doesn't have the extra cost all these extras require. Shareware software is copyrighted and is protected under the same copyright laws as any other copyrighted work.

The basic idea of shareware is that you can try it before you buy it. This is not the case with commercial software. Once you buy it and leave the store, it's yours, for better or worse. Shareware software can be copied and distributed without charges or fees. However, there is an important difference: If the party that acquires shareware software decides to use it, the author usually requests a specific fee to register the software. That charge is sometimes called a "donation." Registration generally provides the user with full documentation, technical support and notice updates.

One group of programs classified under the heading of Shareware is Public Domain software. Public Domain software can also be copied by, distributed to and used by anyone who cares to do so until the end of time or the program is withdrawn - whichever occurs first. The author openly places the software product into public domain, thereby giving up all commercial interest in the program. It's free of any license or user-fee requirements. There are many excellent programs in the public domain.

HOW TO OBTAIN PUBLIC DOMAIN AND SHAREWARE SOFTWARE

Not too long ago, distribution of public domain software was done either within computer users' and hobbyists' groups or downloaded at no charge from electronic bulletin board systems, if you had a modem and communications program such as PC-TALK, QMODEM, or PRO-COMM.

Today, with the number of public domain and shareware software growing in quantum leaps, there are publishers who specialize in manufacturing, marketing and distributing initial copies of the software at very low prices. Software authors who don't want to become involved in the nitty- gritty, nonprogramming business details of their products seek out these special publishers.

One of the best known marketers of public domain and shareware software for the IBM Personal Computer and its compatibles is PC-SIG, Inc. The PC- SIG Encyclopedia on Disk (9 disks), as the company calls its $20 catalog of more 3,700 disks that cost no more than $4.00 each (for non-members), is distributed directly through their company (2). Each program has been screened and evaluated by the PC-SIG staff and qualified outside reviewers before being included into the library. This review process and evaluation helps to insure quality and produces the most up-to-date encyclopedia.

They also publish a CD-ROM entitled PC-SIG Library which contains all of their software, for $99 (3). Included with the Library is a "Program Demonstrator." This allows you to review descriptions of all the software and run a number of the programs from the CD-ROM disc. With a clearly organized directory structure, the PC-SIG Library allows the CD-ROM player to function like a very large disk drive. All programs are easily located and since all the programs are functional, any program can be copied from the CD-ROM disc to a floppy disk with standard MS-DOS or PC- DOS commands. This CD-ROM can also be downloaded on a LAN (Local Area Network) enabling students to access the variety of software.

RETRIEVAL OF PROGRAMS FROM THE PC-SIG LIBRARY

The PC-SIG Software Library system consists of two parts: the encyclopedia and the CD-ROM containing all the programs.

The Design of the Encyclopedia

The encyclopedia consists of 9 disks and is installed on to a hard drive utilizing 6 megabytes of hard drive space. Installation of this program is very straight forward and easy to accomplish. Once installed, using the program is very straight forward. To assist you in getting what you want from the encyclopedia, they have designed several useful search features. The disks are indexed by title, category and by keywords. If you have a specific disk number or program title in mind you will have no problem finding its description. If you don't have a specific program selected but want a program to solve a problem or perform a task the keyword or category index will lead you to a program, or possibly several programs, that may meet your needs. For example, the keyword index is an alphabetical list of words associated with individual disks in this portion of the PC-SIG Encyclopedia. Each program is described by one or more words in the list and those words may be related to the program in several different ways. A keyword may be the subject of a disk like accounting, business, or music. A keyword may be a category such as database, spreadsheet, or utility. A keyword may also

describe a disk's function, its use, or what it is used with. To use the keyword index you simply need to have a question; the index should provide an answer. For example, if your question is, "What kind of database program can I find to handle my list of addresses and print mailing labels?" you have already generated some keywords to look up: database, address, mailing, and labels. Each of these words should refer you to disk numbers that might meet your specific needs.

Once you have selected a keyword, the program will then offer a description for each program on each disk with the following format: disk number, disk name, special system requirements, suggested registration, and a brief summary of the program or programs on the disk (See Figure 1). The description is aimed at highlighting usefulness, depth, and benefits of the program. If you find a specific program to meet your needs you can then order that disk directly from the PC-SIG Library, or by using CD-ROM technology, they have put the entire PC-SIG Library on the user's desk for retrieval.

