Small Business Institute Directors' Association

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1. **Seeing What's Not There: The Enigma of Entrepreneurship**
    - JoAnn C. Carland, Western Carolina University
    - James W. Carland, Western Carolina University
    - Wayne H. Stewart, University of North Texas
2. **Breaking the Silence: A Study of Small and Medium-Sized Firms' First Interaction in the Public Policy Process**
    - Ronald G. Cook, Rider University
3. **A Business Success Versus Failure Prediction Model for Entrepreneurs with 0-10 Employees**
    - Robert N. Lussier, Springfield College
    - Joel Corman, Suffolk University
4. **Diagnosing and Improving SBI Student Communication Skills**
    - Dewey E. Johnson, California State University, Fresno
5. **The SBI Experience from the Students' Perspective: Implications for Student Learning**
    - Patricia Raber Hedberg, University of St. Thomas
    - David P. Brennan, University of St. Thomas
6. **How Can We Help SBI Students Become More Effective Consultants?...By Turning the Process Upside Down!**
    - Kenneth R. Van Voorhis, University of South Florida

7. **Influences on Business Students' Decisions to Pursue Entrepreneurial Opportunities or Traditional Career Paths**
    - David W. Whitlock, Southwestern Oklahoma State University
    - Robert J. Masters, Southwestern Oklahoma State University
8. **SBI Education Issues: New Variations on an Old Theme**
    - Sherrill Taylor, Texas Woman's University
    - Chandra Schorg, Texas Woman's University
9. **The Small Business Institute's Effect on Small Business**
    - Don B. Bradley III, University of Central Arkansas
    - Tim L. Rodgers, University of Central Arkansas
10. **Small Business Commercial Bank Borrowing: The Role of Government Regulation and Policy Initiatives**
    - Kathleen C. Brannen, Creighton University
    - Tim R. Bruckner, General Electric Capital
11. **Forging Ahead: A Survey of Pittsburgh Area Women-Owned Businesses**
    - Mary T. McKinney, Duquesne University
    - Michelle Mioff, Duquesne University
12. **What Would SBIs Do Without Federal Funding?**
    - David P. Brennan, University of St. Thomas
    - Lynn Hoffman, University of Northern Colorado
    - R. Vishwanathan, University of Northern Colorado
13. **Entrepreneurship in Uganda: The Influences of Tradition and War**
    - Edward D. Bewayo, Montclair State University

14. **Early Stage Venture Capital and Scor: Needs, New Developments, and Concerns**
    - Granger Macy, University of Missouri
    - Chip Cooper, Missouri Innovation Center
15. **Aladdin's Lamp of the 21st Century: How the Internet Can Make Your Business Wishes Come True**
    - William E. Smith, Stephen F. Austin State University
    - Geralyn McClure Franklin, Stephen F. Austin State University
    - Kelli J. Clawson, Stephen F. Austin State University
16. **Experienced New Graduates for Hire**
    - Lowell E. Stockstill, Wittenberg University
    - Pamela S. Schindler, Wittenberg University
17. **How to Narrow the Small Business Equity Capital Gap**
    - Jonathan H. Sive, California State University, Fullerton
    - Michael D. Ames, California State University, Fullerton
18. **Responding to Hyper-Competitive Markets: Small Firm Strategies**
    - Eldon H. Bernstein, Lynn University
    - Barbara C. Beliveau, University of Connecticut
19. **An Inquiry into Entrepreneur Preparation and a Morning-After Evlauation of Results**
    - Lisa D. Spiller, Christopher Newport University

20. Beyond the Categorical Imperative: A Philosophical Examination of Codes of Ethics in the Financial Professions

- Inge Nickerson
- Michael Broihahn

21. What Do Clients Really Think About Their SBI Experience?

- David P. Brennan, University of St. Thomas
- Patricia Raber Hedberg, University of St. Thomas

22. Managing the Limited Liability Company (LLC): A Dilemma or Delight?

- Roosevelt D. Butler, Trenton State College

23. Computer Training and Appropriate Allocation: A Message to Small Businesses

- Marilyn Young, University of Texas at Tyler
- Atefeh S. McCampbell, Florida Institute of Technology

24. Computerized Accounting Software in the 1990's: A Small Business Update

- Michael S. Broida, Miami University
- Lowell E. Stockstill, Wittenberg University

25. Small Business Advertising: "Radio Gets Results"---Or Does It?

- Phil Harmeson, University of North Dakota
- Dennis Elbert, University of North Dakota

26. Research-Generated, Low-Cost, In-Store, Retailing Strategies

- Steve Vander Veen, Calvin College

27. Start-Up: Critical Success Factors from the Beginning

- Richard Hunt, Rockhurst College
- David C. Adams, Marywood College

28. Changing of the Guard for Family Businesses as "Boomers" Retire and "Busters" Take-Over

- Christopher F. Achua, Clinch Valley College

29. Wellness Programs as a Means to Reduce Healthcare Costs

- Dale Krueger, Missouri Western State College
- Jeanne Wampler, Missouri Western State College
- Margaret Adams, Missouri Western State College

SEEING WHAT'S NOT THERE: THE ENIGMA OF ENTREPRENEURSHIP

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ABSTRACT

The process is clear: entrepreneurs initiate business ventures. What is not clear is why they do so. The debate continues to rage about entrepreneurial behavior and this singular act of individual volition which is so vital to a nation's economic health and well being. The drives and personalities continue to be debated. Gartner (1988) asks, "Can one know the dancer from the dance?" Is it even important to try? Carland, Hoy and Carland (1988) think it is essential because one cannot understand the dance without understanding the dancer.

We think that the dance takes on the personality of the dancer. It is the dancer who interprets the dance and each artist makes the process his or her own. To understand the entrepreneurial process, we must have some insight into the entrepreneurial psyche. This is especially true if we wish to design educational and training programs for prospective and practicing entrepreneurs.

In this work, we empirically examine 502 owner/ managers of small businesses. We identify entrepreneurial vision, the ability to see what is not there, as their commonality. We empirically link vision to the entrepreneurial psyche and use that to build insight into the entrepreneurial enigma.

INTRODUCTION

The outcome of the process of entrepreneurship is obvious for all to see: the creation of a new venture. That the venture may be the culmination of the dreams of a life time seems unimportant in the face of the incontrovertible: the tangible outcome of the process. But we cannot lose sight of an another fact that is beyond debate: the trigger of the act is an individual. The key is that individual, the initiating force, the one who sees the opportunity, the challenge, and the one who takes that challenge. If we would understand the enigma of entrepreneurship, we must begin to circumscribe the behavior of the entrepreneur. Herron and Sapienza (1992) avow that the individual entrepreneur is the most salient unit of analysis in entrepreneurship research and theory.

The value of the phenomenon of entrepreneurship is well established, both in terms of economic vitality and research and development. We may be interested in supporting and facilitating the process in the interests of national well being, economic development, or advancing the standard of living. We may be concerned about designing and administering entrepreneurial education and training programs to inculcate the skills and abilities required for success. In either event, but particularly so in the latter case, we must begin by understanding the initiator: the entrepreneur. How can one design a training program or a curriculum of entrepreneurship education if one does not understand the drives and characteristics which lead to the decision to initiate a venture, to concentrate on its growth, to take it public, to strive to dominate an industry? To teach the dance, one must teach the dancer. Here, then, is our effort at understanding the dancer, at unraveling the enigma of entrepreneurship.

CHARACTERISTICS

Much research in entrepreneurship has been founded upon the premise that entrepreneurs embody distinctive personality characteristics which can be identified (Cooper & Dunkelberg, 1987), and used to indicate a potential for entrepreneurship (Lachman, 1980). These approaches have been criticized because they tend to be difficult to operationalize (Gartner, 1988). Nevertheless, one must approach the explication of a gestalt by describing its contributory factors.

The earliest identified entrepreneurial characteristic was risk taking. Cantillion (circa 1700) portrayed an entrepreneur as the individual who assumed the risk for the firm (Kilby, 1971), a perspective echoed by Mill (1848). Palmer (1971) proffered that risk assessment and risk taking are the primary elements of entrepreneurship. Risk includes not only financial considerations, but also career opportunities and family relations (Liles, 1974). Yet, researchers are undecided about the role of the risk taking propensity of entrepreneurs (Brockhaus, 1987).

Some studies have indicated no significant differences in risk taking propensities for entrepreneurs as compared to the general population (Brockhaus, 1980; Sexton & Bowman, 1983). Others have discovered a higher propensity for risk taking among entrepreneurs (Sexton & Bowman, 1986; Carland, Carland, Carland & Pearce, 1995), particularly when confronted with business risk (Ray, 1986), but moderated by business experience, age, education, and type of business (Schwer & Yucelt, 1984). Research has also shown that entrepreneurs evidence low uncertainty avoidance irrespective of culture (McGrath, MacMillan, & Scheinberg, 1992). Schumpeter (1934) posited that the burden of risk was inherent in ownership, and since entrepreneurs were not necessarily owners, the propensity for assuming risk should not be included as an entrepreneurial trait. Instead, according to Schumpeter, the central characteristic of entrepreneurship should be innovation.

Schumpeter's view of entrepreneurial innovation was rooted in the classic theories of economists such as Say and Marshall (Hornaday, 1992). In the literature, innovation remains a frequently identified functional characteristic of entrepreneurs (e.g., McClelland, 1961; Hornaday & Aboud, 1971; Timmons, 1978; Brockhaus, 1982; Carland, Hoy, Boulton & Carland, 1984; Gartner, 1990). Timmons (1978) suggested that creativity and innovation were conditions inherent in the role of entrepreneurship. Drucker (1985) actually defined entrepreneurship as innovation in a business setting as the entrepreneur generates new capacity for wealth from limited resources. Olson (1985) included invention, an activity analogous to innovation, as a primary entrepreneurial activity. This contention was intensified by Carland, Hoy, Boulton and Carland (1984) who proposed that innovation was the critical factor in distinguishing entrepreneurs from managers and small business owners. Hornaday (1992) deftly illustrated that while innovation is a necessary element of entrepreneurship, alone it is insufficient to fully circumscribe entrepreneurial behavior because of the broad parameters of the function.

Perhaps the most ubiquitous entrepreneurial characteristic is the need for achievement. This insight was initiated by the work of McClelland (1961). In a study of behavior in young men, McClelland (1961, 1965) concluded that a high need for achievement would influence the self selection of an "entrepreneurial" position, defined as a salesman, company officer, management consultant, fund-raiser, or owner of a business. Thus, these studies did not actually link need for achievement with founding or owning a business. Numerous subsequent studies have shown a positive relationship between achievement motivation and entrepreneurship (Hornaday & Bunker, 1970; Hornaday & Aboud, 1971; DeCarlo & Lyons, 1979; Lachman, 1980; Begley & Boyd, 1986). Other studies have shown that need for achievement is not the most important variable for predicting the likelihood of starting a business (Borland, 1974; Hull, Bosley, & Udell, 1980). Johnson (1990) suggested that because of the variability of the samples, different operationalizations of the achievement motive, and convergent validity problems in instrumentation more research is necessary to prove a definitive link between achievement motivation and entrepreneurship.

The ability to identify and solve problems is endemic to the entrepreneurial process. Jung (1971) posited that one's view of a problem is a function of how one perceives the world and assesses information. Jung labeled perception modes as sensation or intuition, and thought processes as either thinking or feeling. According to Jung, decision making that is based upon the thinking mode is methodical, while decision making based upon feeling is characterized by impulsiveness. Myers and Briggs (1962) extended the original work of Jung to develop further the orientation toward perception and judgment. A preference for one mode over another was considered to be an attitude. Four attitudes resulted: extroversion versus introversion and perception versus judgment. These attitudes combined with four functions, sensation versus intuition and thinking versus feeling, produce sixteen permutations of preferences known as personality types or cognitive styles. Carland and Carland (1992), drawing largely upon the work of Jung (1971), Myers and Briggs (1962), and Keirsey and Bates (1984), analyzed the problem-solving styles of managers, entrepreneurs, and small business owners. Using the Keirsey and Bates temperaments of SP, SJ, NF, and NT, the authors explored the differences of innovation, risk and achievement by cognitive type and concluded that temperament did indeed go far toward explicating the phenomenon of entrepreneurship.

THE ENTREPRENEURIAL GESTALT

Hornaday's observation about the inability of innovation to circumscribe entrepreneurship (1992) is a result of the gestalt nature of the phenomenon. Even if need for achievement, preference for innovation and risk taking behavior are endemic to the entrepreneurial psyche, operationalizing the insight is problematic because each trait is normally distributed. To illustrate, we examined the scores for the group of 502 small business owners on established instruments which measure the need for achievement, the preference for innovation and the propensity for risk taking. We applied the Kolmogorov-Smirnov test under the Lilliefors option (Wilkinson, 1990). This statistic assumes no prior distribution but standardizes the variables and tests whether the standardized versions are normally distributed and shows a high probability that the scores are normally distributed.

The concept that behavior traits of entrepreneurs are normally distributed is far reaching. It implies that prediction of individual behavior will be complicated by the relative strength of that individual's personality orientation. This difficulty may well be the primary source of the confusion of results which seem to confound the advancement Of the discipline. It is not surprising that different samples of entrepreneurs can be examined with totally different outcomes if the members of that sample may lie anywhere in a broad distribution of trait strength.

We immediately face two basic questions in this quest. Are there any commonalities in entrepreneurial behavior? Is there some unifying perspective that has the potential to provide a structure for researching the phenomenon? The literature is rich in both process and trait work. Although the discipline seems at times disjointed, there is one perspective that seems to us to be common to all of the insights produced over the years: entrepreneurial vision. Whether we call it innovation and creativity, or the process of creating a venture, the commonality is that all of us recognize that the entrepreneur had the ability to see what is not there. The vision is the key. It is the insight to identify an under-served market; the intuition to design new products, services or methods which can capture markets; the sixth sense that leads to an understanding of time, place, product and market. It is entrepreneurial vision that guides the act of volition which culminates in all of the phenomenon which we study: the creation of a venture; the guidance and nurture of a venture; or the growth and development of a venture.

The most promising approach to examining entrepreneurial vision, we felt, was the use of cognitive typologies. Recognizing that a major aspect of an individual's temperament is intuition, we decided to investigate whether typologies had the potential to form the structure for examining the entrepreneurial gestalt. To that end, we employed the Myers-Briggs Type Indicator (Myers & Briggs, 1962) to the subjects in this study and partitioned them into the four major temperaments which Keirsey and Bates (1984) espouse: NF, intuitive-feeling; NT, intuitive-thinking; SJ1, sensing judging; and, SP, sensing-perceptive. We intend to employ cognitive temperament as a foundation for statistical examination of the need for achievement, preference for innovation and risk taking propensity. We are now ready to begin our investigation of the enigma of entrepreneurship. Recognizing that advancing our understanding requires an empirical foundation, we designed a research methodology to pursue the heffalump (Hull, Bosley & Udell, 1980).

RESEARCH METHODOLOGY

The researchers in this study designed an instrument which contained established measures of the need for achievement, preference for innovation, risk taking propensity, and cognitive typology. Graduate business students solicited responses from employers, employers of their parents, acquaintances, or from individuals with whom they had some other form of contact. Participants in the study came from 30 states, however, most respondents lived in the Southeastern United States. Although the sample is convenience in nature, there are several benefits from this sampling technique. First, the sample was not anonymous, and the data set was controlled. Second, the rate of response was greater than that of the typical mail survey. Less than 1 in 20 individuals declined to participate in the study, suggesting that individuals participated in the survey who might not otherwise have responded. Therefore, while still existent, nonresponse bias is not as problematic as with the typical mail survey. Third, the technique supported the ability to generate a large sample size. The sample includes 502 active owner-managers of small businesses. The central limit theorem (Mason, 1982) suggests that, due to the sample size, the level of confidence of this sample approaches that of a random sample. The businesses selected for study fit the Small Business Administration guidelines, i.e., a small business is independently owned and operated, and not dominant in its field. Moreover, the number of employees and volume of sales of the firms complied with the Small Business Administration's guidelines for assistance. Consequently, every individual in the study was the principal owner and manager of a qualifying small business.

The Achievement Scale, Personality Research Form, (Jackson, 1974) was used to measure the need for achievement. Jackson (1974) reported that the test-retest reliability (N=135) was .80, and odd-even reliability (N=192) was reported to be .77. Jackson and Guthrie (1968), testing for validity, reported correlations with self ratings and peer ratings of .65 and .46, respectively. The authors concluded that the instrument contained convergent and discriminant validity.

Risk taking propensity and preference for innovation were measured using the Risk Taking Scale and Innovation Scale of the Jackson Personality Inventory (Jackson, 1976). For risk taking propensity, Jackson (1976) tested the internal consistency reliability with two samples (N=82 and N=307), and reported values of .93 and .91 using Bentler's coefficient theta, and .81 and .84 using coefficient alpha. Testing for validity (N=70), Jackson (1976) reported correlations with the completion of an adjective checklist, with self rating and peer rating of .75, .77, and .20 respectively. The internal consistency reliability of the Innovation Scale produced values of .94 and .93 using Bentler's coefficient theta, and .83 and .87 using coefficient alpha. Validity was checked using the completion of an adjective checklist, with self rating, and peer rating of .79, .73, and .37, respectively.

Reliability for the instruments pertaining to risk taking propensity, preference for innovation, and need for achievement were analyzed in the current study using Cronbach's Alpha. The alphas were .76, .77, and .72, respectively. These scores suggest that the instruments accurately measure the characteristics, and that the individual items on the tests produce comparable patterns of responses over all cases.

The 32-item forced-choice short form of the Myers-Briggs Type Indicator (MBTI) (Myers & Briggs, 1962) was included to measure the cognitive typology of the respondents. Mendelsohn (1965) reported that the TF (thinking versus feeling), SN (sensation versus intuition), and El (extroversion versus introversion) scales are independent, while the JP Budging versus perceiving) scale is consistently correlated with the SN scale. Internal consistency reliabilities were reported in the range from .75 to .85, and a 14-month test-retest correlation of .70 was reported. As advised by Myers and McCau Hey (1985), the MBTI scores were converted to continuous distributions for each of the four pairs of characteristics. These scores are the basis for the determination of the four fundamental temperaments. Scores less than 100 imply a preference for the first letter in the scale, while scores greater than 100 indicate a preference for the second letter in the scale. This conversion also supports the use of the scores in parametric statistical operations.

RESULTS OF THE ANALYSIS

Using the MBTI scores to partition the data set resulted in identifying 77 NFs (15%), 147 (29%), 222 SJs (44%), and 56 SPs (11%). Interestingly, these proportions do not fit the national distribution of 38% SJs, 38% SPs, 12% NFs and 12% NTs (Keirsey & Bates, 1984). Small business owners may not be a mirror of the national population. NTs are represented in this sample at more than twice the expected level. SJs and NFs are slightly higher here than in the national population, while SPs are dramatically under represented. We compared the scores for need for achievement, preference for innovation, and risk taking propensity, for each of the groups, NFs, NTs, SJs, and SPs, to identify any differences. First, we checked for normality. As was the case with the overall scores, the individual distributions were normal as revealed by the Kolmogorov-Smirnov test under the Lilliefors option (Wilkinson, 1990) for each of the four temperaments.

The next phase of the investigation involved Analysis of Variance (ANOVA) on the scores of each of the instruments for each of the temperaments. The results of the statistic shows that the scores on each of the three instruments are significantly different for the various cognitive temperaments. In fact, the level of significance is quite high. The last finding led us to examine whether the actual cognitive scores could shed any more light on the entrepreneurship function. According, we turned to converted MBTI scores for EI, SN, TF and JP. These scores, as reported above, had been converted into continuous distributions to support statistical examination (Myers & McCaulley, 1985). The first step in the examination was a correlation statistic. Scores on the need for achievement were significantly correlated with the EI, SN, and TF scales of the MBTI, as well as the scores for preference for innovation and risk taking propensity. In fact, the preference for innovation was significantly correlated with all of the other measures. Risk taking propensity scores were also significantly correlated to everything except the TF scale. From the perspective of the temperament scores, the SN scale performed the best in terms of significance for all three of the personality trait instruments.

These findings led us to speculate about the ability of the cognitive temperament to drive the personality traits. The theoretical underpinning of our empirical analysis involved an understanding of the value of intuition in explaining entrepreneurial vision. The SN scale of the MBTI explicitly measures the degree of a respondent's reliance upon intuition in his or her cognitive processes. Accordingly, we conducted regression analyses employing the three personality traits as dependent variables and the SN score as independent variable. The SN scale was a significant predictor of the need for achievement, preference for innovation and risk taking propensity. The scale only explained 3% of the variance in the need for achievement, but it explained 23% of the variance in preference for innovation scores and 26% of the variance in risk taking propensity scores. The regression coefficients were positive except for risk taking: the greater the level of intuition, the stronger the need for achievement and preference for innovation. However, stronger sensing preference is associated with higher risk taking propensity. This last finding is at odds with the earlier descriptive statistics which suggest that intuitives have higher means scores on risk taking than do sensing groups.

There is one final set of statistics which come to mind. If the SN score is so successful at predicting scores on the need for achievement, preference for innovation, and risk taking propensity scales, how do the other cognitive meters perform? To grapple with that question, we conducted a stepwise regression matching the four MBTI scales to the three personality trait measures. In comparison to the other scales, the SN scale is the dominant determinant of all three personality traits. The SN scale accounted for 26% of the variance in risk taking in step 1, while the remaining three steps of the procedure only increased the R Square to 33%. The story is the same with innovation. The SN scale explained 24% of the variance in the innovation score, while three more regression steps could only raise the explanatory power to 28%. With regard to need for achievement, the SN scale only accounted for 3% of the variance in the instrument, however, two more regression runs could only raise the R Square to 6%.

CONCLUSIONS

Have we been able to explicate the entrepreneurship enigma? Not completely, but if the results of this study are confirmed by future research, we have made progress in describing the dancer and understanding the dance. The results of this study suggest that entrepreneurs are not homogenous. They may well be characterized by need for achievement, preference for innovation and risk taking propensity, but some of them are more highly driven than others. In fact, any given group of entrepreneurs is likely to contain such a distribution of individuals which makes drawing conclusions about their personality traits difficult. This problem may well be the basis for those who espouse abandoning trait research because it provides no insight into the entrepreneurial process.

The results of this study suggest that the core insight which can support an understanding of the entrepreneur is intuition. In every statistical test, the cognitive function of intuition served to form a basis for understanding the behavior patterns. Those entrepreneurs with stronger intuition translate that vision into innovative action. They are supported in the drive to activate the vision by high need for achievement. They are less dismayed in the face of risk and may well see their actions as less risky. They see what is not there and see it extremely well.

Those entrepreneurs with less intuition in their cognitive typologies will prefer a more concrete approach to the entrepreneurial process. They may be less creative than their intuitive brothers and sisters, but they will be more practical in their approaches to business. It is well established that sensing typologies make better managers but intuitive types make better change agents (Keirsey & Bates, 1984). Both can be highly driven by need for achievement, but sensing types are more cognizant of risk and generally less risk taking. They see what is not there less well and are more apt to focus on the concrete and the here and now.

The foregoing descriptions are simply of individuals at the two poles of the intuition continuum. In reality, most entrepreneurs will fall somewhere between those poles. What they see best will be what they focus upon and will form the basis for their individual approaches to the process of entrepreneurship. The process will be directed by the entrepreneurial vision. The depth and breadth of that vision varies along a normal distribution.

The entrepreneurial gestalt is truly that: a whole which is much greater than the sum of its parts and an outcome which transcends its inputs. We may never master the enigma, but we must recognize that to be ignorant of it is to forever limit our insight. Absent an understanding of the entrepreneurial psyche we are left with attempting to interpret outcomes and processes through our own cognitive typologies. Those of us with more sensing orientation are likely to view the entrepreneurial process more mechanistically and to focus on the planning and strategic management processes. Those of us with more intuitive leanings are more likely to interpret entrepreneurial behavior as the result of leaps of logic which sometimes defy description. Like the blind men describing the elephant, each of us will be right about some things, but none of us will see the whole. If intuition is the glue which supports entrepreneurial vision, as this research suggests, then it is even more difficult than describing the elephant. We are describing the heffalump, a creature no one has ever seen (Hull, Bosley & Udell, 1980), and we must approach the creature carefully because each of them will be different and each of them will be unique and each of us will only be able to see one small aspect of the whole.

It is this uniqueness that makes them the same and makes them so fascinating. That is the true enigma of entrepreneurship, the Gordian knot of our discipline. If we would understand these dancers, if we would interpret their dances, if we would explore how they see what is not there, then we must look for the commonalities in our work rather than the differences. Each of us contributes another piece to the puzzle. As yet, we cannot know the pattern, we cannot see the portrait, but working with and building on each other, we will solve the enigma. It is our collected minds and works which will serve as Alexander's sword.

References Available from the Authors

BREAKING THE SILENCE: A STUDY OF SMALL AND MEDIUM-SIZED FIRMS' FIRST INTERACTION IN THE PUBLIC POLICY PROCESS

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It is well known that, by either incentives or constraints, government has a substantial impact on business (Marcus, Kaufman, & Beam, 1987; Buchholtz, 1988; Scarborough & Zimmerer, 1993). Over time, this impact has increased to where the political success of the firm is considered by some to be vital to marketplace success (Marcus et al., 1987). As a result, firms often found that they needed to become involved in the public policy process if they were to gain influence with policymakers. Historically, large firms were the first to get involved, often by investing in a Washington office, hiring one or more representatives to monitor issue areas of primary concern, and engaging a law or public relations firm to pursue company interests with relevant bureaucrats (Levitan & Cooper, 1984).

Despite a mistrust of government and an unfamiliarity with the public policy process (Cook & Barry, 1993), smaller firms are also beginning to recognize the importance of involvement, in part because a number of laws and regulations apply equally to all firms, regardless of size. For example, in areas like workplace safety or taxation, smaller firms generally have the same compliance requirements as larger companies. Fortunately, thanks to tiering that exempts smaller firms (Verkuil, 1982), and the proportionally greater attention paid by regulators to larger firms, many smaller companies have not yet been unduly injured from many regulations (Brock & Evans, 1986). However, even in circumstances where the very small firm is initially exempt or its requirements minimized (Russell, 1990), these requirements can change as companies grow and cross various size thresholds. When this occurs, they become subject to laws and regulations from which they had been previously exempted.

However, despite the fact that smaller firms are affected by government, the political activities of these companies are relatively unknown (Thompson, Wartick, & Smith, 1991). Nevertheless, the notion that much remains to be learned is not meant to imply that scholars have ignored the business and government area altogether. For example, researchers have examined how firms can benefit from regulation (Wood, 1986), described an issue's life cycle (Buchholtz, 1988; Ullman, 1985), and proposed specific political interactions given the phase of an issue's life cycle (Bigelow, Fahey, & Mahon, 1991). Through the efforts of these and many other researchers, considerable progress has been made towards understanding business and government interactions.

Further, research into the impact that government has on smaller firms is also underway, often by examining specific issues like employment-at-will (Seidman & Aalberts, 1993), or public sector venture assistance (Gatewood, 1993). However, even studies that offer suggestions on when small firms should become involved in the public policy process assume, that a firm has experience with government and the question is merely one of timing (Cook & Barry, 1993). Further, these studies do not examine what triggers the firm's initial interest in public policy issues. This would appear to be an important research question given the following situation--currently, in the US there are over twelve million full-time businesses which could be considered small, regardless of the measurement used (Dennis, 1993; Executive Office of the President, 1993) and, therefore, could potentially be involved in the public policy process. However, visit any trade association or chamber of commerce--common vehicles for small firm political activity (Cook & Barry, 1993)--that professes to represent its membership politically and only a certain percentage of its members are politically active. Given that the issues pursued by chambers and associations are often public goods--i.e., "they must be available to everyone if they are available to anyone" (Olson, 1965, p. 14)--why did some firms become involved and, when they did, what did they do, and what were the outcomes? With these questions in mind, I conducted a two-stage study of the public policy interactions of small and medium-sized firms (hereafter called SMFs). In subsequent sections, I describe the research methods employed, the findings, and offer suggestions for future research.

METHODS

Given the complexity of the phenomenon and the scant work in this area, the research design consisted of two stages: in-depth interviews with SMF CEOs to define better their patterns of public policy involvement and, utilizing the findings from these interviews, surveys of other SMF CEOs.

Until now, I have used the term "smaller firm" without describing what I mean. Since multiple definitions of the term "small firm" exist, researchers often utilize different criteria to determine size. A fairly common cutoff point to distinguish smaller companies from larger firms is 500 employees. Smaller firms are then often divided into medium-sized businesses, which employ from 100-499 people and small firms, which have up to 100 employees (Longenecker, Moore, & Petty, 1994). In this study, I used number of employees as my criteria and included both small companies and medium-sized firms.

The highly complex nature of business and government interactions argued for qualitative techniques that can help researchers understand better the smaller firm's initial decision to become involved. Given that the field is still in an exploratory stage (Thompson et al., 1991), formal hypotheses were not developed--in such circumstances, hypothesis testing is not generally considered appropriate because there is little theory from which hypotheses can be developed (Kelley, 1991). Therefore, this study initially utilized the open-ended approach of grounded theory building (Patton, 1990; Glaser & Strauss, 1967), and began with SMF CEO interviews.

In-depth Interviewing

The initial bounding of the territory (Miles & Huberman, 1994) focused on small firms in the upstate New York area who were active in the public policy process. Sampling of firms was purposeful and intense, rather than random (Miles & Huberman, 1994:27; Patton, 1990:171), and firms were chosen with the support of local trade associations. The in-depth interviews involved CEOs of 22 SMFs that were active in the public policy process, and offered understanding as to the events that prompted these firms' initial involvement decision. The interviews were from one to two hours in length and uncovered a wide range of potential strategies and responses to government, which were then categorized and refined into groupings that ranged from individual, impersonal contact to interactive, group responses. Based on this data, I developed preliminary survey questions regarding the SMF's initial decision to become involved. Table one describes the interviewed firms:

Table 1
Firm Characteristics

INDUSTRY	# OF FIRMS	AGE OF FIRMS (in years)	# OF EMPLOYEES
Printing	2	21/14	47/34
Machinery Mfg.	2	37/48	21/55
Equipment Mfg.	2	9/26	18/95
Banking	1	15	80
Food Mfg.	1	82	380
Fiber Optics	1	8	25
Decorative Mfg.	1	92	105
Fastener Mfg.	2	61/44	63/50
Plastic Mfg.	1	24	225
Construction	2	10/16	44/78
Restaurant	2	8/13	21/34
Retail	2	56/38	260/83
Rubber Mfg.	1	63	56
Insurance	1	39	27
Steel Mfg.	1	98	185

As the questionnaire development was underway (see next section), the interviewed CEOs were utilized as a pretest to help ensure questionnaire clarity. Specifically, the CEOs helped ensure that the questions were comprehensible and that response categories were not inadvertently omitted.

Questionnaire Design

Based on the data gathered from the interviews and the subsequent pretest, I refined the questionnaire to explore SMFs' initial and subsequent public policy interactions. The survey had three components: background information about the firm and the respondent, questions about the respondent's initial public policy involvement, and questions about subsequent public policy involvement. The background information ensured that the firm was indeed a SMF and provided data about the respondent/company. The questionnaire was sent to two groups of SMF CEOs: one from Central New York (CNY) and one from New Jersey (NJ). The CNY group was a chamber of commerce's government relations committee, and the NJ group consisted of firms who were also active in public policy through a statewide trade association.

Response Rates and Non-Response Bias

These firms were targeted because one of the findings from the in-depth interviews was that SMFs often utilize trade associations for their political activities--a conclusion echoing research by Lad (1991). Accordingly, participating organizations (the chamber of commerce and trade association) were approached to solicit their cooperation for this study.

Overall, 375 firms received a questionnaire, resulting in 75 responses. The 75 returns yielded 62 usable responses, for a response rate of 16.5 percent. The remaining 13 were excluded because they had more than 500 employees, thus violating the criterion used for defining a SMF. Given the population, this response rate was anticipated based on earlier survey efforts and on the sponsoring organizations' response rates for their internal surveys. This response rate is also consistent with other surveys of smaller firms, which ranged from less than 10 percent (Chrisman & Archer, 1984) to just over 30 percent (Gomolka, 1978).

Non-response bias is a concern in survey research (Fowler, 1988), particularly given the overall response rate. Using wave analysis (Judge, Griffiths, Hill, Lutkepol, & Lee, 1985), characteristics of the initial respondents were compared against firms which responded after follow-up activities. In addition, using the sponsoring organizations' data, responding firms were compared to the total sample by number of full-time employees and sales. In both cases, no significant differences were observed between the two groups. Therefore, it was concluded that the respondents were representative of the sample.

FINDINGS

The survey results provided an interesting first look at a profile of the initial public policy interaction of SMFs. This exploratory analysis was built around the following three questions:

(1) What were the characteristics of the respondents?
(2) What were the characteristics of the first instance of involvement in the public policy process?
(3) What factors led to a successful outcome in the first instance of involvement in the public policy process?

Characteristics of the Respondents

This section provided background information about the respondents and their firms that were, for the most part, uncontrollable by the executives. The results indicated that an overwhelming majority of the respondents were male (84%). The current average age of the respondents is 51.61 (standard deviation=11.74). The average age of the respondents at the time of first involvement in public policy was 37.56 (standard deviation=8.40). Most of the respondents were highly educated with over one third possessing a graduate degree and only 8.1 percent without a bachelor's degree. The mean size of the firms, measured in number of full-time equivalent employees (FTEs), is 116.84 with a standard deviation of 91.87. Table 2 presents a more detailed breakdown of the size of the firms.

Table 2
Size and Distribution of Firms (Number of FTEs)

	Frequency	Percent
Less than 25	13	21.3
Between 26 and 50	9	14.8
Between 51 and 100	8	13.1
Between 101 and 200	20	33.8
Between 201 and 300	9	14.7
More than 300	2	3.2

Frequency Missing = 1

Characteristics of the Initial Involvement

The first instance of public policy involvement for the respondents spanned a period of more than three decades. The year of involvement provided a reference point for understanding the overall political climate that the firm faced at that time and provided a measure of the executive's experience in the public policy process. The median year for initial involvement was 1982, suggesting that, for the majority of firms, enough time has elapsed for them to determine if their efforts were successful or not. In characterizing the first involvement in the public policy process, the type of issue, the stance of the CEOs (support vs. oppose), the level of government involved, and the strategies chosen were examined.

When characterizing the type of issue, the respondents described the specific issues that prompted their initial involvement. Analysis of this open-ended question revealed that the responses could fall into one of five categories: general economic issues (issues related to general economic concerns that went beyond a specific firm or industry, 24 responses): industry specific issues (issues with a narrow focus that related to a specific firm or industry, five responses); workplace issues (issues that directly affected the relationship between employees and the firm, 17 responses); social issues (general issues affecting society at large, like education, civil rights, etc., eight responses); and unknown (some firms were unable to recall the specific issue that prompted their involvement, eight responses). The major trend in the type of issue as the initial prompter was a shift away from general economic issues to workplace issues. Firms whose initial involvement began in the late 1980's and before indicated general economic conditions, whereas workplace issues dominated the more recent lobbying agendas. This has implications for the outcome of the interaction (see discussion).

A key issue regarding the first involvement in the public policy process was the stance of the executives. Thirty-two percent of the respondents initiated their involvement in support of an issue. A slightly higher percentage (43%) became involved because they opposed an issue. Ten percent became involved as a symbolic gesture to register their opinions with the policymakers while 15 percent became involved for a variety of other reasons. A closer examination of the data revealed that issue type influenced the initial objective. Of the aforementioned five different categories of issues, only social issues sparked the majority of involvement (80%) in support of a policy position. For all other categories (in sharp contrast to social issues), respondents who opposed an issue were more likely to get involved. For instance, executives began their involvement because they opposed a policy position in 65 percent of the general economic issues, 75 percent of the industry-specific issues, and 57 percent of the workplace issues.

The next analysis examined the level of government where the initial public policy interaction occurred and many respondents indicated more than one level, particularly in the category of economic issues which often have implications at multiple levels. As Table 3 reveals, most firms had their first involvement with the public policy process at the state level. Indeed, only 12 companies were not involved with state government during their initial interaction.

Table 3
Level of Government Involved in Initial Public Policy Process Interaction

Overall (54 firms)	Frequency	Percent
Federal Government	28	47.5
State Government	42	71.2

Local Government	12	20.3

Note: percentages do not add up to 100 and frequency does not add up to 54 firms because many issues involved more than one level of government.

Further, state government as the focus for the initial interaction has clearly moved into the forefront as over 90 percent of firms who recently initiated interaction did so at the state level.

To complete a picture of the initial public policy involvement, respondents were asked about the strategies they used during the initial interaction. These strategies included writing a letter, hiring a specialist, personal contact with a government official, participation with other firms, and publicity. The most common strategy used by the respondents was writing a letter or sending a fax. Interview data suggested that this occurred because of the ease with which the respondent could perform this task. Personal contact with government officials and participation with other firms were the other two most popular strategies.

Outcome of the Initial Involvement

The outcome of the first involvement in the public policy process was evenly split as about 49 percent were successful and 51 percent failed. An examination of the outcome according to type of issue and level of government reveals much higher success rates for general economic issues (67%) and social issues (75%). On industry specific issues the success rate is 40 percent while for workplace issues, success rate is a low 17.7 percent. There is a statistically significant and negative relation between opposition to an issue and the outcome (Pearson $r=-0.3303$, $p=0.0374$). Firms who supported an issue were more likely to be successful than firms that opposed an issue. Finally, there is a statistically significant and negative association between interaction with state government and outcome (Pearson $r=-0.2611$, $p=0.0542$), suggesting that successful efforts more likely occurred at federal or local levels.

One might expect medium-sized firms to be more effective than small companies at influencing the public policy process because of the amount of resources that they can devote to the cause. The data, however, does not bear this out. There was no statistically significant relation between the outcome and the size of the firm.

An alternate explanation for the outcome in public policy process could focus on the individual. Four different characteristics of individuals were considered: age, level of education, time spent with the organization prior to the initial involvement, and gender. There was no statistically significant relationship between the first three characteristics and the outcome of the public policy process. The association between gender and the outcome was statistically significant, with males more likely to be successful. However, given the small number of female CEOs in the sample, further studies with a deliberate emphasis on CEO gender would be warranted before any conclusions could be drawn.

Finally, I examined if certain strategies were more successful than others. Of the 5 different involvement strategies, the only one with a positive and statistically significant relation with the outcome was using publicity strategies (Pearson $r=0.2538$, $p=0.0615$). Publicity was defined as efforts by the company to use the media to promote its message to a broad audience and included holding a press conference and conducting media interviews. Based on comments from the CEOs, firms were often hesitant to risk their image when facing reporters, particularly if their position could be viewed as controversial. However, the effectiveness of utilizing the power of the press to convey SMF positions suggests that this might be a more popular strategic choice in the future.

DISCUSSION

First, within the size parameters of the firms in the sample, no one group reported a statistically significant difference in the success rates of their involvement efforts. Indeed, this suggests that very small firms, i.e., with less than 25 employees (almost a quarter of the sample), did not have results significantly different from their larger cousins.

Next, given the almost equal split between success and failure of their involvement efforts, SMFs obvious1v have enjoyed some sense of accomplishment and the lament that "small firms never win," often mentioned in the in-depth interviews, was greatly exaggerated. However, the type of issue, the SMF's position, and the level of government all had a bearing on whether or not the outcome would be successful. If a SMF's initial involvement was in support of a social or general economic issue that was predominately resolved at the federal or local governmental level, the firm was most likely to achieve its objective. Conversely, if the initial involvement was to oppose a workplace issue that was resolved primarily at the state level (i.e., workers' compensation), the firm was most likely to fail.

Continuing with the level of government, state government was the dominant arena for these firms' initial influence effort and was also where the firms' success rate was the lowest. Because the trend towards initial involvement with state government is escalating and workplace issues (with a success rate of only 17.7 percent) are becoming more important, SMFs beginning their involvement in the public policy process today may face more disappointments than their predecessors. This finding mirrored the comments by CEOs during the in-depth interviews which indicated that state government, and the issues normally resolved there, were most likely to affect long-term firm survival.

FURTHER RESEARCH DIRECTIONS

Although I believe that the findings presented constitute a significant contribution to understanding public policy interactions by SMFs, it is also evident that more research is needed to further test and clarify these findings. Specifically, I would recommend study in the following areas:

- Research that isolates the type of issue and firm position in order to offer a more prescriptive model for public policy interactions.

- Research that focuses on why the most effective strategy (publicity) was the least utilized. Is it inexperience?

- Research into further public policy interactions of these firms. Do their experiences change over time?

- Research into other political arenas. New York and New Jersey have a reputation as among the most regulated states in the country. Studies in states having a reputation for less government might generate different findings.

- Research on SMFs that never have been involved in the public policy process in order to understand why not. How might they be different from firms that are involved?

Study in these areas should facilitate the development of a more encompassing model, one which could have considerable value for SMFs attempting to influence government. As government's control over the SMF continues to increase, it is essential to enhance the ability of these firms to influence the public policy process. Understanding more about the SMF's initial encounter with government could encourage other firms to "break their silence" and become active, as well as improve the activities already underway. As a result, having a larger voice in the governmental process should help SMFs prosper. And, given the significance of these firms, this should ultimately benefit the economy as well.

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A BUSINESS SUCCESS VERSUS FAILURE PREDICTION MODEL FOR ENTREPRENEURS WITH 0-10 EMPLOYEES

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ABSTRACT

This empirical survey study presents a success versus failure (S/F) prediction model (S/F = f [advisors, planning, education, minority business ownership, staffing, parents owned a business, record keeping and financial control, capital, industry experience, economic timing]). Using stepwise discriminant analysis, the predictor variables explained 54% of the variance in S/F. The model accurately predicted 75.00% of the surveyed 96 matched pairs firms as being successful or failed. The model will predict a group of businesses as successful or failed more accurately than random classification over 99% of the time (model p=.0006).

INTRODUCTION

The important role of small business suggests that an understanding of why firms fail and succeed is crucial to the stability and health of the economy (Gaskill, Van Auken, and Manning 1993). Of major concern to any would-be entrepreneur is the chance of success for the proposed business. Success versus failure prediction research benefits entrepreneurs, those who assist, train and advise them, those who provide capital for their ventures, suppliers, and public policy makers (Altman 1983; Ballantin, Cleveland, and Koeller 1992; Cameron, Kim, and Whetten 1987; D'Aveni 1989; Dugan and Zavgren 1989; Koh and Killough 1990; Lussier 1995a&b, Pech and Alistair 1993; Storey, Keasey, Watson, and Wynarczyk 1987).

There are many studies to better understand business success versus failure. However, as Gaskill, Van Auken, and Manning (1993) stated: there are many questions still to be resolved and warrant additional exploration... previous studies do not provide a comprehensive or unified explanation for small firm failure... comparisons are needed between successful and failed small business owners.

Prior empirical studies of failure have concentrated almost exclusively on financial ratio data, though other studies of failure usually cite managerial variables as being critical (Scherr 1989). The usefulness of ratio-based business failure prediction models have been questioned (e.g., Alves 1978; Corman and Lussier 1991; Lussier and Corman 1995, Gilbert, Menon, and Schwartz 1990; Shelton 1986; Stockton 1989; Sommers and Koc 1987). For example, El-Zayaty (1986) found ratio models to be poor predictors of bankruptcy: of 132 businesses predicted to fail, only 5 were discontinued over a five-year period. These models had about a 97 percent Type II error rate. Storey et al. (1987) indicated that qualitative data can provide at least as good predictions as traditional financial ratios.

Scherr (1989) recommended virgin research to search for links between management's ability and failure. This study is not based not financial ratios, but on quantitative and qualitative managerial factors contributing to success or failure. To date, the author has found only two major nonratio empirical studies (Cooper et al. 1990 + 1991 and Reynolds and Miller 1987 + 1989) similar to this study. However, the Reynolds and Miller model cannot predict failure of a business before it starts because the age of the business, and the first year sales are needed to predict failure. The major differences between this study and the Cooper et al. studies are: 1. Their sample includes businesses one to three years old whereas this sample includes ages one to ten. 2. Their sample was limited to members of the National Federation of Independent Business (NFIB); this sample is not. 3. They do not survey failed businesses; this study does. 4. Their sample does not include matched pairs whereas this design does. They surveyed firms conducting business; then after a year or longer, some of the firms failed. At that time, they compared the responses of the failed firms and the surviving firms to analyze the differences without ever questioning the failures to ask them why they failed. This matched pairs design avoids comparing larger businesses to smaller ones, retailers to manufacturers or construction companies, and businesses from different locations.

Purpose

The purpose of this research is to develop and test a generic nonfinancial model that will predict young businesses with 0 - 10 employees as successful or failed.

This study adopts Dun & Bradstreet's (1993: i) definitions of failure and discontinuance. Business failures are firms involved in court proceedings or voluntary actions involving losses to creditors. Chapter 7 and Chapter 11 companies are both considered failures due to loss to creditors. Chapter 7 companies liquidate whereas Chapter 11 companies restructure their debt and stay in business. Firms going out of businesses without loss to creditors are not considered business failures: they are discontinued businesses. To be considered a success the business must make at least industry average profits. A young firm is 0 to 10 years old.

METHODOLOGICAL DEVELOPMENT AND TESTING OF THE LITERATURE MODEL

There is no generally accepted list of variables distinguishing business success from failure. Prior research has created discrepancies within the literature by reporting different variables as contributing factors to success or failure. The two most commonly stated distinguishing variables are capital and management experience. However, in 20 journal articles only 14 (70%) specifically state that these two variables contribute to success versus failure. To help clarify discrepancies, this study supports or does not support each of the major variables in the literature.

The model in this study was developed by including the fifteen major variables, identified in 20 journal articles, as contributing to success versus failure. See Table 1 (omitted) for an explanation of the 15 variables, and Table 2 (omitted) for a comparison of the 20 studies that support, do not support, or do not mention each variable.

The Literature Model Variables

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)

Discriminant function analysis is used to predict group membership when the dependent variable is nominal/categorical. Therefore, discriminant analysis was used to predict the 96 sample businesses as successful or failed; based on the fifteen independent variables. The stepwise procedure was run on all the variables in the model to identify those variables that do or do not distinguish success versus failure. The elimination of the variables without discriminant ability results in the development of the prediction model.

DESCRIPTIVE STATISTICAL RESULTS

The sample included approximately: 20 percent from Connecticut, 5% Maine, 44% Massachusetts, 19% New Hampshire, 9% Rhode Island, and 6% Vermont. The mean age of the failed and successful firms was 5.5 and 5.8. Industry representation (as classified by Dun + Bradstreet) includes approximately: 2 percent agriculture, 14% construction, 17% finance, 10% manufacturing, 22% retailing, 3% wholesale, 6% transportation and communication, and 25% services. For a comparison of the descriptive statistics, measurement of the fifteen variables in the model, and correlation matrix see Table 3 (omitted).

SAMPLING METHODOLOGY

The sample was limited to the six New England states--Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. A total of 103 questionnaires were returned, but seven were dropped from analysis due to missing data. Therefore, 96 usable questionnaires were analyzed: 45 from failed and 51 from successful firm owners. The combined response rate was 43 percent. This rate is high for a failure survey.

The population of failed businesses includes Chapter 7 and 11 companies. Due to difficulties in locating liquidated business owners the failure sample frame was Chapter 11 companies. Lussier (1995a&b) and Lussier and Corman (1995) used a sample of Chapter 11 companies. The rationale for the company size of 0 to 10 employees is due to the fact that a very small percentage of businesses start with more than 6 employees (Cooper et al. 1990). The model was designed for young firms up to ten years old with up to ten employees.

The failure sample was generated from the bankruptcy court records. The questionnaire was first mailed to each owner/CEO filing Chapter 11 during the most recent year. The questionnaire was then mailed to each failed respondent's successful company match. Matching was selectively based on size (number of employees 0 - 10), age (all firms are ten years old or less), location (same state and city, or city close by), and industry (same Dun + Bradstreet classification) to ensure relevant comparisons. Each Chapter 11 company owner was asked to identify the company's major competitors. Estimating a 50 percent response rate from successful company matches, two competitors were selected and sent a questionnaire as the failed company`s match. All 45 failed firms have at least one match. Six additional successful companies data were also included as a second match.

RELIABILITY AND VALIDITY TEST OF THE SAMPLE

Reliability of the questionnaire

The questionnaire was carefully developed through four pretests to increase reliability of the sample measurement instrument. One of the major concerns of the study was response rate. The questionnaire's length was limited to increase the response rate; therefore, a trade-off was made. Rather than having several repeat questions, the questionnaire used one open-ended question to check reliability. There was only one nonreliable response (.005%); therefore, reliability is inferred.

Validity of the Chapter 11 Company Sample

Chapter 11 firms are early representatives of closed businesses. Wood (1990) reported less than 5 percent of Chapter 11 companies survive whereas Flynn (1989) reported a 10 to 12 percent survival rate. In this study 19 percent of the respondents were in Chapter 7 proceedings. The responses of the Chapter 7 companies were compared to the Chapter 11 companies to determine differences. Of the questions testing the model, none were significantly different ($p<.05$). Therefore, t-testing infers that the dominantly Chapter 11 sample is a valid representation of failures.

Sample Representation

To ensure that the sample represents the population, a comparison was made of the sample failure frequency distributions to the failure population by state and industry. The population figures include Chapter 7 and Chapter 11 failures (Dun + Bradstreet 1993). Using the chi-square test, there is no significant difference ($p<.05$). In other words, businesses in all six states, and all types of businesses, are represented by about the same percentage in the sample as the population of which they represent. Percentage representation of the sample was listed above.

Nonresponse Bias

Nonresponse bias was 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 questions testing the model, no responses are significantly different ($p<.05$). The t-test and chi-square test results infer that the sample is not problematic due to nonresponse bias. In addition, the combined response rate of 43 percent is relatively high for failure studies.

RESULTS AND DISCUSSION OF MODEL TESTING

Testing the Literature Model to Develop the Startup Business Success versus Failure Prediction Model

To test the fifteen independent variable literature model stepwise discriminant analysis was run in order to predict the 96 businesses as successful or failed companies. Because some of the variables are not significant, they are dropped from the Literature Model to form the Business Success Versus Failure Prediction Model. Below is a list of the variables retained and those excluded from the model after step 10 of stepwise discriminant analysis. The variables are in rank order by ability to discriminate between success and failure.

The Startup Success versus Failure Prediction Model for Entrepreneurs with 0-10 Employees

S/F = f (professional advisors, planning, education, minority business ownership, staffing, parents owned a business, record keeping and financial control, capital, industry experience, economic timing)

The following variables were excluded from the model: *management experience, product/service timing, age, partners, and marketing.* Ten variables are kept in the model, and five are dropped from the model. For the standardized canonical discriminant function coefficients, classification results, and functional statistics of the model see Table 4.

The standardized coefficients (Beta) are similar to the coefficients in regression. The standardized coefficients are adjusted for unequal means and standard deviation. The absolute values of the standardized coefficients provide information concerning the relative importance of the predictor variables in the function. Therefore, they are presented in rank order. However, unlike with regression, it is inappropriate to interpret the signs of the coefficients (Scherr 1989).

The most appropriate evaluation statistic of the model is not the coefficients because they are rank ordered, and the signs should not be interpreted. Therefore classification accuracy, canonical correlation, and the significance of the model are better test of the validity and reliability of the model.

Validity and Reliability of the Model

The research results infer content validity, empirical validity, construct validity, and reliability. To address content validity, this study based all questions on prior research. The model includes fifteen variables stated in the literature as being factors contributing to success versus failure. There is no generally accepted list of variables/factors contributing to success or failure. Therefore, a criterion is established concurrently with the model. To help ensure the reliability of the model, stepwise discriminant analysis was run to eliminate collinear variables, and those with little discriminatory power. It can be inferred that multicollinearity is not problematic.

Empirical validity and reliability were tested three ways:

1. Predictive ability of the model. The model predicted 67.7 percent of the failed sample, and 82.4 percent of the successful firms correctly for an overall accuracy rate of 75 percent. See Classification Table section of Table 4. If random guessing produces a 50 percent correct classification, then the model is 25 percent more reliable at classifying a specific business as successful or failed.

2. Ability of the fifteen independent variables to explain the variance in success or failure. The canonical correlation [simply the Pearson correlation between Y and X, similar to R in regression] was .54; indicating a correlation between predicted and observed group membership. This is reflective of the overall 75 percent correct classification.

3. Significance of the model. The chi-square of 30.89 was used to test the significance level of the model (p=.0006) [comparable to the F test in regression]. In other words, the model will reliably predict a group of businesses as failed or successful more accurately than random guessing over 99 percent of the time. Two other discriminant function statistics shown in Table 4 include: Eigenvalue .42 [the ratio of the between-groups to within-groups variability] and Wilks lambda .70 [the ratio of within-group variability to the total variability].

IMPLICATIONS

Use and Limitations of the Model

There are at least seven groups that can benefit from using the 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 conducting business with firms with a high probability of failure. Suppliers may decline credit or limit it to high risk businesses. 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 model, it is important to realize that the model is not intended to replace existing default risk prediction techniques. It should be used in conjunction with the present techniques used by investors, lenders, creditors, and other groups to avoid default. The model does not provide numerical guidelines for variables distinguishing success from failure. Judgment is needed when applying the model. For example, the variable "planning" states that people starting firms with a specific business plan have a greater chance of success than people without a specific plan. However, the model neither defines "specific" nor gives a sample business plan needed to be successful. The user must look at the list of variables in the model and subjectively assess the strengths of the business for each variable. Use judgment when a business is strong on some variables and weak on others. When judgment is needed the other decision criteria previously used become increasingly important in avoiding default.

Further Research

Some unanswered questions require further research. Why are there inconsistencies within the literature and discrepancies between the literature and this study? Almost all of the major variables identified in the literature as factors contributing to success or failure have been rejected by one or more other existing studies, see Table 2 (omitted). Management experience constitutes one major area of discrepancy between the literature and this study. Fourteen of the twenty articles support this variable as a distinguishing factor between success or failure. However, management experience was not a significant variable in this perdition model.

In this study ten of the fifteen variables were significant predictors of success or failure ($p<.001$). Of the twenty journal articles of which the variables were adapted, only Cooper et al. (1990 + 1991), and Reynolds and Miller (1987 + 1989) developed nonfinancial empirically tested predictive models. They each developed two models based on the same data set. The following bullet list compares each of the fifteen variables, Tables 1 and 2, for these four models and this study's model [prediction model for 0-10 employees] to show discrepancies among studies.

1. *Capital* is the only tested significant variable in their four models and this 0-10 model.

2. *Record keeping and financial control* was a significant variable in the Reynolds models and this 0-10 model, and it was not a tested variable in the Cooper models.

3. *Industry experience* was a significant variable in the Cooper 1991 model and this 0-10 employee model, but it was not significant in the Cooper 1990 model,

and it was not a tested variable in the Reynolds models.

4*. Management experience* was not a significant variable in the Cooper models or this 0-10 model, and it was not tested with the Reynolds models.

5. *Planning* was a significant variable in Cooper 1990, both Reynolds models, and this 0-10 model, and it was not a tested variable in the Cooper 1991 model.

6. *Professional advisors* was significant in the Cooper models and this 0-10 model, and it was not a tested variable in the Reynolds models.

7. *Education* was significant in the Cooper 1991 model and this 0-10 model, but it was not significant in the Cooper 1990 model or the Reynolds and Miller 1989 model, and it was not a tested variable in the Reynolds 1987 model.

8. *Staffing* was a significant variable in this 0-10 model, but it was not significant in the Reynolds models, and it was not a tested variable in the Cooper models.

9. *Product/service timing* was a significant variable in the Cooper 1990 model and the Reynolds models, but not in the Cooper 1991 model or this 0-10 model.

10. Economic timing was a significant variable in the Cooper 1990 model and this 0-10 model, but not in the Cooper 1991 model, and the Reynolds models did not test it as a variable.

11. *Age of owner* was a significant variable in the Cooper 1990 model; but it was not significant in Cooper 1991, Reynolds and Miller 1989, or this 0-10 model; and it was not tested in the Reynolds 1987 model.

12. *Having partners* was a significant variable in the Cooper 1990 and Reynolds and Miller 1989 model, but not the Cooper 1991 or this 0-10 model, and the Reynolds 1987 model did not test this variable.

13. *Parents owned a business* was a significant variable in the Cooper 1991 model and this 0-10 model, and it was not tested by the Reynolds models or Cooper 1990 model.

14. *Minority ownership* was a significant variable in both Cooper models and this 0-10 model, and it was not a tested variable in either Reynolds models.

15*. Marketing skills* was not a significant variable in any of the models, it was rejected as significant in the Reynolds 1987 model and this 0-10 model, and the Cooper models and Reynolds and Miller 1989 model did not test it.

To summarize, the only variable tested and accepted by all five models is capital. The variables tested by at least three models and not rejected by any as significant include: planning, record keeping and financial control, professional advisors, and minority ownership. Variables both supported and rejected as significant include: industry experience, education, staffing, product/service timing, economic timing, age of owner, and partners. The variables not supported as significant by any of the five models, and rejected by two or three include: marketing skills and management experience. With these discrepancies among studies, further predictive model testing is needed to provide reliability and validity.

Conclusion

The purpose of this study has been achieved. The generic young nonfinancial business success versus failure prediction model for businesses with 0-10 employees developed in this study will reliably outperform random classification of a group of businesses as successful or failed over 99 percent of the time (model $p=.0006$). The model will accurately predict the success or failure of a specific business 75 percent of the time. The ten variables in the model explained 54 percent of the variance of factors contributing to success or failure.

REFERENCES and TABLES

Due to space limitation, contact senior author for a list of the 40 references and Tables 1-3.

Table 4
DISCRIMINANT FUNCTION ANALYSIS RESULTS

Model Standardized Canonical Discriminant Function Coefficients

Variable Name (Ranked by coefficient discriminant ability)	**Standardized coefficients**
Professional advisors	-.75***
Planning	.65***
Education	.46***
Minority	-.37***
Staffing	.31***
Parents owned business	.29***
Record keeping and financial control	-.29***
Capital	-.28***
Industry experience	.27***
Economic timing	-.22***
*** p<.001	

Classification Table

Actual Group	Predicted Failure	Group Success	Percentage Correct
Failure	67%	33%	67.7%
	(30)	(15)	
Success	18%	82%	82.4%
	(9)	(42)	
Overall			75.0%

Discriminant Function Statistics

Canonical correlation	.54
Eigenvalue	.42
Wilks' lambda	.70
Chi-square	30.89
Model significance level	.0006

DIAGNOSING AND IMPROVING SBI STUDENT COMMUNICATION SKILLS

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INTRODUCTION

This paper extends a presentation made at the 1995 Small Business Consulting Conference (1) to focus on how Situational Leadership can be used to diagnose and to improve student oral and written communication skills(2). This is an important issue at a conference whose theme is "Speaking Out for Small Business."

After discussing the imperatives for this issue, the five key steps in implementing Situational Leadership will be introduced. The paper will

also make specific recommendations for the planned development of student communication skills enabling them to speak out for themselves and for the SBI program.

WHY ARE COMMUNICATION SKILLS IMPORTANT?

Communication skills are essential leadership competencies. How can you lead or influence others unless you can communicate effectively? However, "...some people deride communication skills as 'soft skills,' implying that they are touchy-feely indulgences, less critical to business success than 'hard' technical skills. 'Nonsense,' says New York-based consultant Robert Gedaliah. 'Communication skills are more vital than ever. How else but through effective communication--both lateral and vertical--can you get everyone focused on the same goals?" (3)

Communication skills are important to students' careers as well as to their success in the Small Business Institute program. This is supported by Ralph M. Gaedeke and Dennis M. Tootelian. They found in their research that potential employers identified the greatest weakness of college graduates as the lack of communication skills (4). And, on the job, ".....more supervisors fail because of ineffective communication than for any other reason."(5) A recent study Of 4,000 supervisors, managers, and senior executives by London House, a division of the McGraw-Hill Companies, found that top executives differ from other managers in that, "They communicate more effectively, both verbally and in writing."(6)

This need for effective communication skills will accelerate if we accept Peter Drucker's idea of the "Network Society." Drucker foresees less lifetime employment with an organization and more partnerships with a number of organizations.(7) These partnerships, alliances, joint ventures, and consortia will place more emphasis on marketing oneself. This self-marketing is consistent with the views of futurist George Gilder, a senior fellow at the Discover Institute in Seattle and founding editor of Forbes ASAP, who foresees a new microprocessor-based millennium that will foster individual productivity.(8) Self-marketing to develop these individual opportunities will require excellent communication skills.

The current changes in the Small Business Institute program are parallel with changes in other organizations. "Lifetime employment" with the SBI program funded by Congress is ending and the need for partnering with alternative funding sources is beginning. With this change, customer-oriented communication skills will become even more critical in building long-term client and community relationships. Whether it be interviewing clients, delivering consulting services, presenting oral reports, or writing the final SBI report, oral and written communication skills are vital. The SBI program will not be able to continue without these student skills.

How can these communication skills be developed? Situational Leadership suggests an approach.

SITUATIONAL LEADERSHIP

Situational Leadership, is based on an interplay among (1) the amount of guidance and direction (task behavior) a leader gives; (2) the amount of socio-economic support (relationship behavior) a leader provides; and (3) the readiness level that followers exhibit in performing a specific task, function, or objectives.(9)

According to Situational Leadership, there is no one best way to influence people. The leadership style is the behavior exhibited by the leader as perceived by the follower(s). Style depends on the readiness level of the people the leader is attempting to influence. This behavior as illustrated in Figure 1 (omitted) can be classified into the two broad categories of task and relationship behavior.

Task behavior is defined as the extent to which the leader engages in spelling out the duties and responsibilities of an individual or group. These behaviors include telling people what to do, how to do it, when to do it, where to do it, and who is to do it.

Relationship behavior is defined as the extent to which the leader engages in two-way or multi-way communication. These behaviors include listening, facilitating, and supporting behaviors.

Task behavior and relationship behavior are separate and distinct dimensions. They can be placed on separate axes of a two dimensional graph, and the four quadrants can be used to identify four basic leadership styles. Figure 1 (omitted) illustrates behavior is plotted from low to high on the horizontal axis while relationship behavior is plotted from low to high on the vertical axis. This makes it possible to describe leader behavior in four ways or styles. These four quadrants can be used as the basis for assessing effective leader behavior. No one style is effective in all situations. Each style is appropriate and effective depending on the situation.

It is important to note that while task and relationship were used in their operational definitions, different words representing the same underlying definitions may be used in different settings. For example, guidance or supportive behavior and directive or facilitating behavior, respectively, can be used in place of task and relationship behaviors. To maintain the context of this paper, instructor and student will replace leader and follower; directive and facilitating behavior will replace task and relationship behaviors. Although students work in teams to complete their projects, the principal focus will be on the individual student.

Readiness Defined. Readiness in Situational Leadership is defined as the extent to which a student has the ability and willingness to accomplish a specific task. People tend to be at different levels of readiness depending on the task they are being asked to do. Readiness is not a personal characteristic; it is not an evaluation of a person's trails, values, age, and so on. Readiness is how prepared a person is to perform a particular task. This concept of readiness has to do with specific situations, not with any total sense of readiness. All persons tend to be more or less ready in relation to a specific task, function, or objective that leaders are attempting to accomplish through their efforts.

The two major components of a readiness are ability and willingness. Ability is a function of the knowledge, experience, and skill that an individual or group brings to a particular task or activity: Knowledge --knowledge of the task, Experience--experience with or related to the task, Skill or performance--demonstrated skill and/or performance in successfully completing similar tasks.

Willingness is a function of the confidence,commitment, and motivation that an individual has to accomplish a specific task: Confidence--the person's feeling that, "I can do it," Commitment--the person's feeling that, "I will do it," Motivation--the person's feeling of "I want to do it." Willingness is only one word that describes the issue. Sometimes, it is not so much that a person is really unwilling, it is just that the specific task has never been done before. Perhaps the person does not have any experience with it, so the individual is insecure or afraid. Generally, if it is an issue of never having done something, the problem is insecurity.

Even though the concepts of ability and willingness are different, it is important to remember that they are an interacting, influence system. This means that a significant change in one will affect the whole. The extent to which a student brings willingness into a specific situation affects the use of present ability, and affects the extent to which the student will grow to develop competence and further ability. Similarly, the amount of knowledge, experience and skill brought to a specific task will often affect competence, commitment, and motivation.

Readiness Levels. Readiness levels are the different combinations of ability and willingness that people bring to each task. The continuum of student readiness can be divided into four levels. Each represents a different combination of student ability and willingness or confidence.

APPLICATION

Use of Situational Leadership consists of five well defined and interrelated steps. These steps include:

1. What objective(s) do we want to accomplish?

2. What is the student's readiness given the situation?

3. What leadership intervention should the instructor make?

4. What was the result of this leadership intervention?

5. What follow-up, if any, is required?

Each of these steps will be examined in some detail.

1. What objective(s) do we want to accomplish? The instructor must first determine the task-specific outcomes a student is to accomplish.

Without creating clarity on outcomes, objectives, subtasks, milestones, and so on, the instructor has no basis for determining student readiness or the specific leadership style to use for that level of readiness.

Don Shula and Ken Blanchard's recent best-selling business book, Everyone's A Coach, confirms the importance of objectives. They note that, "Someone has said that a river without banks is a puddle . . . [and] a broad target that is easy to achieve leads to the 'puddle' of mediocrity."(10) They urge the establishment of specific, meaningful objectives. Broad, meaningless objectives will only result in a stinking, wallow of mediocrity.

For purposes of illustration, the task objective to be used in the following discussion is: "To deliver a 10 minute oral presentation to an SBI client using an overhead projector." Note that this objective relates directly to the communication skills development aspect of the SBI program discussed above.

It should also be noted that there are two important differences between the objectives of an SBI course and those of a usual business course. These objectives are summarized by the expressions, "give and go" and "do and tell." In the usual course, a student "gives" an assignment to the instructor. It may or may not be graded, and the student "goes" on to the next assignment. That's the end of it. No feedback, no rewriting, no attempt to meet professional standards.

In an SBI course, a student must do, e.g. complete project ready to be given to a client and tell, e.g. communicate the essence of the project to the client "Do and tell" are much more demanding objectives than "give and go."

2. What is the readiness of the situation? Once a objective has been determined, the instructor must then diagnose each student's readiness to accomplish it. The key issue is: "How ready or prepared is the student to accomplish this specific objective?" If the student is at a high level of readiness, only a low amount of instructor involvement will be required. If, on the other hand, the student is at a low level of readiness, considerable guidance will be required.

Why is it important to assess readiness? Failure to assess readiness is educational malpractice. In the medical arena, prescription without diagnosis is malpractice. The same is true in education. Failure to diagnose the readiness of each student before prescribing educational treatment is educational malpractice. As student populations become increasingly diverse, leadership without diagnosis will become even more inappropriate.

Measuring Readiness. How does one measure readiness? A convenient way is to assess a student's ability and willingness is to use the three basic criteria of each dimension: ability includes knowledge, experience, and skill; willingness includes confidence, commitment, and motivation. One way of assessing readiness is to use a Likert type scale ranging from + + representing a high degree to -- representing a low degree of the factor being evaluated. The range would be the following:

Very High (++) to Very Low (--)

Using the objective: "To deliver a 10 minute oral presentation to an SBI client using an overhead projector," a student's readiness could be assessed as follows:

Gather Preliminary Assessment Data. Initial data can be gathered at the beginning of the term by having each student complete a background data from giving, among other items, past experience on team projects and self-assessment of oral and written communication skills. The instructor can then have students introduce themselves and deliver brief informal presentations on "Why I am a highly desirable team member." These presentations accomplish a number of worthwhile outcomes:

a. Provide initial feedback on oral communication skills. If, for example, a student appears reluctant to go to the front of the classroom, this might be an indicator of insecurity.

b. Identify undesirable presentation mannerisms. These can be noted for further discussion and counseling.

c. Reinforce desirable skills and attitudes. Dedication to the team, excellent writing skills, and highly developed research skills can be reinforced.

Based on a student's oral presentation, an informed assessment can be made. The typical student as a graduating senior would have had little or no experience in, knowledge of, or skill in delivering SBI-type presentations. Because of this, the student would have a low level of confidence, little commitment, and little motivation. The overall assessment of the student would be one of an insecure person of low ability. Given this, what would be the instructor's appropriate leadership style?

3. What leadership action should be taken? The appropriate leadership style would be one of Telling since the student has low amounts of both ability and willingness. The student needs to be given experience in delivering oral reports, knowledge of the appropriate way to deliver reports through watching appropriate models, and skill through practice. At the same time, confidence, commitment, and motivation need to be enhanced through coaching, feedback, and encouragement. Practice with supportive feedback is critical.

The willingness component must be carefully assessed. A key factor, particularly in oral reports, is insecurity. Perhaps the student has been ridiculed or made fun of during a previous attempt. Perhaps the student, particularly if an international student, has never made an oral report. Whatever the reason, insecurity is a critical factor.

How Can The Instructor "Tell?" Telling means providing the who, what, when, and where through structure. Written guidelines are important because students come from very diverse backgrounds. For example, give students a memorandum that outlines the general structure of the oral presentation: introduction, body, and close:

"Tell them what you are going to tell them."
"Tell them."
"Then tell them what you told them."(11)

The use of this simple structure will help students keep the audience focused on the key ideas.

Schedule Brief Presentations. Two minute oral presentations are long enough to start skill development. You might consider linking the students' first written report with their first oral report. This gives students practice for their client presentations when they link their written case reports with their oral case presentations.

Require Visual Aids. This writer requires one overhead transparency for each minute of presentation. Many students have never prepared or used transparencies so it is well to start them early. Peta Penson, Ed.D., partner with Co-Development Associates Inc., Los Gatos, CA, suggests the following tips for using presentation graphics:

1. Maximum of six words per line and six lines per visual.

2. Horizontal, not vertical lines.

3. Upper and lower case, not all caps, in a simple typeface.

4. Bullets, not Roman numerals.

5. Consistent placement of text on the visual.

6. Main points only.

Require A Written Script. Requiring a written script has done more to improve the quality of oral presentations than any other technique this writer has used. The script requires students to think about and to rehearse their ideas, put more structure into their presentations, and ease the transition to when they present their SBI report by relating their oral presentations to their print references, e.g. written reports and SBI reports. It also provides an opportunity for another writing experience. Preparing the script using 16 or 18 point type size makes it easy to read and helps students direct their attention toward the audience. A copy of the script is also given to the instructor before the presentation.

Talk About Nervousness. It is important to talk about nervousness around this theme: "Show me a person who says, 'I never feel the slightest bit of nervousness when I get up to present,' and I will show you a person who is not to be trusted. That person, no matter how reputable, is lying." (12) If you are not nervous, you do not care. Nervousness is a sign of caring!

Model Desired Behavior. Modeling is done in two ways. First, the videos, Be Prepared To Speak (13) and Delivering Successful Presentations" (14) are shown. Particular attention is drawn to the moderator in Delivering Successful Presentations who demonstrates excellent presentation skills, professional appearance, and body language. This video has proven to be very effective. Second, a former student demonstrates an "ideal" presentation and answers questions.

Provide Informed Feedback. Feedback is provided immediately after each presentation by both the instructor and other students in a spirit of cooperative learning. Guidelines suggested by Robert E. Levasseaur of the Fox Consulting Groups, are used:

a. Don't give feedback unless the other person agrees to hear it. This is agreed upon at the beginning of the class.

b. Give feedback only on controllable behavior that can be changed.

c. Describe your view of the behavior and your reaction to it.

d. Be precise with specific examples.

e. Suggest alternative behavior.

f. Give student an opportunity to respond.

g. Be brief, simple, clear, and honest in your feedback. (15)

Make the Learning Fun. For example, Sandra Byrd and Jacquelyn Jones suggest: Use the steps in the SLEAZY acronym to avoid "Sleazy" presentations.

S - Specific. State the specific topic or purpose of the presentation.

L - Logical. Use an outline and make sure all of the parts fit together.

E - Easy. Present ideas in an interesting, easy-to-follow way.

A - Audience. Tailor the presentation to the audience.

Z - Zealous. Act interested and excited about the presentation.

Y - Yawns. Use visuals, examples, illustrations to put "zip" into the presentation and prevent the yawns." (16)

4. What was the result of the leadership intervention? This step requires assessment to determine if results match expectations. Students learn in a sequence of small steps. Development is positively reinforcing successive approximations as the student approaches the desired level of performance. After a leadership intervention, the instructor must assess results through rechecking the objectives, rediagnosing readiness, and ascertaining what directive and facilitating behaviors are indicated.

5. What follow-up, if any, is required? If there is a gap between present performance and desired performance, then follow-up is required in the form of additional leadership interventions and the cycle begins again. Follow-up is usually in the form of additional practice. It is recommended that all student teams be required to present a "dry-run" prior to their formal presentations.

Applications. The same five steps outlined above can be used to assess and to develop written communication skills with particular attention to diagnosis, structure, modeling, assessment, and follow-up.

SUMMARY

The essence of the above discussion is that there is a process based on Situational Leadership to not only give students the information they need to facilitate their learning, but to give them a head start on completing their projects. This suggests the following:

1. Establish meaningful and worthwhile learning objectives related to the students' career objectives.

2. Assess the ability and willingness of individual students through short assignments.

3. Use the appropriate leadership style. In most instances, this will be a "Telling" style with the who, what, when, and how spelled out.

4. Assess results of leadership interventions. This suggests a series of "write and refine" steps. For example, sections of the SBI report are prepared, submitted, reviewed, and discussed with the students.

Diversity issues are increasing the likelihood of educational malpractice. As SBI students become more heterogeneous, individual and team readiness must be diagnosed before educational prescriptions are dispensed. This paper suggests that Situational Leadership offers a systematic approach to resolve these issues. Help your students on the road to success; improve their communication skills.

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THE SBI EXPERIENCE FROM THE STUDENTS' PERSPECTIVE: IMPLICATIONS FOR STUDENT LEARNING

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ABSTRACT

This study explored the SBI project's contribution to student learning. One hundred twenty-two students responded to a survey immediately after completing their SBI project. The SBI project provides an extremely positive experience for a majority of students. Ninety-one percent rated it as valuable. Comparisons with similar questions asked of students one to four years after their project suggest they may value the experience even more over time. Two crucial areas can be a concern for students: working with good clients and working with a good student team. Specific recommendations to ensure that the SBI project remains a powerful learning event are discussed.

INTRODUCTION

An important part of any SBI program is student learning. Did the students benefit from their experiences? And, if so, in what ways?

Dietert, Halatim, & Scow (1994) used feedback from former students to improve SBI program quality. They recommend that surveys be used regularly to monitor how well the SBI program accomplishes its educational mission.

Schindler and Stockstill (1995) conducted an extensive review of the literature and concluded that the SBI project's educational value often has been overlooked or merely implied by client satisfaction. Most recent research on the SBI students' perspective has been narrow in scope, focusing on unique aspects of course delivery (Watts & Jackson, 1994) or on how the SBI experience influenced attitudes towards entrepreneurship (Hatten & Ruhland, 1994), for example.

Brennan (1995) surveyed student perceptions from one to four years after their SBI program experience. This study builds on Brennan's work, using similar questions to gather student ratings immediately after their participation in the SBI program.

OBJECTIVES

This study's main purpose was to explore how the SBI project contributed to student learning from the student's perspective. Its objectives were: (1) to assess student ratings of specific aspects of their experience; (2) to measure the experience's perceived impact; and (3) to gather concrete ideas on how to improve the SBI experience for future students.

RESEARCH DESIGN

A cover letter and survey were mailed to all University of St. Thomas students who had participated in a SBI project during the 1993-94 academic year. The mailing was sent during the summer of 1994. Non-respondents received a follow-up mailing. Of the 210 surveys sent, 122 completed surveys were returned, yielding a high response rate of 60 percent. (Seven were returned as undeliverable.)

Open-ended questions were content coded and percentages of keyed responses were calculated. The CRUNCH statistical package was used to analyze all data.

Survey questions captured students' opinions on:

* General likes and dislikes about the SBI project experience,
* Specific evaluations on various aspects of the experience,
* Reflections on the project's overall impact, and
* Suggestions for improving the learning experience.

Forty percent of respondents had conducted their SBI project in the Fall of 1993 and 59 percent in Spring of 1994. Most respondents completed their projects as part of a Marketing Management course (71%), with 17 percent during Human Resources, 6 percent Public Relations, and 5 percent Operations Management courses.

Respondents' median age was 23. Half (52%) were female. At the time of the study, a majority of respondents (57%) had graduated and were working full-time.

Unique Characteristics of the SBI Experience at UST

Several features of the University of St. Thomas (UST) SBI program may influence students' perceptions and shape their learning. Perhaps most important, UST requires an SBI experience for all undergraduate students who major in Marketing, Human Resources, Public Relations, and Operations Management concentrations. Consequently, all students who participate in SBI projects do so to meet graduation requirements. This differs from how other programs operate. Timmins and Tallent (1992) found in a national survey of SBI Directors that over 75 percent of SBI programs interview students and select those with a good grade point average, appropriate majors and experiences, a high level of interest, and a desire to spend the time needed.

At UST, the SBI project is usually taken by undergraduate seniors and seen as a culmination of several courses in their major. A small number of projects are conducted by graduate business students. Part of a semester-long course that requires additional coursework and assignments, the SBI project typically covers only half of their total course grade. And finally, LIST students tend to work on their SBI projects as part of a three- to four-person team.

RESULTS

General Likes and Dislikes about the SBI Project Experience

Student respondents were consistent in their answers to what they most and second most liked about their SBI experience. One-fourth (24%) cited the chance to work with real business issues as what they liked most. Typical responses included: I liked "that we got the opportunity to interact with the real business environment" and "it provided a realistic example of business problems."

Teamwork was ranked as what they liked second most. "Learning from others students" and "working with a team towards a common goal" were common responses. Working with real clients, gaining practical experience, and applying ideas from previous courses were all mentioned but with much less frequency. (See Table 1).

Interestingly, the number one response to what they liked least about the project experience was teamwork. While some thought this the most positive aspect, a significant number (21%) cited working with a team as the least liked aspect. "Only 2 people in the group did the work of 5" and "my group was highly dysfunctional" were typical examples of this complaint.

Respondents also reacted negatively to the amount of time they needed to invest in the project. Common responses include: it "took too much time away from other classes" or "it was difficult to prepare in the time frame given." Clients posed a problem for some respondents, while others noted their frustration with trying to coordinate the schedules of busy team members. Table 1 summarizes responses to the most and second most liked (most liked) and the most and second most disliked (least liked) questions.

Table 1:
Rankings of Most and Least Liked Aspects of SBI Project

Students most liked:	%a	Students least liked:	%b
Real world experience	24	Teamwork	21
Teamwork	19	Time involved	19
Work with clients	12	Client	11
Practical experience	6	Coordinating schedules	7
Application of all classes	5	Lack of focus	6
Miscellaneous/other	34	Miscellaneous/other	36

[a] Percent responses for each category out of a total of 201 responses for most and second most liked questions.
[b] Percent responses for each category out of a total of 191 responses for most and second most disliked questions.

Specific Evaluations on Various Aspects of the Experience

The SBI project seems to be a mostly positive experience for the students surveyed. Half of all those surveyed rated all aspects of their SBI experience as somewhat or very positive. Figure 1 (omitted) displays the ratings for the questions on specific aspects of the SBI experience. Making the final presentation and the instructor's helpfulness received the most favorable ratings, with three-fourths or more rating these aspects as positive or highly positive.

Not surprisingly, not all project attributes were rated positively. Mixed responses to a few questions indicated some dissatisfaction with the time required and teamwork. This finding echoes student comments during the open-ended questions about their general dislikes. Almost one-fourth of those surveyed rated time required and teamwork as somewhat or very negative.

While client cooperation and choice of clients were rated negatively by a significant number (about one-fifth), a majority said these were positive aspects of their SBI experience. The client seems to be an important variable, mostly positive, yet sometimes making the experience a negative one. This is not surprising given the pivotal role the client can play.

Reflections on the Project's Overall Impact

Students' overall impressions of their SBI project experience were highly favorable. Over half (57%) said it was definitely a valuable experience, with an additional one-third (34%) citing it as probably valuable. (See Figure 2, omitted).

Likewise, almost all students (86%) thought the SBI project should be required (as shown in Figure 3, omitted). Only 16 percent thought they probably or definitely would not take an SBI course if it was not required; 58 percent said they would. Given the strong demands on students' time and interests, this seems a good endorsement for the SBI experience.

Many respondents thought the SBI experience would be useful for them in getting a job (46% said definitely or probably; 31% were not sure). Similarly, over half (58%) said it was useful on their current job.

The survey also measured the SBI project experience's impact on student interest in working with small businesses or in starting their own business. The SBI experience seemed to make a difference for about one-third of the students. Thirty-six percent said that as a result of their SBI project, they are definitely or probably interested in working for a small business. Similarly, 37 percent said they are now more likely to become an entrepreneur and start their own business. Since no measure was taken prior to their actual SBI experience, this finding is based only on student recall. Still, it does indicate that about one-third of the students thought their interests had changed.

Suggestions for Improving the Learning Experience

Respondents mentioned several ways to improve their SBI experience. The most often stated improvement was better clients (cited by 20%). Comments included: "The company should need, not just want assistance" and "Have the business owner define what they expect as far as results go. What they want accomplished."

A number of respondents (15%) felt that allowing more time for the SBI project would be an important improvement. "More time to get more into the company and the project" and "have the entire semester focus on the SBI project" were some of the typical responses given.

More instructor guidance on the project (7%), better team selection (6%), and building in more structure to the experience (6%) were the next most frequent mentioned ways to improve. Other suggestions included more course work related to the SBI experience and more class preparation for the project.

Comparisons with a Previous Study

This study builds on a study conducted by Brennan (1995), using the same student population and questions. The only major difference between the two studies is their time frame. The earlier study asked students to reflect on their SBI experiences one to four years after, while the present study measured perceptions one to four months after.

Different students are rating different experiences in the two studies. Yet, comparisons between the two provide intriguing insights into how students perceptions may change over time.

Specific aspects. Students in both studies gave highly positive ratings to most attributes of their SBI experience. There was little difference between the profile of results; both studies revealed similar likes and dislikes. Interestingly, students were slightly more positive when rating their experience years later than those doing so only months later.

Three aspects in particular were notably higher. Teamwork was rated positive by 58 percent in this study and 70 percent in the previous. Sixty-two percent in this study rated SBI class preparation as positive, but 75 percent did so in the previous study. Writing the final report also was rated positive by less students in this study (65%) than in the previous one (75%).

Overall impact. As shown in Table 2, the perceived impact of the SBI project experience was similar whether the ratings occurred immediately or 1-4 years after the experience. Only two hems had differences worth noting. It appears that students rated the usefulness of the experience for their job even more positively when they had a few years to reflect on it. Similarly, respondents who had 1-4 years to gauge the significance of their SBI project were more likely to agree that they would take an SBI course even if it were not required.

Table 2:
Comparisons between Ratings of the SBI Program's Impact

	Percent		
	Definitely or probably	Not sure	Definitely or probably not
SBI should be required			
1-6 months after SBI	87	8	5
1-4 years after SBI	88	6	6
SBI is valuable experience			
1-6 months after SBI	91	5	4
1-4 years after SBI	94	4	2
SBI is useful in getting job			
1-6 months after SBI	47	33	20
1-4 years after SBI	49	27	24
SBI is useful on the job			
1-6 months after SBI	60	30	10
1-4 years after SBI	70	16	14
I would take SBI if not required			
1-6 months attar SBI	61	23	16
1-4 years after SDI	76	13	11

DISCUSSION AND IMPLICATIONS

Students in this study had positive views about their SBI experience. Almost all (91%) said their SBI experience was a valuable one. Students gave high ratings to the SBI course, their instructor, and the project's outcome of writing a report and making a final presentation.

Most students surveyed were in professional programs with an emphasis on applied learning. A majority felt their SBI experience was useful, especially on their current job. This is an important indication that students value the experience and find it immediately applicable. All in all, it appears that students learn from their SBI project experience, value its real-world and applied focus, and recommend it be a required component of their education.

The SBI experience's usefulness may not diminish over time. Comparisons with an earlier study (Brennan, 1995) reveal that student opinions are similar whether measured immediately or one to four years after the SBI experience. Students with more time to reflect and put the experience into perspective as well as more actual time spent working gave slightly higher marks to their

SBI experience. If anything, students may be even more supportive of the SBI experience and its learning value years later.

There were some mixed opinions, however. While most rated their client and their team members positively, almost one-fourth seemed to feel negative about them. This highlights two important areas where program directors may help determine whether the SBI experience is a favorable one for students.

Implications for Selecting and Coaching Clients

Good clients make a better SBI experience for the student. A number of students in this study said better clients would be the most important way to improve their SBI experience. This is an intuitively obvious finding. Yet, it serves as an practical reminder of the need to recruit and train good prospective clients.

Clients are clearly important to the project's success. Much effort is put into providing good quality outcomes for the clients. It may be equally important to select clients who will offer a valuable learning experience for our students. This study suggests that SBI programs continue to remember the goal of student learning when choosing clients to participate in SBI projects.

Selecting good clients is the first step. Once selected, clients need suggestions on how to best work with students. Cooperative, active clients who are coached in how to support student learning should help ensure that both clients and students are pleased with the SBI experience.

Implications for Students Working in Teams

Good teams produce good products. This study proposes that specific knowledge and skills about how to work in teams might be of benefit to students working on their SBI projects. It is difficult for learning to occur if a team is bogged down in nonproductive conflict or if one social loader refuses to come to team meetings.

Basic skills in how to work with others on projects may help alleviate typical teamwork problems. Students then can focus on being productive team members who learn from each other. A few critical coping skills might make a big difference. These skills could be taught as part of earlier coursework or may be a key learning component of an SBI class. Ross (1992), for example, used personality characteristics to help team members understand their own and others' team behavior.

Implications for Structuring the Experience

This study suggests that students want solid course support as part of the SBI experience. Informative courses taken prior to the SBI project allow students to better understand client issues. Coursework taken in conjunction with the SBI project may help build important abilities necessary to complete the project. Good instructors who provide continuous support are appreciated by the students and seem to add to their ability to practice and apply relevant knowledge and skills.

One complaint from this study was the lack of sufficient time to complete the project. Given the constraints of a quarter or semester, time parameters are difficult to change. It may become important, then, to make sure that the scope of the project fits with the time allowed. Student teams could be formed with time constraints in mind, taking into account student schedules and locations. A few other strategies could make a difference: encourage both the students and the client to start the project as soon as possible.

Prepare clients to start right away. Wafting for a client who is on vacation or unattainable for three weeks can significantly shorten the time available to work on a project. Scheduling everyone's time may be complicated but can be easier if the client is committed to getting started.

An SBI project requires time and multiple resources to complete. Often key learning occurs only after preliminary steps are done. By starting the project early, students give themselves time to discover real issues and research relevant solutions.

Future Research

This study is part of a line of research that indicates the SBI experience remains a powerful learning experience years afterwards. Schinder and Stockstill (1995) found that the SBI project enhanced students skills and had a perceived positive effect on student careers. A longitudinal exploration of the SBI experience's relevance and value would test some hypotheses generated by this study. For instance, does the value increase over time as students have more opportunities to apply their learning?

In conclusion, we propose that SBI programs make a concentrated effort to systematically explore the type and level of student learning that occurs both during and after the SBI project. The results of such efforts can not only verify that important program goals are met but also can provide specific recommendations for program improvement.

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HOW CAN WE HELP SBI STUDENTS BECOME MORE EFFECTIVE CONSULTANTS?....BY TURNING THE PROCESS UPSIDE DOWN!

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ABSTRACT

SBI student teams need an effective model in order to be successful with their small business consulting activities. Their natural patterns of social interaction and initial tendencies in transferring to a consulting situation are frequently dysfunctional. This paper explores two models--an initial natural series of steps presented in the form of a triangle standing on its point, and a contrasting model shown as a pyramid of steps progressing from a more stable foundation. Discussion of four interrelated stages--building a relationship of trust and credibility, mutual discovery of problems and opportunities, joint development of solutions matched to clear needs, and providing implementation support--presents the author's approach to a format which is easily teachable in the SBI environment.

OUR COMMON PROBLEM

Many SBI Directors have searched for, or worked on developing, systematic processes for addressing various symptoms of ineffective SBI student consulting. Often, underlying issues involve a complete lack of experience on the part of consulting team members regarding workable processes--including both the language and the basic flow of steps. In fact, much of the typical interaction pattern which occurs naturally among student peers leads to their perception that customary dialogue will be successful--only to work in the wrong direction when they become SBI consultants.

Consider a rather common flow such as the following typical conversation:

* "Hey, what's happening?" (Standard opening greeting)
* "Not much--how about you?" (Standard response, regardless of circumstances)
* "Nothing ... Where're you going tonight?" (Generic inquiry--no particular goal)
* "Don't know ... Heard something doing at the UC." (Off-hand momentary thought)
* "Want to check it out?" (Semi-serious query, subject to any better opportunity)
* "Maybe we'll get over there too." (Relatively unlikely non-committal response)

It appears that the "one-liner" approach is not only alive and well, but it seems to the users to handle simple interactions reasonably effectively. Empathic perception and penetrating conversations just aren't needed in much of the familiar environment. But when the SBI assignment comes up, unfamiliar territory may indeed require a very different style.

THE SEEMINGLY NATURAL PATTERN

Observation suggests that the first solution for handling interactions with new people in everyday situations is to engage in "small talk." For many students, common topics may involve sports, the weather, first impressions of surroundings (location, decor, clothes, etc.), and the like. Nervousness abounds, and conversations can wander aimlessly until perhaps something accidentally happens to move things along. Frequently, in early interactions with SBI students, small business owners don't know what to expect, begin to experience tension, and join in the destination-less journey.

Reflection with both parties following this type of interaction suggests that everyone is happy to get out of this stage as soon as possible. In fact, it is likely that if such "small talk" is allowed to drag on and on, the stage is set to damage the effectiveness of the whole SBI process between that student team and client. But for the moment, assuming something happens to move the process along, what's the next common step?

Naturally, everyone on both sides--student team and client organization representatives--has a vague expectation that the intent is to do something helpful. But figuring out where to start and how to proceed is often awkward. Small business owners with a rather strong need for independence and perhaps some level of embarrassment regarding their specific predicament may be reluctant to open up right away with underlying causes for problems. Similarly, they may not be keenly aware of entry points for taking advantage of potential opportunities. Consequently, the first glimmer of an area for improvement that can be evoked in the conversation may receive undue attention.

In fact, since the SBI student team knows that it's there to "search and destroy" problem aspects, the natural tendency is to fire continuing volleys of "probes" until something seems to be identified as the current problem (usually only one of many surface symptoms of co-mingled problems, at best). But at any rate, step two has now been executed, so we're on to the third stage of this default process.

To recap progress so far, "small talk" has been followed by "probing" which has uncovered at least a symptom of something to be pursued. Now comes "pitching" of ideas for improvement. Never mind that no one has gotten to the root of a problem--much less found out what actions to "fix" the situation may have been tried already. To some degree a natural consequence of feeling vulnerable or inadequately prepared, student teams at this stage often jump upon the first solution that comes to mind as being able to save the day. Or with a bit more thoroughness, sometimes several alternative solutions are developed, with the inevitable "best solution" being a certain combination of the above.

Now comes the last of the four steps in the natural process: how the students can sell the client on implementing the team's solution. And from the client's side, there seems to be one of two common responses: (a) a half-hearted non-confrontational appreciation for the possible value of trying the proposed actions some day, when the time is right, when the resources are available, if something doesn't intervene, etc.; or (b) a series of objections which make it clear that while this answer may work in other cases, it simply isn't right in this instance because.... Clearly, the classic "flight or fight" syndrome characterizing stressful situations in general has taken over. At this stage, the student team may become engaged in a protracted interaction that happily must end as the semester comes to a close and the final report must be prepared!

So to recap, the typical unaltered "consulting process" advances through four stages, pictured in the triangle standing on its point in Figure 1. A rather unstable beginning is consummated with "small talk." Probing follows at the earliest opportunity, as everyone sees the need to move on. A quick "hit" in the second stage zeroes in on a symptom or two to be attacked aggressively with a "pitch" to take action predicted to rid the client of unwanted conditions or take advantage of new possibilities. Since none of this is really based on clear understanding of desired outcomes, actual conditions and root causes, knowledge of past actions and results, etc., the fight/flight pattern of chasing objections concludes the sequence.

```
          ----------            Overcome Objections
          \        /
           --------             Pitch Solutions
           \      /
            ------              Probe for Weakness
            \    /
             ----               Open With Small Talk
             \  /
              \/
```

Figure 1: Typical Interaction Progression

The metaphor of this upside-down triangle is appropriate in that it suggests the relative amounts of time and energy committed to each of the four stages of the consulting interaction. Very little time is spent on small talk (at least theoretically), while the most time is probably concerned with trying to figure out why the proposed solutions aren't quite right--but trying to sell them anyway. Moving up the triangle in this first picture, progressively more concentration is shown at each successive step. The solution "pitching" process receives more attention than the problem "probing" stage, which in turn usually gets more attention than the initial "small talk." Without conscious attention and coaching, this process occurs frequently and requires substantial effort to turn around.

THE UPSIDE DOWN MOVE

If Figure 1 shows the typical natural pattern, then the opposite view presented in Figure 2 hopefully provides insights regarding a better way--turning the emphasis in the original process upside down.