PC-SIG on CD-ROM

As a cheap way to distribute mass amounts of information, CD-ROM's can't be beat (For a general background on CD-ROM technology see 4, 5, 6, 7). These disks can hold around 650 megabytes of information, and PC-SIG has stored over 3,700 disks on their CD-ROM which they sell for $99. The entire library on the CD-ROM consists of software stretching from specialized utilities, word processors, spreadsheets, databases, business applications, home finance packages, menuing systems, games and much, much more. The chances are, if you have an application, their PC-SIG library has the program.

To retrieve programs from the CD-ROM you will need a CD-ROM drive. CD- ROM drives are like audio compact disc players with additional circuitry that detects and corrects transmission errors. They also require hardware and software to connect the drive to a PC. We have found that you can spend as little as $200 for a drive or shell out as much as $1,500. The cost depends on whether the drive is internal, external, or portable; how fast it is; and whether the controller card is included. In our search for a CD-ROM drive we opted for a portable one so that we can take it on the road during visits to our clients and presentation to various groups. We chose the SyDOS Personal CD by SyQuest Technology at a cost of $270.

The reasons we selected this model were its high-performance parallel port interface which eliminate the need for a costly controller and allows you to hook onto any parallel port. Since we use notebooks and laptops in our field work we needed a drive that was really portable. We found this model so compact and light weight that we could carry it with us to clients and community presentations with ease. And, since notebooks and laptops do not have built-in slots, the high performance parallel port on this drive was a perfect accompaniment. And since the SyDOS Personal CD comes with a built-in "pass-thru" printer port, we did not lose our printer capability. And finally, we wanted something that was easy to install. Since the drive is external and hooks up to the parallel port, there were no complicated cards to install or jumper switches to set. In fact, it literally hooks up to any PC in seconds.

Once you have selected a CD-ROM drive you must consider how data are retrieved from the disk;

therefore, retrieval software is required. PC-SIG distributes their retrieval software on the CD-ROM itself and is very easy to install to the hard drive. Once installed you are ready to explore the PC-SIG library on the CD-ROM.

There are two main ways in which to retrieve programs from the CD-ROM. First, you can use the "Programs" command. Each of the more than 3,700 programs has a one-line description for quick reference. Just select one of the 13 software categories and a subcategory to begin browsing for a program that interests you. A mouse click (or keyboard stroke) on the program title takes you to a detailed description of the program. You can immediately download the software to your hard or floppy drive, and in many cases view a screen shoot of that program. Second, you can find any program in the collection quickly and easily by using the "Search" command. When you are in a program category just type in the title of the program and you will be taken to the description of that program. Or switch to the "Disk" command where you will find an alphabetical list of all the programs which can be searched by program title or disk number. A program entitled Word-Cruncher text retrieval system has been added to the 12th edition of the CD-ROM to allow global searching of all descriptions.

SMALL BUSINESS APPLICATION SOFTWARE

Over the years, we have successfully used a variety of public domain and shareware software with our SBI clients. I have compiled a small library of software taken from the CD-ROM that I believe might be useful in your counseling programs.

Accounting:

To help a client establish a computer bookkeeping system, one SBI team reviewed one program entitled SIMPLE BOOKKEEPER. They found the program was easy to operate, user friendly, and would best meet their client's needs (a small typing service). The features of the software allows the user to create accounting records on a monthly, quarterly, and yearly basis. The program is menu driven and allows the user to retrieve transactions in a variety of ways including: by account, amount, date, and check number. Finally, the program offers a summary of profit and loss for the above-noted periods.

Personal Selling:

One SBI team recommended to their client that personal selling would be necessary to expand his sales (a remanufacturer of toner cartridges and printer ribbons). Since the owner did not have the necessary time to manage the business and devote his efforts to personal selling, the team recommended a program which would help manage his personal selling efforts. PROSPECT is a powerful sales prospecting and tracking program. The program is well designed, powerful, fast, and effective. All of the features are easily accessed from a series of menus and sub-menus that are intelligently and logically ordered. The program includes a report generator for appointment schedules and expenses. It also has limited but useful graphics, an exceptionally fast data-search, label preparation and printing, a built-in telephone dialing system (the computer must have a modem), a proposal and invoice generator, and a feature that keeps track of telephone usage. The online screens

that are accessed at every menu and the extensive use of menus make this program one of the easiest to learn and use. The author suggests a registration fee of $49. The three PCSIG disks cost $12, bringing the total cost to $61. That is one heck of a deal!

Cost Estimation:

The art of estimating costs relies on the premise that job costs can be accurately predicted based on previous experience and accurate labor estimates and material pricing. These estimates, when used to their full potential, become the budgeting, scheduling and cost overrun control tools that companies use to manage their resources. In a broader sense, estimates are also used to evaluate the company's pricing practices and determine profit and loss percentages that are used on future estimates. One client (a maintenance and repair business) did not have a handle on his estimating of the jobs, and therefore, was not able to price his services adequately. The SBI team recommended an estimating program called PC ESTIMATOR (registration cost $89) which helps in preparing bids based on time and materials. It also has financial analysis capability useful in analyzing the bid to make sure it is the most competitive one possible.

Marketing Research:

As business becomes more specialized and marketing continues to climb, there is a need for highly targeted efforts that precisely define the potential customer or client. A variety of computer-based techniques exists to help identify and locate customers within niche markets. One way of obtaining information about your customers is through a primary research technique derived from surveys. Product or service features can be refined and pricing data can be generated by a well performed survey. One shareware program entitled SURVEY SYSTEM (registration cost $35) can provide the means to create and manage your own market or opinion research effort. Even though it is inflexible in the type of responses, it is a great program for any project that needs a sampling of opinion. The program allows you to create general statements (defined by the user) and five levels of agreement.

Respondents then select one of the five values based on how strongly they agree or disagree. The program is complete; it prints the surveys, collects the responses and outputs the analysis and results reports. Also, any free comments that the respondents have made will be printed as entered into the computer. If you have included statements on your survey for priority ranking by respondents, this option will prove beneficial in determining how they stacked up. The program can place survey output into text files that can be edited with any word processor.

Direct Mail Approach:

To many of our clients cold calling prospects is distasteful, time consuming, and mostly non-productive. Therefore, some of our student teams have suggested sending truly informative material to sales prospects as a good way to establish contact. If the client has a mailing list or the student team can help them develop a mailing list, they can take advantage of a mailing list generator program which can assist in preparing the mailing to take advantage of the lower rates. A shareware program called BULKMAIL (registration cost $50) will help you sort to the U.S. Post Office's stringent and detailed specifications. Many other mailing list programs are available, and most have at least a basic

zip code sorting feature to help you prepare three and five digit sorted bulk mailings.

Advertising:

Advertising, if used properly, can attract new customers, introduce a new product or service, support a promotional campaign, generate sales leads, present testimonials and establish visibility that can boost inperson or telephone sales calls. Therefore, advertising can be a cost efficient marketing technique, if you can track its effectiveness. Unfortunately, many of our SBI clients have no mechanism of tracking the effectiveness of their advertising efforts. One program which we found useful is ADVERTISING RESPONSE MANAGER. It allows you to track all types of marketing activities, not just advertising. You can enter financial data and track leads generated to arrive at a cost per lead. This information is helpful in determining how costeffective the marketing is and where to cut or add budgeted marketing dollars.

Spreadsheet:

Many of our student counselors use a spreadsheet to analyze financial data which include financial ratios, cash flow, common size statement analysis, and z-score analysis. They also use the spreadsheet to analyze a prospective location by conducting a market potential analysis for a particular geographical location. Our students have recommended to their clients a Lotus 1-2-3 clone called ASEASYAS. It is an enhanced and refined spreadsheet program supporting 256 columns and 8192 rows. A broad range of formulas, functions, and text entry are provided, and a central feature is the ability to plot 11 different graph types. It also provides for block copies, block moves, and range formatting. It permits you to do X-Y data regression and matrix operations. With ASEASYAS, files can be saved, retrieved, and printed, and the file extensions WKS and WKI permit you to export and import data into the other popular spreadsheet programs. The command mode is complete with on-screen menus, and commands can be chosen by cursor control and ENTER, or by the first letter. The list of features can go on and on. It is exceptionally well done and a great buy (only $69).