Again, letting the graphic areas within each level of the new triangle represent relative amounts of attention, it is proposed that this time a broad base in the first step provides a more sound foundation for subsequent stages. All four parts of the alternative process are described briefly in this section, while specific hints about how to be successful are discussed in the next section of the paper.

```
            /\                  Support Implementation
           /--\
          /    \                Suggest/Jointly Explore
         /------\
        /        \              Discover/Agree on Needs
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       /----------\
      /            \                Build Trust Relationship
     /--------------\
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Figure 2: Revised Process on Solid Foundation

The first stage of the revised process is a carefully coached process of building a relationship--focusing on empathy and credibility. At this step, the student team must establish positive expectations for the whole future interaction, demonstrating a level of sincere interest and competence that inspires client confidence for the rest of the process. More will be said later on about how to accomplish this, but for the moment it should be apparent that this step truly determines whether there will in fact be any real possibility of a successful consulting interaction.

When the relationship building step has been effectively accomplished (not totally forever, but for the moment), the time is right to ask the right questions and listen actively for the answers. In order to proceed, the consulting team must know clearly what the client now has and what they want instead. They must know what the key environmental parameters are, how they are changing, what has been tried in the past, what has worked and what hasn't, what resources are available, who makes the decisions, etc., etc. Even though this is a fairly lengthy process, it is potentially streamlined considerably to the extent that the earlier relating step really opened communication channels. Otherwise, a seemingly endless series of questions still won't get to the bottom of a situation being experienced by a reluctant client.

Agreement on the key points of discovery in the second step provides almost the equivalent of "an engraved invitation" to explore possible solutions. The assumption here is that both the student team and the client have been involved in the identification of priorities. The outcome of that process is now being subjected to a natural solution-finding process. Any proposed remedies can be matched with specific aspects of identified problems or opportunities through a "features-advantages-benefits" analysis. Again, more will be said about this later.

Assuming that explicitly identified problems discovered in stage two have been matched with promising solutions in step three, the question of how to help the client organization get what they really want comes into play. Note, however, that instead of throwing up objections because suggested actions might have been off base in the earlier consulting model, the concerns raised may more likely focus on what will be required for successful implementation. Certainly there may again arise some tension and uncertainty, but usually the student team and the client recognize that they're on the same side of the table facing a common problem. Generally the amount of time and energy required to deal with this situation is far less than indicated in the previous model where the two parties sometimes even seem to experience adversarial feelings as each defends their position.

ONCE MORE WITH FEELING

A bit more will now be said about each of the four stages of the second consulting model. For the sake of simplicity in labeling, the four steps will be referred to as: (a) Relating, (b) Discovering, (c) Suggesting, and (d) Supporting. In actuality, there are not really four discrete steps in a sequence as much as there are four overlapping aspects of the consulting process. Experience indicates, too, that perception of difficulty at a given stage should be a signal to move down to the prior stage rather than continuing to focus on the current roadblock. For example, discovery problems are frequently based on a weak relationship; suggestion rejections often reflect inadequate discovery: and tension at the support stage may indicate off-target suggestions.

RELATING is clearly a critical foundation for the rest of the process. If there is a lack of trust or confidence from the beginning, then later stages cannot be very successful. Students need to know that first impressions make a huge difference--making appointments, being on time, looking professional, using appropriate language, etc. Also, making it clear from the start that the primary reason for being there, asking for certain information, and so on, is always to benefit the client--not so the students will meet course requirements and earn a good grade. Finding commonalities early on can be helpful, lessening the gap that might otherwise seem too wide to cross. Also, noting that the capabilities brought to the client are not limited to the knowledge and experience of these team members--rather, stretching to other resources at the university--can help inspire confidence for both sides.

DISCOVERING is really the heart of successful consulting. Based on the trust and credibility established in the first (and continuing) step, the student team must formulate effective questions and listen carefully both to what is said and what is missing in client responses. Many seasoned consultants find that a combination of open and closed questions offer creative ways to get into major areas of discussion and then zero in on needed details. Questions about both the "facts" of a situation and the "feelings" related to them should be used to get the full picture. When clients are not responding fully, "active listening" skills such as restating, reflecting, pausing, encouraging, etc. are important. Non-verbal "body language" and voice pattern variations may also add a lot to what the client's actual words are saying. In the end, this process should result in both the student team and the client becoming as clear as possible regarding current and desired conditions. Even if fairly certain, it is always advisable to check for agreement before leaving this step. In fact, without agreement here, the next step is likely to fail. Finally, students often need to be reminded repeatedly that it is not just their own discovery of problems and opportunities that's required. Rather, they are trying to help their client proceed through this process.

SUGGESTING solutions is the natural followup to discovery. In fact, the more clear the agreement regarding a problem or opportunity, the more focused the energy can be for moving toward action. Student teams, like most other consultants, may have preconceived ideas about what types of solutions are best in a particular situation. SBI teams, especially, are likely to be looking for applications of the knowledge they've been getting in their other courses. There is nothing wrong with revisiting sophisticated prior academic exposure. But for any solution proposed, the real test centers on whether and how well it seems to promise to achieve the particular outcomes desired by the client. If one solution appears perfect at first glance, but it really doesn't line up with how the client organization runs or with what resources and personal preferences are evident, it probably won't get used. Generally, alternative solutions, with relative advantages/disadvantages, should be matched carefully against what the client organization actually wants--not how well it corresponds to textbook theory! Many SBI students just assume that if they learned that things "should" be done certain ways in an accounting course, for example, then the client must be "wrong" for wanting to pursue another approach. Unfreezing old "knowledge" often seems difficult. When ultimate benefit to the client is the focal point, the result is almost always positive. Again, a simple acronym for this approach is the F-A-B sequence of exploring the features of various solution options, clarifying the relative advantages (and disadvantages) of each, and thereby assessing the true benefits to this client in this specific situation before prioritizing suggestions.

SUPPORTING is that last stage in which members of the SBI consulting team can greatly endear themselves to clients by being willing to "roll up their sleeves" and "get down and dirty"--actually helping to implement suggested actions. Certainly there are limits here, not including making a year's worth of accounting entries after setting up a bookkeeping system or taking a complete physical inventory count after developing a bin-card system. But being active in helping to get the progress started can make a world of difference. An uncertain client who sees that hands-on help is available is much more likely to follow through. One who "gets cold feet" and envisions possible disaster as a result of change may need sensitive reassurance, perhaps again even working through worst case scenarios and contingency plans. Obviously, finding ways to make implementation easier or less expensive will always be welcome. In addition to rewarding a fancy consulting report, SBI grading processes typically should reinforce major implementation support efforts. Again, much may be learned at this stage which suggests returning to explore other solution options more thoroughly, or perhaps even revisiting the discovery if it appears things do not line up with the earlier perceived agreement.

CONCLUSION

Of course no process is fool-proof or perfect. One of the things that undoubtedly makes being an SBI Director a challenging and stimulating undertaking is that all clients and all student teams are different. The author has been both an SBI Director and an outside business consultant for about twenty years. Anecdotal evidence collected through personal observations over this time is compelling in favoring the second process approach over the first one which was identified as being a typical starting model for the inexperienced team. Use of the two triangle models for a number of years has made teaching and coaching the SBI teams more successful, based on both validity and simplicity. Moreover, the concept of permeable boundaries between stages of the second model is comfortable to grasp and appears to provide more flexibility than a horizontal line of boxes connected by arrows in a more traditional flow chart format. SBIDA colleagues are invited to share their own variations in teaching effective consulting processes, and hopefully will open a spirited discussion using this paper as a starting platform.

INFLUENCES ON BUSINESS STUDENTS' DECISIONS TO PURSUE ENTREPRENEURIAL OPPORTUNITIES OR TRADITIONAL CAREER PATHS

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ABSTRACT

Thirty-four students enrolled in the capstone business course, Business Policy and Strategy, were administered a questionnaire to determine their career preferences and the factors influencing their choice. Eighty-nine students enrolled in the freshman-level Introduction to Business course were also administered the questionnaire. Responses in both groups were fairly similar, with a strong preference for pursuing employment in a large or medium-sized business, rather than self-employment. Students in both groups identified Life Experiences as the primary influence on their career choice. Geographic Location, and the Business Curriculum were important influences, and the Business Curriculum played an increasing role over Geographic Location for those about to graduate and enter the job market. The primary finding was that both groups displayed relatively high interests in starting or owning their own business; but interest in pursuing self-employment seemed to dissipate after four years of business courses.

INTRODUCTION

Several studies have been conducted dealing with the characteristics, motivations, traits, and thinking styles of the entrepreneur (Rosenfeld, Winger-Bearskin, Marcic & Braun, 1993; Chay, 1993; Hisrich, 1990; Winslow & Solomon, 1989; Solomon & Winslow, 1988; McClelland, 1987; Begley & Boyd, 1987; Venkatepathy, 1986). However, there have been relatively few studies which examine the business student's perception of what factors influenced his/her career decision to pursue entrepreneurial ventures and self employment, or to pursue more traditional business careers as an employee.

University business schools are generally very similar across the country, largely as a result of accrediting agencies which propose "ideal" business curriculum. However, some academicians have argued that business programs must begin to implement change strategies which will more adequately address the business needs of today and tomorrow. Areas which may prove promising in meeting the challenges ahead, include internationalization of the business curriculum and entrepreneurial education.

The debate as to the possibility of teaching individuals to be entrepreneurs is fueled by the opinion of some that business schools in general do not provide an "entrepreneurial conducive" learning environment. It may be that the standardized, traditional approach which has resulted from the influence and requirements of accrediting agencies may indeed be educating students to be employees and not employers. It may also be that students enrolled in business schools throughout the U.S. are actually discouraged--be it inadvertently--from entrepreneurial and self employment careers.

LITERATURE REVIEW

In an exploratory qualitative study examining influences on business students' career choices, Whitlock (1995) classified graduating business students in four categories: (1) Those who never desired self-employment as a career option, and still do not; (2) Students who had previously considered entrepreneurship and self-employment and still do anticipate such a career; (3) Students who had previously considered self-employment,but who now no longer desire such a career; and (4) Never anticipated self-employment, but now desire an entrepreneurial career. Percentages of students in each category were 26.08% in Category 1; 65.21% in Category 2; 8.69% in Category 3; and 0 in Category 4. (Whitlock, 1995). Furthermore, the in-depth interviews suggested several career choice factors which were generally supported by other studies.

Several studies indicate that family plays a significant role in one's career decision, particularly on one's decision to pursue or not to pursue self employment and entrepreneurship. Parents and other family members who are self employed seem to be a significant influence on college students' career choice of self employment. This supports findings of previous research on family support/influence, and parental influences (Bohmer & Sitton, 1993; Scherer, Brodzinski & Wiebe, 1991; Fraboni & Saltstone, 1990; Korin, 1989; Carroll & Mosakowski, 1987; Deivasenapathy, 1986). Other factors affecting career decisions relative to self employment versus traditional business careers included desire for control, and perhaps a desire to break the glass ceiling which women experience (Brodsky, 1993; Burgess-Limerick, 1993; Smith Smits & Hoy, 1992; Poole, Langan-Fox & Omodei, 1990; Ayalon, 1988; Hisrich, 1986), and which minorities experience (Butler & Herring, 1991; Leonard, 1984).

From the interviews with the two female students conducted by Whitlock (1995), it seemed that they struggled more so with decisions regarding children and family, and the personal impact children would have on their careers. Females' concerns regarding family primarily focus on how the impact of children and family would affect them personally, whereas, males seemed to indicate their primary concern was how their career decisions would impact their children and families (Whitlock, 1995).

Generally, those who desire self-employment consider themselves as more independent than did those who desired a more traditional business career (Whitlock, 1995), and is consistent with studies focusing on entrepreneurs' internal locus of control and high self efficacy (Ward, 1992; Gray, 1992; Taylor & Popma, 1990; Lent, 1986; Royalty, 1984). Of particular interest to educators involved in entrepreneurial and small business, was that every student in Whitlock's study, stated that the business program--particularly the curriculum--was primarily geared toward preparing students for traditional careers as "employees," rather than preparation for self employment. Those students who never desired self employment seem to have had their desire for traditional careers in business confirmed or perhaps fortified, while those who believed they wanted to pursue self employment seem to have been convinced not to, or to at least postpone their entrepreneurial careers (Whitlock, 1995). Most of the research into college students' career choice seems to support the concept that career decisions are most often made early (Bonnett & Furnham, 1991; Stapleton & Murkison, 1990).

One finding which may cause consternation among those involved in entrepreneurial and small business education, is the perception among the students, that though they definitely felt steered toward traditional business career paths by the overall business school program, another factor apparently had a significant impact on their decision not to pursue, or to postpone self employment (Whitlock, 1995). This factor was the very courses designed to teach and even encourage entrepreneurship and small business. Students who had desired self employment stated that the courses aimed specifically toward entrepreneurship and small business management gave them more pause to reconsider that career choice, than other factors in the curriculum. Some would argue this is indeed a positive and worthwhile objective of such courses, but others might argue that it supports the notion that many, if not most, successful entrepreneurs are those who were either ignorant of the facts and risks, or who chose to ignore them (Whitlock, 1995).

PROBLEM STATEMENT

The problem investigated focuses on the question regarding factors influencing career choice of business students both before and after the four years of traditional business school. Specifically examined is the student's preferences for either entrepreneurship or traditional business careers.

Significance of the Study

With the probability that the 1990s will continue the trend toward downsizing and rightsizing among American businesses, there is indeed the likelihood that more and more individuals who fall victim to such trends will choose self employment and entrepreneurial opportunities. It may also be that as new students enter business programs that they too may more seriously consider self employment options as a first second career choice. Drucker observed that, "Permanent jobs (not counting recession unemployment) in the Fortune 500 have been shrinking steadily year by year since around 1970, at first slowly but since 1977 or 1978 at a pretty fast clip By 1985, the Fortune 5000 had lost permanently at least 4 to 6 million jobs" (Drucker, 1985, p. 266). This trend as predicted by Drucker and others has continued through today. A brief glance at the headlines today tells the story. "Sears/K Mart Reduce Workforce," "Reduction in Personnel at G.M.," and on and on. Drucker wrote prophetically in 1985 "...the welfare state is past rather than future, as even the old liberals now know. Will its successor be the "Entrepreneurial Society?" (Drucker, 1985, p.2).

RESEARCH QUESTIONS

It may prove helpful in program and curriculum development if a basic understanding is gained relative to students' perceptions of their business training and education. This study attempts to discover influences affecting business students' desires to be self employed, or pursue traditional business careers, and to identify the primary factors they perceive as influencing career decisions. The following research questions are examined:

1. Are graduating university business school students enrolled in a traditional business school more or less likely to choose self employment or traditional career paths?
2. What do graduating business students perceive to be the major factors behind their career decisions?
3. Are beginning freshman enrolled in a business school curriculum more or less likely to choose self-employment or traditional career paths?
4. What do beginning business students perceive to be the major factors behind their career decisions?
5. Are there any significant differences between graduating seniors and beginning freshman business students' career choices, or factors influencing career choices?

METHODOLOGY

Two groups were studied. The first sample consisted of students enrolled in the freshman-level Introduction to Business course. The second sample included students enrolled in the senior-level business capstone requirement, Business Policy and Strategy. Every student enrolled in all sections of Introduction to Business at a state-supported university in the Southwest U.S. surveyed.

Likewise, all students enrolled in every section of Business Policy and Strategy at the same institution were surveyed using the same questionnaire.

Sample size for graduating seniors was determined by the number of students enrolled in the capstone course. The sample consisted of business majors who had completed the same set of core business requirements. This core is basically identical among most university business schools and programs, including fully accredited schools and associate member schools. Sample size for beginning freshman was determined by the number of students enrolled in the Introduction to Business course.

One instrument was developed for the study consisting of twenty-three items answered on a 5 point Likert scale. Students were asked whether they had considered starting or owning their own business. They were then asked three follow-up questions regarding their career plans following school. Plans included self-employment, employment with a small company, employment with a mid- to large-sized company, and/or pursuit of a graduate degree. Students were also asked to rate several items as to whether or not it was a factor in determining their career choice. These items included: Parents, Spouse, Children, Other Family, Friends, School, Instructor(s), Overall Business Curriculum, Small Business Management Course, Geographic Location, Life Experiences, Race, Gender, Religion, and Age. Additionally, students provided some basic demographic information.

Data was analyzed using a statistical software package to calculate summary statistics, and correlation coefficients. Means were calculated for each item included on the questionnaire, and then rank-ordered. Likewise, career choice factor means and demographic means were calculated and rank-ordered. Pearson correlation coefficients were then computed to determine statistically significant relationships.

Limitations

The obvious limitation in this study is the convenience sample which was necessitated. This was countered by surveying all students in all sections of the two courses considered. Likewise, the generalizability of the study's findings is limited. Also, as Robinson and Huefner noted, there are some caveats to using student subjects for entrepreneurial research (Robinson, Huefner & Hunt, 1991). The findings may indicate areas which may be further researched and examined, but this study's findings should not be widely generalized and applied. There may be specific social, economic, and cultural differences present within the particular institution in which this study was conducted which would significantly effect the responses.

FINDINGS

Responses did not vary greatly from Introduction students to Policy students. Those enrolled in the freshman-level Introduction to Business course recorded an average score of 3.84 (on a Likert 5 point scale). After graduation, Intro students ranked career preferences for employment with a mid- to large-sized company, and pursuing a graduate degree as their number one ranked intention (both tied with a score of 3.46). An average score of 3.08 was calculated for their intention of employment with a small company (ranked third), and an average score of 3.00 for their intention to pursue self-employment was calculated (ranked fourth).

Students enrolled in the Business Policy and Strategy course had slightly different rankings: (1) Pursue employment with a mid- to large-sized company--3.94 on a five-point scale; (2) Pursue a graduate degree--3.46; (3) Pursue self-employment--2.97; and (4) Pursue employment with a small company--2.97. As Table One illustrates, a higher score for considering starting or owning a business was calculated by Policy students. The Policy students also ranked the pursuit of self-employment higher than Introduction students. However, there is a greater disparity in Policy students between the consideration of owning a business and their intentions to pursue self-employment. In terms of intentions to pursue employment with a mid- to large-size company, Policy students scored much higher relatively than Introduction students. Interestingly, a lower score was reported by Policy students in terms of graduate degree intentions.

Table One
Business Student Career Plans

Item	Introduction Ave. Score	Introduction Rank	Policy Ave. Score	Policy Rank
Considered starting/ owning own business	3.84	na	4.11	na
After gradutation, pursue self-employment	3.00	4	2.97	3
After graduation, pursue employement w/ small company	3.08	3	2.88	4
After graduation, pursue employment w/ mid-large company	3.46	1-2	3.94	1
After graduation, pursue graduate degree	3.46	1-2	3.29	2

There were also few differences in the relative rankings of influences on career plans between the Policy and Introduction students. Table Two shows rankings and average scores of both classes. The number one ranked influence for both groups was Life Experiences. Introduction students ranked Geographic Location as the second strongest factor, followed by the Overall Business Curriculum. Policy students ranked the Overall Business Curriculum second, followed by Geographic Location. Instructor(s), Parents, Small Business Management Course ranked 4th through 7th respectively, for both groups. Factors ranked among the very last for both groups included Race (15th for Introduction and 14th for Policy); Religion (13th for Introduction and 15th for Policy). Gender was ranked 10th by Policy and 14th by Introduction, showing a significant jump from the freshman year to the senior year. Another increase from the freshman-level to the senior-level was the influence of a spouse. Drops in factors influencing a student from the freshman to the senior-level course included Other Family, and Religion.

Table Two
Influences on Business Students' Career Plans

Factor	Introduction Ave. Score	Introduction Rank	Policy Ave. Score	Policy Rank

Parents	2.40	6	2.29	6
Spouse	1.69	11	1.98	8
Children	1.76	10	1.64	11
Other Family	1.84	9	1.58	12-13
Friends	1.91	8	1.91	9
School	2.58	4	2.67	4
Instructor(s)	2.56	5	2.52	5
Overall Business Curriculum	2.61	3	2.88	2
Small Business Management Course	2.14	7	1.94	7
Geographic Location	2.94	2	2.70	3
Life Experiences	3.46	1	3.38	1
Race	1.32	15	1.55	14
Gender	1.38	14	1.70	10
Religion	1.50	13	1.23	15
Age	1.68	12	1.58	12-13

Correlation coefficients were calculated for both classes. The following factors were significantly correlated at the 5% level for Introduction to Business class. They are shown in Table Three.

TABLE THREE
CORRELATION COEFFICIENTS:
INTRODUCTION TO BUSINESS STUDENTS

Variables	Correlation	P Value
Considered starting/owning business with After graduation--pursue self-employment	0.64	0.00
Friends Influence with School Influence	0.50	0.00
School Influence with Instructor Influence	0.56	0.00
Insuuctor Influence with Business Curriculum Influence	0.46	0.00
Instructor Influence with		

Small Business Management Course Influence	0.44	0.00
Business Curriculum Influence with Small Business Management Course Influence	0.72	0.00
Parents Self-Employment Influences with Father Self-Employment Influences	0.91	0.00
Parents Self-Employment Influences with Mother Self-Employment Influences	0.47	0.00

For students in Business Policy and Strategy, correlations were calculated to determine any relationship between instrument variables. The correlations were statistically significant at the 5% level and are shown in Table Four.

TABLE FOUR
CORRELATION COEFFICIENTS:
BUSINESS POLICY AND STRATEGY STUDENTS

Variables Value	Correlation	P
Considered starting/owning business with After graduation--pursue self-employment	0.51	0.00
Considered starting/owning business with Parents Influence	0.42	0.01
After Graduation--Pursue Self-Employment with Small Business Management Course Influence	0.55	0.00
After Graduation-Pursue Graduate Degree with Business Curriculum Influence	0.54	0.00
Spouse Influence with Children Influence	0.72	0.00
School Influence with Instructor Influence	0.55	0.00
School Influence with Business Curriculum Influence	0.59	0.00
Instructor Influence with Business Curriculum Influence	0.74	0.00
Instructor Influence with Small Business Management Course Influence	0.35	0.04
Business Curriculum Influence with Small Business Management Course Influence	0.45	0.01
Parents Self-Employmtnt Influences with Father Self-Employment Influences	0.84	0.00
Parents Self-Employment Influences with Mother Self-Employment Influences	0.52	0.00

CONCLUSIONS

The purpose of this study was to determine what, if any, factors influence student career plans--specifically regarding self-employment versus employment with a mid- to large-sized company. The study attempted to answer five research questions.

Question One: Are graduating university business school students enrolled in a traditional business school more or less likely to choose self employment or traditional career paths?

The findings indicate that they are much more likely to pursue employment with a mid- to large-sized company. The choice for this type of employment was the number one ranked choice among the alternatives. While a large number of graduating seniors have considered self-employment by the end of their four-year academic program, they are less likely to actually pursue Self-employment, and even less likely to pursue employment with a small company. Their second highest score was for pursuit of a graduate degree.

Question Two: What do graduating business students perceive to be the major factors behind their career decisions?

These students ranked Life Experiences as the number one influence on their career decisions, followed by the Overall Business Curriculum. Geographics, or Location was ranked as the third highest factor, followed by School, Instructor(s), Parents, and a Small Business Management Course, respectively.

Question Three: Are beginning business students enrolled in a business school curriculum more or less likely to choose self-employment or traditional career paths?

As the findings indicated, freshmen enrolled in Introduction to Business also indicated a fairly strong consideration of starting or owning their own business. But, like the Policy students, they expressed strong inclinations toward employment with a mid- to large-sized company, or pursuit of a graduate degree--both scores were identical. They too ranked the pursuit of employment with a small company low; the lowest preference was for self-employment.

Question Four: What do beginning business students perceive to be the major factors behind their career decisions?

Like their senior counterparts, the Introduction to Business students ranked Life Experiences as the primary influence on their career decisions. This was followed by Geographic or Location as the second highest, and the Overall Business Curriculum as the third highest factor. School, Instructor(s), Parents, and a Small Business Management Course followed respectively.

Question Five: Are there any significant differences between graduating seniors' and beginning business students' career choices, or factors influencing career choice?

Both groups scored similarly and were inclined to pursue more traditional career paths than self-employment. Likewise, the first several career decision factors were nearly identical. The most interesting nuances were the increased importance of factors such as Spouse and Gender from Introduction to Policy students. Also interesting were the decreased influence of Other Family, and Religion from the Introduction to the Policy students.

Summary

While there appear to be no major differences between the two groups, it is apparent that students entering a business program and those about to graduate from a business program all consider life experiences as the major influence upon their career choice. Their geographic location and the business curriculum were important influences; however, the business curriculum had an increased role over geographic location for those about to graduate and enter the job market. The Introduction students and Policy students displayed relatively high interests in starting or owning a business. However, interest in pursuing self-employment (while ranked higher than Introduction students), appeared to wane in actual score, after four years of business classes, consequently ranking lower compared to pursuing employment with a mid- to large-sized company.

Though no solid conclusion may be stated, it does appear that business school education either slightly influences career direction toward employment with a mid- to large-sized company, or slightly discourages self-employment. Additional research is recommended to determine possible causes for these influences--curriculum, program, faculty, job market, accreditation, risk-aversion, and so forth.

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SBI EDUCATION ISSUES: NEW VARIATIONS ON AN OLD THEME

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ABSTRACT

This paper describes the results from a study of seven aspects of 402 women-owned businesses. The opinions formed by the authors of this paper were based upon analysis of the study data, comments made by many of the respondents, and research of secondary sources. It came as no surprise that small business owners were called upon daily to make decisions based upon knowledge they might or might not possess. Subsequently, the determination was made that there were both obvious and not-so-obvious opportunity areas for tools, such as continuing education seminars, to generate fees for local SBI support.

INTRODUCTION

"Virtually everyone will agree that small business plays a crucial role in both the stability and health of the national economy". (2, P.102) "Therefore, in the current age of the entrepreneur, small business management training is increasingly important. In ever increasing numbers people are pursuing the Great American Dream of owning and operating an independent business. This resurgence of entrepreneurial spirit is the most significant economic development of the 1980s and the trend is continuing into the 1990s. The new entrepreneurs are rekindling an intensely competitive business environment that had all but disappeared for nearly three decades". (2, p.104)

Recently (September, 1995) a study of women-owned businesses in the Dallas/ Fort Worth Metroplex was completed and the results released to the public. The study indicated that women-owned businesses were increasing in number and variety. The study, which was funded and encouraged by a grant from the Dallas/Fort Worth Chapter of the National Association of Women Business Owners, was used as a tool to study the strengths and weaknesses of these businesses. A discovery made during the analysis of the data led the authors of this paper to believe that there were several areas of knowledge needed by this type of business owner which could be provided by the Small Business Institute. These areas provide opportunities for the Small Business Institute to expand into continuing education programs that could generate financial resources for the ongoing support of an SBI program. Some of these topics are well known by SBI Directors and could be offered to the public with minimum preparation. Other topics would likely require the assistance of additional specialized areas of knowledge, such as bidding/contracting with the government sector. This could easily be supplied by people from the government sector (SBA).

METHODOLOGY

For the original data, a questionnaire was developed to gather as much information as possible without being burdensome. Rather than compiling from secondary sources, the researchers chose to collect fresh data from the women business owners themselves. The following categories were used in the questionnaire to form the data used for the study: Identification of Business(SIC), Management, Economic Impact, Financing the Business, Contract Information, Demographics; and Additional Comments. Input during the development of the questionnaire was received from other researchers at the university as well as from some of the women business owners.

Respondents were encouraged to add their own comments to the questionnaire. To encourage candid answers and insightful comments, the questionnaire was administered anonymously. The questionnaire recipients were identified as women business owners working in the Dallas/Ft. Worth area (as far north as Denton, as far south as Duncanville). Mailing lists, directories, and assistance were requested and received from 17 DFW organizations. The questionnaire was sent to over 3,000 women business owners in the Dallas-Ft. Worth metroplex area. Four hundred three questionnaires were completed and returned, and 402 of those respondents met the criteria to become part of the study. The anonymous responses were entered into a Lotus spreadsheet and analyzed.

RESULTS/FINDINGS

The data from this study indicated several areas of information/knowledge in which these women business owners needed assistance. These provided possible workshop, seminar, and "short and long" subject topics for SBIs to offer for a fee to women and minorities (as well as any business owner who needs the information.) The first such area was that of knowing about government sponsored programs. The general question about any government program was, "Do you know where to find out about government sponsored programs?" The response rate for this question was as follows:

Yes	143	(37%)
No	234	(62%)*

*due to rounding, total does not equal 100%

When asked about the respondents' awareness of government sponsored programs to provide funds, the response rate was as follows:

Yes	150	(39%)*
No	227	(60%)*

*due to rounding, total does not equal 100%

When asked about the respondents, awareness of government sponsored programs to provide procurement assistance, the response rate was as follows:

Yes	137	(36%)*
No	240	(63%)*

*due to rounding, total does not equal 100%

Another category studied dealt with the development of a business plan. One hundred sixty-six of the respondents had developed and were using a formal business plan. The other 223 (57%.) of the respondents said they had not developed a formal business plan. Reasons given for not having a business plan were varied but included the following: it is a waste of time, business changes daily these days, does not seem to apply, unnecessary, time, mental block on how to put one together, and the time to get one prepared. Many of the reasons for not having a business plan centered around time. Time was a valued commodity to these business owners and they appeared to want to use it for immediate needs. The segment of women who responded positively to having a business plan knew the value and importance of business plans to a successful venture. Reasons give for having a business plan followed the viewpoint of using it as a roadmap, a planning tool, measuring stick, or tool for obtaining a loan. In addition, the data indicated that the majority of the respondents did not have mentors (over 66%). Many successful business women (those included in the survey and non-surveyed women) have indicated that having a mentor was of great importance to their success. A mentor is defined as someone who provides guidance and advice. Since many large corporations have in-house mentor programs, the independent woman business owner does not appear to have benefit of that experience.

Network and support groups provide excellent sources of mentors for women. Approximately 54% of the respondents indicated that they were not part of any network/support group. Of those who were, some of the networks/groups were as follows: Chambers of Commerce, Business and Professional Women, National Association of Female Executives, and the National Association of Women Business Owners. It was not clear from the responses gathered why many of the women business owners were not involved in these valuable resources.

Data also indicated that the two highest knowledge categories these women felt a business owner needed to possess in order to be successful were "accounting/financial" and "marketing". These categories have been major consulting areas for many SBI consulting teams and came as no surprise to the authors.

After researching secondary sources, the authors viewed the local SBI program as a small business itself, a business which must rely on local contacts, local networks, local markets, and be subject to the same improved customer service recommended to SBI clients. There is also a "link" to a "parent company" with the SBIDA organization. Strategic plans and stressed quality in SBI programs have been, and continue to be, developed at the national level of SBIDA to provide direction and some national recognition for the Small Business Institute.

CONCLUSIONS

The results of the study on women-owned businesses indicated a need for continuing education in at least five different areas. These areas included:

1. Accounting/financial
2. Marketing
3. Business Plans
4. Government Programs
5. Mentor/networking

The topics of "accounting/financial" and marketing", as well as development of business and marketing plans, are well known to educators involved in small business curriculum as well as the general public. By offering "subject" seminars for a fee, colleges and universities could assist with the support of their own SBI programs by doing what they do best-teach!

Entrepreneurial seminars could be offered to assist (and encourage) would-be business owners into getting off to a strong, organized start. Using the first three topics above for a day-long seminar would assist many new business owners in getting started on building a business plan. One "Young Entrepreneur's Seminar" held at the authors' university created much local interest. Some attendees drove over 50 miles to attend and to network with other people starting their own businesses.

Seminars are needed to assist business owners in obtaining information about government sponsored programs as well as those in the private sector. The availability of a clearing house of information becomes more and more appealing to some educators. Why can't we become more of a resource for the business community? The respondents to the study indicated a lack of trust in government sector programs. Why can't we create our own method of getting information to the small business owner?

Mentoring and networking are subjects much more difficult to teach in a classroom. Practical experience can be "the best teacher" in this arena. One possible way to accomplish this is to provide access to "expert advice" through the use of a small business newsletter. A newsletter might provide an excellent tool for communication building between the SBI and its clients, not to mention a possible tool for communication between small businesses. Role models of successful small business owners could be a regular feature of the newsletter. A nominal fee could be charged (to cover costs) and ads could be sold to boost profit. Business breakfasts could be used to provide the personal contact (networking) in an appropriate setting. This type of activity has proven successful for Chambers of Commerce as well as other professional organizations.

By expanding the sphere of influence of each individual SBI Program, the opportunities for new profitable ventures also expand. Whether it is through donations for case studies or payment for workshops and seminars, it is important for the SBI to become even more visible and to be a very active player in the local community. It is a "business" which must build its local recognition and improve its customer service offerings. There is a need in the business community for the support provided by the SBI.

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THE SMALL BUSINESS INSTITUTE'S EFFECT ON SMALL BUSINESS

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ABSTRACT

The results of this paper indicate the effect of the Small Business Institute Program on small business. It also shows a willingness of the SBI director to continue the, program ever without federal funding.

This research demonstrates the SBI's role in job creation, small business startups, and the encouragement of students to start their own businesses. The SBI Program has truly kept the entrepreneurial spirit alive and well. Each SBI Program is servicing a diverse and economically disadvantaged group of small business owners and entrepreneurs.

INTRODUCTION

During the past 23 years, the Small Business Institute Program has been an asset to the small business community. "Typically, an SBI Program consists of the director and a team of students who meet with a small business to discuss the client's problems" (6). In a joint partnership among the Small Business Administration, university colleges of business, and small business, the program has truly flourished. It has also been effective in economic development in small towns and rural areas (5).

Unfortunately, due to the budget balancing in Washington, D.C., today, the program's funding is in jeopardy. The purpose of this paper is not only to show the advantages of the SBI Program in job creation, small business start-ups, and encouraging young people to become entrepreneurs, but also to show the resolve of the SBI director to keep the program going even without the possibility of federal funding. This could mean the possibility of funding from several different sources as the SBI Program is "a diverse and localized entity" (1).

Approximately 500 universities participate in the SBI Program each year. The strengths of the program include meeting the local needs of small business and government, as well as providing the student an opportunity to learn more about the current operations of small business. Students are able to utilize the new found knowledge learned in the classroom through their work experience. Many businesses that could not afford to hire a private consultant have been provided consulting.

RESULTS

Three hundred-forty Small Business Institute (SBI) directors and co-directors responded to this survey. This yielded a response rate of 71 percent from a total of 478 directors. Raw data obtained from the survey is given on the following tables and charts.

Respondents by SBA Regional Office

Region 5	(Chicago)	66
Region 6	(Dallas)	56
Region 4	(Atlanta)	46
Region 7	(Kansas City)	40
Region 3	(Philadelphia)	26
Region 9	(San Francisco)	24

Region 8	(Denver)	23
Region 2	(New York)	22
Region 1	(Boston)	21
Region 10	(Seattle)	16

As can be seen from this chart, all 10 SBA regions were fairly represented according to size. The largest representation came from the Chicago and Dallas regions, which also represent the largest number of SBI programs per region.

Percentage of SBI Clients Unable to Afford a Private Consultant

0 to 19%	17
20 to 39%	14
40 to 59%	41
60 to 79%	77
80 to 100%	173
No Response	18

Of the SBI directors responding to this question, 51 percent said that over 80 percent of their clients could not afford to hire a private consultant. As the above chart indicates, approximately three-fourths of the SBI directors stated that the majority of their clients couldn't afford a private consultant. The SBI Program is serving a clientele that cannot afford other forms of paid counseling on a long-term basis.

Percentage of SBI Clients Who Had Expansions Leading to Job Creation Over the Last 3 Years

0 to 19%	39
20 to 39%	88
40 to 59%	83
60 to 79%	53
80 to 100%	16
No Response	61

Of the SBI directors responding, 26 percent indicated that 20 to 39 percent of their clients had an expansion leading to job creation over the past three years. The second highest group, 24 percent, indicated that 40 to 59 percent of their clients had created jobs. A very positive result was that 5 percent of the SBI directors had over 80 percent of their clients who had created jobs. As this data indicates, the SBI Program is definitely a job motivator and creator in the small business sector.

Number of Jobs Created by SBI Program over the Last 3 Years

1 to 19	119
20 to 39	66
40 to 59	28
60 & over	28
No Response	99

Thirty-five percent of the responding SBI directors indicated that their program had created 1 to 19 jobs over the past three years. Eight percent of the SBI programs created over 60 jobs in the past three years. According to a recent economic impact study, "From 1991 to 1992, SBI clients created 10,697 net new jobs as a result of the SBI consulting they received" (2).

Number of Former SBI Students Who Have Decided to Open a Small Business Over the Last 3 Years

1 to 19	226
20 to 39	22
40 to 59	4
60 & over	2
No Response	86

Of the SBI directors responding, 67 percent of the programs had 1 to 19 former SBI students that opened a business in the last three years. Six programs responded that had over 40 students who opened their own business over the last three years. These are remarkable figures considering that the overall average yearly caseload is 12 per SBI Program.

Number of New Startups Created by SBI Programs Over the Last 3 Years

1 to 19	236
20 to 39	17
40 to 59	3
60 & over	8
No Response	76

Sixty-nine percent of the responding SBI programs helped create 1 to 19 businesses over the past 3 years. Three percent of the programs created over 40 new businesses over this same period of time. Five percent of the programs created between 20 and 39 new entities. Client responses from previous research indicated that 13 percent of SBI clients expected assistance for business startup or acquisition (3).

Number of SBI Cases Performed Over and Above SBA Allotment In the Past 3 Years

1 to 6	179
7 to 12	68
13 to 18	24
19 & over	32
No Response	37

This data indicates that the overwhelming majority of SBI directors are completing more cases than they are paid for by the Small Business Administration. Some of these cases are done on a no-cost basis while, others receive payment and thus, are ineligible for SBA reimbursement. Nine percent of the responding SBI programs did more than 19 cases over and above their allotment, which would indicate a very strong commitment to the SBI Program. Previous research indicated that approximately 50 percent of the directors had completed non-funded SBI cases (4).

Percentage of SBI Clients
From Minority Groups

0 to 19%	162
20 to 39%	86
40 to 59%	40
60 to 79%	20
80 to 100%	14
No Response	18

Ten percent of the SBI programs service more than 60 percent of their clients from minority groups. Forty-seven percent of the SBI programs have at least 20 percent of their clients from minority groups.

Percentage of SBI Clients Who Are SBA
Loan Applicants or Participants

0 to 19%	183
20 to 39%	82
40 to 59%	24
60 to 79%	13
80 to 100%	7
No Response	31

SBI programs that served predominately SBA loan participants only represented 6 percent of the programs responding. This response indicates that the SBI Program is working very well with SBA loan participants, but the majority of cases done are not SBA loan related. Over the years, this is a shift in the SBI Program from being predominately SBA loan driven to be being non-SBA loan driven. Research conducted by Fontenot and others concluded, "Seventy-nine percent of the SBI clients nationally do not have a current financial relationship with the agency (SBA)" (3).

Percentage of SBI Budget Provided
by Local and State Funds

0 to 19%	232
20 to 39%	16
40 to 59%	26
60 to 79%	11
80 to 100%	19
No Response	36

This response indicates the strong dependence on federal money to pay for the SBI Program. Sixty-eight percent of the respondents indicate that 0 to 19 percent of their budget comes from state or local funds. The only thing that could offset this is through raising money by charging clients or from private industry donations.

Would SBI Program Continue

Without SBA Funding?

Uncertain	45.6%
Yes	34.1%
No	18.8%
No Response	1.5%

Approximately one-third of the SBI directors feel that the SBI Program would continue without federal funding. Only 19 percent indicated that they definitely felt it wouldn't continue. Forty-six percent indicated they were uncertain when the survey was conducted in Spring 1995. This question indicates that the majority of SBI directors definitely would consider continuing the program without federal funding.

Sources of Funding That Could be Secured For Continuance of the SBI Program

Private Donations	20.6%
Charging Clients	18.8%
Foundations	12.7%
State Government	6.8%
University/Institutional Support	4.1%
Local Government Funds	2.9%
Other Federal Government Funds	2.4%

* Respondent Could Make More Than One Choice

SBI directors indicated that if current federal funding were cut they would ask for donations or charge clients. A small percentage would seek additional local, state, or university funding. In analyzing this question, the researchers had to keep in mind that the majority of SBI programs are already receiving support from their local university. The researchers feel that this shows a desire on the part of the SBI director to have more local control over their funding situation.

CONCLUSION

This survey strongly indicates that the SBI Program is servicing small businesses that could not have afforded counseling on a fee-paying basis. Approximately seventy-five percent of the SBI directors stated that the majority of their clients could not afford a private consultant. The SBI Program has definitely been a job creator within the small business sector. Approximately 75 percent of responding SBI directors indicated that their program had created job opportunities, with 5 percent indicating that over 80 percent of their clients have created jobs in the last three years.

The SBI Program was not only the start for a number of small businesses but also the start of a number of students who eventually ended up in small business. This survey indicated that the overwhelming majority of SBI programs are doing cases over and above the case allocation from SBA.

The SBI Program showed a strong commitment to minority groups according to the responses to this survey. SBA loan participants are being served by the SBI Program, but the majority of the cases completed are non-SBA loan participants.

A strong dependence on federal money was indicated by the SBI directors to pay for the current SBI caseload. The majority of SBI directors indicated that they definitely would consider continuing the program without federal funding. If current federal funding were cut, the SBI directors would ask for donations or charge clients as one of the principal means of continuing the program.

This survey indicates a willingness on the part of the SBI director to continue the SBI Program even if there is no federal funding. The success of the SBI Program will continue, although the model may have to be modified.

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SMALL BUSINESS COMMERCIAL BANK BORROWING: THE ROLE OF GOVERNMENT REGULATION AND POLICY INITIATIVES

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ABSTRACT

This paper (which was substantially cut for the proceedings) reviews existing government bank regulation and policy initiatives as related to small business borrowing. Propositions include: a) Bank lending to small business is constrained by existing regulation, and b) Recent policy initiatives are sufficient to stimulate small business lending and assure equal credit opportunity to small business borrowers.

INTRODUCTION

There is a common perception in the small business community that bankers "will not give the time of day," much less a loan, to the small business owner. Some perceive that "the welcome mat" is even less likely to be out for the woman-owned or minority-owned firm. Some bankers claim they are constrained by government bank legislation and regulations. This paper will examine some of the underpinnings of lending policy to provide a background for understanding the lending climate. The role played by SBA loan guarantee programs are also examined in order to understand how pending budget cuts may affect the availability of credit for small business borrowing.

How important are banks as a source of credit for the small business owner? A 1989 National Survey of Small Business Financing indicated that commercial banks are the primary source of credit for 81 percent of the small businesses who obtain credit (Elliehausen & Wolken, 1990). This figure indicates the substantial role commercial banks play in capitalizing small business, and further exemplifies the importance of assuring fair and efficient allocation of loan funds from banks to small businesses.

BACKGROUND

Tighter bank regulation has been cited by small business owners as the single greatest reason for experiencing difficulty in obtaining loans from banks (Small Business Source, 1993). It has been suggested by a member of the Federal Reserve Board of Governors that "regulations" are constraining small business lending (Wall Street Journal, 1992).

Research on the uses of financial services, including commercial credit, by small and medium sized businesses has been conducted by the Federal Government under the direction of the Federal Reserve Board of Governor, or the Small Business Administration. A primary determinant of where a prospective small business borrower will seek credit is the existence of an established relationship with a bank. (Hooks & Opler, 1994; Elliehausen & Wolken, 1990). Specific attention will be given to the way government regulation and policy initiatives affect the relationship between the bank lender and the small business borrower.

Government regulation has affected the commercial banking industry most markedly through agency regulation of the Federal and State regulatory agencies, equal credit initiatives such as the Community Reinvestment Act, The Business Opportunity Development and Reform Act of 1988, and the Women's Business Ownership Act of 1988, and various policy initiatives of the SBA. Government regulation affects commercial lending more on an indirect basis through regulation of interstate branching activities, and the cost of compliance with various regulation and reporting requirements.

PURPOSE

This paper explores government regulation and public policy initiatives as related to small business borrowing. The purpose of this paper is to review the small business lending environment, primarily from the lenders point of view, so that those who provide counseling to small business owners can better advise them on ways to successfully acquire funding. This paper will explore two propositions:

Proposition 1: Regulation is constraining small business lending.

Proposition 2: Recent policy initiatives are sufficient to stimulate small business lending and assure equal credit opportunity to small business borrowers.

The paper will conduct a review of policy and current progress measurement techniques and procedures. Heavy reliance will be placed on one author's experience over the past five years as a small business lending officer with direct authority over underwriting guidelines for small business loans.

EXISTING SMALL BUSINESS BANK LOAN DATA

There are several sources for data on small business borrowing readily available to the public. See Table 1 for a summary of information sources...

TABLE 1:
Sources of Small Business Lending Data

Source	Format
U.S. Dept. of Commerce Bureau of the Census	Survey report information comparing minority-owned and women-owned business with non-minority male-owned business. Substantial information regarding financing and capitalization characteristics of each group across various industry classifications.
U.S. Small Business Admin.	Reports upon request the status and performance of the various guaranteed loan programs.
Business Opportunity Development Reform Act of 1988	Information about performance available from SBA. Status report on the 8 (a) program with demographics of participating firms.
Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991	Collects and reports data regarding credit from commercial banks to small businesses and small farms on an annual basis.
1993 Survey of Small Business Finances sponsored by the SBA & Federal Reserve Board	Interview of 6,000 small owners & 1,200 minority amd women-owned firms. Experience with credit and financial services from banks & others. Includes demographic & financial data.

LIMITATIONS OF EXISTING DATA

Efforts made to limit the reporting requirements placed on banks in obtaining additional information regarding credit availability to small business have resulted in reliance on information that paints a less than accurate picture of the status of credit availability to small businesses. One of the greatest single problems with data is timeliness.... Of all reporting on bank lending to small business, most encouraging is the 1993 Survey of Small Business Finances. This report will provide accurate data on the characteristics of business borrowers and their financing characteristics based on current survey results. Preliminary results were published in the Federal Reserve Bulletin of July 1995.

MONITORING OF SMALL BUSINESS LENDING

A study conducted by the Federal Financial Institutions Examination Council (FFIEC) indicates between 6 and 14% of bank's non-interest expense is consumed by the cost of compliance with regulation. In light of this high cost, policy makers are sensitive to the scope of additional reporting requirements placed on commercial banks and the related cost of compliance. To date, there is no required reporting of demographic information by banks on small business borrowers or applicants. Recent initiatives have indicated governments interest in the availability of bank loans to small businesses. For example, bank non-compliance with the Community Reinvestment Act can result in application for additional branches to be denied. The Federal Deposit Insurance Corporation Improvement Act (FDICIA), passed during December 1991, reflected Congress' concern over credit availability to small businesses and small farms. See Table 2 for a summary of current monitoring requirements. The FDICIA report is difficult to analyze because the information is discussed on a subjective basis, without the usual rigor associated with a study of this nature.

TABLE 2:
MONITORING OF SMALL BUSINESS LENDING

SOURCE	OUTCOME