Database:

Some of our SBI teams have been asked to set-up various systems to handle the following: maintaining mailing lists and print mailing labels; maintain price lists; maintain telephone or name and address directories; keep various types of inventory records; and keep customer lists, to mention a few tasks. To handle these requests the students have used a version of PC-FILE (PC-FILE, PC-FILE III, PC-FILE+, PC-FILE 5, registration for latest version $149.95) depending on the version available at the time. This very popular database allows you to quickly retrieve data, change it, resequence it, perform queries, and prepare reports for display, printing or subsequent retrieval by your word-processing program.

SUMMARY

CD-ROM drives have been around for a long time, but only recently have they emerged as an undeniable asset to SEI/SBDC programs. PC-SIG has used CD-ROM technology to store huge amounts of information in their library of software. Now SBI/SBDC programs can afford to share

computer programs with their clients. I have covered some of the many shareware packages that are applicable to small business operations and which we have used and recommended in our SBI program. The sophistication of managing a small business lends itself to computerization.

Finding the right tool for the job, however, is particularly important because of the vital implications for competing, efficient operations, profit, and even survival. I have found it difficult to recommend many commercial software to our small business clients because of the full and large payments up front. Many of the software publishers would do well to take a leaf from shareware practices. Those include extremely easy installation and setup procedures, lucid manuals, no copy protection, and best of all, "try it and then buy it if you like it."

On the other hand, we have found that shareware may not be as powerful or as full-featured as commercial packages. And the cosmetics, or "looks," of some screens may not win a beauty prize. But for many of our clients the positive aspects of the right shareware package we have recommended have out weighted the "frills" many of our clients saw with the commercial equivalent software. I suggest you explore the many avenues to be pursued with shareware powering you clients' PCs. The risk is low. The potential for gain is high.

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Figure

DISK-NUMBER: 0751 DISK-TITLE: AS-EASY-AS PC-SIG VERSION: S501E PROGRAM TITLE: AS-EASY-AS AUTHOR VERSION: 5.01E PROGRAM CATEGORY: BUSINESS

Suggested Registration: $69.00

Special Requirements: 384K RAM and two floppy drives. House supported.

Pi As-EASY-As is an enhanced and refined spreadsheet program that supports 256 columns and 8,192 rows. it has a high degree of command compatibility with Lotus 1-2-3, lets you use Lotus files and includes a broad range of formulas and functions.

Unlike many other spreadsheet programs, however, AS-EASY-AS can plot 11 different types of graphs from within the program. AS-EASY-AS is very easy to use because you enter commands through on-screen menus, unlike Lotus. Other unique features include direct dBase III import/export, spreadsheet auditing, search and replace, macro record and playback, goalseeking, spreadsheet linking, and a full complement of macro commands. There is also a linked calculation sequence that saves considerable time when recalculating.

Group Decision Support and The Small Business

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ABSTRACT

Group Decision Support Systems have been viewed as one the glamour tool for the Fortune 500. The expense of using a center and its tools has been viewed as too great for small businesses.

This paper reviews the characteristics and applications of the group decision support technology. It also explores some of the emerging GDSS techniques for organizational re-engineering.

The Center for Decision Support and the Simplot Decision Support Center joined with the Small Business Institute (SBI) at Idaho State University to explore the use of this tool with small businesses and with SBI student teams. The coalition of resources at the university produced valuable results for all participants. We convened several types of small business groups to examine the utility of a decision support center for this class of user. The first application was for group composed of small business owners from diverse areas who needed to solve similar problems. The second application was for a group of SBI students who needed to solve a problem for their client.

INTRODUCTION

Management has been described as the art of allocating scarce resources. As managers address trade-offs among the organizational resources and demands, they may create problems in the area of intangible assets--worker empowerment, customer satisfaction, quality, employee morale and flexibility in a changing environment. This is true even for small businesses.

Traditionally organizations have used Quality Circles, Total Quality Management, Quality Action Teams, and other forms of committees to work on collectively solving these allocation problems and to provide employee empowerment in the workplace.

In large organizations, committees are one of the most common forms of group decision making. The literature emphasizes that this type of group decision making (committee) generally arrives at a better solution than any individual. As we know most people love committee meetings. They rank it just above a root canal without anesthesia as their favorite activity. The bad reputation of committees stems from a fundamental flaw--the way participants interact or do not interact before, during and after the meeting. Despite their reputation, the literature shows that well-run groups generally make better decisions by increasing the interaction among individuals.