Community Reinvestment Act	Application for additional branches may be denied.
Federal Deposit Insurance Corp.	Directs Congress to begin collecting and reporting data on credit extended to small businesses and small farms. The first annual report was issued 12-31-93.
Individual Banks	No required reporting of demographic information by banks on small business borrowers or applicants.

A substantial portion of the report focuses on a survey of senior loan officers' perceptions of the loosening or constricting of underwriting standards for small business loans. Changes in Senior Lending Officer perceptions of underwriting standards would likely be more correlated to changing perceptions of economic conditions and resultant changes in operating expectations for the borrowing firm. Individual officers' perceptions of easing or loosening of standards can be very subjective. Most Senior credit officers are somewhat removed from the "hands on" activity of small business lending. The authors would be more interested in defining loan standards in very objective measures with regard to specific loan terms and types of financing available. This would provide greater consistency between responses, as well as greater accuracy for comparison over time. The report has further shortcomings in that it acknowledges, but fails to define the role of economic risk or changing economic conditions and interest rate fluctuations on credit underwriting and aggregate credit flows. It is reasonable to have an increased demand for debt capital during periods of recession periods to cover cash deficits brought on by decreased cash flow from operations and operating losses. During a growth period in the economy there may be an increase in credit demand to, cover shortages in the borrowing firm's cash cycle; namely growth in accounts receivable and inventory brought about by increased production schedules and higher economic output. This type of financing is traditionally easier to underwrite for the commercial bank, and to a individual analyst outside the industry may cause the appearance of "loosened" underwriting, or more of a free flow of credit throughout the economy. In addition, changes in interest rates may cause borrowers to shift from debt to equity markets, effecting aggregate credit flows. This was identified, but not fully accounted for in the study.

SBA GUARANTEED LOAN PROGRAMS

The Small Business Administration (SBA) was established by Congress in 1953 to further the cause of American small business. The SBA guaranteed loan program has been an integral part of the SBA since inception. Programs which have the greatest impact on small business borrowing are summarized in Table 3.

TABLE 3:
BUSINESS LOANS & THE SBA

Program Name	Features	Guarantee by SBA
Basic 7(a)	Up to $750,000 No more than 2.75% interest over prime.	80% of first $100,000 75% of remainder
CLP	Places more underwriting responsibility on the bank 3-Day turn-around for SBA Review and approval	Maximum is 70%
PLP	Approved banks act as SBA agent approving loans without prior SBA approval	"
LowDoc	One-page application for loans of $100,000 or less	"
Fast Track	Pilot Program $100,000 or less	50% guarantee

CapLine (Greenline)	A revolving line of credit to finance inventory or a/r	75% guarantee
Women/ Minority prequalification loan program	SBA prequalifies a loan for $250,000 or less	

DISCUSSION

Prior to the changes in the SBA guaranty program which became effective on 10-13-95, most significant changes for small business were: 1) The reduction in the PLP guaranty percentage, 2) The addition of the Low Doc program, and 3) The steps taken to improve the attractiveness of the secondary market for SBA loans and 4) The addition of a pilot program with only a 50% SBA guarantee. With the exception of the potential negative side effects of lower guaranty percentages, program changes should positively affect small business borrowing. Introduction of the woman-owned business program will probably have little effect on credit flows to woman-owned businesses as this program is established outside the parameters of the existing SBA-bank system. In regions where a particular group is being systematically under served, it would be more appropriate to undertake joint efforts of the SBA and regulatory agencies (CRA) in order to assure the present system provides the services to meet the needs of all prospective borrowers. This would require additional monitoring and reporting on the part of the bank.

CONCLUSION

To date, measurement of the financing environment for small businesses has been characterized by changing measurement parameters, cumbersome survey information, and lack of timely results. Small business definitions differ substantially depending on which agency is reporting information. This makes comparison between information sources difficult. Availability of the 1993 National Survey of Small Business Finances data will provide clearer information related to the financing characteristics, and will likely provide the basis for further policy initiatives.

Current policy initiatives to reduce appraisal requirements and exclude portions of a bank's small business loan portfolio from review will have little effect on the availability of credit for small businesses as neither of these initiatives changes the manner in which commercial banks are underwriting credit risk. Decreased appraisal requirements serve primarily to lower the cost of obtaining credit for small business borrowers. Banks will continue to stick to their internal loan-to-value guidelines for real estate financing. Most small business loans, because of the small dollar size, are not currently reviewed unless delinquent or previously classified. Therefore, this policy change will be of no substantial impact. In light of this, it can be seen that change in agency review procedures, in itself, has little effect on credit availability to small businesses. Therefore, the proposition that regulation is constraining small business lending is not supported.

Regardless of the initiatives undertaken to stimulate bank lending to small business, banks still must operate within the constraints of economic feasibility. This keeps banks from underwriting loans whenever the perception of risk outweighs the return. Ideally, market competition should assure fair and equitable allocation of bank loans to all business borrowers.

In circumstances where allocation is not fair and equitable, government intervention may be necessary. Approval of interstate branching legislation as currently proposed, would contribute to assuring fair competition among banks. Though many banks have already established interstate branching through a separate charter and out-of-state holding company arrangement, proposed legislation would increase bank efficiency and decrease operating costs. This would serve to further stimulate interstate branching.

The greatest impact on small business borrowers comes from various SBA loan programs and initiatives. The SBA program has increased the amount of credit available within the economic system by increasing the amount of risk the bank can take on an individual loan while still minimizing loan loss. The authors are concerned that reduced SBA subsidy of bank loans to small business would reduce the participation rate of banks even though lowered guarantees potentially increase the dollar amount of capital available to small business owners. Applying the same guarantee percentage to each loan guarantee program would foster equity in the programs, however, of this guarantee percentage is set low enough, the bank will need to raise underwriting guidelines for SBA loans to maintain losses to an acceptable level and small business lending will be restricted. This is being seen now through decreased participation by banks with the reduced SBA guarantee percentages that result from "The Small Business Lending Enhancement Act of 1995."

This can act as a double-edged sword if the guarantee percentage is sufficiently low to cause bank underwriting to become restrictive to the point that loans are being underwritten with the SBA guarantee that would otherwise be underwritten without the SBA guarantee.

In response to the second proposition, recent policy initiatives are not sufficient to stimulate small business lending and assure equal credit opportunity to small business borrowers, as present initiatives do not adequately integrate policy goals with bank review and accountability. Analysis of the joint SBA and Federal Reserve Board 1993 Survey of Small Business Finances will likely provide insight into equality of credit use among businesses of differing demographic backgrounds. Adequate information would enable the SBA to pursue systemic reform where needed in order to assure equality to participants in the program. The current women-owned business pilot program should not be necessary when the system is operating equitably. It is recommended the SBA pursue initiatives to better integrate woman-owned business into the existing SBA guaranteed bank loan process. This may include a joint effort incorporating CRA initiatives with SBA policy initiatives and increasing the scope of CRA reviews with regard to equity in small business lending. This would mean slightly more record keeping on the part of banks with regard to small business. The increased competition brought about by more flexible interstate branching should increase the availability of bank loans to the entire small businesses community.

Consultants to small business owners should keep these points in mind:

1. Small business owners should be aware that banks are not required to report demographic information on small business borrowers or applicants. It is the responsibility of the business owner to establish a relationship with a commercial bank lender who targets the small business owner. When credit is needed by a business that has established a relationship with a lender, the firm has the advantage of a loan decision made by a well-informed lender.

2. The small business owner should find out the financial strength needed to obtain direct bank loans. The firm is then in a position to decide if a financial strategy objective to qualify for such loans is an appropriate

strategy for the business. Direct bank loans will carry a lower interest rate than SBA guaranteed loans.

3. If the financial strength of the business precludes direct bank borrowing, then the business owner should seek alternative sources of funding, including SBA guaranteed loans.

4. Those in a position to participate in the evaluation of proposed policy decisions should understand and discuss all the implications of various policies that seek to improve access to credit for all small business owners with viable business concepts.

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Available upon request.

FORGING AHEAD: A SURVEY OF PITTSBURGH AREA WOMEN-OWNED BUSINESSES

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ABSTRACT

The basis of this paper is a survey of women-owned businesses in the Pittsburgh region. The survey focused on obtaining demographic information, business status/growth indicators, financing mechanisms, perceptions of barriers to growth, and government certification. Chi square analysis identified significant relationships related to years in business, business type, and certification. The study results mirrored previous knowledge that the bulk of start-up financing is from personal resources. The study provided insight into women business owners relationships with bankers indicating that women business owners judge their banks positively, but generally have a limited relationship with banks. When comparing Pittsburgh with a national NFWBO sample, the data are similar demographically, but Pittsburgh lags behind the national in gross annual sales, employees and financing.

The survey results demonstrated seven major themes concerning women-owned businesses in Allegheny and the surrounding counties. Women-owned businesses impact and contribute positively to the Pittsburgh regional economy. Women-owned businesses are growing and are poised for growth. Women-owned businesses are employers. Women business owners are active participants in government and corporate contracting. Women business owners are creative in financing their businesses. There is a lack of communication between banks and women business owners leading to under-utilization of the banks. Women business owners judge their banks positively, but typically have a limited relationship.

INTRODUCTION

Women-owned businesses in the Pittsburgh area are forging ahead. The basis of this report is a survey which investigated the status of women-owned businesses in Allegheny and the eight surrounding counties. The survey's goals were an analysis of women-owned businesses, their financing, and their economic contribution to the region.

The survey was the result of several months of work. Four preliminary focus groups composed of women-business owners aided in the surveys development. The focus groups included a diverse group of women business owners. The groups were segmented by county location (inside/outside of Allegheny County) and number of years in business (five years and under/more than five years).

The Women-Owned Business Survey contained four sections. The first section explored demographic characteristics. Section two covered the amount and sources of start-up financing. Current financing and women business owners' relationships with their banks were the topics of the third section. The final section examined the training needs of women business owners, the barriers to future growth, and the use of business plans. The survey results have an accuracy of +/- 3.25% with a confidence level of 95%. The 757 surveys studied represent a return rate of 19%. The significant relationships identified in the study are at levels of confidence of 95% and higher using the chi-square test. The significant relationships discussed within the text are in italicized type.

The Pittsburgh data illuminate a variety of important comparisons with the national data. According to the census statistics released in 1990, there were 34,824 women-owned businesses in Southwestern Pennsylvania, which represented a 57% growth rate from the previous five years.[1] According to the National Foundation of Women Business Owners (NFWBO), women own approximately 7.7 million businesses in the United States, and these businesses employ more people in United States than the Fortune 500 companies employ worldwide.[2] NFWBO estimates that women-owned businesses generate 1.4 trillion dollars in sales per year.

ECONOMIC IMPACT

The survey respondents represent a range of women-owned businesses which run the demographic spectrum. Eighty-three percent of the survey respondents' businesses are in Allegheny County, and 17% are from the surrounding counties.

Women own a vast array of businesses. Following the national patterns, most are in the service sector (59%), 19% are in the retail sector, 6% are in the construction sector, and 6% are in the manufacturing sector. Sixteen percent of the sample own more than one business.

(Graph omitted due to technical difficulties.)

The most popular business structure is sole proprietorship (62%). *There is a highly significant relationship between business type and business structure.* Sole proprietorships are very popular in the retail and service sector where they account for 68% and 65% of the business structures, respectively. Sole ownership is less popular in the construction and manufacturing sectors, representing 30% and 32% of these companies, respectively. Sixty-nine percent of the construction firms are either C corporations or S corporations, and 58% of the manufacturing companies are either C or S corporations. Less than one-third (29%) of the service firms are corporations and 22% of the retail firms have a corporate structure.

The vast majority (82%) of women-owned businesses surveyed operate on a full-time basis. Over fifty percent (53%) have owned their businesses for more than five years. The average number of years in business of a Pittsburgh area woman-owned business is 7.9 years. *There is a significant relationship between the* *number of years in operation and whether the business operates on a full-time* basis. Three-fourths (75%) of the companies that existed less than five years function full-time, but 92% of the companies that existed over sixteen years operate full-time.

NUMBER OF YEARS IN BUSINESS

(Graph omitted due to technical difficulties.)

There is also a significant relationship between the number of years of a business' existence and its office location. The locations of women-owned businesses vary: 43% are leased, 19% are owned, and an additional 38% are homebased. The businesses existing over sixteen years are the most likely to own commercial space (46%), as compared to the businesses existing less than five years which are the least likely to own commercial space (11 %).

(Graph omitted due to technical difficulties.)

1994 saw an increase in revenues for most women-owned businesses, with 60% of business' revenues increasing, 22% remaining stable, and 18% decreasing. Fourteen percent increased by 51 % or more. *The companies with gross annual sales over one million dollars were the most likely to ncrease or remain stable*.

(Graph omitted due to technical difficulties.)

Annual gross sales of half (50%) of the businesses ranged between $50,000 and $249,999, and 14% grossed over $250,000. *The data revealed a significant relationship between number of years owned and gross annual sales.* The percentage of companies grossing less than $50,000 drops precipitously as the years owned increases. The companies that existed less than five years are the most likely to be grossing less than $50,000; 52% of the companies in operation for less than five years gross less than $50,000. Whereas, only 16% of the companies in operation over sixteen years gross less than $50,000. The *greater the annual sales, the more likely a business has multiple locations.* Fifteen percent of the total sample were businesses with more than one location.

(Graph omitted due to technical difficulties.)

In the upcoming year, 41% of the women-owned businesses in the sample plan to acquire capital. Most (69%) of those who plan to acquire capital want to use it for facility expansion and equipment purchases. The most important reason to borrow money was for growth and expansion according to 49% of the respondents. These responses illustrate that women business owners see growth and expansion as issues of primary importance to the future of their businesses.

The writing and use of a business plan are important to women business owners. Over half (57%) of the women-owned businesses have business plans. The overwhelming majority of women-owned businesses with business plans use them (96%) with varying degrees of frequency: 56% use them consistently and 40% use them occasionally. Most of the women business owners consider business plans to be extremely important (35%) or very important (27%), and only 3% consider business plans to be unimportant.

EMPLOYEES AND BENEFITS

Women-owned businesses in the Pittsburgh area are employers. The majority of the women-owned businesses surveyed (59%) employ at least one person in addition to the owner. Nearly one-half (46%) have full-time employees and 47% have part-time employees. *There is a significant relationship between the number of years of a business' existence and its status as an employer.* Among companies that are less than five years old, less than one-third (31%) have full-time employees, but the percentage with employees rises dramatically to 59% among six to fifteen year old companies, and to 69% among the companies that are over sixteen years old. In addition, 42% plan to hire new part-time or full-time employees this year.

(Graph omitted due to technical difficulties.)

Of those companies with employees, 44% had payrolls over $50,000 for the fiscal year of 1994, and 7% had payrolls for 1994 totaling over $500,000. *There is a significant relationship between payroll size and business type*. The most frequent payroll range for service and retail firms is less than $25,000; the payrolls of construction firms are nearly evenly split between the six categories; the most frequent range for construction is in the $250,000 to $499,999 range; and the highest percentage of manufacturing payrolls range between $100,000 and $249,999.

(Graph omitted due to technical difficulties.)

Women-owned businesses offer a variety of benefits. The three most popular are flexible hours, training, and paid vacation leave. Stock ownership and employee assistance programs are the two least popular benefits.

The number and the type of employees, the type of business, and the size of the payroll all have a significant effect upon the type of benefits that women-owned businesses offer. For example, companies with more than twenty-five full-time employees are more likely to offer paid sick leave, medical benefits, and training, whereas, companies with less than ten full-time employees are the most likely to offer flexible hours and job sharing. Two examples of the effect of business type on benefits are medical benefits and flexible hours. Over one-third (37%) of retail, 32% of service, 29% of manufacturing, and 25% of construction firms offer flexible hours. Medical benefits demonstrate the opposite relationship: 43% of the construction companies, 42% of manufacturers, 22% of service firms, and 9% of retail businesses offer medical benefits.

GOVERNMENT AND CORPORATE CONTRACTING AND WBE CERTIFICATION

Women business owners are active participants in government and corporate contracting. One-fourth of the businesses are Women Business Enterprise (WBE) certified at some level: local, state, federal or some combination of the three. The construction industry has the highest concentration of WBE certified businesses: 86% of the construction companies are certified.

(Graph omitted due to technical difficulties.)

To become WBE certified, a business must be owned, operated, and controlled by a woman/women. This means that for a sole proprietorship or a partnership, a woman/women must own at least 51% of the company's assets. For corporate entities, a woman/ women must own 51 % of the stock, and have primary power over day to day operations. The main advantage of WBE certification is that it identifies women-owned businesses for contracting opportunities.

(Graph omitted due to technical difficulties.)

Over one-third (36%) of the certified businesses obtained a government contract within the past two years (this is 11% of the total survey respondents.) *There is a significant relationship between satisfaction with WBE certification and receiving contracts: women business owners who received contracts based upon their WBE certification had more positive reactions to certification than those who did not have receive contracts.* The majority of those certified do not think WBE certification has any effect on their businesses, but 42% of the certified respondents believe that WBE has a positive effect. Of those that received contracts, 69% felt that certification has a positive effect on their business, and among those that did not receive contracts, 80% felt that certification either has no effect or a negative effect upon their business.

There is a significant relationship between gross annual sales and WBE contracts: companies that received contracts based WBE certification have higher gross annual sales than the sample as a whole. Nearly one-third (30%) of the companies that won WBE contracts grossed over $250,000 last year and only 12% grossed less than $50,000. The annual sales of WBE certified companies that did not receive contracts were only slightly higher than the entire sample which illustrates that WBE contracts are usually awarded to the larger women-owned businesses. *Sales to major corporations are significantly related to WBE certification; companies that are WBE certified are more likely to sell to major corporations.* Forty-four percent of the WBE certified businesses made sales to major corporations, compared to 29% of the non-certified businesses. Although 34% of the women-owned businesses sold to major corporations, 69% found it difficult to develop corporate contacts.

FINANCING

The resourcefulness of women business owners is evident through the popularity of self-financing and the small amount of start-up capital for many women-owned businesses.

Generally, women business owners do not use large amounts of start-up capital. Nearly one-half (49%) invested less than $5,000 to begin their businesses, and 80% used less than $25,000. Yet, in most cases, the greater the amount of start-up capital, the greater the current gross annual sales.

(Graph omitted due to technical difficulties.)

The relationship between start-up capital and gross *annual sales dramatically illustrates the relationship between financing and growth.* Over one-half (56%) of the women-owned businesses that began with less than $5,000 are grossing less than $50,000 per year, but among the companies that began with over $75,000, less than 5% are grossing less than $50,000. Two percent of the companies that began with less than $5,000 gross over one million dollars annually while 10% of the companies that began with over $75,000 generate over one million dollars in sales per year.

The most common source of start-up funds was personal savings. The vast majority (84%) of the respondents used personal savings for some portion of the start-up costs. One-half (50%) used personal savings as the only source of start-up funds. Business loans from banks provided 13% of the respondents with start-up funds. Venture capital provided funding for less than .5% of the women-owned businesses. Government agencies provided less than 2% of women owned businesses with funding for start-up or current financing.

START-UP FINANCING	
Personal Savings	84%
Family and Friends	21%
Bank-Business Loan	13%
Bank-Personal Loan	9%
Bank Line of Credit	9%
Government Agency	2%
The percentages total over 100% because respondents used varying amounts of financing from these sources.	

For their current financing needs, women continue to be resourceful by reinvesting profits (46%) and using personal savings (41%). Thirteen percent of the sample have business loans. Less than 1% of the women-owned businesses currently finance their businesses through the sale of stock. Self-reliant funding methods are the most common among women business owners.

CURRENT FINANCING	
Personal Savings	84%
Family and Friends	21%
Bank-Business Loan	13%
Bank-Personal Loan	9%
Bank Line of Credit	9%
Government Agency	2%
The percentages total over 100% because respondents used varying amounts of financing from these sources.	

Most women judge their relationships with their banks positively. Over one-half, (56%) believe their relationships with their bankers is either excellent or very good, and an additional 22% describe their bank relationship as good. Only 2% of the respondents consider their relationship with the bank to be poor. Among the 36% of the women that elaborated upon their relationship with their bank, the most frequent write-in response was that they had little or no relationship with a bank.

Forty-five percent chose their bankers through a previous relationship, and this choice was generally a continuation of their personal accounts. Referrals accounted for 14%, and networking accounted for 3% of the women business owners' choice of a banker. Most women business owners (84%) have a single bank for business purposes. Among the women that elaborated upon the reasons for preferring a single bank, nearly one-third (30%) expressed satisfaction with their bank.

Nearly three-quarters (71%) believe they are familiar with the services that their bank has to offer. Seventy-five percent of women business owners in the Pittsburgh sample also think that it is important for banks to offer training and information on other resources for small businesses.

Most women business owners are under-utilizing their banks. Women business owners plan to grow and they have positive feelings about their banks, but they continue to use bank instruments that are traditionally viewed as personal. Checking accounts and credit cards are at the top of the list. Very few women business owners use payroll services, borrowing on invoice or electronic funds transfers. Women business owners do not see banks as an active ingredient in their growth.

There are several indicators that highlight the fact that women entrepreneurs do not see their banks as active partners in their growth. A high percentage use traditional bank services. Most women business owners fuel their growth through reinvestment of profits and personal savings. Only 26% of women business owners use financial ratios. In addition, statements within the focus groups illustrated that women do not view banks as partners in their growth.

The comments from the write-in sections of the survey further illustrate the distance that many women perceive between themselves and their banks. For example, "I have a good relationship with my bank, because I have good credit and pay my bills on time;" or "I have never bounced a check, so I have a good relationship with my bank." This contrasts with a lack of discussion of meeting with banks to discuss growth, expand credit lines, use innovative bank practices, etc.

Others expressed an unwillingness to use banks at all: "I have nothing bad to say about the bank, but I have no cause to know a banker."; "I am personally financing my business so I do not need a banker." Ten percent of the women that responded to the bank relationship question do not have a bank.

Over one-fourth (27%) of the sample was turned down for financing by banks. Of that 27%, there was a nearly even split between those who thought the bank was helpful in the explanation for rejecting the financing (52%) and those who felt the bank was not helpful (48%). *Among the women business owners who grossed between $250, 000 and $1,000,000, 83% of the women who were turned down for financing thought the bank was not helpful.* The women business owners with revenues from $250,000 to $1,000,000 were the most likely to consider their bank relationship to be poor. *There is a significant relationship between women business owners' attitudes toward banks, and being turned down for financing.* Among the women with excellent relationships with their banks, 17% were turned down for financing; among those with fair relationships, 45% were turned down; and among those with poor relationships, 64% were turned down for financing. These statistical relationships illustrate that a negative experience with a bank can scar the relationship, but women business owners can also overcome unpleasant experiences.

The majority of the women business owners did not pinpoint financial issues as major barriers to their expansion; 63% did not state any financial barriers to their expansion. Among women that encountered barriers with financial institutions, there were a number of different types of obstructions. The top five are chauvinism and negative attitudes toward women, followed by high interest rates and expensive services, problems with capital and collateral, the need for a co-signer, and perceived discrimination against small businesses.

The majority of women business owners (68%) foresee non-financial barriers to their growth. The broad categories of non-financial barriers include marketing and internal issues within their company, the economy, expansion and training, health care issues, and employee concerns. Specific responses included: "Self-motivation," 'Taxes," "Finding qualified employees," and "Economics of the region." The range of non-financial barriers illustrates the extent of concerns experienced by women business owners.

FOCUS GROUPS

The four focus groups composed of women business owners included a diverse group of entrepreneurs. The groups were segmented by county location (inside/outside Allegheny County) and number of years in businesses (five years and under/more than five years).

The primary purpose of the focus groups was to aid in the development of the survey, but much of the information foreshadowed and reinforced the survey's findings. The self-financing of the women-owned businesses in the initial stages and self-reliant as opposed to bank-reliant financing for current needs were themes which permeated the focus groups, as well as the survey results.

The problems and barriers mentioned in the write-in section were also discussed in the focus groups including the negative side of forcing a spouse who is uninvolved with the business to co-sign business loans, the high cost of bank services for small businesses, and the banks' attitudes toward small businesses. Non-financial obstacles highlighted in the focus group and the survey results included: employee issues, the economy, and personal issues. The focus groups were extremely helpful in the development of the survey. The responses and issues raised within the groups were repeated in the survey data. Although the women business owners in the focus groups from outside Allegheny County articulated greater hardships in working with banks than those inside Allegheny County, the survey results showed that there were no statistically significant differences between women-owned businesses inside and outside Allegheny County. The survey sponsors greatly appreciate the involvement and candor of the women business owners who volunteered their time to participate in the focus groups.

PITTSBURGH IN A NATIONAL FRAMEWORK

The National Foundation of Women Business Owners (NFWBO) conducted a national survey of the membership of the National Association of Women Business Owners (NAWBO) in December of 1994. Although the compatibility of the Pittsburgh Area Women-Owned Businesses and NFWBO populations are not statistically proven, some comparisons are useful. Data on women-owned businesses in the United States are limited and the NFWBO data illustrate some interesting national trends. The Pittsburgh sample from this report included a cross-section of women-owned businesses while the NFWBO survey polled the national NAWBO members.

Demographically, many of the characteristics of the women business owners in the two samples are similar. For example, the percentage of married respondents are nearly identical with 64% of the Pittsburgh sample married compared to 65% of the NFWBO respondents. Educationally, 86% of the Pittsburgh sample attended some college in comparison with 70% of NFWBO respondents; 23% of the national respondents had a Master's degree, compared to 17% of the Pittsburgh sample. In both samples, 7% had doctoral degrees.

Women own all types of business across the economic spectrum. The most popular type of woman-owned business is in the service sector; 59% of the Pittsburgh respondents are in this sector and 62% of the NFWBO respondents. Retail follows representing 19% of Pittsburgh area respondents and 12% of the national respondents. Nine percent of the national sample is in goods- producing industries, whereas 6% of the Pittsburgh sample is in manufacturing and an additional 6% is in construction. Number of years in business for the two samples is also similar. The average number of years in business for the national sample is 8.2 and for the Pittsburgh sample, it is 7.9. The Pittsburgh area women-owned businesses are not at the national levels for sales or employees. Less than one-half (47%) of the NFWBO respondents grossed less than $250,000 in 1994, whereas, 86% of the Pittsburgh area respondents' 1994 gross earnings were less than $250,000. Eighty-four percent of NFWBO sample are employers but of the Pittsburgh sample, 59% are employers.

From a financing standpoint, Pittsburgh lingers behind the national average. Fifty-five percent of national NFWBO respondents have bank financing. Only 37% of Pittsburgh area women business owners utilize any type of bank financing combining bank business loans, bank personal loans, and bank lines of credit. Nearly one-third (32%) of NFWBO respondents obtained business loans compared to less than one-sixth (13%) of Pittsburgh women business owners.

SUMMARY AND RECOMMENDATIONS

This report contains seven central themes about Southwestern Pennsylvania's women-owned businesses. Women-owned businesses significantly affect the Pittsburgh regional economy. Women-owned businesses are growing, and expanding. Women-owned businesses create jobs, provide income, and offer benefits to the Pittsburgh region. Women business owners are active participants in corporate and government contracting. Women business owners finance their businesses resourcefully and with self-reliance. Lack of communication impedes the relationship between banks and women business owners and leads to under-utilization of the range of bank services. In spite of the limited banking relationships of most women business owners, they are positive about their banks.

Pittsburgh area women-owned businesses have and will continue to forge ahead, and they are a key element in our business community. Unfortunately, women-owned businesses have been a largely untapped asset by our financial institutions and strategic policy makers. Women-owned businesses offer a great opportunity to fuel Pittsburgh's growth, which cannot be overlooked. Women-owned businesses are growing, and they are reliable. Their impact on our economy is significant. They should be targeted as the prospect they are for capital investment by the financial community and given attention by key policy makers.

Neither the financial community nor the women business owners themselves, have seen the potential that additional capital and innovative financing can reap. This pent-up demand of female business owners provides an opportunity for banks to secure new clients and cement deeper relationships with women business owners who are already using their services. Women business owners are community assets that should be tapped as strategic partners in the region's development. The following agenda for action addresses target areas for change to generate further growth for women-owned businesses and the region's economy.

AGENDA FOR ACTION

The survey results and recommendations support the following agenda for action which have been presented to Pittsburgh community and business leaders. Bankers should recognize and target women business owners as a strong customer base with growth potential. Community leaders and policy makers should recognize the importance and contributions of women-owned businesses. Women business owners should be more active in vigorously pursuing bank financing. If one bank is not interested, then the woman business owner should switch banks. Business training and seminars should focus on the relationship between financing and growth. Women business owners should become certified and actively seek contracts with government agencies and corporate entities. Neither the financial community nor the women business owners themselves, have seen the potential that additional capital and innovative financing can reap. This pent-up demand of female business owners provides an opportunity for banks to secure new clients and cement deeper relationships with women business owners.

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[1] *United States Economic Census 1987 and 1982. These were the last available Census statistics.*

[2] *All of the national data are based on Summary and Highlights: 1994 Membership Survey of the National Association of Women Business Owners, by The National Association of Women Business Owners, The National Foundation for Women Business Owners, and IBM. Contact: NFWBO 1100 Wayne A ve., Ste 830, Silver Spring, MD 20910-5603.*

WHAT WOULD SBIs DO WITHOUT FEDERAL FUNDING?

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ABSTRACT

Federal funding of the Small Business Institute program ended in 1995. Schools with SBI programs and the Small Business Institute Directors Association need to assess the impact of the elimination of Federal funding. No recent research on this subject has been published.

All SBI directors were surveyed by mail during the summer of 1995. A total of 215 directors responded for a 45.4 percent response rate. Approximately 69 percent were public and 31 percent were private institutions. Data were analyzed using SAS while open-ended questions were hand tabulated.

BACKGROUND

Federal funding for the nation's 500 Small Business Institutes is in jeopardy. The Clinton Administration did not include funding for the SBI program for fiscal year 1995, however Congress later restored funding. The 1994 Congressional elections resulted in the Republicans gaining a majority in both the House and Senate. This shift of power to conservatives has changed the direction and priorities of the Federal government. The new majority has made balancing the budget a top priority. The Clinton Administration has responded with its own budget balancing proposal. Funding for SBI for fiscal year 1996 was again omitted from the Administration's budget and Congress eliminated funding.

PREVIOUS RESEARCH

There is a lack of research on funding of SBI programs generally, and none on what might happen if Federal funding was eliminated. Three previous studies dealt with SBI funding indirectly. One looked at SBI budgets (Timmins & Tallent, 1992). Another investigated the use and control of SBI case funds (Rose & Wong, 1991). And the last analyzed the spatial distribution of SBIs and SBDCs (Frazier, Krumske, Leinberger Geiger, 1995).

OBJECTIVES

The primary objective of the research was to determine what impact the elimination of Federal funding would have on Small Business Institutes and by extension on the Small Business Institute Directors Association. The secondary objective was to determine what role SBIDA should play if Federal funding is eliminated.

METHODOLOGY

All SBI directors were surveyed by mail with the use of a mailing list from the National Advancement Center for Small Business Institutes. They were surveyed in the following areas: school information, community information, SBI program, SBI director, SBI instructors, current SBI funding (revenue and expenses), likely actions if Federal funding was eliminated, ability to do fund raising, and what assistance SBIDA should provide.

The survey was mailed to 476 current SBI directors. A second mailing was made to non-respondents. Of that number, two were returned as undeliverable and 215 were complete and usable. This was a respectable response rate of 45.4 percent after undeliverables were excluded. The data was then tabulated using SAS Frequencies, cross-tabulations, and backward and forward regressions were run separately for the 143 public and 65 private institutions that identified themselves. Open ended responses were hand tabulated.

RESULTS

Information on Current SBI Funding

A large number of the SBI programs, 81 (39.3%) received from $0,000 to $4,999 in program funding; another 74 (35.9%), received from $5,000 to $9,999 in funding (Table 6). Taken together the large majority of SBI programs, 155 of the 206 received less than $10,000 in federal funding. Similarly the large majority (top two categories) 117 programs of 157 had less than $10,000 in expense.

Table 6
1994 PROGRAM FUNDING AND EXPENSES

	1994 TOTAL FUNDING			1994 TOTAL EXPENSES		
DOLLARS	Freq.	Percent	Cum.	Freq.	Percent	Cum.
0,000-4,999	81	39.3	39.3	76	48.4	48.4
5,000-9,999	74	35.9	75.2	41	26.1	76.5
10,000-14,999	33	16.0	91.2	21	13.4	87.9
15,000-19,999	9	4.4	95.6	14	8.9	96.8
20,000-24,999	6	2.9	98.5	5	3.2	100.0
25,000-29,000	2	1.0	99.5	0	0.00	
30,000-34,999	1	.5	100.0	0	0.00	

n= 206

If Federal Funding Were Eliminated, What Would Happen?

If Federal funding were eliminated 60 of the 210 respondents (28.6 percent) would very likely discontinue the program (Table 7). Conversely, fifty five respondents (26.2 percent) said they were very likely to continue the program. While a certain percentage would discontinue the SBI, a number of schools would take some other measures to continue the program such as requiring client fees, 17.3%, asking for client contribution, 21.1%, seeking corporate or foundation grants, 23.3%, or reducing the number of cases 37.9%.

Table 7
IMPACT ON SBI PROGRAM IF
FEDERAL FUNDING IS ELIMINATED

	Continue SBI	Require Client Fee	Ask For Client Contribution	Seek Corporate Foundation Grants	Reduce Number of Cases
VERY LIKELY	26.2	17.3	21.1	23.3	37.9
LIKELY	20.5	12.4	21.1	21.8	16.7
UNCOMMITTED	14.8	11.4	17.2	14.1	15.7
UNLIKELY	10.0	15.3	11.3	15.5	10.1
VERY UNLIKELY	28.6	43.6	29.4	25.2	19.7
TOTALS	100.1*	100.0	100.1*	99.9*	100.1*

* rounding errors

A number of schools will eliminate director compensation, 40.0 percent, reduce director or instructor compensation, 39.1 percent, or eliminate student compensation, 42.0 percent.

Impact on SBIDA if Federal Funding Were Eliminated

The elimination of federal funding has severe repercussions for SBIDA as an organization (Table 8). Forty one percent said they were very unlikely to continue membership in SBIDA. Forty six percent were very unlikely to continue attending SBIDA regional meetings, and 53.8 percent were very unlikely to continue attending SBIDA national meetings.

Table 8
IMPACT ON SBIDA IF
FEDERAL FUNDING IS ELIMINATED

	CONTINUE MEMBERSHIP IN SBIDA	CONTINUE ATTENDING SBIDA REGIONAL MEETINGS	CONTINUE ATTENDING SBIDA NATIONAL MEETINGS
VERY LIKELY	17.2	14.0	14.1
LIKELY	7.9	11.0	6.0
UNCOMMITTED	17.7	16.5	16.1

UNLIKELY	15.8	12.0	10.1
VERY UNLIKELY	41.4	46.5	53.8
TOTALS	100.0	100.0	100.1*

* rounding error

On the positive side a significant number although a minority would continue the program. Adding the respondents together from the two response categories yields 46.7% who would continue the program, 25.1% would continue membership in SBIDA, 15.0% who would continue to come to SBIDA regional meetings, and 20.7% who would come to SBIDA national meetings.

Directors will be forced to cut expenses on one hand and attempt to generate more revenue from new sources on the other hand.

These are new and different challenges for SBI directors. Are directors up to the challenge in terms of energy, drive and capability? Many directors near retirement may not find it personally worthwhile. Similarly, new directors may find the added pressures to obtain funding may take more time and energy than they can afford professionally. Many schools are already hard pressed financially and may not be able or willing to provide additional financial support, and may even use the occasion to cut expenses by eliminating their SBI program.

While asking clients for a contribution after the consulting engagement is over may not alter the student consulting team-client relationship, it is unlikely that it will offset the the elimination of federal funds. Asking clients for an up-front fee was seen as the least desirable option. It would change the nature of the consulting arrangement, client expectations, and eliminate many prospective clients. It would also have benefits. It might make the consulting engagement more real for the SBI team and client. They might take it more seriously, leading to improved recommendations and greater implementation of recommendations. Overall, greater commitment on both parts is a likely outcome.

The potential impact on SBIDA at first glance appears devastating. Only a quarter of those surveyed indicated that they would continue their membership in SBIDA. A similar percentage would continue attending regional meetings, but only 20 percent would attend national meetings. Worse yet, the number that are very unlikely to continue membership and attend regional and national meetings is 41.4 percent, 46.5 percent and 53.6 percent respectively.

Upon further consideration, these results may not be as sanguine as they seem. For instance, if these percentages are projected out for approximately 500 SBI schools, about 125 directors might be expected to continue membership in SBIDA and attend regional meetings. Only about 100 would attend national SBIDA meetings. However, these projections probably overstate the numbers because non-respondents are less likely to be active participants in SBIDA, if in fact they are members. What are the implications of these estimates?

First, there is a core of strong, committed SBIDA supporters. These people and programs need to be identified. They form the foundation for the future of SBIDA. Second, SBIDA needs to consider strategic alliances with other professional organizations to help reestablish critical mass in terms of numbers, programs and meetings. Third, SBIDA should look beyond the U.S. for new members to expand the program globally. There is a revolution in entrepreneurship occurring across the globe from privatization of industry to democratization. SBIDA is well positioned to contribute to this trend. Fourth, the SBIDA regions should be configured based on the number and location of strong SBI programs and directors. Fifth, SBIDA needs to sort out what is best done at the regional and national meetings to eliminate overlap. This will also make each distinctive and make it more worthwhile for members to attend both.

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ENTREPRENEUESHIP IN UGANDA: THE INFLUENCES OF TRADITION AND WAR

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ABSTRACT

Since entrepreneurship develops and evolves according to the environment of the place where it is being promoted, we should expect the entrepreneurial processes in Third World countries to differ from those in the United States. This study is about how the entrepreneurial boom has recently gotten to Uganda. Long-established traditions have combined with a long civil war to create Uganda's unique version of the entrepreneurial process, albeit still evolving. The study found that the existence of informal and non-legalistic relationships tend to dominate the definition of who owns a family business and how it is financed. It was also found that, as in most other less developed countries, most Uganda small entrepreneurs are still very production-oriented rather than customer-oriented.

INTRODUCTION

Most experts on the subject now feel that entrepreneurship is rooted in a given country's environmental characteristics: its history, economy, social values, politics, and even its physical geography (for example, its size and natural resources) (Peterson, 1988).(1) After the eclipse of the Soviet empire and socialistic ideologies, many countries, especially in Eastern Europe and the Third World, have gotten on the entrepreneurship bandwagon. The question now is what should be done to encourage entrepreneurship in these countries, which are new to the phenomenon. We probably cannot simply transplant our models. First, in the United States, not to mention the whole Western world, we have yet to agree on entrepreneurial process models (Carland, 1995).(2)

Even if we did have agreed-upon and validated entrepreneurship models, we probably would not wish to apply them to wildly strange environments. Ideas such as becoming an entrepreneur through buying an existing business do not work in places where small businesses are not routinely sold because so many interests are involved, for example, where there are multiple common-law wives and, accordingly, many children and other relatives, including in-laws. Under these circumstances, who really owns the business? In the family business, where does "family" stop? How are businesses to be financed? Who will be hired to work in the family business?

This paper attempts to highlight some of these issues on the basis of a study that was conducted in Uganda, a country which was constantly in the news until recently because of a long civil war that raged there. The war, as well as long-standing cultural traditions, have shaped the entrepreneurial process in Uganda.

METHODS

A survey questionnaire was distributed to about 700 small business owners in the towns of Kampala and Masaka in Uganda.

They all had to be contacted personally and requested to participate in the survey. Most of them refused, but 208 (30%) had, by June 1992, completed and returned the questionnaire. The questions covered demographic/classification aspects, motivation, risk-taking, working in the business, ownership, financing, location/facilities, and sales growth strategies. The findings covered in this paper relate to ownership, working in the business, financing, and sales growth.

FINDINGS

Ownership

The way a business is financed greatly influences the way it is managed. Contributing to the equity of a business accords ownership status to the contributor and ordinarily also allows the contributor to have some say in the way a business is managed. The surveyed Ugandan business owners were asked about other people they shared business ownership with. The following question was asked: "Do you own this business by yourself completely?" Table 1 summarizes the responses to this question.

Table 1: Contribution Towards Ownership of the Business

	No. of Respondents Sharing Ownership With	
	No.	%
Sole Ownership (no contributions)	95 (85)*	46 (41)*
Spouse	55 (55)*	29 (30)*
Other Relatives	34 (30)*	18 (20)*
Persons Not Related to Respondent	46 (62)*	27 (41)*

*Number and % age of respondents receiving contributions from.

As indicated earlier, ownership is often defined by financial contribution. Respondents were asked about contributors to their business ventures besides the respondents themselves. As can be seen in Table 1 (figures in parenthesis), 30% of the respondents stated that their spouses had made contributions toward their businesses. Recalling that about the same percentage of respondents had indicated that their spouses were part owners of their businesses, there appears to be a correlation between financial contribution and being counted as one of the owners. But this conclusion was convoluted significantly.

Cross-tabulations between financial contribution and ownership indicated that of the 55 respondents who had indicated that their spouses were part owners, only 30 also indicated that their spouses had made financial contributions toward their businesses. Some 18 respondents included their spouses in the owner ranks, although these spouses had not made financial contributions. Of course, they could have provided emotional support. But to confuse the situation further, 24 of the respondents who had indicated that their spouses had made financial contributions didn't regard the spouses as part owners.

As can also be seen from Table 1, 18% of the surveyed business owners reported sharing business ownership with relatives (other than their spouse). It can also be seen that 20% of the respondents stated that relatives made financial contributions toward their businesses. Here, again, cross-tabulations showed that there were inconsistencies between ownership and financial contribution. Eight (8) relatives were regarded as part owners without having made financial contributions and twelve (12) relatives who had made financial contributions weren't considered to be part owners. The gaps between ownership and financial contribution were much more noticeable in relation to friends (part owners and contributors who were not relatives of the business owner), as can be seen in Table 1. The percentage for contributing friends is 41, while that for their part ownership is merely 27. And cross-tabulations showed that an entire 50% of the contributing friends weren't considered to be part owners. It would appear that in Uganda, a prospective business owner's contribution plate is passed around to many more people than he or she is willing to acknowledge as deserving to share ownership. This doesn't mean that contributions are forgotten. They might be social obligations to be returned at an appropriate future date.

Sources of Financing

Contributions (gratuitous) are often not enough to launch a business. A business owner may have to go outside of the family and circle of friends to raise capital for the business. Since where you go to raise capital has a lot to do with how much capital you need, Uganda entrepreneurs were asked about both how much capital they had needed to launch their businesses and where they went for that capital.

Table 2: Capital Requirements by Type of Business

	Amounts Needed in Uganda Shs (in millions)			
	<1	1-5	5-10	>10
Retail (n = 47)	74	13	11	2
Wholesale (n = 14)	64	29	0	7
Retail/Wholesale (n = 20)	50	40	5	5
Construction (n = 6)	17	so	0	33
Manufacturing (n = 31)	71	19	3	6
Transportation	33	33	17	17

(n = 6)				
Others (n = 27)	56	26	7	11

Over 60% of the respondents who disclosed the amounts of capital to launch their businesses needed under Ug Shs 1 million (U.S. $1,000). In fact, an entire 37% needed under Ug Shs 100,000 (U.S. $100). As can be seen in Table 2, retail is the easiest route to going into business, since it needs the least Capital outlays. Indeed, 34% of the surveyed retail business owners had needed under Ug Shs 100,000. Manufacturing was also relatively easy to go into from the financing point of view. Twenty-six percent (26%) of the manufacturing businesses had needed under Ug Shs 100,000.

The Ugandan surveyed business owners were asked the question, "How did you obtain all the money to operate your business?" The sources of financing were given as indicated in Table 3.

Table 3: Sources of Financing

No. of Times Each Source was Cited

Sources	No.	%
Savings	116	52
Borrowing	52	23
Relatives/Friends	43	19
Other	14	6
	225	100

As elsewhere, small businesses rely a great deal on owners' savings. Borrowing, technically meaning "taking out loans," was mentioned much more frequently than one would have expected given the sparseness of the lending institutions and the general claim that these institutions, where they exist, do not like to lend to small businesses, a claim that is not unique to Uganda (Olwoc, 1990).(3)

To get a better understanding of borrowing as a way of financing small businesses in Uganda, respondents were asked about the sources of loans taken out.

Table 4: Sources of Borrowing

No. of Times Source was Mentioned

Sources	NO.		%	
Relatives	19	(2)*	14	(6)*
Friends	50	(17)*	36	(47)*
Banks	41	(14)*	30	(39)*
Government	5	(0)*	4	(0)*

Other	23	(3)*	17	(8)*
Total	138	(36)*	1O1	(100)*

*The figures in parenthesis relate to continuing borrowing.

Nearly 30% of the loans taken out by the surveyed Uganda entrepreneurs were under Ug Shs 100,000. In fact, nearly 70% of all loans were Shs 1 million or under. The preponderance of small loan requests makes friends the most popular source of loan finance, as can be seen in Table 4. The role of friends and relatives in financing small businesses in Uganda can further be gauged by the fact that these sources are, again, listed separately (even though they are the main sources of borrowed money), as can be seen in Table 3.

At least 50 of the surveyed business owners did borrow in order to launch their businesses. Ordinarily, borrowing is also essential for the continuation and expansion of the business. Respondents were, therefore, asked about whether they continued to borrow and the sources of the continuing borrowing. The responses are also summarized in Table 4 (the figures in parenthesis). Borrowing dropped off drastically once businesses got started. However, friends continue to be the most popular source of borrowing. Borrowing from relatives almost dies off.

Sales Growth Strategies

Continuing borrowing, borrowing after the business has been launched, is ordinarily essential for growth. Businesses which do not need or plan to grow generally have less need for continuing borrowing (Welsh, 1981).(4) In order to detect the existence of specific growth strategies, the respondents were asked about expected growth in sales. This question was overwhelmingly not answered. So was the question, "What were your sales last year?" These questions might have been considered to be too intrusive or potentially dangerous, since the information they solicited could be useful to the Uganda government tax authorities (Olwoc, 1990).(7) On the other hand, the questions might have asked for information which was non-existent due to poor record keeping, a common problem in small businesses. But the absence of information on expected sales growth may also mean the absence of growth strategies. As was indicated earlier, this would reduce the need for continuing borrowing.

However, 167 (80%) of the 208 respondents provided their current sales figures. Furthermore, 132 (63%) of the respondents were rather specific as to what they needed to do in order to increase their sales. The question they responded to was, "What steps do you plan to take in order to increase your sales volume?" Due to the widespread shortages of just about every commodity in Uganda at the time the survey was conducted (1990-92), the respondents, suggestions for boosting sales were heavily slanted toward the supply side. It was a seller's market.

Working for the Business

One of the most important determinants of business success is commitment of time to the business. Concentration is essential. Being with the business part-time or spreading oneself between too many endeavors often spells disaster. Several questions on the survey questionnaire were concerned with working in the business. Table 5 summarizes responses in this area.

Table 5: Working Full-Time in the Business or Elsewhere

	Respondent		Spouse	
	NO.	%	No.	%
Business	153	74	60	30
Elsewhere	49	25	87	46

The vast majority (74%) of the surveyed business owners were working full-time in their businesses. (But 94 of them, 45%, had multiple businesses. In fact, 34 respondents had at least 3 businesses.) All 13 of the respondents in construction worked full-time. On the other hand, in wholesale, only 12 of the 20 respondents worked full-time. Sixty (30%) of the respondents had their spouses working full-time in the business. No spouse worked full-time in construction and 10 of the spouses in wholesale worked full-time in the business.

DISCUSSION AND CONCLUSION

Uganda's urban centers are overflowing with new businesses ranging all the way from the most basic and informal, such as selling cigarettes by the stick, to the highly sophisticated and formal, such as designing information systems and installing and servicing computers, much of it thanks to the 20-year civil war that left the country a total wreck. The long civil war could be equated to a revolution. Revolutions tend to be a boon for entrepreneurship (Reynolds, 1991).(6)

Uganda's 20-year civil war all but destroyed government-owned and operated enterprises (parastatals). This created immense opportunities for enterprising Ugandans. To mention one example, take the case of UTC (Uganda Transport Co.), a colonial legacy. Its buses were so destroyed by looters, vandals, lack of maintenance, and potholes that the new government, after the war, gave up on the company. This left the transportation business in Uganda to private bus and van operators.

Then there was the forced exodus of the Asian community, who, as an immigrant community (Reynolds, 1991), (7) had been the backbone of Uganda's entrepreneurial class (shopkeepers and operators of small-and medium-size factories). The void they left made many indigenous Ugandans instant entrepreneurs. Again, partly as a consequence of the war, but also partly as a consequence of the decline of socialistic ideologies internationally, the new Uganda government abandoned (at least outwardly) its socialistic learnings. The government also wanted to attract international financial support. Over 70% of the surveyed business owners had been in business only since the mid-1980's; many of them out of sheer necessity. Some had gotten into business to supplement their peasant farming incomes;

peasant farming had been adversely affected by the war. Some business owners were in business on a moonlighting basis. They had "full-time" jobs in the civil service and government parastatals. The inflation created by the war had made real salaries less than subsistence. Many business owners were recent university graduates (23% of the respondents were university graduates) who entered business because they couldn't find jobs in the civil service or parastatals or the jobs didn't pay enough.

So, many Uganda business owners had become entrepreneurs in a hurry, with no prior industry/business experience, no feasibility studies, and no business plans. They began in very informal ways and many of them continued to operate informally. This informality is incongruent with formal government institutions such as tax agencies, and formal economic institutions such as banks. It is, therefore, not surprising that most of the surveyed business owners relied on informal sources of financing such as relatives and friends. Many business owners relied on small amounts of capital to finance their businesses, amounts they had saved themselves or gotten or borrowed from family members and friends. This informal method of financing, where the terms are not definite, results in a wide distribution of the ownership of the business, making the selling of the business a near impossibility. Under these circumstances, if there is no agreement about the successor to the business founder, the business is likely to just be dismantled, pieces of the business being distributed (often by a clan chief) to individuals on the basis of some custom.

Informal relationships, relying on relatives and friends to locate resources for business, constitute a form of networking, considered to be critical in the informal economic sector (Reynolds, 1991).(8) As such, informal relationships play an important role in Uganda and elsewhere. In the meantime, because of the way these informal relationships operate, if one wanted to go into small business, he or she would have to start the business from scratch rather than buy an existing one; probably none are available for sale. None of the 208 respondents in this survey had bought his or her business, although 24 of them had gotten the business from their parents.

Most of the surveyed business owners went into business out of sheer necessity; but they were also attracted by the vast opportunities that had opened up, such as the exodus of the Asian business community and the collapse of many government commercial enterprises. There were shortages in almost every commodity. Even though the shortages had significantly subsided by 1990-1992 (when this survey was conducted), most of the surveyed business owners tended to approach sales growth in terms of raising capital to buy more stock (or to buy more equipment in order to produce more) so as to sell more. This is the production orientation. It is said to be commonly prevalent in the third world (Miller, 1993).(9) In the case of Uganda, given the continuation of appropriate public policies as well as political peace, the economic shortages will end and competitive forces will set in, especially as the Asian business community returns to Uganda. Entrepreneurial survival will then hinge on the discovery of the marketing orientation.

Uganda's entrepreneurship is currently evolving. The patterns in this entrepreneurial process are unlikely to settle for another decade. As one observer has noted, entrepreneurship in a developing country "is a dynamic and fast-changing field, and what is true today may well be nonsense tomorrow" (Harper, 1984). (10)

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EARLY STAGE VENTURE CAPITAL AND SCOR: NEEDS, NEW DEVELOPMENTS, AND CONCERNS

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ABSTRACT

This article examines the capital market for early stage ventures. The status of the current market and improvements offered by the Small Corporate Offering Registration (SCOR) process are presented. It is argued that information is the critical component needed to develop an effective capital market for early stage investment. The article concludes with some conclusions and recommendations about the future of a viable early stage marketplace and sugests that the SCOR process may lead to a much broader and more efficient market, but only if the necessary market mechanisms are implemented effectivelv.

INTRODUCTION

The entrepreneurial phase of a firm is often considered to include the time between the generation of the original business idea and the point at which the business offers publicly traded securities (Amit et al.. 1993). This categorization has been utilized because issuing public securities has been such a difficult source of funding for early stage companies. The public sale of securities provides a clear cut indication that an early stage company has progressed to another level. Entrepreneurs have difficulty raising money for early stage growth companies because there is no organized market for early stage companies to sell their stocks. In large part, this problem is due to the difficulties imposed by registration restrictions.

This article will examine the market for early stage capital which includes the seed and startup stages. The Small Corporate Offering Registration process will be discussed, as well as, recent developments in the market such as the SCOR Market Maker. Ultimately, these developments may lead to a broader and more efficient market, and a significant increase in early stage capital. The article concludes with some thoughts and cautions about the future of a viable early stage marketplace.

LIMITATIONS OF EARLY STAGE VENTURE CAPITAL FUNDING

While there are a number of options for raising seed and start-up capital, many of the sources are difficult for most early stage ventures to reach. The use of debt capital, for example, is severely restricted to early stage companies due the lack of a stable financial history and the lack of appropriate collateral. Therefore, equity capital tends to be the primary funding vehicle for most early stage companies. Unfortunately, equity capital can also be very difficult for early stage companies to utilize.

The issuance of stock is an often mentioned option for venture capital; however, it is typically a much more limited option for either early stage or even smaller later stage companies than commonly assumed. Table 1 shows the requirements for listing on the various stock exchanges across the U.S. With minimum asset requirements of $2 million or more, it is clear that the exchanges are weighted towards the capital requirements of larger companies. This is a major limitation. A company with a stock listed on an exchance has many advantages when seeking capital such as a ready source of buyers, issuers and sellers, issuance support, increased liquidity, and access to analyst reports and recommendations.

Table 1

Stock Exchange Asset Requirements

Stock Exchange	Net Tangible Assets
New York	18,000,000
American	3,000,000(1)
Chicago	2,000,000
Boston	3,000,000
Philadelphia	4,000,000
NASDAQ	4,000,000
Pacific	4,000,000
Pacific	500,000(2)

(1) Market Value of Shares

(2) SCOR Companies

Source: Freear and Wetzel, 1992

The vast majority of small businesses that raise risk capital do it through non-registered, exempt private securities offerings directed towards "friends, family, and associates". These offerings are far less expensive to execute than the traditional securities registration process, but are often of limited value in reaching an adequate number of investors. Registration processes and restrictions have been established by the state and federal government in an effort to protect "widows and orphans" and other vulnerable citizens from becoming the unwitting targets of unscrupulous promoters. Similar motives lie at the heart of most securities regulations.

While these motivations are undoubtedly noble and have made it more difficult for scam artists to operate openly, they have also had undesirable consequences as well. Most significant is the stifling effect that such regulation has on the free exchange of information in the market for small business securities. While there are millions of people who would be qualified to participate in such offerings very few ever learn of their existence. And most devastating to the development of an early stage marketplace is that very few people see enough transactions to develop a sense of fair market value for the offered securities. Consequently, potential investors either do not know about deals or they don't have any idea whether the deal they are looking at is reasonable or unreasonable. Human nature tends to avoid the unknown and this seems to be most often the case for the early stage marketplace.

Traditional Sources of Venture Capital. There are two primary sources of venture capital, venture capital funds and business angels. According to Pratt's Guide To Venture Capital Sources, there are about 500 venture capital funds managing assets of $35 billion. Business angels, on the other hand, are individuals with a high net worth who are more interested in holding potentially higher yielding yet risky investments in startups and early stage investments. They generally have substantial business or entrepreneurial experience and differing levels of ability to analyze potential new ventures. Presently there are perhaps 250,000 business angels investing in thirty thousand ventures annually. While venture capital funds are relatively easy to access through sources such as Pratt's Guide, the business angel market is much more difficult to identify and reach. For a number of reasons which will be discussed, both of these sources have been inadequate to meet venture capital funding requirements.

Venture capital needs in the U.S. exceed the sources of supply. While venture capital needs are very difficult to accurately estimate, a conservative estimate may be $50 billion annually (Freear and Wetzel, 1992).

Although this is a relatively insignificant amount compared to the capital available in the regulated markets, it far exceeds the money available from venture capital funds. In fact, venture capital funds invest only about $34 billion annually. Although venture capital funds are often perceived as being a major source of venture development capital business angels may invest as much as $30 billion annually (Gaston and Bell, 1988). Even this still leaves a major investment shortfall for potentially lucrative business development.

Business angels are more likely to invest in the smaller, crucial rounds of financing needed by early stage ventures. Business angels are also more likely to invest when anticipated growth rates rate are moderate, 10-20% per annum, which may not be attractive enough to professional investors such as venture capital firms. Business angels thus represent the critical source of early stage funding. A primary difficulty for a start up in this case, however, is locating and involving this informal and diverse group of investors. Because of the difficulty in locating these investors, they likely represent an under exploited source of venture start up capital. The lack of an adequate market in this sector is a crucial problem to the access of early stage funding. Most often such investors are found through the entrepreneur's informal network of contacts. Useful contacts to locate such individuals are often accountants, attorneys, bankers, and other entrepreneurs. By and large though this is a hit or miss process. There are likely to be many more individuals who could be better reached. If potential investors could be more effectively reached there may be a much greater potential for investment from this sector.

INFORMATION IN THE VENTURE CAPITAL MARKET

The lack of adequate entrepreneurial funding may be a symptom of a larger informational problem in the venture capital market. There are several indications of the problem. One is the lack of widely available information about new ventures. As mentioned previously, securities regulations have severely limited the open exchange of information in the market for exempt securities. It is difficult to acquire consistent good quality information about new ventures. In addition, there is also a lack of available information on the performance of comparative companies due to the absence of an organized market which would provide access to such benchmarking information. These factors make deals difficult to locate, and difficult to value because of the lack of a an adequate information base of comparable opportunities. These limitations may be the key difficulty in the availability of adequate venture capital.

In addition, this information can be difficult to assess because of the high levels of uncertainty inherent in new ventures. Entrepreneurs identify and create new business opportunities and bring together the necessary resources to actualize the new business. Uncertainty is a key characteristic of new ventures. Uncertainty to the investor is intensified by the lack of available history for early stage companies which results in an inadequate basis for making sound estimates of return and management capability. This leads to the second problem with the venture capital market; the inherent difficulty in analytically assessing the potential of a new investment.

This uncertainty may be endemic to the nature of new ventures, but appears to inhibit formal investors such as venture capital funds from taking the risks. As a result of this uncertainty and the need to produce competitive returns, venture capital funds have been modifying their evaluation criteria in an effort to optimize the risk return ratio for their investors (Bygrave and Timmons, 1991) becoming more cautious and have emphasized later stage investments and demands for greater returns.

Overall, the true element of risk involved in early stage venture projects are difficult to know with reasonable certainty and the evaluation of this risk is likely to be highly subjective and vary extensively based on the preferences of the investor. Since the risks inherent in such new activities can not be analytically estimated with satisfaction, these endeavors are characterized by high levels of uncertainty. As venture capital funds change their objectives, they have become a relatively insignificant factor in the early stage marketplace. At present most of the informal investors participating in the early stage marketplace depend on personal networks of informed associates, and these investors will often attribute significant weight to the presence of a respected lead investor (Freear and Wetzel, 1989 and 1992).

In summary, uncertainty and a lack of consistent comparable information appear to be major limitations to the development of a viable early stage marketplace. Information about early stage deals need to be more widely available both as to initial offerings and with regard to historical performance. Only through an enhanced dissemination of relevant market information will potential investors feel less anxious about entering the uniquely structured deals found in the early stage marketplace.

THE SCOR MARKETPLACE

Given the limitations of existing capital sources, it is clear that early stage ventures in the seed or startup phases suffer from major limitations in the existing capital markets. An early stage market, if it can even be said to exist, is underdeveloped due to previous SEC regulations. As a result the market for such stocks is very informal with associated information based problems. It appears that meeting the need for early stage investment must be met by improving the information characteristics of the venture capital market in order to reach informal investors. If information was more systematically distributed and the risks could be more

readily assessed, a larger capital market for early stage investment might be developed. If the venture capital market can be opened to a wider audience, the possibility for funding good projects may improve. In this way new capital might be tapped for those projects which don't adequately match the criteria of venture capital funds or other large scale investors such as investment
banks.

One of the recent improvements in the public funding of new ventures are changes in Securities and Exchange Commission's regulations concerning exempt offerings. The advent of the SCOR (Small Corporate Offering Registration) process is a regulator's attempt to better balance society's need for small business capital formation with their charge to protect the public from being defrauded. The SCOR process attempts to reduce the costs of public registration to be more similar to the costs of a private offering thus making public registration a far more viable option for many small businesses. And with the successful registration comes the freedom to sell securities to the general public and to use a variety of advertising and marketing techniques in doing so. Certainly this is good news for a variety of small businesses needing to raise capital, but the major impact of the SCOR movement will more likely be found in the opportunity to circulate relevant market information far more broadly.

There are restrictions imposed on SCOR securities. Regulation D which created the possibility for SCOR resulted from work between the SEC and state regulators to develop a uniform exemption from registraion for small stock issues. Rules 504, 505 and 506 especify the conditions under which stock issues can be exempt. Rule 504 applies most directly to early stage companies. Rule 504 exempts companies that are not subject to SEC reporting to sell up to $1,000,000 over a twelve month period to any number of investors. Rules 505 and 506 offer larger issues but apply only to companies that are already subject to SEC reporting.

Many states allow for qualification under state law in coordination with Regulation D, and each has unique rules regarding the nature of the offering. In Missouri, for example, the Missouri Issuer Registration Procedure (15 CSR 30-52.271) regulates SCOR offerings. This procedure allows an issuer who has their primary place of business in Missouri to raise up to $1,000,000 through the sale of common stock and debt securities to residents with an annual gross income of at least $30,000 and with a net worth of $30,000 exclusive of home, furnishings, and automobiles. Alternatively, an individual with a net worth in excess of $75,000 can also invest. Insiders and investments under $500 are excluded from these requirements. The business may also test the water of investor interest without filing a full securities registration, and can presell up to $100,000 of securities pending final registration. The securities disclosure and registration requirements can be met through the use of the U-7 disclosure document.

The U-7 is the central feature of SCOR offerings. It is based on 50 questions which explain the nature of the business offering and the detailed characteristics of the securities. The form was developed be the North American Securities Administrators Association and its use is common in most state registrations.

ISSUES AND CONCERNS IN THE SCOR MARKETPLACE

In order to create a broadened early stage capital market, it is important to create a viable SCOR marketplace. This can only occur if potential entrepreneurs seek to undertake the SCOR process, and if potential investors can be found to participate in these offerings. This section will explore important concerns in developing these two elements of the SCOR marketplace.

Expanding the SCOR Market. Completing the U7 and undertaking completion of the SCOR process can be a daunting process. Education of the entrepreneur on the requirements and benefits of the SCOR process is the first essential step to expand this marketplace. There are numerous possible benefits from this process. First, registration can expose the entrepreneur to a much broader market and offer its investors greater liquidity. Completing a U7 may force a venture to more thoroughly examine its plans which may help reduce failures. Finally, the development of a large number of U7 filings will create a valuable, consistent source of information which will help to greatly improve the information characteristics for early stage offerings.

These benefits may be sufficient incentive to encourage SCOR registration and develop a more efficient market as long as state restrictions are not excessive. To encourage this process it would seem incumbent on state regulators to leave the process relatively open but place other market filters into operation. As a result, more offerings reaching investors might undergo review through the SCOR process and this would likely improve the quality of the offerings and provide investors greater safety. Such a process appears to be a desirable approach to mitigate potential problems of fraud and underinformed investors. Encouraging companies to use the SCOR registration will help develop this market which in the long term can make this a dynamic, viable and better screened market than the alternative market of privately placed securities.

Expanding the Investor Market. Simply reaching the existing early stage investors more effectively through public access to SCOR offerings would likely expand the venture capital market significantly. There is also the likelihood to reach an even broader market of informal investors. At this point the characteristics of this enlarged market can only be estimated. Several studies have previously attempted to determine the characteristics of individual investors (Gaston and Bell, 1988; Harr, Starr and MacMillan, 1988; Freear and Wetzel, 1989). Drawing a composite from these studies suggests that individual investors have a median age of 48 years and range from 30 to 80 years in age. The vast majority have a bachelor's degree and perhaps 50% could be expected to hold a master's degree or greater. Although the studies vary considerable, one might still conclude that approximately half of these investors have a net worth under $1 million and an annual income under $100,000. The median investment is typically reported to be $50,000 or less per investment. It would appear that there is a potentially larger market than has previously participated in early stage offerings, perhaps as large as 2 million investors, especially since much smaller investments can be practical in marketing SCOR offerings.

By their nature, small businesses, particularly very young, growing, privately-owned businesses, carry unique and substantial risk factors for investors. Because of the unique risks inherent in early stage offerings, greater education efforts are needed to serve the broadened market so that they may avail themselves of the enhanced information offered through the SCOR process. Education is also made more critical by a lack of professional investment support. Since investments are usually quite small at this stage and the transactions widely dispersed, there are not likely to be adequate incentives to attract competent professional service providers who can assist the casual investor wishing to invest relatively small amounts.

Although most business angels have substantial general business or entrepreneurial experience, the broadened pool of investors would likely have significant income but possibly less education or general business experience. Such investors are likely to be investing in the stock market or mutual funds, but have not had access to the venture capital market. This new type of investor reached by SCOR offerings are probably unaccustomed to the types of risks inherent in these investments. Informed investors will often want to review a business plan, meet the management team, perform back-round checks, or possibly examine a design or prototype for any new products to be developed. Investors who commonly invest in less risky investments may not be aware of the need for exercising due diligence in this type of an investment.

As new investors are attracted to the market, it is essential that a full disclosure be made of not just the risks of the market, but also the investment process itself. New investors must understand the full scope of the risks inherent in these investments and be offered the tools to help them evaluate these unique investment opportunities. Without such disclosures regulator concerns may be energized with the potential for more restrictive restrictions in the market. For the new SCOR market to satisfy regulators concerns, both education and effective screening must be viewed as essential components to help protect potential investors.

RECENT DEVELOPMENTS IN THE SCOR MARKETPLACE

In some cities law firms and private placement firms have helped syndicate packages using Regulation D offerings. By and large, however, the problems of finding individuals to invest in such offering is still much of a hit or miss problem, similar to finding business angels interested in a given investment. Some recent developments, however, offer new possibilities for developing the greater access and information exchange needed for a viable SCOR market-place.

Table 1 shows that the Pacific Stock Exchange will list SCOR offerings with a market value over $500,000. This is a three year pilot. While the size limitation will preclude many seed offerings, this is still a progressive attempt to develop a market for SCOR stock offerings. The success of this effort could help provide a much needed liquidity for early stage offerings.

Listing will also provide the investor with the additional screening process of the Pacific Stock Exchange. At this point it is not clear if there will be enough activity or information to facilitate the broader evaluation and trading needed for an effective market. While likely providing a source of buyer and sellers, and possibly improved liquidity, it is doubtful whether analysts will participate in this market. Analysts could improve the information availability in the market and help less experienced investors, but it is unclear if the transaction volume and investment size will be sufficient to attract analysts into this market.

Another innovative effort is the SCOR Market Maker, developed at the Missouri Innovation Center (MIC). The MIC is a not for profit agency affiliated with the Missouri Division of Economic Development. This SCOR Market Maker is designed to seize the opportunity presented by the new regulations to build a skeletal marketplace infrastructure that would otherwise not be possible without the advent of the SCOR process. The program offers several features which deal with the problem of making buying, issuing and selling small stocks more convenient, and with the problem of training new investors to conduct there own analysis on these unique investments.

The SCOR Market Maker newsletter, published in newsprint and online, provides a forum for the public discussion of the unique circumstances surrounding investment in small, private companies and brings investment opportunities to the attention of the general public. Its goal is to broadly disseminate investment information throughout the state at no cost. The newsletter is inserted in business journals throughout Missouri and has a circulation of 100,000. The average net worth of investors reached through this method is over $1 million.

The newsletter approach has several advantages. First, by offering publication in the newsletter there is an incentive that makes it worthwhile for many small companies to subject their offerings to the review of state regulators through SCOR. Simultaneously, the presence of the Market Maker newsletter and its broad circulation to potential investors provides a vehicle for educating investors on not just the offerings but the criteria on which to evaluate these investments. The Market Maker can thus become a market where small companies can have their capital needs published, and where investors can find valuable investment advice.

To implement safeguards in this market, the SCOR process is the cornerstone of the efforts of the MIC. Publication in the SCOR Market Maker is used as an incentive to encourage small companies to subject their offerings through the SCOR process. The MIC also provides the technical assistance and training needed by those entrepreneurs who are willing to make the full disclosure required for SCOR offering. This is a particular help to very early stage seed and start up endeavors. This process encourages entrepreneurs to use the SCOR process, and he helps broaden the screening process to bring viable new offerings to the public. The center also actively develops and distributes educational materials for potential early stage investors helping then better understand unique risk factors and fair market value.

CONCLUSIONS AND RECOMMENDATIONS

The screening process offered by SCOR registration is an important tool to help protect a broadened public market from potentially unscrupulous investors or poorly conceived business concepts. While it is literally impossible to eliminate the inevitable failures that litter the early stage marketplace it is possible and quite healthy to require issuers to go through the rigorous process of completing, a registration document. Screening, however, is a two edged sword. While it provides some protection to investors, an excessively rigid screening process can deter profitable ventures from coming through the SCOR process and ultimately lead back to the old problems of limited capital access for early stage development.

While the SCOR registration process provides an important screening mechanism, it must also be supplemented by effective education. Listing on a stock exchange may help liquidity but it will not offset the increased educational needs of the broadened investor market. Making a full disclosure of the nature of the company and its associated risks to investors may be distasteful to the uninitiated and to the scam artists, but it promotes the flow of information into the public market, and helps ease the concerns of investors thus lowering barriers to entry, and will by definition result in a more active and efficient capital market over time.

There is good reason to be excited about the SCO marketplace. If sustained it is highly likely that the effective public distribution of relevant market information will cause a marked increase in private capital available to fund the growth of small companies. However, we must be aware that the political backbone that birthed the SCOR movement in the regulation community may be short-lived in the face of future headlines telling of registered SCOR offerings that went bust in short order.

Let there be no mistake that regulators and the elected public officials responsible for their activities are nervous about doing anything to promote "blue sky" offerings. And well they should. These offerings, regardless of their importance to economic development, are political time bombs waiting to go off. They reflect the raw risk involved in free enterprise at its most basic level. No amount of regulation can rid them of this inherent characteristic nor should it attempt to do so. Without continuing to shackle entrepreneurs and the U.S. economy the most reasonable goal of regulation must be to strongly encourage full disclosure to investors and to aggressively prosecute outright fraud; but not entrepreneur naivete or stupidity. To sustain the SCOR movement, champions at all levels of government, the media, and the general public, must advocate for these goals and balance the short-sighted urge of some to criticize officials that register companies that simply fail.

In order to gain the benefit offered by the automobile we reluctantly accept casualties on our highways. To gain the benefit of the SCOR highway and the wealth of information it infuses into the early stage market-place we must also accept casualties. But casualties can be reduced by proper education. We must not ignore this important component. The only other alternative is to seal off the entrance ramps and that would serve no one.

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ALADDIN'S LAMP OF THE 21ST CENTURY: HOW THE INTERNET CAN MAKE YOUR BUSINESS WISHES COME TRUE

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ABSTRACT

The objective of this paper is to familiarize business with the Internet, its origin, and how it can be beneficial to business, particularly small business, in the areas of communication, data transmission, marketing and research, searching for job candidates, training assistance, and exploring a wealth of information from around the world. In addition to the benefits of using the Internet, this paper discusses some of the more pertinent features and addresses the future of business and how the Internet will revolutionize the way business is conducted.

INTRODUCTION

The Internet is similar to Aladdin's lamp in many ways and perhaps even better in others. The Internet allows businesses the ability to increase their firm's notoriety, decrease communication expenditures, search the world for information, link satellite branches through video conferencing, and search for information by topic, name, or category on millions of computers and thousands of databases throughout the world. Unlike Aladdin's lamp, however, the Internet truly exists and the "wish list" is not limited to only three.

Truly, the Internet is a mystical entity supported by a collaboration of information links worldwide. It can take businesses on a whirlwind journey via a magic carpet and catapult business into a new galaxy of opportunities.

WHAT IS THE INTERNET?

In the early 1960s, while the United States was engaged in the Cold War, the Rand Corporation set out to find a way to ensure communication between military sites and facilities in the event of a nuclear war (Sterling, 1993). In case of nuclear onslaught, the U.S. would need to be able to communicate, despite having its military, news, radio, and other forms of communication systems partially disabled. The idea of a fortress to protect central network sites was inconceivable due to the fact that it would surely be targeted by enemy missiles. In addition, the vibrations caused by the impact of an atomic bomb would cause adverse effects on the electronics and wiring of the systems (Sterling, 1993).

In 1964, the Rand Corporation proposed a solution which revolutionized the theory of communication. The proposed network would have "no central authority" and "be designed to work even in tatters" (Sterling, 1993, p.1). The network would be comprised of nodes which would be equal in ability, power, status, and authority. Information would be broken into packets; each packet would be coded and would take a different route through the network and be reassembled at its predesignated destination (Sterling, 1993).

In the late 1960s, the Pentagon funded a project based on the exploits of the Rand Corporation. The proposed nodes for this project were to be supercomputers which would link research, developmental institutions, and projects through out the U.S. (Sterling, 1993). In 1969, with funding from the Pentagon's Advanced Research Projects Agency, nodes were installed at four locations, (Sterling, 1993) and by 1971, the number of nodes had grown to 19 (Cerf, 1993).

The ARPAnet, as it was dubbed, was off and running. The rate at which it grew over the next few years was phenomenal due largely in Dart to its "decentralized structure" and its interface proto col which allowed interaction between all kinds of machines. This protocol allowed the public to become part of this fast-growing network of information (Sterling, 1993).

In the early 1980s, the National Science Foundation (NSF) used the technology developed by the Rand Corporation, ARPA, and other research, developmental, and academic institutions to expand its base and construct a federally- subsidized "high speed backbone," akin somewhat to ARPAnet, which would allow these academic and research institutions to use the NSF's supercomputer via high speed links (Ellsworth and Ellsworth, 1994, p. 3). These links were technologically upgraded throughout the 1980s and into the 1990s. As a result, nodes began popping up all over the U.S. and throughout the world (Sterling, 1993).

The resulting network "monster"--the Internet--is now bringing individuals together from all over the world, over 70 countries in all (Shahe, 1994. The Internet has grown from four nodes on one network to tens of thousands of nodes (Sterling, 1993) on more than 25,000 networks (Ellsworth and Ellsworth, 1994).

WHO IS RESPONSIBLE FOR THE INTERNET?

With 25,000 networks, no one entity, group, committee, individual, or organization completely controls the Internet. NSF, however, controls the high-speed backbone and has some say in its use. Still, the backbone can be bypassed by using other links. In addition, some networks have organized groups which provide rules, guidelines, and regulations that are somewhat universal for all networks.

The Internet is like a global children's day at Disneyland with little adult supervision. The cost for entry is minimal. Organized mayhem ensues with only common courtesy and goodwill to govern the actions, conduct, and intentions of the patrons. However, even in the case of children's politics, only certain etiquette and behavior is accepted and tolerated which results in somewhat of an organized trophic information buffet.

ACCESSING THE INTERNET

Entry onto the Information Superhighway is becoming easier and easier everyday. The cost of being online may vary according to business needs the type of connectivity those needs warrant, and the level of service a business desires (Ellsworth and Ellsworth, 1994). The easiest way to determine what a business needs is to contact a commercial provider such as Compuserve, Prodigy, America Online, Delphi, or Netcom and discuss options and varieties of services offered and required. A business must possess a computer, a service provider, and a modem to get online, and for a small fee can be "surfing" the Internet almost immediately.

THE INTERNET AND ITS BUSINESS FUTURE

The future is information, and the Internet empowers individuals and businesses to receive, retrieve, communicate, assimilate and explore information, technologies, and interests. And, the Internet makes all this possible in seconds.

Currently, there are an estimated 20 million individuals using the Internet with more than 2,200,000 host computers. It is estimated that by 1998 over 100 million people will be cruising the information superhighway (Ellsworth and Ellsworth, 1994).

Business on the Internet has been "touch and go" the past few years due to security concerns, uncertainty, and fear of change. However, business has seen the potential for conducting activities as well as operations on the Internet. More than 21,000 businesses--up from just over 1,000 in 1990-are connected to the Internet, according to the Yankee Group, a market research organization. The Yankee Group also estimates that more than 75 percent of all new users are logging on via corporate connections (Eng, 1995). Small businesses are becoming more aware and even excited about the impact the use of the Internet has and will continue to have on business.

In the next 10 years, business will be conducted via networking, information retrieval, and exchange. Businesses will conduct most, and possibly all, of their activities like banking, buying and selling of goods, services, stocks, and bonds, communications, meetings, reservations for lodging and flying, and payment of bills and other transactions through the Internet.

The Internet will revolutionize the world of business, information exchange, and communication like the automobile transformed and mutated transportation into a realm of conveniency and speed. The business that refuses the invitations of advancement, courtesy of the Internet, will eventually ride the horse of mediocrity into the ground of the future.

WHAT DOES THE INTERNET OFFER BUSINESS?

The Internet embodies information of all kinds, from the ridiculous to the sublime. The amount of available information is immeasurable and growing exponentially. It is possible to browse, search, retrieve, copy, read, download, and communicate with millions of people, computers, organizations, agencies, campuses, businesses, clientele, and anything else imaginable throughout the world via text, graphics, images, and sound in pre-, post-, or real-time.

The Internet offers business a world of resources and opportunity at their fingertips. The Internet can increase the speed and conveniency while facilitating retrieval and distribution of information and discourse through (1) data transmission and retrieval, (2) communication and collaboration, (3) marketing and sales analysis, (4) research and consumer feedback, (5) worldwide exposure, (6) search for job candidates, and (7) participation in discussion groups. According to Finney (1995 p.38), "No one can completely define the Internet's potential to our society, much less keep up with all the ways to make it serve us."

Data Transmission and Retrieval

Data transmission and retrieval is a valuable procedure available on the Internet. All types of information can be transmitted. One of the nice features of this type of information transfer is that a business can reduce its courier overhead, perhaps dramatically, depending on the company's document traffic. By transferring data electronically, businesses can save money on postal charges as well as other types of transportation involving the allocation and relocation of text and graphics.

Communication and Collaboration

Some dynamic advantages of communication and collaboration, via the Internet, are the ability to send, obtain, and review messages, conduct meetings, distribute information, collaborate across distances on projects, and send and retrieve files and documents to and from partners, customers, employees, colleagues, and anyone else in a matter of seconds. Communications are made easy and interesting through the Internet via the use of electronic mail (E-mail) and other live or real-time communication instruments.

Electronic mail (E-mail) is the medium by which messages, text, and documents may be relayed to and from individuals, groups, and business. E-mail is an extremely effective communication system due in part to its ease and cost.

E-mail is extremely easy and quick to use. Like the postal system, a user is issued an E-mail address when an account is opened through an on-line service company (Ellsworth 1994). The user may send personal notes, letters, documents, and text in seconds to locations from down the block to across the Pacific.

E-mail is the most widely used communication medium on the Internet. E-mail offers some advantages that telephones and couriers cannot. It is inexpensive, extremely fast, convenient, cost reducing, and plain easy. The cost of sending an E-mail message is often less than the cost of a stamp, and, unlike a letter, E-mail can be sent around the world or down the street for the same price.

Sterling Software, Inc. saves approximately $10 million a year using the Internet for daily business, according to the president of their system group, Geno P. Tolari. Installing direct phone lines to mainframes would cost $500,000, in addition to mainstreaming E-mail systems of other companies it acquires (Eng, 1995).

As with the rest of the Internet, E-mail is maturing and becoming more sophisticated. Discussion Corporation developed a software package, Personal Discussion 1.0, which like some more expensive packages, assists business and users with organizing and conducting discussions using E-mail (Schroeder, 1995).

Mailing lists are extremely useful for a business wanting to discuss, notify, announce, and be informed of new products, procedures, and ideas as well as conduct market analysis and encourage consumer involvement. Not only can businesses send out information about their company, but they can keep track of current industry standards. There are several lists available on the host (ftp.nisc.sri.com) that index most of the major mailing lists, describe their primary topics, and explain how to subscribe to them (Ellsworth and Ellsworth, 1994).

The "baton of communication" has been relayed even further by certain companies. The Mitre Corporation of Bedford, Massachusetts, is constructing a "virtual workspace" where meeting rooms are "graphically constructed and participants are represented by icons" to allow collaboration on projects, ideas, and discussions (Horwitt, 1995, p. 19).

Marketing and Sales Analysis

Marketing and sales analysis can be conducted via the Internet. One of the main reasons the Internet is such a resourceful tool for marketing and sales research, analysis, and consumer and product inquiry is the phenomenal user base. Using the Internet to conduct market research and encourage customer feedback and opinion gives the consumer the opportunity to interact with a business, Through Internet access, customers can browse current products, services, and information. The Internet affords businesses the opportunity to address questions, suspicions, and uncertainty. As an example, the authors recently perused
the Eddie Bauer fall catalog on the Internet and realized that in the near future shopping of all types will be common-place via the Internet.

More and more businesses are discovering the advantages of online connection and the potential for product, service, and business improvement. Not only is it possible to use the Internet as a forum for advertisement and product appraisal but also as an actual arena for sales transactions. Online exchanges of goods and services are made extremely convenient through Internet shopping.

Research and Consumer Feedback

The Internet is a tremendous research tool. It is like a vast ocean--at times bottomless, which holds treasures from all over the world. These hidden treasures can be discovered by using certain treasure maps. By utilizing research tools like Gopher, File Transfer Protocol (FTP), Wide Area Information System (WAIS), and other search engines and retrieval tools, users can access public and academic libraries, government agencies, databases, discussion groups, archives, newspapers, and magazines on just about every conceivable topic, subject, or discipline imaginable. Using the Internet as a research tool also allows businesses to keep track of competitors and products as well as keep their fingers on the pulse of consumers.

Due to the overwhelming amount of data and information on the Internet, many diverse menu-driven servers, retrieval, and search tools, as well as software assistance like Gopher, FTP, and WAIS have co-evolved into a user-friendly navigational organism.

Gopher, developed at the University of Minnesota, is one of the most popular search tools on the Internet today. This tool allows a user to access information and search and select material through a menu-driven command hierarchy. Gopher supplies access through "interconnected links between files on different computers around the Internet" (Shah, 1994). Search and retrieval of text is made easy through the use of search tools like Very Easy Rodent- Oriented Netwide Index to Computerized Archives (VERONICA) (Ellsworth and Ellsworth, 1994).

File Transfer Protocol (FTP) is an interface which allows transfer of text and files as well as the downloading of freeware and software (Kaster, 1995). As with Gopher, FTP also possesses a tool for locating files called archie. Archie is a user-friendly search system which assists the user in locating data and information.

Wide Area information System (WAIS) is software that has been developed to assist the host in indexing large files and assisting the client in document retrieval. WAIS can search for information located in many different locations by probing for the user's specific keyword requests (Ellsworth and Ellsworth, 1994).

Gopher, FTP, and WAIS are just few of the searching, retrieval, and software tools available. By using these types of services, a business can create or join a business Yellow Pages directory, or construct a Virtual Storefront describing services and products while allowing input and encouraging interest (Ellsworth and Ellsworth, 1994).

The Internet enables a business to communicate directly with consumers, survey their needs, and attitudes, and receive feedback on current and future products, projects, and procedures. Not only is feedback excellent for product and service improvement, but it also instills a feeling of trust, support, and goodwill between a business and its clientele (Ellsworth and Ellsworth, 1995).

Worldwide Exposure

Worldwide exposure is perhaps one of the greatest benefits of getting online via the Internet. Business exposure could be as close as Paris, Texas, or as far away as Cairo, Egypt. The Internet is impartial and nonprejudicial. No business is treated differently or deemed better or exclusive over another. Every small business can create an image on the Internet to compete with large business. Thus, the Internet makes the pursuit of customers, vendors, and resources possible worldwide--allowing competition in a world market.

Search for Job Candidates

The Internet is an excellent mean to search for potential job candidates. The Internet possesses excellent opportunities to find jobs as well as look for possible applicants. There are many job databases on the Internet. These include the Whole Internet CataIogue (http://nearnet.gnn.com/wic /newrescat.toc.html) and the Internet's Online Career Center (http://vvww.occ.com/occ/) which boasts "the most frequently accessed career center and employment database of the Internet" (Poole, 1995). Some online services like America Online have classifieds for job seekers.

Employers have discovered some practical advantages to searching for applications via the Internet. Locating a job opening and sending a resume via E-mail demonstrates the employer the appicant's resourcefulness (Poole, 1995). "Resumes delivered over the Internet can demonstrate skill and quality," adds Myra Doms, president of the Sacramento Human Resource Management Association (Poole, 1995). Searching for applicants over the Internet can also serve as a computer literacy filter.

Participation in Discussion Groups

The Internet also offers small businesses the opportunity for live communication by linking their businesses collectively. The Internet contains numerous applications which allow a business to correspond through live communication, some of which are Telnet, IRC, and Talk. Each of these tools provide a different type of communication access or interaction.

Telnet allows a user to login from remote locations and access the Internet. The use of Internet Chat Relay (IRC) allows "real-time interactive text based "conversations" where all parties are online together" allowing direct interaction with customers and a forum to address their concerns (Ellsworth and Ellsworth, 1994 pp. 84-85). Other live communication services such as Talk, text based communication, also allow real time mingling. Talk is a two-user communication device which is text based.

There are a multitude of different conferencing and group discussion software that enables a business to communicate through text, graphics, or video while entertaining multiple sites, users, and interfaces. The different types of search tools, software, and search engines are growing by indiscriminate leaps and bounds.

Discussion groups are also a very beneficial feature on the Internet. One of the most popular discussion group forums is Usenet. Usenet is similar to the refrigerator door where users can post and read different topics of particular interest. Businesses use discussion groups to release product announcements, press information, and other business information such as partner and networking opportunities.

THE WORLD WIDE WEB

The current buzz in the Internet honeycomb is a remarkable hypermedia system began by CERN, the European Laboratory for Particle Physics led the World Wide Web (WWW) (Ellsworth and Ellsworth, 1994). The WWW revolutionized the search vehicle for cruising the information superhighway. The WWW offers the business user something that other traditional network servers cannot--animation, sound, and video as well as text. WWW users weave their way through this web by clicking on hot links or hypertext and embarking on an endless an infinite journey of information (Shah, 1994).

The techniques and manners a business might employ to exploit their business through the WWW are endless. Many businesses set up "home pages" where customers can visit, browse, and find out information about the company. Companies are beginning to realize that the Internet is breaking the ice for electronic commerce in addition to other forms of business transactions (Eng, 1995).

Another important point about WWW "home pages" is that a small company can receive as much advertisement, acknowledgement, and recognition as a large company. Not only does the WWW provide a medium for business growth, but it has beget and sired new businesses as well. For example, Digital Exchange Group, a New York company, helps small businesses promote and compete on the Internet (Mehta, 1995).

While using a search tool on the WWW named Yahoo!, one of the authors unearthed a Business and Economy directory filled with hundreds of subdirectories covering everything from virtual malls to business opportunities in India to NYNEX's 2.1 million business listings cove in the north-eastern U.S. to a directory of businesses in Hong Kong Korea, Malaysia, Singapore, Taiwan, and Thailand.

Software companies are going mad with all of the opportunities the WWW and Internet affords them. The rush to create an "electronic marketplace" is being compared to the "land rush" (Cortese, 1995, p. 79). "Programmers are harnessing the power of cyberspace--to help businesses and consumers meet in an electronic marketplace and to create the information systems for the virtual corporations--and communities--of the 21 st century" (Cortese, 1995, p.79).

In addition to direct business practices, the WWW also offers online news and magazines. A few of the online news services offered are: Times Fax, a short summary of the New York Times; Pathfinder, which offers full text of Time-Warner publications; and ABC news (Sullivan, 1995). The WWW offers a universe of business tactics from free software to video training courses on improving all aspects of a small business.

CONCLUSION

The fact that the Internet is a step below deity is indisputable. The Internet is practically omniscient, and with its knowledge and information, it is invaluable to businesses.

Is there a downside to the Internet? Is it too good to be true? With any new revelation in technology or science there exits a feeling of optimism, pessimism, fear, excite-ment, uncertainty, opportunity, and trepidation. The Interne, is not a passing fad; it is here and will continue to grow and evolve into a necessity for business and, eventually, life.

The Yankee Group surveyed companies to find out which companies are currently planning to use the Internet. The survey revealed that 44 percent are currently using or planning to use the Internet for internal communications (Eng, 1995). The survey also revealed that a staggering 76 percent are currently using or planning to use the Internet for external communications, and about 35 percent of those companies are currently using or planning to do the same in the areas of advertising and marketing (Eng, 1995).

The Internet is, in fact, one of the great information leaps in history. The use of the Internet will and has, to some degree, already begun to shift the perceptions of business practices and procedures. The Internet has caused a paradigm shift in the world of technology, information, communication, and business strategies and in commercial and mercantile exchange and transaction. The Internet will provide the vehicled of knowledge, information, communication, assistance, and support for businesses which desire to travel into the next generation of business enterprise. As Microsoft's motto states, "Where do you want to go today?"

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EXPERIENCED NEW GRADUATES FOR HIRE

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ABSTRACT

Human capital constitutes the single largest investment for most small businesses. Hiring quality managers at a reasonable cost therefore becomes a necessity to maintain viability. Unfortunately, experienced managers require premium salaries, and inexperienced ones can cost even more when factoring in the expense of training and mistakes. Combined with this dilemma most small business owners are burdened by the uncertainty of the process since they hire managers infrequently.

The following paper proposes a simplified strategy for screening new graduates for the small business owner who cannot afford experienced managers. It studies self-assessed skills and entrepreneural attitudes over a span of nearly two decades. Former participants in Small Business Institute (SBI) consulting, traditional business internships, and other practitioner-related projects specifically evaluated managerial skills impact and indicated entrepreneurial activity. The authors suggest a two-step screening process to identify new graduates with enhanced skills who will integrate into the small business culture.

INTRODUCTION

Small businesses have dominated new job creation in the U.S. economy (State of Small Business, 1992), and projections suggest that they will sustain this trend (Johnston & Packer, 1987). More strikingly businesses with fewer than 20 employees may lead the charge. Some projections have these very small businesses accounting for more than half of the expected job growth (Koretz, 1993). According to economist David Birch of Cognetics, Inc., smaller companies with fewer than 100 employees added more high-wage jobs (within the upper third) than low-wage jobs (within the lower third) (Koretz, 1993). These job shifts appear permanent due to changing demographics and trends toward more horizontal corporations (Johnston & Packer, 1987). Small businesses' success forces them into the hiring market despite the risks (Duncan, 1993).

Small Management Teams

Payroll frequently comprises the single largest overhead item for most small businesses. Although salaries have barely kept pace with inflation during the 1990s, employee benefits have skyrocketed. For example, the cost increases for benefits, mainly due to health care, still doubles inflation despite their slow down from earlier in the decade (Harper, 1993). The cost of labor no longer remains fixed for the firm.

It is not uncommon to see all sized companies paring payrolls to the bone. Instead of adding employees as the business grows, small firms often concentrate on their core businesses and contract outside expertise (McCune, 1993). Others opt for part time or temporary employees (Duncan, 1993), and some turn to recent retirees (Kreisman, 1985) to minimize permanent payrolls. Many businesses prefer buying equipment to hiring new staff (Harper, 1993). Even service industries such as financial institutions and communications have added computers in lieu of workers (Harper, 1993).

A bad hire escalates cost in small businesses not only for recruitment, but for training, turnover, and mistakes that lead to lost customers as well (Trice & Wasmuth, 1962). A recent Department of Labor study shows that only about 50% of the employees last more than six months in the job for which they were hired (Yate, 1994). One estimate projects that each bad hire can cost 30-50% above annual salary and benefits in lost production and replacement expenses (Bacas, 1987). Another suggests that over ten years a position with a $30,000 annual salary can cost & organization $480,000 including recruiting costs, health benefits and cost of salary increases (Wendover, 1993). While many bad hires may go unnoticed in big companies, an unproductive employee festers in small business and magnifies the burden on other coworkers (Lanz, 1988). Unlike larger businesses, the loss of even one key manager can cause major repercussions for a smaller firm.

Hiring Experienced Managers

The work experience section of the resume peaks interest for most employers. It is here where they find the specifics of the applicants qualifications, experience and career progression (Grensing, 1991). Because of work experience's importance, it traditionally appears first and foremost on the resume (Half, 1985).

Many employers feel that experience provides technical and organizational skill. Experience provides a school for learning human relations skills and applying them to the job which leads to mutual trust and respect. For supervisors, it creates confidence that managers can work on their own because they have a track record for getting the job done. For subordinates, experience generates respect for and acceptance of authority (Noland & Bakke, 1949). Businesses of all sizes clearly revere experience as a highly valued hiring qualification.

Although experienced managers may be available to small businesses as large corporations downsize (Pouliot, 1992), the cost side of the equation must be weighed. As skill and experience requirements increase, so do candidates' expectations for starting salary and for quality positions. More specifically, to attract skilled managers small businesses must overcome the difficulties required to match the going rates, offer advancement opportunities, and equalize the workload of large firms (Lanz, 1988). This requires that the small businesses have the resources and flexibility not only to meet the needs of the firm, but to also meet the conditions of the employee (Worthington & Worthington, 1987).

Hiring New Graduates

New college graduates often provide an attractive hiring alternative to experienced managers. First, new graduates require lower starting salaries than experienced managers. Also, using college placement services eliminates employment agencies' recruitment fees. Additionally, new graduates tend to be more open to learn because they are seldom vested into a previous management system.

With new graduates the problem becomes discerning managerial skills and personal characteristics for applicants without a work record (Lanz, 1988). Serious concerns linger as to whether they will perform appropriately because they lack job experience. Also, many will need a settling-in period to make the transition from school to work (Lanz, 1988). Finally, evaluating qualifications causes extreme difficulty for many small business owners who may go for years without hiring a new employee.