Due to the small number of employees in SBI client organizations, the use of committees presents a

problem. They are frequently dominated by the owners.

A technology based method for increasing this interaction and implementing organizational change and development is the use of electronic tools. These tools are designed to create an environment that encourages individuals to share their views about the structure of their organization and allows them to design new processes and prioritize changes. These tools help the participants identify new aspects of the problem and new ways to solve it.

The Tools

A broad body of research has identified a new technology based system to support the real needs of organizations in a rapidly changing environment. This technology has many tools derived from the classic Group Decision Support Systems (GDSS) research. Another class of tools are extensions of electronic mail formats with scheduling and productivity tools (Groupware). In addition to these more general tools, we have developed a small set of tools to support the organizational transition process. These tools and processes used to reach these goals are described as ETCORP (Electronic Technology for Collaborative Organizational Re-engineering and Paradigm change).

If the organizational environment and competition change slowly, the application of old paradigms to the new problems is acceptable; however, the solutions are far from optimal. The ETCORP process helps the participants in a session identify new aspects of the problem and new ways to solve it.

The Simplot Decision Support Center (SDSC) is a dedicated group dynamics facility in the College of Business. It allows the optimal use of both the GDSS tools and the ETCORP process. As part of the process, we attempt to isolate the participants from their day-to-day environment. This isolation even extends to providing both breakfast and lunch in the breakout rooms. Team building and maintaining the group focused on the problem at hand is improved through this isolation.

The facility has been used to:

* team build in Quality Action Teams * plan competitive advantage strategies * examine sales management techniques * perform critical design review and software engineering * determine the information security training needs of the federal government * define the goals for various Colleges within the university * evaluate optimal means of dealing with hazardous materials * determine the criteria used for the selection of major capital investments * facilitate engineering critical design review * evaluate organizational Total Quality Management needs * select computer hardware * perform and review value engineering * design computer software with end-user involvement * optimize production and quality control procedures * write Federal standards * evaluate personnel * create new programs of instruction * determine corporate critical success factors * establish procedures for safe disposal of hazardous materials * evaluate and develop corporate strategy

How the Tools work

The increased flexibility, power and connectivity provided by these electronic tools encourages multiple individuals to both analyze and communicate in real time through parallel discussions. The

software provides an environment for empowerment and "egoless decision making." This egoless decision making is the result of electronically linking each participant. The 'egoless' effect is achieved by:

* making all comments anonymous * creating equal opportunity for input * eliminating peer pressure * creating a free flowing parallel communications process * fostering an environment of synergy by not tying ideas to their source * recording all commentary accurately * weighing each concept and comment by its merit not by its source

These processes are adaptive and go a step further by providing a controlled environment conducive to an integrated team building process. The integrated process is democratic. When a person introduces an idea into the system, he remains anonymous and is provided an open invitation to take part, whereas in a regular meeting some people might be too timid or intimidated to speak.

These new approaches deal head-on with the old management problem of how an idea can take on more or less value according to who said it. This system removes from the process the effect of charisma and political influence by providing comment without identifying authors. Therefore, a concept or comment is acknowledged by its merit, not its source.

Advantages of ETCORP Process

The ETCORP process enhances the quality of group decisions by removing the most frequent impediments to good decision making. Some items that lead to non-productive meetings are:

* The orphaned agenda We have all been taught that a good meeting has an established agenda. Most of us know that we also arrive with our private agenda. What frequently occurs is that one or more assertive individuals dominate or modify the agenda. This leads to reduced input from individuals who would normally have a valid contribution.

* Single person domination Frequently this is not intentional. There are individuals who, because of their formal or informal authority within the organization, are able to dominate the decision making process.

* Individuals with valid contributions did not make them This is the opposite of the previous item. Everyone needs to be involved in the group process. No one in the group should be excluded based on their assertiveness or belief that 'no one will listen.'

* Creative ideas were limited by negative comments 'That won't work!' is one of the most destructive statements made during the early stages of a meeting. It makes less assertive individuals shut up and makes the more assertive ones argue. The ETCORP process puts negative comments in their proper place- after the group has collected its ideas.

* Decisions were not reached When a meeting is over, a participant needs to know what decisions were made and what impact they have. The ETCORP techniques draw the group to make a decision without forcing.

* Plans for follow-up were not made. The ETCORP process collects input from all participants and allows complete documentation of action items established during the session.

* Notes/recommendations are not documented No one likes being the scribe for a group therefore documentation is either sparse or expensive. It is sparse if the scribe is a participant since he may be busy in the group. It is expensive if one uses a stenographer.

What Tools Do You Use?

To bring about the above results during the ETCORP process, the participants use a combination of facilitator led activities and a networked computer system to assemble alternatives, establish a consensus, make decisions and write results. In addition to common decision making and presentation software available on the system, we have developed five fundamental windows tools for Idea Generation, Issue Analysis, Matrix Analysis, Collective Writing, and Graphic Drawing Tool.

These tools are made available by user agents under Windows. These user agents take care of all the communications overhead and control the environment of the participants. The tools are integrated in such a way that all users can share their activities via their agents at one time. An additional benefit of using these intelligent agents is that the operator can use them to manage the activities of the participants and keep them on task.

The following figure one (omitted) shows a sample screen that we use in the idea generation process.

Since these tools work on multiple platforms across both local area and wide area networks, almost everyone in the organization can participate in the ETCORP process.

How Long Does It Take?

We have found that for most groups the minimum time for a session is about four hours. Other sessions, involving complex issues or groups that have large differences from the start may extend to two or three days. We have had several sessions extend for five days. These sessions have resulted in complete written plans and procedures for the organizations involved. After an orientation to the center and software for the participants, the group might follow this agenda:

1. Define/view problem (Enter/view comments) 2. Define/view selection criteria 3. Define/view alternatives 4. Rate alternatives 5. Rank alternatives 6. Evaluate alternatives 7. Electronically discuss or define the elements of a decision 8. Collectively outline and write final report 9. Distribute action items for future and conclude meeting

Application One

The staff of the Center for Decision Support realized that the ETCORP process was highly effective in working with segments of large organizations; however, other than the student groups, they had no experience with small companies. This use of the center with small businesses involved devising a problem set and model with which small businesses readily identify. The underlying assumption was

that a heterogeneous group of small businesses would have a common set of underlying problems. We devised an exploratory model to examine the common needs assumption. The model was divided into four parts.

1. Identification of suitable problem 2. Identification of potential participants 3. Execution of session 4. Reporting Results

Phase 1, identification of a suitable problem, involved the center staff and several faculty in brainstorming what type of problem would be suitable for use with a diverse small business group. Collectively they decided that the problem presented should be one that most small businesses have, that the participants from the small business would have a basic knowledge of the problem, and that solving the problem collectively would not impart competitive advantage to one of the participants. After using the center for brainstorming and prioritization, the group decided that a suitable topic would be--What steps could small businesses take to minimize Insurance costs?

We selected potential participants from lists provided by the Small Business Development Center. We attempted to select a mix of businesses that did not appear to be competitors. We contacted them by phone and over two thirds accepted our invitation to participate.

The execution phase of the model involved several steps. We convened the meeting at 7:30 on Saturday morning. We served a continental breakfast and socialized briefly. The actual session began by asking the group to electronically brainstorm the types of insurance coverage they had. In eight minutes, they had identified over 300 types of insurance (with duplication). In step two we asked the participants to identify categories for these coverages. They identified eleven unique categories. After allowing the participants to move the results of the coverage brainstorming into the categories, we asked them to prioritize the categories from most important for a small business to least important for a small business. After prioritization, they had identified four categories that they viewed as most important.

During the final step of the execution phase, we asked them to electronically discuss the strategies used to minimize cost or maximize coverage in each of the four major categories. During this step they generated over 30 pages of suggestions strategies, and discussion.

The final part of our plan involved reporting of results. At the end of the session, we printed copies of the results and distributed them to the participants. Over lunch we suggested that they take the results to their accountant, attorney, advisor or insurance purveyor and ask their advice. During the subsequent two weeks, we had telephone interviews with each of the participants. Seventy-four percent indicated that they had found a way to save money on insurance without increasing their risk. An additional thirteen percent indicated that they had found ways to hold the cost the same while decreasing their exposure.