Although lower initial salaries provide savings, additional training requirements create deferred cost. Cappelli suggests that there are fewer deficits in academic skills than in deficits in work attitudes with today's workers (Cappelli, 1992). Most of the 235 companies in the Workforce 2000 study have increased entry level training to compensate for past deficiencies. Over half of the companies indicated that they were somewhat/very likely to provide remedial education for some employees, and nearly three-fourths were very/somewhat likely to offer basic skills training (Johnston & Packer, 1987). The skills of new employees at at all levels create concern if not alarm for prospective employers.

Small Business Culture

It has long been recognized that running a small business differs from managing a large corporation (Welsh & White, 1981). The contrasts are particularly distinctive for former corporate managers. In large corporations managers make group decisions whereas small business managers must be entrepreneurial. Rather than sitting back to become part of consensus, they must step forward in the decision process. Also, small businesses prefer broad generalists who can wear multiple hats rather than narrow specialists. Additionally, corporate employees expect certain perks, such as support staff and discretionary budgets, that seldom exist to the same degree, if at all, in small businesses (Pouleot, 1992).

In addition to the transition from college to work, new graduates hired by small businesses may also face a similar culture shock. Most business school graduates study big corporations with complex structures and problems. If new graduates ignore simple, cost effective solutions when entering small businesses, they will experience many of the same adjustments as experienced corporate managers.

Finally, the face of the American labor market is evolving at a rapid pace. The Workforce 2000 study (Johnston & Packer, 1987) suggests that small businesses will have to recruit women and minorities to meet their increasing employment needs. Although small business managers have awareness of the changing demographics, adapting workplace practices for a more diverse workforce has not been a high priority (Clark, Shriberg & Wester, 1995).
Both existing and new managers will have to adapt their styles to motivate culturally distinct employees or those employees will opt to work in environments more responsive to their needs (Johnston

& Packer, 1987).

Hiring Challenge

Small businesses face the challenge of hiring experienced managers in a cost effective manner who will simultaneously integrate well as part of the management team. If they select experienced managers starting salaries may drain current cash flows. If they opt for new graduates training expenses create substantial risks. When they ignore cultural compatibility, rapid turnover and lingering bad hires slow productivity.

When faced with limited resources organizations may want to turn to new graduates for management talent. New graduates can provide a deep pool of candidates with modest salary demands, but only a small sample can realistically be interviewed. Although rare diamonds may exist in the pool, cubic zirconiums abound. They are difficult to discern for someone new to the hiring process, and even the diamonds lack luster if they do not fit into the setting.

The following discussion proposes a simplified process to assist small businesses for screening new graduates. It draws from former participants in Small Business Institute (SBI) consulting, traditional business internships, and practitioner-related projects. It specifically examines the managerial skills impact as perceived by former experiential learners. It also explores entrepreneurial attitudes and suggests some indicators to assist in hiring new graduates who will integrate into the small business environment.

METHODOLOGY

The authors selected former participants from three upperclass experiential learning programs: the Small Business Institute (SBI) where student consulting teams make recommendations to a small business; internships where students accomplish learning objectives while working within a private or public organization; and, practitioner-related projects where students address a real organization's problem in conjunction with a class project or assignment.

Sample Profile

The authors compiled a list of all 435 participants in Small Business Institute (SBI) consulting, business internships, and practitioner-related projects at graduating years 1977-1993. The individuals were then contacted via a mail questionnaire which assessed the participant's perception of managerial skill impact and entrepreneurial activities. Three sources were used to develop the managerial skills list: verbal input from the Business Administration Advisory Council (practitioners); handouts from presentations and workshops at SBI conferences; and, lists from Career Development and Placement. A double mailing on February 14 and March 31, 1994 generated 169 usable instruments by May 29, 1994. This resulted in a 38.9% response rate.

The sample was almost equally split between men (48.2%) and women (51.8%), and was also representative of the participants during the period (1977-1993). Ninety three (92.9%) percent were business majors. Most of the 169 respondents (81.7%) had worked with only one project, with the remainder working on multiple projects. SBI consulting (n=85) was the most frequent program followed by internship (n=33) and practitioner projects (n=20). Multiple project respondents (n=31) had completed a total of 64 experiential learning projects which predominantly were combinations of SBI and internship projects.

Limitations

Non-response

Every mail study has potential error due to non-response. In this case 61.1% of the targeted respondents chose not to respond. The authors feel that inability to recall the desired information or lack of interest in answering the survey discouraged some responses. This limitation may tend to inflate positive interpretations, but positive interpretations appear consistent with the positive course evaluations for experiential learning projects.

Recall poses another limitation since some of the targeted respondents had participated in projects as many as 17 years ago. To test the respondents' memories they were asked to recall their experiential projects. Fewer than five (4.4%) percent forgot the name and location of their firm, but all of them had vivid memories about the experience. Therefore, recall posed little problem for the overwhelming majority of those who responded, but the inability to recall may have been a factor in non-response of the targeted sample units.

Baseline Skills

A baseline of entry level skills was not measured prior to the commencement of the experiential learning projects. Furthermore, no criteria for skills improvement were defined in the questionnaire for fear the authors' perceptions might bias the responses. All respondents were left to evaluate the affect on their skills based upon individual, organizational and/or societal standards. Without a baseline for comparison respondents may have applied inconsistent standards to their entry level skills prior to commencing the experiential learning project. Despite the inherent difficulties measuring perceptions, the respondents had as many as 17 years working experience to temper their enthusiasm with reality regarding this limitation.

DISCUSSION

The first part of the discussion assesses the experiential learning activities impact on seven managerial skills (teamwork, problem solving, communication, self-confidence, organization, time management, computer software). These skills are further examined as to the number of skills perceived enhanced/expanded. The remainder focuses on the characteristics of individual experiential learning projects and how they contribute to the understanding of tile small business culture.

Skills Improvement

Individual Skills

Figure 1 (omitted): Individual Managerial Skills Enhanced or Expanded shows how the respondents perceived that individual skills were enhanced ("strongly agree") or expanded ("agree"). Six individual managerial skills were considered enhanced/expanded by experiential learning activities by at least 86.5% of the respondents. Only computer software (43.6%) received fewer individual recognitions.

Frequent use of computer software only emerged after 1990 in the experiential learning programs studied. Although less than half (43.6%) of the respondents indicated enhanced/expanded computer software skills, this may understate the current status. For example, post-1990 graduates (61.1%) were substantially more likely than pre-1990 graduates (35.2%) to perceive enhanced/expanded skills. Computer access and software availability strongly affect perceived skill improvement in this category.

No statistically significant differences occurred among the various experiential learning programs, but gender did significantly affect the perception of one skill. Although self-confidence was positively impacted by experiential learning programs for 89.3% of the respondents, it was the only skill that developed significant differences between male and female respondents. Women were significantly (1) more likely to "strongly agree" than men that the experiential learning programs had enhanced their self-confidence. However, they were also more likely to "disagree". This indicates that women students perceive themselves in two polarized groups of entry level self-confidence. For the men, the programs seem more to reinforce their self-perception of worth rather than to substantially boost it.

Multiple of Skills

The mean number of skills enhanced or expanded for all experiential learning programs was 6.4 of 7.0 with the most frequent mentioned number being six skills. Figure 2 (omitted): Number of Managerial Skills Enhanced or Expanded illustrates that virtually all respondents (95.2%) experienced enhanced ("stronglly agree") or expanded ("agree") managerial skills in five or more categories. More importantly 84.4% respondents perceived six expanded/enhanced skills while more than one-third (37.1%) noted improvement in all seven skills. Only two respondents failed to note any skills enhancement/expansion.

When looking at various experiential learning programs respondents perceived five or more enhanced/expanded skills from a range of 93.9% (SBI) to 100.0% (practitioner) while 32.5% (SBI) to 50.0% (internship) recorded enhanced/expanded skills in all seven categories. No statistically significance difference exists (X2 Significance level at .06) among respondents' assessment of skills enhanced/expanded among the different experiential learning programs, but the nature of the respective programs lend some inferences to the interpretation of responses.

The focus of the experiential project and the role of the project supervisor may influence the breadth of skills improvement. For example, the internship program primarily focuses on the working experience in an organizational setting, thus inherently lending itself to exposure to managerial skills on the job. Also, the primary supervision comes from a manager on the job who stresses entry level skills to the intern. The professor by contrast acts as a consultant and advisor to the intern.

The SBI program splits its teaming objectives between the consulting experience and managerial skills. Also, the business client in the

SBI project typically serves as the main resource of small business operations, procedures, and culture. The professor retains the primary supervisory role which includes both academic content and teaming objectives as well as management skills enhancement/expansion. The practitioner projects include a variety of experiential teaming activities in conjunction with different classes. These respondents tend to perceive skill enhancement/expansion somewhere between that experienced by interns and SBI participants because of the combinations of supervision and variation of assignments.

In the multiple projects group, respondents had participated in two or more different experiential teaming programs. Although one might predict that multiple projects would increase perception of enhanced/ expanded skills, such was not the case. No statistically significant difference exists among the multiple projects group and the other groups.

The lack of statistically significant differences leads to the conclusion that all three of the experiential learning projects tend to be duplicative, rather than additive, regarding managerial skills. The respondents were all acquiring 300- and 400-level credits from a handful of professors in a small department. The experiential teaming programs apparently stressed similar managerial skills, albeit in a variety of contexts, thus reinforcing rather than generating new skills.

Although the multiple projects respondents indicated no more skill enhancment/expansion than the individual projects themselves, it should not be interpreted that multiple projects led to skill erosion. First, if students had a bad experience with an experiential teaming program, it is unlikely that they would have elected a second or third. Also, student evaluations from experiential teaming programs lend anecdotal evidence that multiple-project students achieved consistent results with single project students. Finally, the highest skilled and most motivated students tended to enroll in multiple projects. Their generally high skill self-assessment combined with the duplicative effect of multiple projects may have left little room for enhancement/expansion of skills. The absence of a baseline skills evaluation may have also contributed to this minor inconsistency.

Small Business Culture

All experiential teaming programs studied provided substantial enhancement of managerial skills. Thus, the second step of the screening process becomes necessary to provide insight into compatibility of new graduates with small business culture. Two invaluable characteristics for any small business manager include having an entrepreneurial attitude and understanding the small business environment.

Entrepreneurial Attitude

Although inventive thinking is a plus for any employee, it is a necessity for a member of a management team. One measure of entrepreneurial attitude is business formations. Although only 13.0% of the experiential learners own businesses that number becomes revealing compared to all graduates. All graduates own businesses only at a rate of 2.5% for the same period (1977-1993). Even compared to business a graduates (2.6%) for the same period, former experiential learners owned businesses five times more frequently. Although no statistically significant differences existed among project groups, Small Business Institute (SBI) participants comprised 16 of the 22 business owners.

Almost two-thirds (65.0%) of non-owning participants would someday like to own their own businesses. A full one-third of them (33.7%) have already taken preliminary steps to get their businesses started. Since starting a business remains largely a function of knowledge, experience, and wealth accumulation, most of those who started their own businesses (68.2%) graduated before 1985.

Other associations with small businesses include 16.6% who work directly for a small business and 58.2% who work with small businesses as customers or suppliers. Although SBI respondents were fractionally higher in each of the owner/association measures, no statistically significant differences occurred. The internship, practitioner, and multiple groups produced too few owner/association respondents to merit running any statistical tests.

Small Business Environment

Although all experiential learning projects studied generate similar entrepreneural attitudes, not all programs occur in an environment conducive to understanding the small business. Individual characteristics of the projects created various exposure levels with small business from total emersion to no contact at all. For example, the Small Business Institute (SBI) pro-ram students work exclusively with small, for-profit businesses in the private sector which is not always the case with internships and practitioner projects. Typically, big companies provide the most internship opportunities and the most immediate employment opportunity, when the internship is successful. Other practitioner projects, such as creative advertising, likewise gravitate toward larger businesses.

Also, the public sector provides numerous experiential learning opportunities. It is not unusual for governmental agencies and not-for-profit organizations to award internships at the federal, state, or local levels. Although these provide valuable skill enhancement, seldom do they lend themselves to much insight into the unique small business environment.

Breadth of experience provides a final contrast for the respective experiential learning projects. Internships tend to focus on one position, office, or division within the organization. Practitioner projects often target a narrow activity within a functional area in conjunction with a class, such as developing a promotional brochure. The SBI program on the other hand examines multiple areas of the firm. SBI's statement of work which directs the project requires numerous analyses and recommendations. Even when internships and other projects work with small businesses they often provide a narrower view by comparison. The SBI program provides the only guarantee among the experiential learning projects that the new graduate will have a broad association with the small business environment.

SUMMARY AND IMPLICATIONS

A single formula does not exist that guarantees hiring success. Small businesses, like big ones, need hiring plans and in-depth interviews. Experience provides the best indicator of job success, but when it becomes unaffordable new graduates may provide an attractive alternative. When pursuing new graduates small businesses should seek to identify key qualifications, such as experiential learning activities, especially, those associated with small businesses, to increase their chancesof a good hire and streamline the process.

All experiential learning projects increase the perception of managerial skills enhancement. Graduates who have completed them overwhelmingly perceive enhancement of managerial skills. Typically they have enhanced multiple skills, including primary skills such as team-work, problem solving, and communication. Various experiential learning projects enhance similar skills, and multiple projects tend to be more duplicative than additive when it comes to skills enhancement. Although only marginal gains can be achieved with multiple experiential learning programs, reinforcement of skills and applying skills in different environments continue to have allure.

Each experiential learning project impacts managerial skills, but one must examine the individual project to insure associations with the small business culture. The SBI program provides the advantage of guaranteeing a for-profit small business experience in the private sector. Also, the SBI program tends to provide more breadth of experience contrasted to internships and other projects. The SBI program provides immediate recognition that the new graduate has had exposure to the small business culture.

A simple two-step process can assist the small business owner identify viable candidates: (1)a successful experiential learning project, and (2) a meaningful exposure to small business. This process will not only streamline screening, but greatly improve the prospects of hiring a new graduate with enhanced skills and small business compatibility.

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HOW TO NARROW THE SMALL BUSINESS EQUITY CAPITAL GAP

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ABSTRACT

There exists an increasing gap between the need for high risk, patient equity capital and its availability to small businesses. Several factors contribute to this shortage including market inefficiencies, fraud, legislation, and regulatory practices. The authors review the equity capital situation for small business, available markets for funds, the efficiency of these markets, the impact of fraud, the influence of legislation, and the impact of regulatory practices.

They contend that the current small business equity capital gap can be narrowed substantially by specified improvements in legislation and regulation, that update the penny stock market so that it parallels the innovative electronic trading techniques of the NASDAQ stock market. SBIDA and other advocates for small business can help this happen, thereby insuring that the strongest companies have access to the capital they need for rapid growth. Also, SBI programs can help small businesses prepare to enter equity markets. The paper concludes with a five step action plan.

INTRODUCTION

Small businesses may represent the single most important element in the U.S. economy. Yet the most promising of these small firms are facing a widening equity capital gap. Several factors contribute to this shortage including market inefficiencies, fraud, legislation, and regulatory practices. U.S. law makers need to address the availability of equity capital for these firms. SBIDA and other advocates for small business can help this happen.

In this paper we review six areas that provide background for needed action: (1) the small business equity capital situation, (2) equity capital markets, (3) market efficiency, (4) fraud in the small business equity markets, (5) legislation, and (6) regulatory practices. Next, we propose how to narrow the small business equity capital gap. Our proposal includes specific improvements in legislation and regulation. These improvements lead to updating the penny stock market so that it parallels the innovative electronic trading techniques of the NASDAQ stock market. The paper concludes with a five step action plan for SBI programs that will help insure that the the strongest new companies have access to the capital they need for rapid growth.

THE SMALL BUSINESS EQUITY CAPITAL SITUATION

As noted above, small businesses may represent the single most important element in the U. S. economy. Yet the most promising of these small firms are facing a widening equity capital gap.

Since 1979 the small business sector of the economy, both nationwide and in California, generated most of the new jobs. "In fact, between 1979 and 1994, Fortune 500 employment dropped by over 25% from 16 million to 11.5 million, whereas over the same period, the 'invisible entrepreneurial economy'... generated over 24 million new jobs." (15) The most important contributors to these statistics are the fast growing, technology-oriented businesses that the California Capital Forum calls "gazelles," not the "Mom and Pop" sole proprietorships.(15)

Gazelles need equity capital to grow. Under present circumstances equity capital is hard to find. The equity capital gap between need and availability is large and widening. The Center for Venture Research at the University of New Hampshire estimates that entrepreneurs annually seek approximately $60 billion for seed and development capital. Of this $60 billion, $3-$4 billion is funded by institutional venture capital and $10-$20 billion dollars is funded by business "Angels." As a result, entrepreneurs need to fill a $36-$47 billion gap from other sources. Only about $8 billion of this gap is filled by organized markets (the penny stock market and the OTC Bulletin Board) This leaves a $28-$39 billion gap.

Three interrelated factors seem to be major contributors to an increasing equity capital shortage for small businesses, particularly gazelles. First, the federal government is downsizing. This downsizing includes significant cutbacks in programs that directly make seed and startup capital available to small businesses, or do so indirectly by small business preferences in contracting.

Second, even before current government cutbacks, The High Technology Council of The Economic Development Corporation of Los Angeles, in a report entitled "Venture Capital And Technological Innovation in southern California," concluded that the outlook for seed and early stage financing is extremely pessimistic on a local and national level. (14) "Three years ago there were 25 people [firms] providing financing for early stage technology... Now there are five." (14, p. 20) The national decline in seed and startup capital has translated into a sixty percent decline in investment when comparing Southern California's 1993 to 1983 levels of investment activity. (14, p.17) According to the California Capital Access Forum, at present "the institutional venture capital industry supplies only a fraction of the need of the entrepreneurial economy for high-risk, patient equity capital." (14, p. 2)

Third, federal securities regulation has fallen into disarray over the past several years as it has been pulled in two directions. On the one hand, the Securities and Exchange Commission (S.E.C.) has forcefully imposed a strict regimen to be complied with by broker-dealers when trading "low priced" securities. The widening of the small business capital formation gap is being strongly influenced by current regulatory interpretation of The Penny Stock Reform Act. Broker-dealers are hesitant to sponsor and support small businesses in public financial markets. On the other hand, the S.E.C. is being pushed by the Clinton Administration to make capital markets more assessible to small businesses. The Clinton administration wants to expand the number of offering exemptions to include the Small Corporation Offering Registration (SCOR). It also wants to raise the limits on Regulation A exempt offerings. So far, the dampening effect of regulatory efforts to implement The Penny Stock Reform Act is stronger than the pressures for reform. The equity capital gap continues to widen.

The equity capital gap is not new. Historically, entrepreneurs have always had to fund their own ideas for as long as they can with their own money. Little has changed since a 1983 Dun & Bradstreet study reported that lack of money was the second most common reason for small business failure. However, today ever larger numbers of entrepreneurs do not have access to the equity capital needed to make their ideas a reality. Declining seed and startup investment is increasing the number of good ideas that do not find funding. This could undermine the leadership position of the U.S. in the launch of new technologies.

EQUITY CAPITAL MARKETS

Available markets for equity capital range from highly organized and efficient to informal and inefficient. Presently, most promising small businesses cannot access highly organized, efficient markets for equity capital. In this section we briefly review markets and their accessibility. We follow this section with a discussion of market efficiency.

The National Stock Exchanges

There are seven national securities exchanges in the United States, with the New York Stock Exchange the largest and most prestigious. The other exchanges (in alphabetical order) are the American, Boston, Cincinnati, Midwest, Pacific, and Philadelphia. In its simplest form, a securities exchange is a marketplace where brokers gather to buy and sell securities for their customers' accounts. To coordinate the efforts of these various parties, the exchanges work on a continuous auction system with a "specialist" acting as the conductor. Although this system dates back to colonial times, it remains a popular form of trading because it centralizes all buy and sell orders for a particular security in one location. As a result, "investors are assured of a continuous matching of the highest-priced buy orders against the lowest-priced sell orders." (13, p. 230)

The National Association of Securities Dealers Automated Quotation System (NASDAQ)

Whereas the national exchanges are geographically fixed with trading floors in a major city, the NASDAQ Stock market, through the use of computer technology, "has transcended the limitations of a centralized trading floor" by allowing broker-dealers to execute orders from their own trading desk. (4, p.1) In this system numerous market makers serve the same function as the specialist, namely, to keep an inventory of specific stocks and stabilize the supply and demand fluctuations in the marketplace but, unlike the specialist, do so electronically and telephonically.

Within the NASDAQ system, there are two separate markets: the basic listing and the National Market System (NASDAQ/NMS). NASDAQ/NMS was established in 1982 to compete with the other exchanges, in particular the New York Exchange, and has higher qualification standards than the basic listing. As a result, this part of the system is reserved for larger, more substantially capitalized issuers.

Each exchange has its own listing requirements and its own way to monitor its market. In the case of the NASDAQ system, the National Association of Securities Dealers (NASD) monitors market activity of the stocks and the trading activity of its member firms. No firm can trade a stock on any exchange and NASDAQ without being a member of the NASD.

The Penny Stock Market

Under the auspices of the NASD, there are two other markets for stocks to be traded: the OTC Bulletin Board and the Penny Stock Market. In general, the penny stock market can be likened to a receptacle for all the leftovers that don't meet the requirements for any of the exchanges. Disclosure requirements for firms issuing penny stocks are relatively lax. Historically, quotations for penny stocks are published in "the pink sheets." The OTC Bulletin Board, by contrast, is an attempt to mimic NASDAQ and create an electronic transfer system for the pink sheet marketplace. Many penny stocks choose to be listed on the OTC Bulletin board. Information on these stocks is relatively up to date. However, the OTC Bulletin Board is not a real time volume reporting system like NASDAQ. Further, even though several thousand stocks have chosen to be listed on the OTC Bulletin Board, quotations on most penny stocks may only be found on "the pink sheets." The "pink sheets" are outdated as soon as they are printed.

Private Placements

Private placements fall into two categories: venture capital firms and early stage individual investors ("Angels"). Both of these equity capital markets are private and informal. Venture capital firms tend to represent small pools of individual and institutional investors, screening prospects for their clients. Angels represent themselves and tend to be part-time investors.

Accessibility of markets

Promising small businesses seeking seed and start up capital have very limited access to the above markets. High costs of registration and disclosure and insufficient track record make most organized markets inaccessible. The only real choices are private placements and the penny stock market/OTC Bulletin Board. Presently, however, not even these informal, relatively unregulated markets are viable. Market inefficiencies make the cost of access high and the probability of raising sufficient capital low.

MARKET EFFICIENCY

As noted above, private placements and the penny stock market are the most accessible equity markets for promising small businesses. These markets, however, are inefficient. There is limited access to investors, minimal market trading data, and little published financial information. The cost of securing needed information is high. Markets for shares are illiquid. These factors limit the ability of these markets to close the equity capital gap.

Efficiency of Private Placements

The private placement market includes venture capital firms and Angels. Of these two categories venture capital firms are more organized. Professional associations and forums are used to establish a market network. Even so, the venture capital market segment is inefficient when compared to stock exchanges. These inefficiencies increase the cost of making a market, which in turn increase the risk of investing in seed or start-up situations.

For example, one hundred proposals may be screened by the venture capital firm to yield one investment for the firm's clients. (18, p. 51) The investment investigation of the finalists costs a minimum of $7,000. (12, p. 125) Company size has little bearing on the costs associated with making the investment, and the "investigation of a small business investment costs about the same as investigation of a big one, which is one of the reasons why venture capitalists shy away from small deals." (12, p. 125) By investing larger amounts in later stage companies, the venture capitalist reduces the total costs of making initial investments as well as the costs to maintain the portfolio. As an example, a venture capitalist may have $15 million to invest. He could make three, $5 million investments, which will cost approximately $21,000 to investigate, or he could make thirty, $500,000 investments, which will cost approximately $210,000. Also, the firm is likely to focus on a single industry to gain economies of scale in screening similar firms.

Angels, by contrast, are individual investors, and also, from a financial market standpoint, are even less efficient than venture capital firms. They seem to be more perochial, preferring to invest close to home. (8) For many of the same efficiency reasons as venture capital firms, Angels prefer to invest "in a firm in the later stages of [the initial] development [phase], leaving the entrepreneur to search for other sources of funding at the [embryonic and critical] stage." (8, p. 109)

Efficiency of the Penny Stock Market

The penny stock market is a public market and offers the opportunity to spread risk by making small investments in many companies. However, because of the lack of trading information and financial disclosure, the penny stock market is inefficient and exceptionally risky. In the penny stock market, investors trade essentially with the same blind faith that people had during the 1920s.

There is no way for the individual investor to verify current market activity. There is no ticker tape or electronic record of transactions. The only record of trading for the majority of penny stocks is the "pink sheets," and they are not available to the public. The market price quoted in the sheets has no bearing on the current market, and current market price is extremely important to an investor wishing to buy or sell stock.

Current law requires broker-dealers to put in writing the risk associated with this marketplace. However, there is no requirement to provide information that the investor can use to assess the merits of the investment. Thus, if an investor wants information on a NASDAQ/NMS company, he or she can go the nearest public library and look up performance data on the company in the Standard & Poors NASDAQ books. However, generally speaking, such information is not available for stocks that do not qualify for any of the exchanges.

Summary of Market Efficiency Issues

All the equity capital markets currently accessible by small businesses are inefficient. Trading and financial information is hard to get. Liquidity is a problem. If an investor wants to sell his interest in a company, it may be hard to find a buyer.

Of the accessible markets, we would argue the Penny Stock Market has the most promise for improved efficiency. Because it is a public market, it offers the potential to the risk seeking investor to spread risk by making small investments in many companies. It also offers the potential for liquidity. The major efficiency issues (current trading information and financial disclosure) have been overcome by other markets. These precedents could serve as a road map for improvement in this market.

Penny stocks are inherently more risky than most other publicly traded securities because penny stock issuers are generally small and poorly capitalized. They are often start-ups, new to an industry. They may be attempting to capitalize on an unproven technology. As a result, there is nothing more than a speculative market for the company's shares. On the other hand, a successful penny stock issue can allow its investors to get in on the ground floor with the reward being a tremendous financial return on the initial investment. The penny stock market offers high risk, high return opportunities which may be appealing to many small investors.

The penny stock market has the potential to be an incubator for an untested small business. It can provide a wide public market where the company can raise much needed capital. In the authors, view, this is the marketplace that has the potential to finance the $27- $39 billion gap in small business equity capital.

Presently, however, the lure of significant returns on small investments has made the penny stock market a breeding ground for unscrupulous promoters and broker-dealers. Trading abuses will also have to be addressed before the penny stock market can fulfill its promise.

FRAUD IN THE SMALL BUSINESS EQUITY MARKETS

The potential of the penny stock market as a small business financing vehicle has been limited by trading abuses. The North American Securities Administrators Association (NASAA) in its Report on Fraud and Abuse in the Penny Stock Industry estimated that investors lost approximately $2 billion as a result of penny stock schemes. This is 20 percent of the total dollar amount spent by investors to participate in this market.

This is not surprising. As noted above, in the penny stock market, investors trade essentially with the same blind faith that people had during the 1920s. This is why scam artists have been using the penny stock market to promote worthless stocks and make millions of dollars while engaging in series of deliberately orchestrated promotion blitzes. The typical penny stock operation consists of high pressure selling techniques used by hundreds of brokers in a particular firm trying to pitch the stock of the day to unsuspecting customers over the phone. Penny stock promoters succeed because there is no way for the individual investor to verify market activity.

Before the promoter or broker-dealer unleashes his boiler room tactics on the unsuspecting public, he will control the supply of a particular stock by acquiring large blocks of stock in order to retire the shares from the public float. In most situations this stock is placed in friendly hands or allocated to nominee accounts. Demand for the stock is generated by the boiler room techniques, which can be the combined effort of one broker-dealer or several broker-dealers coordinating their efforts. However, the more broker-dealers that are involved, the more legitimate the market looks, even though no true market exists. Moreover, since in general the shares of penny stocks are thinly traded, the stock promoters take advantage of the public by charging excessive mark-ups on the shares. After the price has been manipulated to the appropriate level, the operators have dumped their holdings and have left the public holding worthless stock as they go on to the next deal.

Something needs to be done to transform the penny stock market into an efficient, honest market. As the next section describes, Congress has responded. The question is, has it responded appropriately?

LEGISLATION

Background

Congress' efforts to control the Penny Stock Market builds on successful securities legislation passed after the 1929 stock market crash and the ensuing depression. The goal of this legislation was to build investor confidence through a process known as mandatory disclosure. These laws have essentially remained unchanged since their enactment in 1933 and 1934 with the Federal Securities Act of 1933 and the Securities Exchange Act of 1934. In addition, Congress established the Securities and Exchange Commission (S.E.C.) under the Exchange Act so that rule making could be delegated to a body that was closer to the U.S. public markets.

The rules that were enacted in 1933 and 1934 have retained their support and structure with lawmakers to this day because of their simplicity: the prohibition against fraud and the requirement to disclose when securities are issued and at periodic intervals thereafter. Congress, underlying theme was "that anyone willing to disclose the right things can sell or buy whatever he wants at whatever price the market will sustain." (6, p. 669)

In major securities markets investors now believe that fraud is being addressed quickly and decisively by regulators enforcing the law. Investors now feel they have the information they need to invest with confidence. Otherwise, chaos would have continued to run rampant in the markets, as it did during the 1929 crash, and Congress would have been forced to make drastic changes in the securities laws after the 1987 crash. C. Edward Fletcher III concludes that the difference between the 1929 and 1987 stock market crashes amounts to "the existence of a 'culture of financial information' in 1987 and the absence of such a culture in 1929." (7, p. 515) Specifically, 1987 did not see a repeat of the 1930s because people knew on a daily basis what the most recent earnings were for any given company and could substantially make their own judgments about whether a given security was sporting too high a price-to-earnings ratio. This was not the case during the crash of 1929 and the early 1930s. Investors then had little knowledge about the company's financial performance, as there were no mandatory disclosure rules.

Congress' Response to Abuses: The Penny Stock Reform Act of 1990

Beginning in 1988, in response to the fraud and abuses within the penny stock market, Congress conducted several subcommittee hearings. Congress sought to rectify a problem that was considered up until that time by most regulators to be a "mountain state" problem as most penny stock market firms were regional in nature and headquartered in Denver, Salt Lake City, and Spokane. The conclusions and recommendations from the hearings laid the foundation for The Penny Stock Reform Act of 1990, which was Congress' attempt to regulate a marketplace suffering from a serious market imbalance.

The first issue addressed by Congress was to define a penny stock. Prior to this enactment, the term "penny stock" lacked statutory or regulatory definition and was generally considered to be a low priced security traded in the OTC market. However, when adopting the Penny Stock Reform Act, the S.E.C. defined "penny stock" as any equity or security of an issuer that sells for less than $5 per share and which is not listed on an exchange or authorized for quotation on NASDAQ. As a result of this statutory attempt to define a penny stock, Congress focused its regulatory efforts upon the OTC Bulletin Board and companies that can only be found in the pink sheets. Penny Stock Rule 3a51-1 modifies this definition by exempting certain kinds of equity securities from the definition.

Disclosure Requirements under the Reform Act

Penny Stock Rules 3a51-1 and 15g-1 through 15g-6 are the cornerstone provisions of the Penny Stock Reform Act. They require that broker-dealers handling transactions in penny stocks provide investors with (1) a risk disclosure document, (2) disclosure of bid-offer quotations, (3) disclosure of the compensation of the broker-dealer in the transaction, and (4) monthly account statements showing the market value of each penny stock held in the customer's account. While apparently significant, these rules added little to existing S.E.C. and NASD rules and practices designed to prevent securities fraud in the penny stock market.

For purposes of this paper, the most important rule in the Penny Stock Reform Act is Rule 15g-2. It states that it is unlawful for a broker or dealer to effect a transaction in penny stocks unless certain information is sent to investors by the broker. This information must be a written statement referred to as a "disclosure document." It must be sent prior to the investor prior to the investor's making a purchase or sale in the penny stock. Implementing the disclosure mandated by rule 15g-2 is schedule 15G which requires the disclosure of risk elements associated with the transaction. However, there is no attempt by Congress to address the issue of providing information that the investor can use to assess the merits of the investment. In other words, the broker has to tell the investor that the Penny Stock Market is not a good place to invest, but does not have to disclose information that would help the investor make an informed investment decision.

REGULATORY PRACTICES

The S.E.C.

The S.E.C. has been slow to implement reforms under existing law that would do much to make the penny stock market more efficient and honest. This has limited growth of the penny stock market as a source of equity capital for small business. Three areas stand out:

Market Information: The NASD has proposed changing the OTC Bulletin Board to provide for an electronic quotation system for mandatory reporting of all facets of a broker-dealer's activity in penny stocks. This system would reflect real-time quotation of price and volume for each trade in each security. In addition, the National Quotation Bureau has urged the S.E.C. to require the NASD to make available price and volume information on a stock by stock basis. The response by the S.E.C. was to acknowledge the requests but to conclude that it was not appropriate at that time to disseminate such information at the OTC Bulletin Board level.

The speed of the move to automation: The Penny Stock Reform Act mandates the use of an automated quotation medium (the OTC Bulletin Board) to bring greater visibility to the secretive market of penny stocks (section 17B (b)). Visibility will bring greater liquidity to this market and permit monitoring by private sector analysts and regulatory authorities. However, it appears problems exist in implementing the OTC Bulletin Board. These problems seem similar to those that slowed the development of the National Market System in 1975.

In the August 1980 "National Market System: Five Year Status Report," subcommittee hearings noted that the slow development of the national market system was due to the "S.E.C.'s preference for passively watching the new market evolve, rather than utilizing its extensive authority to facilitate the development of a national market." (1, p. 2) The report also noted that the S.E.C. was constantly "misreading" the history of the 1975 law changes and the underlying purposes of the law changes. (1, p. 2) For example, the Chairman of the S.E.C. at the time demonstrated these misconceptions when he testified that he did not want "to be the person to come back to Congress and say I am sorry I implemented your program and it blew [up]. [T]he capital markets in this country are too important." (1, p. 2)

It seems history is repeating itself. The S.E.C. is not using its extensive authority to create a modern trading market for penny stocks in a timely manner.

Money raising in the public market: Concomittent with the regulatory reform of the penny stock market, the S.E.C. has lowered the requirements for small businesses that want to raise capital in the public market. This streamlining of the disclosure process consists of two exempt offerings and two registered offerings, that give small businesses more flexibility to access the public market at a fraction of the cost of traditional offerings. However, the S.E.C. has done little to promote these new streamlined programs.

Small businesses are allowed to sidestep the regulatory maze with two types of exempt offerings: the Small Corporate Offering Registration (SCOR) and the Regulation A Offering.

The less complicated of the two is the state-regulated SCOR offering. With this type of stock sale, a company can raise up to $1 million a year without S.E.C. registration under rule 504 of the Securities Act 1933. These offerings are becoming easier to do as states adopt uniform procedures. At the heart of this offering is the U-7 form, which allows the issuer to present offering information in a question and answer format.

The major drawback with the SCOR offering is that major brokerage houses are unwilling to underwrite a SCOR offering. The Pacific Stock Exchange (PSE) has recently received approval to trade SCOR offerings, but most companies using a SCOR offering will not be large enough to trade on the PSE. The fact that the PSE has received approval may spark the interest of investment firms wanting to raise money for companies under a SCOR issue. However, an efficient, safe marketplace is needed, and none presently exist. This is an additional reason why the first two areas mentioned in this section are especially important. The slowness of the S.E.C. in creating an automated quotation system for the pink sheets is bottling up large amounts of equity capital that would otherwise be available to small business.

On the other hand, companies seeking to raise more than $1 million in any one year may make use of a Regulation A offering. Although a Regulation A offering has been around for many years, it was not until the S.E.C.'s Small Business Initiatives rules raised the offering cap from $1.5 million to $5 million and revamped the disclosure process that Regulation A became a real alternative to the traditional registration process. Unlike the SCOR offering, the Reg A offering needs S.E.C. approval but will be exempt from the S.E.C. registration process. Under the Reg A offering, there are three forms that the business may choose to use. There is the U-7 form, the old Form 1-A, or the new SB-2. With some thoughtful planning, a small business might use the U-7 form for a SCOR offering, then simply update it for a Reg A deal. Moreover, to encourage businesses to use the Reg A offering, there is a "test the waters" provision which allows the company to gauge investor interest before it commits time and money to complete a stock sale. To date this provision has not been used because it depends on the various states to adopt it with legislation, and the S.E.C. is not a strong advocate for it.

Small businesses may also use two types of registered offerings. A registered offering requires more in the way of information from the issuer than an exempt offering does. However, the S.E.C. has streamlined the disclosure rules for the businesses that qualify as small business issuers with two forms--SB-1 and SB-2. To qualify as a small business issuer, the company must have a valuation under $25 million. The difference between the two forms is the amount of money that can be raised. SB-1 allows the issuer to raise up to $10 million and use Form U-7. This means that a company that has carefully planned the issue of raising money can start the offering process with Form U-7 and a $1 million SCOR offering all the way to the Registered SB-1 offering. The SB-2 offering, on the other hand, must be completed with Form SB-2.

For both registered offerings, audited financial statements are required. The S.E.C. has streamlined the process so that the costs associated with a registration statement typically run $100,000, half of what it used to cost to go public. Still, $100,000 is a major expense for a small business to incur to raise public funds. Moreover, once the company's registration statement has gone effective, it must comply with the S.E.C. reporting requirements by submitting quarterly and annual financial statements to the S.E.C.

Attitudes

Underlying both federal and state regulations is a passive attitude towards the Penny Stock Market and other means to invest in promising small companies. Present solutions to the problems of the marketplace emphasize (1) telling the investor that the marketplace is not a good place to invest, or (2) requiring that investors meet minimum net worth requirements. The equity capital gap will likely become much smaller if this attitude changes. For example, consider state lotteries.

Although statistics show that fewer Americans are willing to sponsor this country's technological future, GTECH's 1995 National Gaming Survey states that "Nearly half of all Americans welcome the expansion of legalized gaming in their home state, citing increased revenues as one of the benefits."(2, p. 12) Moreover, the public accepts legalized gaming because it perceives gaming as an approved way to create jobs, as an acceptable form of entertainment, and as an economic way to keep taxes lower. (2, p. 13)

This public confidence that gaming is good for the country has been strongly influenced by significant investments made by state governments to establish the legitimacy of legalized gaming. For example, approximately 15% of California's gaming intake goes to administration and regulation, which includes advertising. (3, p. 3) As a result of this intense focus by the various states to educate the public that legalized gaming is safe and fun, "one out of every four Americans (24%) sees the main benefit [of a state lottery] as providing money for education and other needed programs." (2, p. 3)

Admittedly, lotteries create cash flow for governments. Small business equity markets do not. Still, there are sound, long-term reasons to promote small business equity markets in the same way lotteries are promoted. By neglecting these markets, governments are downplaying viable economic vehicles to finance this country's technological future. The result is that advances in biotechnology, semiconductors, and computers are avoided by the investing public who would rather gamble because the states have provided a safer forum to risk money. This is extremely disturbing when one considers that legalized gaming does nothing to guarantee this country's technological competitiveness on a global level.

How big is the impact of attitude? The "test the waters provision" of the Penny Stock Reform Act is exciting. Yet, according to S.E.C. statistics as of July 30, 1995, "only 61 companies have applied to the S.E.C. under this [test the waters] rule, and only 27 of those have actually sold their stock in an offering." (5, p. F3) To date, the impact of this provision is blunted by passive attitudes. Federal regulators are not promoting it. Few states have adopted the provision. Little has been done to change public perceptions of the underlying financial market.

HOW TO NARROW THE EQUITY CAPITAL GAP

Our research suggests that the current small business equity capital gap can be narrowed substantially if certain steps are taken to create an efficient, honest Penny Stock Market for small business equities. We propose the following:

What legislators and regulators can do

First, Congress can pass legislation that requires disclosure of financial information by penny stock companies (no exemptions). Small issuers generally provide negligible public information to investors regarding the financial standing of the underlying corporation because many issuers of penny stocks are not reporting companies under the Exchange Act. In addition, most penny stock transactions are made in an unrecorded environment, which removes them from public scrutiny and regulatory surveillance. Until this changes, investing in the equities of small issurers is unlikely to become a national hobby.

Second, the S.E.C. can make financial disclosure affordable by promoting widespread use of the U-7 form and working to standardize and simplify periodic financial reporting by smaller companies. In this regard, the S.E.C. can work with the legal and accounting communities to come up with standardized, economical ways to provide the necessary information to the marketplace.

Third, the S.E.C. can move forward on its mandated task of creating an automated quotation medium (Section 17B(b) of The Penny Stock Reform Act). Automation will bring greater liquidity to this market and permit monitoring by private sector analysts and regulatory authorities.
In this regard the above described recommendations of the NASD and the National Quotation Bureau have merit. To these recommendations we would add selected balance sheet and financial performance data for each stock. These actions will help provide the small investor make informed trades.

Fourth, Congress can enact legislation that encourages reputable broker-dealers to sponsor issues in the penny stock market. This would help provide liquidity for investors and adequate financial information to assess the investment as well. The key is to provide incentives for broker-dealers to sponsor and follow issues in this marketplace. Currently such incentives are weak. At present, negotiated commission rates have largely eliminated the small broker. The large firms, because of high overheads and supervision costs, are not interested in small issues. As a result, the penny stock market has become neglected by the majority of firms in the brokerage industry. Without dealer support the market for penny stocks has little chance to attain liquidity and the small investor is denied access to valuable financial information.

Fifth, government can act more as the gatekeeper who facilitates a steady flow of attendance and maintains the arena for the players, less as the referee who blows the whistle on the players. The intent behind legislation and regulation needs to be to maintain the integrity of the market and investor confidence, not to decide who the market participants are. The low to middle income investor should be allowed the same opportunity as the wealthy individual to participate in the financial markets so that there is a maximization of economic and social welfare for the largest number of people. (9)

Sixth, a goal of automation and regulation can be to make it possible for investors to economically invest in small amounts. Congress and the S.E.C. can avoid financial requirements for investors in the penny stock market, and instead can treat the penny stock market in much the same manner as a state lottery. This will open markets to more people and attract more patient money. One hundred investors, who invest $100 each in a company's stock, are likely to hold the stock, hoping it's value will multiply in a few years. One investor, who invests $10,000, is likely to watch the stock closely and be more concerned about getting out when the price is right.

Seventh, legislators and regulators can promote the positive benefits of investing in the Penny Stock Market. Presently, there appears to be a passive attitude. There needs to be a positive attitude. Promoting investment will help guarantee this country's continued technological competitiveness on a global level. The cost of promotion can be underwritten by a transaction tax.

What your SBI and other small business advocates can do

First, speak out for small business. Advocate that legislators and regulators carry out the seven reforms described above.

Second, inform. Inform students and clients about existing opportunities in small business equity markets, particularly the Penny Stock Market. Inform them about needed reforms. Seminar fees from clients can help support your SBI.

Third, teach. Show students and clients how to enter public markets. Specifically, show them how use the U7 form as a planning and financing tool. Workshop fees can help support your SBI.

Fourth, form buying groups. Help clients pool their resources so they can negotiate discounts on registration and disclosure expenses. Membership fees from clients and sponsor fees from participating attorneys and accountants can help support your SBI.

Fifth, promote. Once you decide what you will do about the small business equity gap, promote the need and your solutions. Help guarantee this country's continued technological competitiveness on a global level.

CONCLUSION

In this paper the authors proposed seven improvements in legislation and regulation that can narrow the small business equity capital gap. We also suggested five actions your SBI, and other advocates for small business, can help this happen, thereby insuring that our strongest new companies have access to the capital they need for rapid growth. Committing to these actions will benefit clients, students and small investors. They will also provide new sources of revenues for your SBI.

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RESPONDING TO HYPER-COMPETITIVE MARKETS: SMALL FIRM STRATEGIES

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There is a multitude of research that attempts to explain how organizations prosper and survive. That research is anchored in positive theories of growth. Despite this research, statistics indicate that a large number of small organizations fail every year. (Statistical Abstract of the United States, 1994). Undoubtedly, the failure of many small organizations can be traced to poor planning, managerial incompetence, under-capitalization, and other deficiencies that might have been controlled. Equally clearly, some small organizations may be the victims of factors beyond their ability to control.

One area that receives scant attention is the effect of a radical realignment in the competitive nature of an industry due to changes in the size and the relative power of the rivals competing for the resources. A reconfiguration that results in the emergence of a new, dominant form may, make it impossible for the traditional, older form to survive. The sources of change are varied; technology made the typewriter obsolete, and with its obsolescence, typewriter stores and typewriter repair shops disappeared. Manufacturers, retailers and those who serviced men's hats were the victims of sociocultural change. Currently, several areas of retailing are experiencing the impact of mega-retailers.

In the industries that have been, or are now undergoing substantial change, small organizations are likely to be at a serious disadvantage. Faced with overwhelming competition, small firms may be reduced to reactive strategies, or what Mintzberg and Waters (1985) called "imposed strategies". In such an instance, there may be little that the small organization can do but suffer decreasing revenues and endure increasing losses. Despite the trend to consolidate into fewer larger organizations, some small firms do survive. Morris and Gerlich found that the entry of a mega-retailer in a particular market had "a profound effect on the sales of existing retailers" ...(and that the small retailer is confronted by another rival) ... "with whom he has scarcely any competitive advantages." (1995:31).

Our concern is whether these firms survive by design or by default. Among the most dramatic consolidations over the past 25 years are those that have occurred in general retailing.

Few areas have escaped the shift of sales volume from small independent merchants to immense nationwide organizations. Those large firms operate based upon scale economies that make direct competition against them by small firms impossible. Commonly advocated strategies such as niche marketing may not be feasible.

Within the theoretical dimensions of strategic management, there is a diversity of thought that surrounds this question. For example, three different, contemporary research streams might be applied to illuminate the characteristics of the successful small firm. We propose to look at three different models: linear strategy, organizational ecology and resource dependence.

LITERATURE REVIEW