Application Two

The second application of the ETCORP process was by an SBI student consulting team during Spring, 1993. For the student team to do a complete SBI consultation for two different clients[l] the they

needed to shorten significantly the analysis phase of the project without having an impact on quality. In addition, the volume of data about the individual businesses[2] forced the student team to narrow the focus of further research.

To accomplish these tasks, given the time constraints of a semester (15 weeks), they used the Center for Decision Support. The students reported that only with the aid of the Center were they able to reduce the estimated project time from twenty weeks to fourteen. They invested four hours in the center to create a focused direction and a comprehensive task list for each of the projects. The students felt that the session in the Center for Decision Support allowed them to provide better consultation to the clients than if they had used more traditional means. A summary of the results follows.

1. The team had five members: one MBA, who focused on the marketing aspects of the project; two accounting majors, who developed cash flow models and simple bookkeeping guidelines for the client; one computer information systems major, who looked at work flows, layout, information requirements and other operating constraints; and one management major, who coordinated the project and focused primarily on operations and personnel problems.

2. The team prepared reports for two clients, both in the same type of business but in different cities in the area. One has been in business for some time and the other is a start-up (now open as of September). The industry was defined as "Gourmet Bakery--Retail and Wholesale."

3. Since the clients were interested in the same general industry information, this part of the projects was duplicated. That is, the team did general research on the nature of the gourmet bakery industry: characteristics of the industry, number of firms in the two markets, nature of demand, projected growth rates, factors causing the industry to change, and the critical success factors.

4. From there, the team moved to conduct more specific market analyses (for Pocatello and for Idaho Falls): location analysis, traffic patterns, income and other demographics, nature of competitors, competing product and price comparisons.

5. Finally, the team prepared analysis of the internal dimensions: for the start-up, the most important variables to be addressed in developing the firm's business plan; for the ongoing business, identification of the major problem areas and opportunities, with recommendations.

6. As part of this last process, the team requested the use of the Simplot Decision Center to facilitate the brainstorming, prioritizing, and development of recommendations phases.

7. The group involved included the student team, the instructor and two facilitators.

8. Key benefits: in a short period of time (four hours or so), the team was able to move quickly through the phases listed in item 6 above. The faculty member was able to inject ideas, topics, causes, issues and problems in a much less intrusive way than would have been possible had we attempted this in a more formal setting and where the author of each comment would have been obvious. What is more important, the team members themselves were free to contribute in a non-threatening environment. As a consequence, the number and speed of comments elicited was much greater than

would have been possible using more traditional approaches. (All members of this team were non-traditional students, and so might have been less inhibited anyway. However, one of the team members is from China and apparently felt freer to participate, even though language problems were still apparent. Another member is somewhat shy and probably would have been more intimidated than under these circumstances.)

9. Limitations: There were only five team members, which is less than the optimal number[3]. The project would have been impossible had the SBI had to bear the cost of the Center.

10. Overall, the process worked quite well. SBI projects are always under great time pressures. This team in particular, because we added the second (start-up) client several weeks into the project, was under the gun. The use of the Center allowed the team to move along in one afternoon through what might have taken several weeks under other circumstances.

Since the students were from different majors,[4] the center allowed them to contribute to their areas of "expert knowledge" as well as synergistically combine knowledge. The center also allowed the students to review and critique the contributions of the others as well as the instructors' comments.

The Output From the Sessions

At the end of a session, the group will see the benefits of:

* Individuals that are able to contribute freely in a non- judgmental environment * A decision derived from an environment in which creativity has been encouraged * A multilevel buy-in for decisions which Is fostered by the nature of group decision support techniques. * Delivery of tangible output from a diverse set of participants. * Real-time documentation of each step of the decision making process. * A decision made in an atmosphere in which domination cannot occur without revealing that someone is attempting to impose certain beliefs on the others. * A consolidation of key issues and the ranking process are quick (In as little as two hours).

Footnotes

[1] SBI teams usually consult for only one client during the semester

[2] The cases were in two cities 55 miles apart and in different types of SMSAs.

[3] Our research indicates that the process functions best with groups between six and twenty three participants

[4] Accounting, Finance, Management, Marketing, Computer Information System