Advocates of linear strategy, the school of managerial choice, believe that an organization has the ability, through prudent management, to formulate and implement a series of decisions (Chandler, 1962; Porter, 1985). Strategists assert that successful performance is the result of the organization's ability to use linear strategy to align the organization with its environment (Drazin and Ven de Ven, 1985). The strategists' position maintains that management can identify and control environmental uncertainties through appropriate analysis and strategy selection (Lawrence and Lorsch, 1967).

Chandler (1977) documented that efficiency-driven markets provide environments that reward large enterprises. Historically, managerial response to those conditions has been consolidation by merger and vertical integration. This strategy presumes that the organization has, or can obtain the resources necessary to fuel the growth to reach large scale operation. If their market share is growing faster than the total market, it is obvious that their growth comes at the expense of competing organizations.

Population ecologists suggest that populations in specific environments are subject to an active, random process of variation, selection and retention. According to the ecologists' theories, management is not a major determinant of survival. Further, the ecologists are not concerned with the individual firm; they focus their studies on the manner in which the population of firms originates, operates and survives.

McKelvey defined populations as "sets of organizations that draw upon the same pools of knowledge and skills in developing competencies"(1988:400). Successful members of a population are those that exploit the advantages of newly identified competencies. When populations decline, a few, large low-cost producers will tend to dominate smaller firms that are not as efficient. This process is often defined as determinism.

A major distinction between these two research streams is the role that each ascribes to the environment. Ecologist see high performance and survival as a result of efficiencies, intended or accidental. The strategists consider organizational efficiency as one of many variables; in fact, in some cases it may be quite unimportant.

Nevertheless, some similarities are evident. Ecological theory developed by Brittan and Freeman (1980) and advanced by Zammuto (1988) notes that organizational adaptation to environmental change resembles the biological processes of r-selection or K-selection. When organisms that reproduce quickly are best suited to environmental conditions, especially when extrinsic factors are disruptive, an r-selection process occurs. In a market in its formative stage, they called this the "first mover"; the organization enjoys the benefits of being the first in the market. Strategists use the same term when they describe the advantages of early entry into a market (Chandler, 1977; Tedlow, 1990).

As a population of organisms reaches its maximum size and is at equilibrium, the K-process would be expected to occur. Organisms do not devote vital energy into reproductive resources, rather they employ those resources to maintain long life. The K-selection favors mature, established members of the population, and is successful in stable, crowded environments. A K-selection process would be more appropriate when environmental conditions favored efficiency in operations. That condition, commonly called a mature market, occurs as niche density approaches its carrying capacity. Organizations strive to develop sustainable advantages. Strategies such as Miles and Snow's defender (1978) and Porter's overall cost leader are analogous to that process.

The classification further divided each selection process based on the width of the domain that the organization elected to serve. Generalists elected to serve wide domains; specialists confined their options to more limited areas.

Population ecologists and strategists consider large size advantageous in the struggle to survive. Stinchcombe (1965) identified the "liabilities of smallness". Chandler (1977) and Smith and Cooper (1988) documented positive relationships between increased firm size and organizational performance. Schumpeter (1950) found large size to be highly advantageous to a firm's ability to generate profits.

Organizational age is a controversial question. Studies support the "liabilities of newness" (Stinchcombe, 1965; Birch, 1988); other studies have illustrated problems associated with increasing age (Hannan and Freeman, 1977; McKelvey, 1988). Some studies demonstrate the advantages of new firms (Schumpeter, 1950), some document the value of maturity (Nelson and Winter, 1982; Chandler, 1977).

As industries mature, and their composition changes, there is intense competition for finite resources, usually creating a hostile environment. Analogous to Darwin's theory, the most efficient forms are selected out to survive. Within the population of business firms, only those organizations that remain profitable survive. The research streams suggest fundamentally antithetical explanations that reach strikingly similar conclusions. Strategists suggest management can make the necessary changes to adapt; ecologists believe the selection will be random.

Baum and Oliver (1991) proposed that population ecology and institutional theory are potentially complementary. They identified the elements of institutional theory that assert that external legitimization facilitates resource acquisition and strengthens an organization's ability to function efficiently. Specifically, their study demonstrated a significantly positive relationship between an organization's institutional linkages and its ability to survive in increasingly competitive environments. Linkages are cooperative efforts with other organizations.

Other theories attempt to recognize the application of managerial choice as a response to changing environmental forces. The theory of resource dependence (Pfeffer and Salancik, 1978) identified interorganizational linkages as strategies to access scarce resources, and to temper the effect of the environment in uncertain climates. They listed four distinct advantages that focal organizations derive from establishing linkages: providing information about other organizations, affording communication among organizations, securing support commitments from the external environment, and legitimating the organization. Other studies ratified the importance of linkages for increasing and securing resources (Wiewel and Hunter, 1985; Aldrich and Auster, 1986). Galaskiewicz (1985) suggested that the overriding reason that firms establish interorganizational linkages is to ensure their own survival.

AREA OF STUDY

This study examines independently owned retail pharmacies. While this segment was dominated by small firms until 25 years ago, today large chains, mass merchandisers, and mail order pharmacies prevail. The number of prescriptions dispensed, the dollar volume for those prescriptions and the total sales in retail pharmacies has increased significantly during that 25 year period. The market share, or niche, that the independent pharmacy serves has declined from 98% to less than 40% in 1987. The number of independent operators has decreased by 35%. Net operating profit per-firm and industry-wide has steadily decreased.

The forces of environmentalism are manifest in the change in the composition of retail pharmacy. Pressure from chain stores, discount stores, mail order pharmacies and prescription dispensing health maintenance organizations (HMO's) has been critical factors in creating a hostile environment for independent organizations. Another factor, and likely a more pernicious one, is the growing importance of third party prescription payments. In effect a mechanism of industry regulation, third party payments have redefined the basis of competition for retail pharmacies. In this system, patients are required to have prescriptions filled at participating pharmacies. Pharmacies are designated as participating by the provider after competitive bidding. In essence, competition for the majority of resources becomes a zero-sum game. Failure to secure such contracts results in the potential loss of a substantial portion of a firm's volume. Larger, more established organizations would be expected to prevail.

Retail pharmacies, particularly its independent organizations, operate in a hostile environment. Covin and Slevin defined a hostile environment as being "characterized by precarious industry settings, intense competition, harsh, overwhelming business climates, and the lack of exploitable opportunities." (1989:75)

HYPOTHESES

The different models suggest that specialization, increased efficiency, large size and organizational longevity contribute to increased levels of performance as measured by net operating profit. Net operating profit is the most appropriate predictor of the probability of surviving. We present a set of hypotheses that test several dimensions of the theories. Specialization and size characteristics are linear strategy options; age and efficiency are organizational ecology measures, and voluntary participation in trade and professional associations measure cooperative activities.

As strategists interpret the Porter generic business model, differentiation and focus can be considered specialization strategies. The level of performance would be expected to be higher among those organizations with a specialist orientation. When the ecologist uses the term "specialist", it refers to domain selection, and the measure of performance is organizational efficiency. In terms of independent pharmacies, we consider their specialty to be dispensing prescription drugs, therefore;

H1: Performance will be higher among organizations with a specialist strategy.

To moderate the effects of the environment, institutionalist and resource dependency theorists suggest that linkages will increase an organization's ability to survive. Linkages will increase efficiency and serve as a mechanism to secure and increase resources, and to provide access to critical information in the marketplace. As the environment changes, the importance of these linkages becomes more significant. Establishing linkages is an acknowledged strategy to increase an organization's performance and chances of survival (Meyer and Rowan, 1977; Pfeffer and Salancik, 1978). Dynamic studies (Baum and Oliver, 1992) have demonstrated that as the intensity of competition increases, linkages become increasingly important to organizational success, therefore;

H2: Performance will be positively related to an organization's network of linkages.

Maintaining successful performance and surviving in hostile environments is often difficult for more established firms (Hall, 1980). Depressed performance may be a result of the negative effects of structural inertia in older, established organizations (Hannan and Freeman, 1984). Freeman, Carroll and Hannan (1983) found that organizational mortality declines with age. The high mortality rate in young organizations is well documented (Birch, 1988). Older, more established organizations should outperform smaller ones in a hostile environment, therefore;

H3: Older organizations will have higher levels of performance than younger organizations.

Efficiency can be defined as the use of resources in the most economical manner. Further, efficiency is a factor that is basic to growth and survival. Strategic models identify large size as leading to scale economies. Ecological models propose that within mature environments, the selection process favors organizations that are the most efficient, and those that are the largest. Performance should be positively related to increased size, therefore;

H4: There will be a positive correlation between organizational size and performance.

Many studies have found large size to be an important contributor to organizational efficiency. Positive relationships between size and efficiency were identified by Hall and Weiss (1967). Historically, the rise of large enterprise was the result of mergers and acquisitions, intended to offer scale and economies (Chandler, 1977). In his studies oftransaction economics, Williamson (1979) demonstrates that larger firms can internalize specific transactions and effect significant savings, therefore;

H5: Larger organizations will be more efficient than smaller organizations.

DATA DESCRIPTION

The Eli Lilly Company supplied the data for these tests. The data is derived from questionnaires sent annually by Lilly to all independent pharmacies in the U.S. An independent pharmacy is privately held, usually owner-operated, and not affiliated with any chain group. The average annual sample represents reports from more than 1,600 pharmacies and includes operating and financial data. The sample years were 1990-1993.

VARIABLES

PERF - (Dependent variable) The net operating profit of the organization. Total sales, less cost of goods sold, less total expenses. Owner's salary and withdrawals have been added back to reflect a more accurate level of performance. The result was divided by total sales to obtain a net profit percentage.
TREND - an annual time trend

RXSPEC - ratio of prescription sales to total sales
THPTY - percentage of prescriptions reimbursed by third party providers
HCFSALE - percentage of prescription sales to longterm healthcare facilities
HMOSALE - percentage of prescription sales to Health Maintenance Organizations
PSAO - percentage of firms who established memberships in voluntary Pharmacy Services Administrative Organizations
MERBUY - percentage of organizations that belong to groups for buying general merchandise
RXBUY - percentage of organizations that belong to groups that negotiate contracts to buy prescription drugs
TASSETS - total assets
AGEDUM - dummy variable for age where 1 older than 5 years
MEDSIZE - dummy variable for size where sales > $400,000, < $600,000
LGESIZE - dummy variable for size where sales > $600,001
LTL - Long term liabilities
INTURNS - cost of goods sold divided by average inventory
ROFA - return on fixed assets
RONW - return on net worth

METHODOLOGY

We tested hypotheses 1, 2, 3 and 4 by linear regression. The dependent variable was PERF (net operating profit). Hypothesis 5 was tested by ANOVA. A trend variable was included to control for cyclical events. The effect of age is captured by a dummy variable (denoted AGEDUM) to differentiate organizations less than 5 years old from those over 5 years old. The effect of size is captured by using two dummy variables. MED equals one if a firm has annual sales between $400,000 and $600,000. LGE equals one if the firm's sales exceed $600,000. Age and size advantages would be indicated if these dummy variables exhibit positive coefficients.

RESULTS

Hypothesis 1 tested the value of a specialist strategy, (Measured by RXSPEC), and was supported positively and strongly ($t = 4.61$, $p = 0.\ 0001$). Sales to longterm healthcare facilities (HCFSALE) were negatively related to performance, and significant ($t = 2.94$, $p = 0.0066$). No other variables were significant.

Hypothesis 2 examined the value of linkages, and confirmed positive and significant support for one linkage only, RXBUY, the percentage of organizations belonging to prescription buying groups ($t = 2.17$, $P = 0.0393$). No other linkages were significant.

Hypothesis 3 tested the relationship between net profit and organizational age. After controlling for size and efficiency, older organizations generated significantly higher profits ($t = 2.84$, $p = 0.0177$).

The premise of Hypothesis 4 was that larger organizations would be more profitable than smaller ones. Medium and large firms are more profitable than small firms ($t = 1.84$, $p = 0.0184$; $t = 1.16$, $p = 0.0230$, respectively). Because large firms are marginally more profitable than small and medium firms, this result is consistent with the apparent advantages to large size in this industry.

Hypothesis 5 tested three measures of efficiency by ANOVA to see if larger organizations enjoyed any significant efficiency advantage in the hostile environment. The results show both inventory turns, INTURNS ($F = 14.99$, $p = 0.0003$) and return on fixed assets, ROFA ($F = 4,67$, $p = 0.0264$) were positively related to size. RONW, return on net worth does not appear to improve with size.

A complete summary of the statistical results is available from the authors.

DISCUSSION

We focused on a sample of organizations operating in an intensely competitive environment. We looked at organizational characteristics to test several proposed strategic responses to hostile markets, and to test some of the population ecologists' theories relating to markets that have reached carrying capacity.

Hypothesis 1 demonstrated the value of specialization in the changing environment. Where organizations concentrated on their core competency, dispensing prescription drugs, higher levels of performance were attained. Interestingly, higher percentages of third party paid prescriptions did not result in higher performance, possibly due to fierce competitive bidding to obtain the third party contracts. Similarly, sales of prescription drugs to health maintenance organizations did not prove profitable. Selling prescriptions to longterm health care facilities proved to have a negative effect. This might be due to the specialized packaging, inventory and delivery requirements needed to service these facilities. We suggest that small retailers may not adequately consider those costs when they bid for prescription business in these facilities.

In looking at linkages, (hypothesis 2), we found that membership in a prescription buying group, RXBUY was a significant factor ($t = 2.17$, $p = 0.0393$). This is consistent with earlier results that supported the value of the specialist strategy. Prescription buying groups are formed to create increased buying power as groups of independent pharmacies enter into federations and invite suppliers to bid to be their exclusive supplier in return for the most favorable prices and service. These groups are quite important because the pressure to obtain the lowest cost is relentless.

Participation in a general merchandise buying group, (measured by MERBUY) was not significant. These buying groups are formed by independent pharmacies to buy merchandise other than prescription goods. Because the specialist strategy appears to be so critical, non-prescription merchandise sales are apparently relatively unimportant, therefore the advantages that an organization might capture through joining a buying association for non-prescription goods appear to be trivial.

More ominous perhaps, is the fact that while approximately 30% of pharmacies have established linkages with longterm healthcare facilities, and 20% with HIVIO's, neither linkage appears to be significantly beneficial. Similarly, while joining a Pharmacy Services Administrative Organization (measured by PSAO), would appear to offer economies of scale and scope to participants, it appears to be of little value. This may be because of coordination problems. About 25% of pharmacies joined PSAO groups.

Our third hypothesis regarding organization age was confirmed. The coefficient of AGEDUM is positive and significant ($t = 2.84$, $p = 0.0205$). Older firms generated significantly higher profits after controlling for both size and efficiency. This finding is in contrast with some studies that have found a disadvantage to age, perhaps attributable to organizational inertia. Our findings suggest that younger organizations would not be more successful.

In the fourth hypothesis, we found that larger firms were more profitable ($t = 1.16$, $p = 0.0230$). Hence, larger firms may enjoy modest economies of scale.

Regarding the fifth hypothesis, we saw qualified support for the premise that organizational efficiency improves as firm size increases. Larger organizations tended to have higher numbers of inventory turns (5.29 versus 5.19 and 4.25 for medium and small firms, respectively). They also had better returns on fixed assets (11.49% versus 9.24% and 4.73%, respectively). There was little support for better return on net worth for large firms. However, we cannot say whether the increased efficiency is a result of the larger size or the larger size is the result of increased efficiency.

The environment surrounding our test group is indeed hostile. Few if any industries have ever been under attack from so many areas at the same time. Ecological forces that have produced mega- stores, innovative approaches such as mail order prescriptions, and HMO's that dispense their own drugs are market forces with which independent organizations are forced to compete. The greatest pressures come from third party providers who seek ways to lower payment costs. These providers typically specify particular pharmacies as approved suppliers to their policy holders. To become approved, pharmacies, or more often groups of pharmacies, must submit bids. This practice immediately works against independent pharmacies and in favor of chain pharmacies that can provide more widespread service, more sophisticated computerization, and are willing and able to operate on thinner profit margins. Commonly, bids will specify that prescription prices will reflect the lowest available price for a drug, plus a dispensing fee. In many contracts, the winning supplier will accept a dispensing fee that is as much as 50% less than what other local organizations calculate their costs to be. It is common for a pharmacy to order, stock, dispense, record, package and process a prescription whose ingredients cost the store $50, for the cost of those ingredients plus a $1.75 dispensing fee. That amounts to a total return of $51.75, and a gross operating profit of 3.3%.

CONCLUSION

The ability of independent pharmacies to survive in the hostile environment seems precarious at the most optimistic. This seems to run counter to theories such as Rothwell's (1983) that small firms can co-exist profitably with large organizations by innovating process or product. The situation may be closer to what Penrose envisioned when she wrote "The ability of small firms to seize on profitable opportunities in which they can grow will be destroyed if barriers to their entry are created" (1963-228). Independent pharmacies appear to be the victim of "the perennial gale of creative destruction" (Schumpeter, 1950).

Harrigan (1980) noted than when industry attractiveness was unfavorable, and an entrant's "relative" competitive strengths were low, the appropriate strategy was to exit. In this industry, where independent operators face such overwhelming odds, it may be possible that no viable strategy exists that will enable them to compete successfully.

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AN INQUIRY INTO ENTREPRENEUR PREPARATION AND A MORNING-AFTER EVALUATION OF RESULTS

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INTRODUCTION

Part of the American dream many of us share is to someday own and operate our own business. With an abundance of opportunities and sources of assistance i place to assist us, this American Dream is within our reach. About 675,000 businesses are started each year with a majority of these considered to be "small business". There are currently more than 17 million small, non-farm businesses in the United States accounting for more than 87% of all U.S. businesses (Martin, 1993).

While most U.S. entrepreneurs in the past have been male, females and minorities are making substantial inroads in small business ownership. Approximately 30 percent of the nation's businesses are female-owned, accounting for almost $280 billion in revenues. The percentage of minorities in the U.S. who own their own business is also increasing. The following groups have lead the way thus far: Korean (10.2%), Asian Indian (7.6%), Japanese (6.6%), Chinese (6.3%), Cuban (6.3%) and Vietnamese (4.9%) (U.S. Department of Commerce, 1993; Martin, 1993).

The purpose of this exploratory research is to examine what is involved in being an entrepreneur and what how satisfied are these individuals with their choice to own and operate a small business. Thus, the following two research questions are investigated:

1. What preparation (if any) is put forth prior to starting a new business venture?

2. How do entrepreneurs rate their level of satisfaction with their business?

THEORETICAL BACKGROUND

The spirit of entrepreneurship is alive and well in the United States. The small business sector, often referred to as the "economic engine" for new job growth, is certainly a major contributor to the nations economic vitality. But what makes a person decide to become an entrepreneur versus an employee of perhaps a larger corporation? Are people transforming themselves into entrepreneurs--driven by the hard realities of change in corporate America? What motivates and satisfies an entrepreneur? Nobody really knows! Numerous articles have been written and debated on the subject (Casrud, 0lm & Eddy, 1986; Winslow & Solomon, 1987; Carland, Hoy & Carland, 1988; Solomon & Winslow, 1987; Gartner, 1989; Mitton, 1989; Winslow & Solomon, 1989; Shaver & Scott, 1991; Carland, Carland, & Carland, 1995).

Although there is no universally agreed upon definition of an "entrepreneur" (Gartner, 1989), for this study, an entrepreneur was defined as "a person who organizes, manages, and assumes the risks of a business or enterprise." Such a person is dedicated to making the business successful and is willing to risk money and reputation to make an idea work. Unfortunately, it is well documented that most entrepreneurs fail (Cochran, 1981; Altman, 1983; Kennedy, 1985; Bruno, Leidecker & Harder. 1987; Sommers & Koc, 1987; McQueen, 1989; Osborne, 1993; Lussier & Corman, 1995). In fact, 90% of start-up businesses in the United States close their doors within ten years (U.S. Small Business Administration, 1989). Some of the variables that can attribute toward business failure are the lack of the following: managerial experience, industry experience, business planning, and starting capital.

EMPIRICAL INVESTIGATION

Sample

The data used for this research was generated by a convenience sample of small business entrepreneurs in a Southeastern metropolitan area of the United States. Small business was defined as those firms with fewer than 100 employees. Entrepreneurship classification was determined by self-report. Each respondent was asked to classify themselves as either an "entrepreneur", "small business manager", "other", or "not applicable". Table 1 provides a profile of the study participants.

TABLE 1
A PROFILE OF THE STUDY PARTICIPANTS

GENDER	
MALE	36%
FEMALE	64%
AGE	
Below 20 years	0%
21 - 34	15%
35 - 49	55%
50 - 65	28%
Over 65 years	2%
RACE	
Caucasian	95%
African-American	4%
Other	1%
BUSINESS LOCATION	
Office-Based	48%
Home-Based	44%
Other	8%

A total of 183 small business entrepreneurs participated in the study, representing an overall response rate of 92%. The actual study size was reduced to 165 due to respondent classification.

Measures

Self-reported data were used to obtain measures of the amount of prior preparation involved in starting the business and the entrepreneur's level of satisfaction with their business. Prior preparation variables included management experience; industry experience; amount of planning time, and type of business planning. Satisfaction variables included the amount of starting capital; degree of financial rewards; degree of personal rewards; and self-perception of business success.

DISCUSSION OF RESULTS

Prior Preparation

As Figure 1 (omitted) indicates, the majority of entrepreneurs have reported possessing both management experience (71%) and industry experience (64%) prior to starting their businesses.

Although previous research has suggested that superior managerial skills and unrelenting efforts are no match for the economics of a capital- and service-intensive business (Osborne, 1993), other studies have indicated the association of business success with managerial skills and industry knowledge (Cooper, Woo & Dunkelberg, 1989; Lussier, 1995). Previous empirical results by Lussier (1995) found that the most common advice to would-be entrepreneurs (given by 44% of business owners) was to start a business in which you have industry knowledge. However, Dyke, Fischer & Reuber (1992) caution that it is important to consider experience a multi-faceted phenomenon which varies in impact from industry to industry.

Adequate planning of a new venture is one of the keys to becoming a successful entrepreneur (Jackson, 1994; Lussier, 1995). Planning for shifts in the economy, competition, technology and capital needs is good business. The length of time an entrepreneur spends in planning his/her new business may depend (in part) on the type of business they are desiring to start, and the amount of market knowledge that the entrepreneur already possesses. Based on the survey results, the majority of entrepreneurs (95%) have spent less than 6 years planning their new business, with 60% of these individuals spending less than 1 year.

A major component in the planning of a new business venture (especially one that requires securing outside sources of capital) is the development of a business plan. Jackson (1994) summed up the importance of a business plan by claiming that a small firm may excel at adapting quickly to changes in the market. however, without a strategic business plan, the big picture may well pass you by!

As shown in Figure 2 (omitted), the majority of entrepreneurs surveyed (73%) reported having either an "informal plan" (defined as a plan that was not placed in writing) or a "general plan" (defined as a plan that did not contain specific objectives and action plans, target completion dates, or persons responsible for strategy implementation).

Almost 16% reported not having a business plan at all prior to launching their new venture.

Level of Satisfaction

Of those entrepreneurs needing starting capital, an equal percentage of entrepreneurs (39%) reported that the amount they utilized was either the "right amount" or "less than enough", while only a few entrepreneurs (5%) reported having "more than enough" starting capital. Previous research has determined that businesses that start undercapitalized have a greater chance of failure than those with adequate capital (Lussier, 1995). Therefore, this is an area in which entrepreneurs should seek satisfaction --and survival.

Regarding the degree of financial and personal rewards, Figure 3 (omitted) shows entrepreneurs are finding their business personally rewarding, only 81% find their business financially rewarding.

These differences are even more pronounced when you compare the 74% of entrepreneurs who find their business extremely personally rewarding with the mere 19% who find their business extremely financially rewarding. In addition, 19% actually find owning and operating their business not very or not at all rewarding. Given these findings, you may be wondering

... why does the entrepreneur who is not being financially rewarded continue? Previous research has seemingly presented impressive evidence that psychologically, entrepreneurs are not the same as those who choose management or wage employment (Smith & Miner, 1983; Ward, 1993).

Interestingly, 95% of the entrepreneurs surveyed rated their business as "successful" (of these 32% rated it "extremely successful" and 63% rated it "somewhat successful"), while only 5% gave their business a "not very successful" rating. Not a single entrepreneur rated their business as "Not at all successful". Once again, this ties in and supports the research findings of Ward (1993) regarding the personality and motivation body of research on entrepreneurs.

CONCLUSIONS & IMPLICATIONS

This empirical study provides some insight into the ever-growing body of research on entrepreneurs--who they are; what they do; and why they do what they do! In addition, it provides answers to the two exploratory research questions posed at the outset.

When exploring the amount of prior preparation, this study found that the majority of entrepreneurs spent at least one year planning for their new venture. In addition, although a disturbing percentage of entrepreneurs (16%) did not utilize business planning in their preparation, the majority of entrepreneurs performed some degree of unsophisticated business planning. Most entrepreneurs also possessed some management and/or industry experience. Since these are some of the key factors that have been associated with business success, entrepreneurs should be encouraged to continue these practices and increase the sophistication of business planning efforts.

Regarding satisfaction, if all entrepreneurs were motivated by solely by profit, there would not be the tremendous growth of new business start-ups that the U.S. is currently enjoying. Previous researchers have explained that self-actualization is the zenith of entrepreneurship. They explain that some entrepreneurs will describe the freedom and challenges which business ownership provides--freedom to pursue family life or hobbies: or the challenge against which one can measure one's ability (Carland, Carland, & Carland, 1995). This contention is clearly supported in my research. In conclusion, the number of entrepreneurs are increasing across the nation. Although the success rate remains relatively low, the utilization of strategic business plans coupled with experience, adequate market knowledge, and their zesty risk-taking personality, entrepreneurs can and will survive. As a nation, our goal should be to keep those entrepreneurs satisfied and coming back for more. After all, the are achieving a part of the American dream!

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BEYOND THE CATEGORICAL IMPERATIVE: A PHILOSOPHICAL EXAMINATION OF CODES OF ETHICS IN THE FINANCIAL PROFESSIONS

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ABSTRACT

This paper considers the concepts of ethics and professional standards as they apply to the accounting and finance functions. Theoretical concepts of professional codes, of professional practice standards, and of "reasonable person" standards are explained. The following basic theoretical framework of moral philosophies is presented:

Teleology--whereby the moral worth of actions is determined by the consequences.

a. Egoism--doing what promotes the greatest good to oneself.

b. Utilitarianism seeks the greatest good for the greatest number of people.

Deontology is concerned with rights of persons and considers the means by which an end is achieved.

Relativism maintains that there is no one universal standard of ethical behavior.

Codes of ethics for seven different certifications in accounting and finance (CPA, CMA, CIA, CFE, CFA, CFP, CEBS) were examined for similarity of factors. This analysis revealed that there are certain principles of ethical conduct which are common to all such certifications.

1. Fairness.

2. Objectivity, neutrality, disclosure of all material facts.

3. Integrity and honesty.

4. Respect and confidentiality.

5. Professional due care.

6. Adherence to the Professional Code of Ethics.

7. Adherence to law.

8. Professional competence in the field.

These factors may be termed the "Categorical Imperatives" of the accounting and finance functions. The moral philosophical model implied by these codes is the deontological one. Kant, presumably, would have no quarrel with this line of reasoning.

Professional Code of Ethics

Rules that are supposed to govern the conduct of members of a given profession are referred to as professional codes of ethics. Members of a profession are bound to abide by those rules as a condition of their engaging in that profession. Sometimes these codes are unwritten and are part of the common understanding of members of the profession. Often they are written rules for proper professional conduct developed by an authoritative body so that they may be taught and enforced. The codes often are a mix of purely moral rules (confidentiality) and professional etiquette (support of development of higher professional standards).

Generally, there exist two important tests of proper business conduct --the professional practice standard and the reasonable person standard.

The Professional Practice Standard implies that a business person is charged professionally with various responsibilities and must use proper professional criteria for determining appropriate actions. The standards of proper conduct are determined by custom in the profession. Negligence of professional standards of care results in professional malpractice.

The Reasonable Person Standard is a legal model of what a "reasonable person" would do under a given circumstance. It originates in English common law, and it goes beyond the professional standards criterion. This standard must be applied by a jury or a judge who must evaluate conduct objectively. The law asks a jury to reflect on social standards of reasonableness and to frame the judgment to be reached entirely in those terms.

Professional codes and legal standards arise from the framework of moral philosophies.

Ethics

Societies are governed by a system of values by which people live. Those systems of value are referred to as philosophy. Moral philosophy deals with the principles or rules that people use to decide what is right and wrong. Ethics refers to the study of what is right and wrong, good and bad, just and unjust. Business Ethics,
then, is the study of right and wrong, good and bad, just and unjust actions within the business environment.

There is a long-standing debate about whether ethics in business may be more permissive than general societal or personal ethics. There are two basic views in this debate.

The first one is referred to as the theory of amorality, which holds that business activity should be amoral, that is, conducted without reference to ethical ideals. Adam Smith's "invisible hand" concept states that "by pursuing his own interest (a merchant) frequently promotes that of the society more effectively than when he really intends to promote it" (Steiner & Steiner, p: 180). The doctrines of laissez-faire economics and of social Darwinism promote this philosophy. Today the theory of amorality is less influential in business circles.

The other major ethical philosophy of business is the theory of moral unity which holds that business actions should be judged by the general ethical standards of society, not by a special set of more permissive standards.

Ethical practices in business may be judged on four levels:

1. The business system--total economic impact on society;

2. The industry level--certain industries are consistently viewed as more ethical than others, i.e., banking, utilities, drugs;

3. The company level--certain companies are consistently noted for their high ethical standards, i.e., Johnson & Johnson, Merck;

4. The individual level--for every highly publicized unethical business person's behavior there are countless others who act ethically in all aspects of their lives.

Moral philosophy can be examined from three general perspectives: Teleology, Deontology, Ethical Relativism.

Teleology refers to moral philosophies in which an act is considered morally right or acceptable if it produces some desired result of consequence. This branch of philosophy is also referred to as consequentialism. Two teleological philosophies which often guide business decisions are egoism and utilitarianism.

Egoism defines the right behavior in terms of the consequences to the individual. The egoist's motto may be stated as "doing that which promotes the greatest good for oneself." An enlightened egoist would take the long-run perspective and allow for the well being of others, but only as it serves his own best interest.

Utilitarianism, like egoism, is concerned with consequences; but, unlike egoists, utilitarianists seek to achieve the greatest good for the greatest number of people. They seek to make decisions which maximize utility by systematically comparing benefits and costs to all affected parties for all possible alternatives and by then selecting the alternative yielding the greatest utility.

Utilitarians use various criteria to determine the morality of an action. Some utilitarian philosophers, referred to as rule utilitarians, believe that general rules designed to promote the greatest utility rather than the examination of each particular action best serve the wellbeing of a society. They would, however, change the rules if that became advantageous to a society. If one of the rules were that bribery is wrong, then a rule utilitarian would not tolerate bribes unless bribery in general became advantageous to society, in which case the rule "bribery is wrong" would be changed.

Another group of utilitarians, referred to as act utilitarians, examines the action itself, rather than the rules governing the action, to determine maximum utility. Rules, such as "bribery is wrong", would only be considered general guidelines by an act utilitarian. If paying a bribe generated a contract which would keep a firm in business and people gainfully employed, an act utilitarian may conclude that bribery is justified.

Deontology refers to moral philosophies which focus on the rights of individuals and on the intentions associated with a particular behavior rather than on the consequences of that behavior. Deontologists believe that equal respect must be given to all persons and that there are some things that we simply should not do. Deontologists contend that people have certain absolute rights: freedom of conscience, of consent, of privacy, of speech, and of due process. The deontologist looks for conformity to moral principles. Where teleological philosophy would consider the ends associated with an action, deontology considers the means. Like utilitarians, deontologists can be divided into those who focus on moral rules and those who focus on the nature of the acts themselves.

To rule deontologists conformity to general moral principles determines the ethical result. Immanuel Kant's "Categorical Imperative" which says "Act as if the maxim of thy action were to become by thy will a universal law of nature" and the Judeo--Christian "Golden Rule" which says "Do unto others as you would have them do unto you" are examples of rule deontologists. (Ferrell & Fraedrich, Pp. 45-46).

To act deontologists actions are the appropriate base on which to judge morality. Equity, fairness, and impartiality are the important criteria; rules only serve as guidelines. Act deontologists consider the particular act or moment in time as taking precedent over any rule.

Ethical Relativism. There is another group of moral philosophers, referred to as ethical relativists, who maintain that there is no "right" way to make ethical decisions and that there is no "best" moral philosophy. Relativists use themselves or the people around them as their basis for defining ethical standards. As circumstances or the group composition change, a previously unacceptable behavior may come to be redefined as ethical. Whereas, within the accounting profession, it was traditionally considered unethical to advertise, advertising has recently gained acceptance among practitioners.

The relativist's perspective acknowledges that we live in a pluralistic society in which people have many different views and many different bases from which to justify decisions as right or wrong. The position here is that what may be morally right for one society may be wrong for another, or, even more radical, what may be right for one person may be morally wrong for another person. That is to say, what a person or society believes is right is in fact right for that person or society.

Generally, then, ethics is a way of thinking of compliance, of contributions, of avoidance of harmful consequences. Professional codes of ethics in the financial domain embody these elements.
Responsibility and Control in Accounting and Finance

Any individual or group of individuals working in the accounting or finance functions (financial specialists) will be subjected to the broad factors of trust, responsibility, and control. These factors are naturally interlinked with one another, and they can be troublesome if they are not properly understood and addressed by the financial specialist and his organization.

Trust is a factor in relationships with other individuals or organizations that are dependent on the advice or information given by the financial specialists. Trust is inspired by confidence which believes in the ability, character, integrity and truthfulness of the financial specialist.

Responsibility is also a factor in relationships with those who are dependent on the financial specialists. It is about duty, obligation, care and accountability to the dependent party who places trust in the financial specialist.

Control is the third factor in the dependent relationship. To work properly and harmoniously, trust of the dependent party requires responsibility by the financial specialist and, therefore, demands careful and considerate attention in the control and dissemination of financial advice and financial reports. An abuse of control is an abuse of responsibility. A cognizant dependent party will lose confidence and his trust will dissipate, therefore ending the relationship and also raising the potential of litigation. Loss of credibility and trust in the financial specialist is harmful. Far worse is the spillover effect to other financial specialists who are innocent of the abuse.

A harmonious balance in the three factors is, therefore, critical to the ongoing success of any relationship with others needing the services of the financial specialists. A means to this desired end is a professional code of ethics. A code of ethics entails broad principles and specific rules which address the factors critical to a harmonious relationship with the dependent party. Practitioners who abide by the rules and standards of a code of ethics bring professionalism to their craft and directly assist in the harmony of trust, responsibility, and control factors.

Professionalism in Accounting and Finance

"Profession" is the ultimate recognition our society bestows on a skill or craft which meets specified criteria positively affecting the public welfare. Three recurring criteria in any recognized profession include: education and experience in the profession, examination for licensure and governmental oversight, and a system of self-regulation based on a code of professional ethics. A written code of ethics is, therefore, a critical element necessary for any skill or craft to be elevated to the status of profession. An individual who works in the accounting or finance function may either be professional or non- professional. Professionalism in accounting and finance is recognized through certification. Certification conveys professionalism to the public and brings status, opportunity, and greater financial compensation to the professional. The certification of individuals in accounting and finance functions appears beneficial to society. To evaluate this assumption, the professional codes of ethics of seven different certifications in accounting and finance were examined for their content, theme, and impact on the factors of trust, responsibility, and control.

Matrices of Standards and Principles for Professional Certifications in Accounting and Finance

Matrix I examines the principles and standards addressed in the professional code of ethics for seven different certifications in accounting and finance. Four of the certifications are in accounting and include: Certified Public Accountant (CPA), Certified Management Accountant (CMA), Certified Internal Auditor (CIA), and Certified Fraud Examiner (CFE). The other three certifications are in finance and include: Chartered Financial Analyst (CFA), Certified Financial Planner (CFP), and Certified Employee Benefit Specialist (CEBS). A study of the matrix shows a total of 32 different standards or principles which were addressed by the combined certifications. Some of the principles were unique or limited to a few certifications while others were common to most or all of the certificatons.

Of special note were the differences in terminology used in the various codes to address similar ethical principles. To achieve ease of comparability, a condensed matrix was prepared in which similar terms or themes were combined with one another. Matrix II is the condensed version of Matrix I and includes the following combinations of similar standards and principles:

1. Fairness, fiduciary responsibility, priority of transactions and shareholder impact;

2. Objectivity, neutrality, conflict of interest, acceptance of gifts and independence;

3. Integrity, honesty, and proper attribution of source of information;

4. Disclosure of all material facts and disclosure of all material facts without editorial comment;

5. Adherence to the Code of Professional Ethics and presentation of the Code to the employer;

6. Professional competence and maintenance of professional competence.

Discussion and Implications of Matrix Principles and Standards

An examination of Matrix II reveals the following broad distribution of principles of ethical conduct common to all or almost all of the certifications:

1. Fairness and responsibility to the public interest;

2. Objectivity, neutrality and disclosure of all material facts;

3. Integrity and honesty;

4. Respect and confidentiality;

5. Professional due care;

6. Adherence to the Professional Code of Ethics;

7. Adherence to the law;

8. Professional competence in the field.

An interpretation of these common standards can be noted by their positive influence to the harmony of the interlinkage of trust, responsibility and control factors. The standards focus on individual responsibility and behavior to others. These same standards also limit or prohibit the control factor by stating what is ethical or not ethical. The purpose in all of this, of course, is to maintain trust and public confidence in the profession for all participants.

In conclusion, a written code of ethics is mandatory for professionalism. It is subscribed to by licensees, and enforced by a self-governing or governmental body which serves the public interest. The public interest is served because a professional code of ethics has principles or standards of conduct for the licensee that focus on professional responsibility. The standards thereby restrict or limit control of the licensee over the dependent party. The happy result is trust and credibility for the profession and an ongoing harmonious relationship with the dependent party.

Examination of codes of ethics for seven financial professional organizations reveals that these entities consider certain rules of conduct to be imperative for the wellbeing of the client as well as the profession. These codes seem to follow the deontological moral philosophy model. Immanuel Kant would, presumably, agree with their thinking.

MATRIX I

PRINCIPLES, STANDARDS, AND RULES OF ETHICAL CONDUCT FOR SEVEN PROFESSIONAL CERTIFICATIONS IN ACCOUNTING AND FINANCE.

CERTIFICATIONS

Principles Standards Rules	CPA	CMA	CIA	CFE	CFA	CFP	CEBS
(1) Responsibilities	x						

(2) The Public Interest	x
(3) Integrity	x x x x
(4) Objectivity	x x x x x x
(5) Independence	x x x
(6) Due Care/Diligence	x x x x x x
(7) Adherence to Code of Professional Ethics	x x x x x x
(8) Fairness	x x x x x
(9) Confidentiality	x x x x x x x
(10) Professional Competence	x x x x x x x
(11) Honesty	x x x
(12) Loyalty	x x x
(13) Creditable Behavior/ Adherence to	x x x x x x x

Applicable Laws

(14) Neutrality/Conflict of

Interest x x x x x x x

(15) No Gifts x x x

(16) Presentation of Facts

Without Editorial x

Comment

(17) Disclosure of all

Material Facts x x x x x

(18) Maintenance of Technical

Competence x x x x x x

(19) Presentation of Professional

Ethics Code to the Employer x

Code to the Employer

(20) Proper Attribution of Sources

of Information x

(21) Priority of Transactions x

(22) Disclosure of Compensation	x			x	x
(23) Fiduciary Duty		x	x	x	
(24) Proper Use of the Professional Designation		x	x	x	
(25) Advertising/Solicitation	x			x	
(26) Form of Practice and Name	x				
(27) Process for Resolution of Ethical Dilemma	x		x		
(28) Disclosusre of Conflict of Interest		x			
(29) Disclosure of Basic Philosophy		x			
(30) Planning and Supervision	x			x	
(31) Support the Development of Higher Ethical Conduct/ Standards		x			

(32) Strict Selection of

Candidates for Certification x

MATRIX II

SUMMARY OF PRINCIPLES, STANDARDS, AND RULES OF ETHICAL CONDUCT FOR SEVEN PROFESSIONAL CERTIFICATIONS IN ACCOUNTING AND FINANCE.

CERTIFICATIONS

Principles Standards Rules CPA CMA CIA CFE CFA CFP CEBS

(1) Fairness/Stockholder

Impact/ x x x x x

Fiduciary/Priority

of Transactions.

(2) Objectivity/Independence/

No gifts/ x x x x x x x

Neutrality/Conflict of

Interest.

(3) Integrity/Honesty/Proper x x x x x x

Attribution of Sources

of Information.

(4) Due Care/Diligence x x x x x x

(5) Disclosure of all Material

Facts, x x x x x

Disclosure of all Material

Facts Without

Editorial Comment.

(6) Adherence to Code of

Professional x x x x x x

Ethics. Presentation of

Professional

Code of Ethics to the

Employer.

(7) Confidentiality x x x x x x x

(8) Professional Competence/

Maintenance x x x x x x x

of Technical Competence.

(9) Loyalty x x x

(10) Creditable Behavior/

Adherence to Laws x x x x x x x

(11) Disclosure of Compensation x x x

(12) Proper Use of the
Professional x x x
Designation.

(13) Advertising/Solicitation x x

(14) Form of Practice and Name x

(15) Disclosure of Conflict of
Interest x

(16) Process for Resolution of
Ethical Dilemmas x x

(17) Disclosure of Basic Philosophy x

(18) Planning and Supervision
Responsibility x x

(19) Support Development of Higher
Ethical x
Conduct.

(20) Strict Selection of
Candidates for x

Certification.

NOTE: TO FACILITATE UNDERSTANDING OF MAJOR COMMON ELEMENTS, SEVERAL OF THE PRINCIPLES IN MATRIX I WERE COMBINED TO FORM MATRIX II.

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WHAT DO CLIENTS REALLY THINK ABOUT THEIR SBI EXPERIENCE?

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ABSTRACT

SBI clients offer a unique perspective on the SBI project's success. This study explores in detail what is important to SBI clients, the SBI project's specific business impact and suggestions for improving the client's SBI experience. Surveys were returned by 55 clients who had completed their SBI projects from one to six months previously. Almost all respondents were satisfied with all aspects of their SBI experience, found it useful, and would recommend it to others. About half said they would be willing to pay for the SBI project. The SBI project's most frequently cited impact was on client awareness. Most clients reported no economic impact on their businesses. Perceived benefits included gaining an outside perspective and help with research clients lacked time, money, or expertise to conduct themselves. Exploratory sub-analyses and comparisons with a previous study of clients one to four years after their project provide more descriptive information on client perceptions. Specific implications for future SBI clients, students, instructors, and program directors are discussed.

INTRODUCTION

Client satisfaction remains an important measure of the success of any SBI project. How did the client benefit from the experience? What specific difference did the SBI project make on their business? Would they recommend the SBI experience to others? How well do they feel the director, faculty advisors, and student teams performed?

SBI clients offer a unique perspective on the SBI project's success. They work closely with the students, mull over crucial problems, open their business to intense scrutiny, and listen to the students' solutions. The most elegant, theoretically-sound recommendations may be wasted if the client chooses not to use them. Recommendations that seemed great on paper may prove useless when the client tries to apply them. Why do some SBI projects succeed while others do not? What criteria do clients use to determine If the project worked? It seems important to discover what SBI clients think.

A long line of research has explored client perceptions of the SBI experience. Subsequent research tended to parallel the initial studies of Weaver and Solomon (1985) which found that implementation of SBI recommendations may be the most important indicator of SBI project success and that increased sales was an reliable measure of economic impact. Studies have examined the extent to which student recommendations were actually implemented, whether clients were satisfied with the project, and the project's potential or actual economic impact.

A high number of SBI clients feel they benefit from the SBI experience and would recommend it to others (Kiesner, 1987; Stephenson, Konarski, & Phillips, 1991). Some research suggests that clients feel the SBI project has made (or will make) a difference on their business' economic performance or job creation (Fontenot, Franklin, & Hoffman, 1994; Jackson, Vozikis, and Emin, 1992; Rocha & Khan, 1984). Borstadt and Byron (1993) attempted to explore the SBI project's actual long- term impact on decision making but found it difficult to gather information on real economic change in small businesses.

This study continues the exploration of client perceptions. It goes beyond general measures of satisfaction to explore in detail three critical concerns: what is important to SBI clients; what specific impact did the SBI project have on their business; and what can be done to improve their experience. It also builds on an earlier study (Brennan, 1995) and therefore allows a rare comparison between clients who just completed their SBI project and those who had one to four years to reflect on the experience.

OBJECTIVES

This study's main purpose was to explore how SBI clients view specific aspects of the SBI project. Its objectives were: (1) to assess client satisfaction with the project and the students; (2) to measure the impact of the SBI recommendations on client business; (3) to determine how much monetary value clients place on the SBI experience; and (4) to collect concrete ideas on how to improve the SBI experience for future clients.

RESEARCH DESIGN

All 82 clients who had participated in the SBI program at the University of St. Thomas (UST) in the 1993-94 academic year were mailed a cover letter and 5-page survey during the summer of 1994. Fifty-five surveys were completed and returned (one was returned as undeliverable), yielding a respectable 68 percent response rate.

Percentages of keyed responses were calculated and open-ended questions were content coded. Descriptive and exploratory analyses were conducted with the CRUNCH statistical package.

Survey questions covered several content areas:

* Satisfaction with various aspects of the SBI project,
- Overall satisfaction with the SBI project
- Understanding of the SBI project
- Perceptions of students' traits and behaviors

* Overall impact on client's business,
- Effect on specific business outcomes
- Perceived benefits
- Reasons for not implementing recommendations

* Client willingness to pay for the SBI project,

* Suggested improvements, and

* Extensive background information on respondents and their businesses.

Respondent Characteristics

At the time of the project, a majority of respondents (76%) were employed full-time by their organization. Most (71%) were the founder or owner of their business. Others were top or middle managers (13%) or in miscellaneous positions (16%). Half (51%) of the respondentswere male. Most (82%) had completed a college degree or a higher level of study.

Thirty-two percent of respondents had their SBI project completed in the fall of 1993, 64 percent in Spring of 1994, and 4 percent in both semesters. Most respondents asked for assistance as part of a Marketing Management course (72%) with 6 percent during Human Resources, 6 percent Public Relations, and 4 percent Operations Management courses. A small number (12%) received assistance from students in multiple courses. A majority (80%) worked with undergraduate student teams.

Respondents indicated a number of reasons for requesting SBI assistance. Wanting to expand a business (32%), assessing the feasibility of a business idea (21%), problems with an ongoing business (21%), and starting a new business (11%) were the most frequently mentioned reasons (multiple responses were possible). Marketing (83%), marketing research (40%), promotion (28%), and strategic planning (23%) were the most common areas of requested assistance (multiple responses were possible).

Business Characteristics

Most respondents (71%) described their business as established. Twenty- four percent were from a start-up business and a few were still considering a business idea. Business age ranged from just starting to 120 years, with a median of 3.5 years.

A majority of organizations were for-profit (82%). Most (44%) were service organizations. Median gross sales was $160,000. The number of employees ranged from 1 to 165, with a median of 4.0.

RESULTS

Satisfaction with Various Aspects of the SBI Project

General satisfaction with the SBI project. Most respondents expressed a high level of satisfaction with the SBI project done for their business (see Figure 1, omitted). Similarly, almost all (90%) said they definitely or probably would recommend the SBI services to others. Eight percent were not sure if they would recommend SBI, only 2 percent indicated they probably would not, and none said they definitely would not.

Understanding of the SBI project. The SBI clients surveyed seemed to have a clear understanding of what the SBI project involved. Most rated their satisfaction with their of the way the SBI project would be conducted as high or moderate understanding (92% satisfied; 8% dissatisfied). Respondents gave high ratings to their understanding of what was done by the students (88% satisfied; 12% dissatisfied), by the faculty advisor (88% satisfied; 12% dissatisfied), and themselves as clients (84% satisfied; 16% dissatisfied).

Likewise, high satisfaction was expressed for the project team's understanding of the project the client wanted studied (88% satisfied; 12% dissatisfied) and of the client's business (87% satisfied; 13% dissatisfied).

Measuring what may be considered a key indicator of the SBI project's success, over three-forths were satisfied with the project team's development of a workable project (80% satisfied; 20% dissatisfied).

Perceptions of students' traits and behaviors. The students who conducted the SBI projects received high ratings. Respondents were asked to rate the students as excellent, good, fair, or poor on several traits and behaviors. When evaluating the students' general traits, almost all rated the students' respectfulness (96%), trustworthiness (94%), and honesty (92%) as excellent or good. A large majority characterized the students as excellent or good on the traits of logical (88%), helpful (86%), thorough (79%), and committed (78%).

Clients thought the students managed their projects well. Most respondents judged the students as excellent or good at communicating on a regular basis (78%), communicating changes in their plans (87%), and meeting deadlines (86%). Excellent or good ratings were given by most clients for the students' seeking the right data (78%), finding the right sources (82%), and analyzing the data effectively (84%).

Student creation of the final SBI products also received high ratings. Eighty-seven percent rated the students as excellent or good at providing a valuable final written report. Likewise, ninety percent thought the students were excellent or good at offering ideas in an effective manner at their final presentation.

Overall Impact on Client's Business

The recommendations made by the SBI team were seen as useful by a majority of respondents (58%). Thirty-six percent rated them as somewhat useful, 4 percent as not useful, and 2 percent as not very useful.

Sixty-seven percent felt that the SBI project had an extremely positive or positive impact on their business. About one-fifth (21%) said it had no impact. None indicated that it had a negative or extremely negative effect. The remainder, 12 percent, said they had not implemented the team's recommendations and thus were unable to gauge its impact. The latter is not surprising since the projects had been completed within the last one to six months.

Effect on specific business outcomes. To explore its effect in more depth, respondents were asked to rate what impact the SBI project had, if any, on specific aspects of their business. The most important impact seemed to be a cognitive one. Seventy-two percent felt that the SBI project increased their awareness; 28 percent cited no effect on their awareness.

Few felt the SBI project increased their gross sales (22%), profit (17%), number of employees (10%), product quality (17%), or decreased their costs (12%). In these areas, most rated the SBI team as having no effect; none felt it negatively affected any aspect of their business.

Perceived benefits. Respondents described the SBI project's benefits in two ways. First, respondents were given a list of possible benefits of working with an SBI team and asked to mark all that applied. Table 1 displays the percentages of respondents who cited each benefit. Gaining insights from outsiders and having access to low-cost consulting or research were the most commonly noted benefits.

Perceived benefits also were measured by asking respondents an open- ended question: What was the most important benefit to your business from participating in the SBI project? The most frequently mentioned benefits were gaining outsider views: "Independent opinions of what I was trying to accomplish"; "A fresh look; received unbiased, outside comments" and gathering information through research or surveys; "Market research analysis that we didn't have time to do"; "Getting a customer survey completed."

Table 1:

Perceived Benefits of Working with an SBI Team

	Percent

Getting Insights and perspectives of outsiders	81
Having access to low-cost consulting or research	77
Contrbuting to students' education	64
Accomplishing project didn't have time to manage myself	62
Focusing on my business strategy instead of daily problems	58
Conducting anonymous research	53
Doing project I couldn't do myself (lack of knowledge)	40
Developing a relationship with University of St. Thomas	40
Developing a relationship with the students	34
Getting fast turn-around on a project	32
Learning about business and other resources available	30

Note: Respondents could mark more than one benefit.

Reasons for not implementing recommendations. One question explored why recommendations may not have been used. Recall that 12 percent said they had not yet done so. The most common explanation for non- implementation was not enough time (34%). Other reasons included the SBI team's expertise was not adequate (13%) and the suggestions required too much money (11%). (Respondents could give multiple reasons.) Another possibility, perhaps implied by "not enough time," was the short time that had elapsed from project completion.

Client Willingness to Pay for the SBI Project

An interesting way to measure the perceived worth of the SBI project is to ask clients whether they thought it valuable enough to pay for it. Almost half of the respondents (48%) reported they would pay to have an SBI project for their business. About one-third (34%) were unsure and 18 percent said they probably or definitely would not pay. Responses to the open-ended question of how much they would pay ranged from 0 to 1200 dollars. The median amount suggested was 225 dollars.

Suggested Improvements

When asked to mark as many suggestions as applicable, respondents recommended a number of improvements. Table 2 profiles those suggestions. Only five suggestions were marked by 20 percent of more of all respondents.

There seemed to be general agreement on at least one recommendation. Almost one-half (43%) felt that providing student interns to help implement the SBI project team's recommendations would be of benefit. It appears that clients may' want more help in putting the SBI recommendations into practice.

Respondents also were asked "What is the most important thing that can be done to improve the SBI program?" Only 62 percent responded to this question. Of those that responded, 12 percent wrote that help in implementing ideas would be of benefit. Representative comments include: "Ideas should include methods to implement them, including costs" and Have the students actually do some of the things they recommend.") Another 12 percent requested more contact or communication ("Increase interaction with businesses they are working with via personal meetings", "Closer monitoring of client satisfaction over the course of the project by faculty advisor", and "Clear, consistent communication--both student and supervisor). A few thought that the project could be more professionally conducted or more focused.

Table 2:

Suggested Improvements In the SBI Project Experience

	Percent
Provide student interns to help implement recommendations	43
Ensure greater student knowledge of my industry	32
Encourage greater student commitment to the project	23
Help students better understand my business problems	23
Further Integrate SBI and SBDC activities	21
Seek better communication ties with supervising instructor	19
Provide greater follow-up between University and myself	19
Make final written report more substantive	15
Increase student understanding of market research	13
Provide more direction from supervising instructor	13
Develop ways for me to meet and talk with other clients	13
Ensure better student skills overall	9
Clarify the structure of the process	9
Provide introductory meeting for SBI clients	9
Change the format of the final presentation	6

Require less of my time	0

Note: Respondents could mark more than one benefit.

Exploratory Analyses

This study provided rich descriptive information on client perceptions. To further investigate the relationship among questions and to see if demographic differences occurred, several exploratory analyses were conducted. These analyses are purely exploratory; no hypotheses were tested. Still, some intriguing results were found. Only those analyses with a significant chi-square ($p < .05$) are discussed.

Two analyses examined client characteristics. First, all survey questions were examined to see if clients employed full-time, part-time, or as a hobby responded differently. No significant differences were found. Second, response differences due to client gender were explored. Men and women did respond differently on a number of questions.

A higher percentage of women rated students' regular communication as both excellent (71 % vs. 38% for men) and poor (14% vs. 4%), the two scale extremes. Women more often mentioned not implementing their recommendations due to lack of time. Men found the recommendations less useful (42% of men rated them as useful vs. 73% of women). Finally, more women then men endorsed the SBI benefits of accomplishing a project they didn't have time to manage, contributing to students' education, and developing a relationship with students.

Two characteristics of the client's business were explored. No significant differences in responses were found for clients in a nonprofit as compared to a for-profit organization. Only two differences were found among business types. A higher percentage of retail clients thought that the SBI project team's expertise was not adequate or that their recommendations were not practical.

Due to its importance as an indicator of overall satisfaction and perceived worth, responses among those who would recommend the SBI project to others, who were unsure, and who would not recommend it were investigated. Given the small number (5) who would not recommend the SBI project, these results should be interpreted with caution. Still, they provide an initial look at how those who were dissatisfied felt about specific aspects of the SBI experience. One theme that comes from this analysis is possible confusion with the SBI process itself. Those clients who said they would not recommend SBI services were less satisfied with their understanding of the SBI project and of the student, faculty, and client roles.

Not surprisingly, these clients also were less satisfied with the SBI project and more felt it was not useful.

Interestingly, students seemed to play a vital role. Clients who would not recommend the SBI project were more negative in their assessments of students. They were less favorable in their ratings of all of the students traits and behaviors except for the way students offered ideas at the final presentation. Similarly, fewer felt students understood their business, understood the project wanted, and developed a workable project. When asked to suggest improvements, a higher percentage of clients who would not recommend the SBI project suggested greater student commitment, greater student industry knowledge, helping students understand the client's business problem, better student skills, making the final report more substantive, and clarifying the structure of the SBI process.

Comparisons with Previous Study

A prior study (Brennan, 1995) allows comparisons on some key questions. Brennan (1995) surveyed SBI clients one to four years after their SBI project. This study used a similar client population one to six months after their SBI project. Questions were the same except for the current study's more extensive questions about the client's understanding of the project and client perceptions of students.

Clients were surprisingly similar in their opinions in both studies. A few differences, however, are worth noting. First, respondents in the present study were more intense in their favorable perceptions about the SBI project. Clients in both studies had similar percentages of total satisfaction (very satisfied and somewhat satisfied combined). However, more respondents in this study said they were very satisfied (59%) than did those in the study one to four years after their SBI project (40%). They were both satisfied, yet those immediately after were more likely very satisfied.

Similarly, ratings of the SBI project's overall impact were more positive in this study. Fifty-eight percent rated it as useful, while only 43 percent did in the study 1-4 years after the SBI project. Again, though, ratings of dissatisfaction were not noticeably different. It appears that while both studies found clients positive in their impressions, clients were more extreme in their approval right after their SBI experience.

A second difference was found in client willingness to pay for the SBI project. As shown in Figure 3, clients in the present study were much more willing to pay for their SBI experience than those surveyed one to four years afterwards. The median amount clients were willing to pay did not differ substantially ($225 in this study and $200 in the study one to four years after).

DISCUSSION AND IMPLICATIONS

One of the most important findings is the high level of SBI client satisfaction. A large majority of clients found the experience beneficial, felt they obtained something useful from the process, and would recommend it to others. This finding is not surprising (Fontenot, Franklin, & Hoffman, 1994), but it does confirm the SBI project's value to its clients and their businesses.

Another interesting finding is the high ratings given to students. Over three-fourths rated the students' traits and behaviors excellent or good. This can be seen as an endorsement of the quality of SBI students, their willingness to listen to client needs and their ability to deliver workable solutions.

The SBI project's impact seems to be more on the way the client view's his/her business than on economic performance. Despite their positive impressions, most respondents felt the SBI project had little impact on their business performance. While about one-fifth noted a positive effect, a large majority cited no effect. This result simply could be due to the recency of the SBI experience. Less than six months had passed; most recommendations may have just been implemented. It raises the questions, however, of when is the best time to measure the SBI project's effect on performance and how realistic is it to expect an economic impact.

The findings offer a number of implications for SBI clients, students, faculty and directors.

Implications for SBI Clients

SBI clients see many benefits from their participation: a fresh and often strategic view of their business, help with projects they lack time, money, or expertise to conduct themselves, and the opportunity to support student learning. These benefits should be emphasized when recruiting new SBI clients.

Another implication centers around the most often suggested improvement. Clients want help in implementing the SBI recommendations. Almost half of those surveyed suggested that student interns be available. Linking clients up with resources may need to be a more explicit part of the SBI experience. Providing structured opportunities, such as internships, would give students invaluable business experience and help clients follow-through on their intentions. SCORE (Service Corps of Retired Executives) may be another resource that needs to be more readily available for SBI clients. Clients see the benefit of the SBI experience. Giving them help in implementing recommendations may increase the likelihood that those recommendations will make an economic impact.

Implications for Students

This study proposes at least two implications for students. First students need to understand their client's business. Clients benefit most from recommendations that fit their situation. A thorough knowledge of the client's business problems within a complicated context (i.e., industry trends, competitive forces) leads to recommendations more likely to be implemented.

A major focus of the SBI project is on its final products, the written report and final presentation. This study suggests that students place equal importance on managing the process used to get the final products. In particular, students need to discuss the project with their clients throughout the project, not just at the beginning and end. Keeping in touch with clients and actively listening to their ideas and concerns will lead to better understanding of the client's business and to better final products. The SBI experience seems a good time for students to learn the whole consulting process, including the importance of communication.

Implications for Instructors

This study emphasizes the active role that faculty play in the SBI process. SBI instructors balance the student's need to learn with the client's need for viable recommendations. They help set up roles and expectations. Some clients in this study suggested that instructors communicate more with the clients. One way to make instructors available to clients without limiting the student's role and responsibility is to conduct one or more review meetings during the consulting engagement. Led by the students, the meeting is a chance for instructors to talk with clients and act as a resource for both students and clients.

Implications for the SBI Program

One important finding is the lack of understanding expressed by those clients unwilling to recommend the SBI experience. Those clients stated confusion about the SBI process and student, client, and faculty roles. They may have entered into the project with unrealistic expectations. This finding stresses the importance of clarifying the nature of the SBI process when recruiting clients. Clients need a clear understanding of what they can and cannot expect.

A number of clients confirmed their willingness to pay for their SBI project. Moreover, clients in this study were more willing than those asked one to four years later to pay. One obvious implication is the need to ask for any monetary contributions immediately after the SBI project when the experience is fresh and positive feelings are high.

The SBI clients in this study were highly educated; 82 percent had completed a college degree or higher. Business owners or managers with college may be more willing to see the merits of working with undergraduate or graduate students. In fact, one of the primary benefits cited was the chance to contribute to student learning and to build relationships with students.

What about non-degreed business owners and managers? Are we reaching them?

It may be that only well-educated clients are attracted to the SBI project. The SBI program profiled in this study does little advertising. College-degreed owners may be more likely to know about the SBI resource. This suggests the need to communicate with non- degreed business owners to make sure they understand the merits of an SBI project.

Future Research

This study confirms the positive perceptions that clients have of their SBI experience. We concur with the recommendation of Borstadt and< Byron (1993) that to better assess the SBI project's impact, client perceptions need to be supplemented with measures of business performance. This is difficult to do with small businesses who keep varied records and may feel the need to limit access to confidential information. However, pre- and post-comparisons on important performance measures will result in a better understanding of the SBI project's true effect on its clients' businesses.

Serious reflection on the type and amount of performance changes expected needs to accompany any research on business performance. What specific impact, for example, do we expect an SBI project to have on the way a client conducts her/his business? A detailed map of the expected changes along with when and how they are likely to be observed will help guide future research.

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MANAGING THE LIMITED LIABILITY COMPANY (LLC): A DILEMMA OR DELIGHT?

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ABSTRACT

A new mist has come about with the expansion of the Limited Liability Company (LLC). Many small firms are choosing a business structure that combines the pulses of a partnership and a corporation. With unbelievable speed, this new form of business organization has caught the eye of the entrepreneur and in many instances the state and local government leaders.

The designation grew from eight states to more than 43 states in only two years, now totaling 47 states and the District of Columbia. Even more strength for managers came about when the states of Arkansas, Georgia, Idaho, Montana, and Texas decided to allow sole proprietors to establish themselves as sole-member LLC's, conferring liability protection on individuals who never had it before.

This new twist has also brought about a change in management and management style. Formality has increased, which some view as a drawback while others see it as the cost of doing business. Anything new is more complicated, but these issues usually work themselves out over time. The new boy is on the "block" and managers are interested in ascertaining if he can bring about ease of operation for the small firm.

INTRODUCTION

In 1954, the Internal Revenue Service Code created the Subchapter S Corporation. With modification of the code specifically relating to qualification, the title was changed to S. Corporation. The S Corporation distinction was made for income tax purposes only. It had the same legal characteristics of am other corporation. By virtue of having to meet these legal characteristics, the S Corporation had to meet the following criteria:

1. Had to be a domestic corporation

2. Nonresident aliens could not hold shares

3. Could issue only one class of common stock

4. Shareholders are limited to estates, individuals, and certain trusts.

5. Cannot have more than 35 shareholders

Even after the corporation had satisfied all of the above requirements, and the owner had elected to be treated like a corporation by filing the proper forms, 14 states and the District of Columbia still did not recognize the S Corporation. The advantages expected were not available to the owners. Especially the tax advantages. Owners were hoping to avoid the corporate income tax, which would enable them to pass operating profits or losses to the shareholders, resulting in a lower tax base. In many instances the opposite occurred. The S Corporation was not taxed at the lower rate, and many of the fringe benefits could not be deducted as business expense. Therefore, they were considered to be taxable income.

In addition, the S Corporation limited the number of retirement options in comparison to the regular corporation. These and many other negatives caused the owners to look closely at the negatives and positive of S Corporations. The question "Who will receive the greatest benefits from the S Corporation structure. As a result of a large number of negatives owners started looking for and politicking for a more favorable type of organization for small firms. The result is the Limited Liability Company (LLC).

The Limited Liability Company is a hybrid entity possessing both corporate and partnership characteristics. It originated in four states - Wyoming, Florida, Colorado and Kansas. Several other states weighed the benefits and enacted legislation following the original four. Like the corporation, the LLC shields all its owners (members) from the debts and liabilities of the entity. It is treated as a partnership for tax purposes, because it can be organized without continuity of life, centralized management, or free transferability of interest. As an example, in most LLCs the death, retirement, resignation, expulsion, bankruptcy, or dissolution of a member may cause the LLC to dissolve, and the admission of a new member requires the unanimous consent of the existing members (Roche, et al., 1991).

Has this latest business entity solved the organization structure problem for the small business, or is it just another fad-in waiting that will soon be replaced by something more encompassing or realistic.

REVIEW OF THE LITERATURE

It has been recently stated, "The LLC is actually not a new concept at all. The first recognized limited liability company was formed in Germany in 1892. Limited liability companies quickly became the predominant form of business in many European and Latin American countries. In many instances, they have become more popular than corporations" (Corporate Agents, Inc., 1995).

Corporate Agents, Inc., also stated the real reason that Wyoming endorsed the limited liability company, "Wyoming wanted to capitalize on the benefits this business structure offered, particularly to small businesses. They enacted the first U.S. LLC legislation, modeled after the German example, in 1977. Five years later, Florida followed Wyoming's lead When the Internal Revenue Service passed Ruling 88-76 on September 2, 1988, other states also began to pass LLC legislation. The Wyoming law and the IRS ruling are the basis upon which most other state LLC regulations have since been drafted.

Limited liability companies that are properly, formed in compliance with IRS regulations can offer individuals and small businesses a clear and, frequently, a superior alternative to general corporations, partnerships, and Joint, ventures. This Ls because the LLC combines the corporate advantage of limited personal liability with the pass-through tax advantage of partnership. It is believed LLCs could ultimately replace general and limited partnerships, joint ventures, and general and S Corporations. LLCs also offer definite advantages over sole proprietorships, and close or regular corporations with closely-held stock (2).

In the article, "Limited Liability Companies Offer Pass-Through Benefits Without S Corp. Restriction", Roche, et. al., stated while S Corporations, like LLCs, enjoy both limited liability and pass through tax advantages. LLCs avoid several restrictive and burdensome S Corporation requirements. S Corporations cannot have more than 35 shareholders, and these cannot include other corporations, nonresident aliens, general or limited partnerships, certain trust, pension plans, or charitable organizations. In addition, an S Corporation cannot own more than 80% of the stock of another corporation. No such limitations apply to LCCs In addition, an LLC member is entitled to contribute property to an LLC in exchange for a membership interest without the recognition of gain. Regardless of whether the member is in "control" of the entity.

A more significant difference is that, although both S Corporations and LLCs provide the benefits of one level of taxation, the LLC, because it is classified as a partnership, offers tremendous flexibility in planning and distribution and special allocations, in contrast to the one class of stock limitation imposed on S Corporations (Blau, 1991). As a partnership, the LLC has the benefit of basis adjustment for entity-level liabilities and the availability of a Section 754 adjustment in the LLC's basis in its assets upon the sale of a membership interest.

In Ann. 88-188, IRB 1988-38, 26 the Service reported that it had completed a six year study on the classification of various entities for Federal income purposes, with a special focus on the significance of limited liability (November, 1988). At the same time, the Service released Rev. Rul. 88-76, 1988-2 CB 360, in which it classified a Wyoming LLC as a partnership for Federal Income Tax purposes (Larson, 1988).

Continuity of life is very important for LLCs. As an example, a Wyoming or Colorado LLC generally does riot possess the corporate characteristic of continuity of life. Under each statue, the LLC is dissolved upon the death, retirement resignation, expulsion, bankruptcy, or dissolution of a member, or upon the occurrence of any other event that terminates the continued membership of a member in the LLC, unless the remaining members consent unanimously to continue (Wyo. Stat. 88-76, 1988).

Centralization of management is another very important concern. The corporate characteristic of centralization of management has not been negated. The possibility of negating this characteristic, however, can provide a useful planning opportunity if either continuity of fife or free transferability of interest cannot be negate. Florida, Wyoming, and Kansas statues permit an LLC to either designate managers or reserve management to members (Fla. Ltr. Rul. 9010027).

Most small to medium size accounting, law and other professional firms currently operate in a general partnership form, due to the ease of administration tax reasons, or because some states do not let incorporated professionals limit vicarious liability for their colleagues' actions or omissions in rendering professional services. While many professionals fear potential personal liability (malpractice and other grounds) that may arise out of conducting their practices as partnerships. The use of a limited liability company to solve the problem has been stymied because of a serious tax accounting problems plaguing medium size firms with centralized management that wish to retain the cash method of accounting (Banoff, 12).

A favorable position recently taken by the IRS in Ltr. Rul. 9415005, however, indicates that many professionals in medium and large law, accounting, medical, and other personal service firms will be able to retain cash method, and there by are more likely to consider converting into and operating as an LLC. Letter Rule 9415005, may permit certain existing LLCS to continue using the cash method of accounting even if their firms governance and management become more centralized.

In recent years, some firms have chosen to operate as professional corporations (or partnerships of professional corporations) to shield against potential contractual and malpractice-related liability-or at least to generate a "colorable claim" defense, whereby a better settlement might be reached with the firm's creditors than if the professionals continued to operate in general partnership form (12). Professional corporations and other structures were initially popularized primarily for tax-related purposes. Despite subsequent tax changes, those professionals who more recently have chosen to incorporate to reduce potential legal liability generally have been able to do so without material adverse tax consequences (Journal of Taxation, 1991).

Practice in the LLC form, or in the alternative limited liability partnership (LLP) structure, has gained popularity recently. In those states where professionals are authorized to do so, practicing in LLC form may protect personal assets from contractual liability, vicarious liability, and virtually all other personal liability except that arising from the professional's own direct or supervisory liability for errors and omissions in rendering professional services (no structure protects a professional from his or her own negligence, malpractice, or misdeed).

"The LLC will surpass the S Corporation, general partnership, and limited partnership and become the predominant form of organization for small business", say Gordon A. Carpenter, a partner in the Providence, R. I., law firm of Hinckley, Allen and Snyder. He helped craft Rhode Islands LLC law (Hotch. 36).

In addition, five states-Arkansas, Georgia, Idaho, Montana, and Texas-allow sole proprietors to establish themselves as sole-member LLCs, conferring liability protection on individuals who never had it before. IRS has not yet offered guidance on the tax ramifications on sole-members (36).

Nonetheless, die idea may soon spread. The Uniform Limited Liability Company Act, a draft law prepared for the National Conference of Commissioners on Uniform State Laws, provides for sole-proprietor LLCs.

The conference is made up of members appointed by state governors; all states are represented. It meets annually to consider adoption of uniform laws, frequently dealing with interstate commerce. The Proposed uniform LLC act came before the conference for a vote in July 1994. The proposal has gone to the American Bar Association for consideration. Upon AEA approval, the uniform law will advance to the states for approval. Most states are expected to bring their own LLC laws into conformity, triggering rapid growth in LLCs among the nation's 15 million companies organized as sole proprietorship.

Entrepreneurs have two concerns: limited liability and fair taxation, Carpenter says. Until recently, the best way to achieve those goals was to organize a business as a Subchapter S Corporation.

There seems to be a daily update in the area of LLCs. Journals, magazines and even talk shows have discussed the advantages of the LLCs, LLPs, and other Concepts of organizational structures.

RESEARCH METHODOLOGY

The determination and selection of the method of data gathering which would best serve this research effort resulted from a consideration of several factors such as: (1) the groups to be sampled, (2) time and effort needed to contact these persons, (3) availability of nonresident participants, and (4) travel necessary to cover several geographical areas.

The most expedient method of making contact with sample group was telephonically and to attend community related activities, such as Lions Club, Rotary Club, Chamber of Commerce Meetings, city, county, and state small business seminars, conferences, and meetings. Listings from the local Small Business Development Centers were another source of critical information. Members of SCORE Chapters were also instrumental in assisting with obtaining sample population and encouraging participation.

All sample groups were randomly selected by the researcher according to professional identity (physicians, dentist lawyers, accountants, etc.). No sub percentage of male, female, minority, or majority were designated or selected. Administrators and practicing professionals were included in the number of individuals in the sample groups. Interviews with the small group of foreign administrators and practitioners had to be limited to the time they were available.

This included a group from India, special guest of the Trenton Rotary Club and another group from Germany who were attending several business seminars in the United States. Each group was interested in obtaining information on the inner workings of small, medium and large businesses in the United States. They, therefore had many questions about the study.

Interviews with the foreign groups did not follow an established pattern due to the number of questions being asked by them. Much of the valuable information obtained came about as a result of their comments on a situation or situations that exist in their businesses. Ideas or new techniques for success in business were first in their minds.

An abbreviated research (a list of 6 items) instrument was designed for use when interviewing the American sample groups. This instrument was shortened for use telephonically, as well as in person, when possible, to enhance participation. All of the American sample groups were asked the same questions. They were not asked to elaborate on the questions, but were not discouraged if they decided to do so. A copy of the questionnaire is attached at Appendix: A. Since LLCs are growing so rapidly, it was decided that a combination, "Thank You Letter and request for future participation should be forwarded to the sample group. A copy of this letter is attached at Appendix B.

The following chart is a breakdown by, sample group of participants in this study:

N=802

Industry	Number of Participants	% Of LLCs
Physicians	76	15
Dentist	52	6
Accountants	38	15
Lawyers	121	32
Manufacuring	60	57
Construction	85	61
Service	142	64
Retail	164	58
Other	64	32

FINDINGS

Only 18 years after the inception of the Limited Liability Company a noticeable impact has been made on small businesses. A broader culture has resulted and in the process many owners have changed from the Subchapter S Corporation to the LLC. Missions have been changed and are more clarified in the form of an entity which entrepreneurs and managers sincerely believe can be shaped by their concerted efforts. From a development perspective, the program has achieved its primary objective -improving the success rate of small business, and quality of life for owners, managers, and entrepreneurs.

Changes in laws and regulations have also enhanced the success of LLCs from a statistical point of view as seen above. Forty-seven states and the District of Columbia recognize the formation of a Limited Liability Company.

Each state legislature has its own set of laws and regulations that govern the taxation of domestic and foreign LLCs. They allow the LLC to combine the corporate advantage of limited personal liability with the pass-through tax advantage of partnerships. This combination provides a district alternative to general and limited partnerships and corporations. Other attractive qualities of the LLC include the lack of limitations on citizenship requirements, stock, number of members, and ownership by other entities.

There were additional findings in this research. The professional industries of medicine, dentistry law, and accounting have shown a marked increase in participation over the past two years. This can be attributed to the fact these professions have been granted the privilege of continuing the cash method of accounting, and have received some relief in the area of liability. This has been an important factor for them and resulted in a reduction in cost of insurance.

Retail, Service, Manufacturing, and Construction all have a high level of participation. Their numbers are increasing each year. Some of them so rapidly, that it is expected by the year 2000, ninety percent of the small and medium size businesses in these industries will be formed as LLCs. Large firms are also looking into the possibility Of realignment as a LLC. Their, large businesses, desire is to create a firm that has a tax advantage over the present system which went into effect with the adoption of the Tax Reform Act of 1986.

Most of the individuals participating in this research had been in business less than four) years. This possibly contributes to the large number of LLCs. Most owners, managers, and entrepreneurs feel the LLC is best suited for the newly formed or forming company. It is also the consent of individuals at the state level-the enactment of LLC legislation was geared toward newly formed companies.

There are still some drawbacks to the LLC, especially, in the area of the vast amount of administrative requirement. This makes the formation rather complex, and in some instances more expensive than the Subchapter S Corporation or S Corporation as it is refered to. The formality of an LLC contributes to the expenses incurred. Articles have to be filed with the Secretary of State resulting in a filing fee for each document.

DISCUSSION

The liability and tax advantages offered by the LLC over regular partnership have dictated the formation of many new firms. The protection of personal property is an important issue to the new entrepreneur. The ease of operation as the firm matures is another deciding factor. These two are considered valuable assets to owners and managers.

There are still a number of issues relating to LLCs that must be settled by IRS. It is anticipated that decisions will be made pertaining to management status in the very near future. Also, each state establishes its own laws in conjunction with the laws of other states. This creates problems for interstate activities when trying to decide what or whose laws are applicable. Legal assistance is not always available for obtaining ruling on these issues.

The idea of active management is bringing more into the fold. Major firms are envisioning themselves as LLCs with all of the advantages of the small and medium size businesses.

CONCLUSION/RECOMMENDATION

Limited Liability Companies are the organizations of the present and the future. Internal Revenue Service and other Federal Government Agencies are going to make demons to encourage more small and medium firms to organize as LLCs. These decisions will result in enactment of laws that will make it easier and more uniform for the LLCs. Interstate and intrastate activities will be simplified for firms engaged in one or both.

It is very important that entrepreneurs in all industries be encouraged to participate in the formation of businesses as LLCs.
Recommend a further study be accomplished concentrating on the laws and conformity of each for interstate transaction specifically.

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Computer Training and Appropriate Allocation: A Message to Small Businesses

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ABSTRACT

Computers have become an integral part of small business management in the past decade. This study examined the influence of computer resources and training upon job satisfaction. Findings from an employee survey indicated that job satisfaction is positively related to a number of computer resource and training factors. Workers perceived having involvement into hardware and software decisions and technical support were related to job satisfaction. Other positive factors that were related to job satisfaction were ongoing technical support and computer training. The results of this research are invaluable to small business owners in improved decisions regarding proper computer allocation and necessary resources for training. Also, small businesses should provide initial and continuous technical support for employees. Owners should consider on site training and allow employee involvement in technical decision making.

INTRODUCTION

In the past decade research has been conducted to determine factors which allowed small businesses to effectively implement management information systems. The importance of computer education and training is widely recognized, both in the literature and in business. A positive relationship between training and worker productivity is generally assumed, However, productivity is only one measure of the value of an employee to the organization. Job satisfaction is also generally assumed to be positively related to a worker's value to his employer. An employee who is satisfied with his job may remain with his employer for a longer time which reduces the employer's costs of hiring and training new employees. That same employee will probably have a lower absentee rate which will probably increase the employee's overall value.

A premise of this paper is that computer training, employee efficiency, job satisfaction, and employee value are interrelated. A corollary is that employee programs that increased efficiency but do not increase job satisfaction similarly fail to maximize employee value. Training and education are frequently designed only to teach skills necessary to accomplish tasks. This paper asserts that such training should be redesigned with job satisfaction in mind as well.

The continued emphasis on the small business sector as an integral part of our economy encourages an examination of methods to aid in its efficiency. In the past decade, research has been conducted to determine factors which allowed small businesses to effectively implement computer management information systems. Although efforts have been made in education, government, and the business communities, the need remains for a better understanding of computer implementation in small businesses to help them increase their effectiveness. Factors that contribute to job satisfaction are numerous and varied. Some of the factors widely accepted as important are salary, benefits, job training, and job autonomy. This paper examines the importance of computer utilization and needed support and training and its relationship to employee satisfaction.

REVIEW OF PREVIOUS STUDIES

One study investigated the impact of task assignment and education on end-user satisfaction and concludes that a positive relationship exists. The study discussed the importance of matching tasks to workers. The authors emphasized the importance of computer training designed to meet the particular needs of the employee. In other words, workers should be assigned those tasks for which they possess the requisite sophistication and have received the appropriate training. If workers and tasks are properly matched, the workers perceived more identification with their work and were more motivated and loyal to their employer (Yaverbaum, 1992).

The authors recommend in-house training, as opposed to off-site general education sessions. Their study found that off-site training had two fundamental weaknesses. First, outside training does not permit employees to perceive as much motivation from the job. Second, such training does not allow employees to identify with the tasks they perform. Hence, employees go into off-site training with less motivation to achieve certain learning objectives and return unable to fully apply their newly acquired skills. The paper concluded that on-site computer training that is specially tailored to the needs of individual employees will improve end-user satisfaction (Yaverbaum, 1990).

Nelson's research was based on the premise: "To become more competitive with the rest of the world, organizations need to view employees as assets whose value can be enhanced through education and training." The study found knowledge deficiencies among both information systems (IS) personnel and end-users. IS personnel were deficient in areas such as organizational goals and critical success factors, while end-users lacked necessary skills to use an information system productively (Nelson, 1991). Both groups lacked an understanding of the fit between an organization and its information system. The author recommended that organizations allocate more resources to train employees to become more productive with information technology, rather than concentrate resource allocation to technological research and development.

Two studies investigated the impact of factors other than training and education upon job satisfaction and quality of work life (Igbaria, 1991). One study measured the effect of a high degree of Job involvement to the quality of work life. It concludes that while the relationship is not clear, in general, high levels of job involvement enhanced the positive impact on employees of factors such as autonomy, challenge, and opportunities for recognition. However, those same factors had less impact upon employees with low and moderate levels of job involvement. The beneficial aspects of high job involvement were tempered by the heightened effect of certain negative factors, such as role conflict. While the influence of job involvement on job satisfaction is complex and varied, no clear relationship was found to existed between the two (Igbaria, 1991).

The second study investigated the relationship between the career orientation of MSS employees and job satisfaction. The study found that "employees whose career orientations were compatible with their job setting reported high job satisfaction, high career satisfaction, strong commitment to their organization, and low intentions to leave their organization" [Igbaria, 1991]. Inability to use computer technology effectively will result in frustrating inefficiency or even down-time and, consequently, less job satisfaction between the two groups. (Mirani, 1991) In summary, the studies found a generally positive relationship between high job involvement and quality of work life and career orientation and job satisfaction.

METHODOLOGY

This study seeks to expand upon the prior research into the effect of computer utilization criteria and training upon employee satisfaction. Further, the study quantifies the effects of different factors, such as correct allocation of resources, technical support upon installation, and continuing user support on job satisfaction.

A survey consisting of 55 questions was distributed to 192 employees of a company in Washington, D.C. A 22-page survey instrument was administered to obtain information on job satisfaction in several areas. A 7-point Likert scale was used to accumulate response data for all factors evaluated. Several questions were analyzed from this survey to examine the relationship between computer information criteria and job satisfaction. Job satisfaction was measured by the question: "All in all, I am satisfied with my job." The following
is a demographic profile of the respondents:

Table 2

Profile of Respondents

Criteria	Percent
Amount of Computer Experience	
Under 12 months	1.3%

12-24 months	5.1%
Over 24 months	93.6%
Percentage Workday Using the Computer	
0-10%	2.6%
11-30%	19.9%
31-50%	25.6%
51-70%	26.3%
Over 71%	25.6%
Ethnic Classification	
White	84.6%
Non-White	15.4%
Age	
Under 25	5.8%
25-34	30.1%
35-49	42.3%
Over 50	21.8%
Education	
High school of less	28.2%
College graduate	43.6%
Master's degree or higher	28.2%
Gender	
Male	67.3%
Female	32.7%
Gender/Age Breakdown	
Male: 35 and over	46.8%
Male: Under 35	20.5%
Female: 35 and over	17.3%
Female: Under 35	15.4%

The survey investigated two major job characteristics that contribute to job satisfaction: (1) Introduction to new technology and (2) Training and support. Five areas were analyzed by asking questions relating to the following hypotheses:

Introduction to New Technology

H1a: Appropriate allocation of computer resources is positively related to job satisfaction. (Does the company give the right people and departments computer technology?)

H1b: Employee involvement is positively related to job satisfaction (Does the company consult and listen to the advice of employees?)

H1c: Appropriate selection of hardware and software is positively related to job satisfaction. (Does the company choose the right kinds of hardware and software that employees need to become more productive?)

H1d: Initial technical support is positively related to job satisfaction. (Does the company provide employees the technical support they need to implement computer technology effectively?)

Training and Support

H2a: The amount and quality of computer training are positively related to job satisfaction. (Does the company supply adequate quality training so employees may effectively use computers to work more efficiently?)

142b: Continuing technical support is positively related to job satisfaction (Does the company provide continuing support for computer use?)

Spearman rank correlation was performed to determine the correlation between the independent variables and job satisfaction. Descriptive statistics and correlation coefficients are shown in Table 2.

SUMMARY OF FINDINGS

Employees rated all six criteria as being important with mean scores ranging from 4.3 to 4.7 given a Likert Scale of 1 to 7. A positive relationship was obtained in all six areas and significant at the .05 level. Each of the hypotheses tested were found to be true; namely, the study found positive relationships between all of the different factors and job satisfaction. Of the six hypotheses, the strongest contributor to job satisfaction was employee involvement in computer decisions followed by appropriate selection of proper software and hardware, and, thirdly, initial technical support.

DISCUSSION

The study provided further evidence of the positive impact of employee involvement, computer training, employee involvement and appropriate resources upon employee job satisfaction. Results show the relative
strength of appropriate hardware and software and quantity of computer training which is not surprising. Further, initial technical support and ongoing technical support were found to be important. As most
computer users can attest, the first hours or days with a new computer or application may be very frustrating. However, if the system is well designed and an end-user has effective technical support when the system is implemented, the user can quickly learn basic commands and become familiar with the particular

requirements of the system.

As technology becomes easier to use, the complexity and number of tasks that the user performs increases, thus the user derives satisfaction from being able to efficiently perform his job. On the other hand, if the software is poorly written, or is ill-suited to accomplish the tasks, the user will require frequent technical support for a much longer period of time.

DIRECTION FOR FURTHER RESEARCH

The first additional research that should be undertaken is to replicate this study on employees in small businesses in different industries. A more valid sample would include end-users of varying levels of computer proficiency, working in different companies, and varied industries. Additional questions should be designed to answer the following question:

(1) What is employee computer proficiency?

(2) How much training and support do employees usually require to become proficient in new technology?

(3) How do employees rate the quality of past training? If further research indicates a wide dissatisfaction, then researchers should consider placing more emphasis on learning styles and improve the quality of support.

This instrument could be used to design new curricula or to customize in-house training programs designed to better meet the needs of small businesses.

Table 2
Correlation Coefficients Between Selected
Factors and Job Satisfaction

Criteria	Mean Score	Correlation Coefficient (a)	Probability
INTRODUCTION OF NEW TECHNOLOGY:			
The right personnel are given computer technology	4.76	.1992	.006
Employee involvement	4.36	.2411	.0009
Appropriate selection of software/hardware	4.59	.2106	.0038
Initial technical support	4.69	.2030	.005
COMPUTER TRAINING AND SUPPORT:			

Amount and quality of training for computer technology.	4.31	.1645	.03
Continuing technical support by management	4.48	.1684	.03

(a) Spearman's Rank-Difference Correlation Coefficient ($P < .05$).

CONCLUSION

Research has been conducted to determine factors which allowed small businesses to effectively implement computer management information systems. Small business owners may not always be able to afford computer training in large businesses, since they lack necessary resources. However, this study points out the positive relationship of such training to job satisfaction and employee value.

This research showed that computer training and allocation of computer resources make positive contributions to overall employee job satisfaction.

However, the research further demonstrated that having proper computer resources is important. Perhaps the respondents had an underlying dissatisfaction with the quality of computer training at their workplace. It is possible that their computer expertise was such that training contributed marginally to their performance or job satisfaction. Hypotheses regarding computer resources and computer training were positively related to job satisfaction based on Spearman's rank correlation.

The study found a positive relationship between each of the six hypotheses relating to computer technology, training, or support, and employee job satisfaction. The most surprising result was that employees valued having input into appropriate selection of hardware and software. However, continued training and support were also related to job satisfaction. These findings are important in light of computer technology and increasing need for efficiency.

In a world which depends upon a high degree of efficiency, computer knowledge and applications appear necessary for small business to remain competitive in domestic as well as global markets. Small businesses may not always be able to afford the training and computer personnel as do large businesses, since they may lack necessary resources. However, results of this research reveal the importance of employee participation in computer decisions. Small business owners should heed this information and provide a vehicle for such participation. Although the computer training may be expensive, such vehicles to secure low cost training are available. Small Business Development Centers (SBDCs) and university continuing education courses should be examined. Finally, faced with limited resources, small business should allow employees involvement in computer decisions which costs virtually nothing and may lead to job satisfaction and increasing the employee's value.

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COMPUTERIZED ACCOUNTING SOFTWARE IN THE 1990'S: A SMALL BUSINESS UPDATE

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ABSTRACT

A telephone survey was conducted concerning the changes in computerized accounting software between 1990 and 1994. The original survey included 123 small businesses with 30 employeesor less from the Cincinnati SMSA. This survey was repeated and expanded to 331 respondents in 1994.

This paper examines general computer characteristics, training requirements and software satisfaction during the 1990s. Analysis of SBI versus non-SBI and female- versus male-owned are also included. Trimmed means are used for most summary statistics so only major differences are discussed in this paper.

INTRODUCTION

In the 1980s only slightly more than half of small businesses owned or planned to own a personal computer within the next three years [Runndgren]. The first software purchased was invariably an accounting package.
Unfortunately, it was inadequately analyzed and frequently abandoned after the user's initial failure to implement [Seymour].

The emergence of powerful personal computers is changing the way small businesses do accounting. Even mom-and-pop shops are discarding their paper-based systems for accounting software packages [Zarowin]. The real revolution in accounting software stems from innovations in low-end packages. Accounting software is catching up with spreadsheet and word processing sophistication. The new user friendly packages overcome record keeping phobias and benefit even very small businesses [Ames & Houston].

In 1990 a sample of 123 small businesses (30 employees or less) from the Cincinnati SMSA were surveyed to determine the status of their computerized accounting software [Broida & Flora]. In 1994 that sample was duplicated as far as possible and expanded to a total of 331 small businesses. The following study examines the changes in accounting software for SBI versus non-SBI businesses and female versus male companies during that period.

SAMPLE AND INTERVIEWS

The sample consisted of 331 usable responses including 89 SBI clients of Miami University, University of Dayton, University of Cincinnati, and Xavier University. The balance of the small businesses was randomly selected from a directory prepared by the Cincinnati Chamber of Commerce and from Ohio Women Business Leaders published by the Ohio Department of Development in 1990. Of the 118 women-owned companies 70 were derived from the Ohio Women Business Leaders directory. Sixteen of the women-owned companies had participated as SBI clients.

Interviews were conducted by telephone, and information was entered into a data base. All 89 SBI clients contacted participated in the survey, but 24 additional former SBI clients could not be located. Their phones were disconnected, and they are believed to have closed their doors. It is worth noting that some of their phone numbers were ten or more years old, but most were clients from 1986-1989. With the additional non-SBI companies, 19 of those selected chose not to respond.

The SBI clients were geographically located in several Ohio metropolitan areas of a Cincinnati, Dayton, Middletown, and Hamilton. Some of the 70 women owners from the Ohio Department of Development directory were located in Columbus, Cleveland, Akron, and Toledo. Judgment alone was used to determine that the absence of geographical cohesiveness would not negatively impact the status of computerization and computerized accounting systems. The balance of the companies was selected from the Cincinnati Chamber of Commerce directory. If a company randomly selected had grown to over 30 employees between the publication of the directory and the interview, it was not included in the statistical tabulations.

The same companies were contacted again in late 1994, and the questionnaire was re administered. In most cases the business owner was the interviewee. Occasionally the owner delegated the job to a high-level employee with the accounting responsibilities for the firm. About a dozen firms could not be located, but all those contacted did cooperate.

PURPOSE OF THE STUDY

The purpose of the original 1990 study was to examine the status of small businesses with regard to computerization and computerized accounting software. Small business owners were asked how recently the firm had purchased computers and how recently it had acquired accounting software. Also they were questioned about accounting functions employed and how the current accounting package was selected. Length of training needed to become "proficient" on the accounting package and satisfaction of the recipient were also surveyed.

Demographic and classification type information such as industry type of the company, the type of business, the number of " office" personnel needed to run the company, and the total number of people employed (full time equivalent) was also collected. The original survey requested the latest year's sales level. Owners' reluctance to share this information led to dropping this question.

STATISTICAL METHODOLOGY

The information obtained was sorted and studied in a variety of ways. Clients and non-SBI clients were compared. Male versus female owned companies were also examined with respect to a number of variables. In some cases, the regular mean was reported. In other cases, trimmed means were calculated by discarding the highest and lowest 10% of the observations in the data set. Although the use of trimmed means reduced distortions, they may have increased statistical significance. For that reason only major differences were discussed in this paper.

The data collected by interview was:
1a. do you have a computer used in your business (1990)
1b. number of computers the company used in 1994
2. Age and technology of newest computer
3. number of employees 1990 and 1994 (full time equivalent)
4. number of office workers 1990 and 1994 (full time equivalent)
5. name of current accounting package (if any, if known)
6. cost of current computerized accounting package
7. age of current accounting software
8. specific accounting functions used
9. satisfaction score (0 = low, 100 = high) assigned to the accounting software currently in use
10. number of days of training required to properly use the accounting software

SBI VERSUS NON-SBI COMPANIES

The analysis generally shows that SBI firms and non-SBI firms are very similar in profile with regard to the selected areas of analysis, and this similarity includes changes from 1990 to 1994. The non-SBI companies interviewed were about 50% larger in terms of total employment in 1990, and both groups increased employment at similar rates (33% SBI versus 40% non-SBI), As also seen in Table 1, the non-SBI firms had one more office employee in 1990 (3.9 average versus 2.9 average). By 1994 both groups had shed about .5 office employee. The number of accounting functions used by both groups in both 1990 and 1994 were between 5 and 6, and all the differences are not significant. The non-SBI companies had 3.4 computers in the workplace by 1994, while the SBI companies had a lower 2.2. However, this difference was entirely accounted for by the difference in size of the firms. In terms of computers per office worker, the SBI firms had 0.9 and the non-SBI office workers had 1.0 computers. This is not statistically significant estimated at the 95% level.

TABLE 1
Employment & Computer Characteristics SBI versus Non-SBI

	SBI	Non-SBI
# of Companies	89.0	242.0
Total Employment 1990*	10.2	15.2
Total Employment 1994*	13.6	21.3
# Office Workers 1990*	2.8	3.9
# Office Workers 1994*	2.4	3.4
# Acct Functions Used 1990	5.6	5.9
# Acct Functions Used 1994	5.5	5.3
# Computers 1994	2.2	3.4
# Computers/Office Worker 1994	0.9	1.0

* trimmed means

In terms of training, in November, 1990 the SBI companies reported a slightly higher
companies. This difference is significant only at the 90% level. However, by 1994 bo
levels, 10.7 days for the non-SBI companies and 10.1 for the SBI firms. Table 2 show
their accounting software in 1994 as they did in 1990. The SBI firms had a noticeabl
accounting package in 1990 and a lower $1320 in 1994. It is speculated that part of
size of the SBI companies tends itself to less costly software needs. For example, Q
are quite suitable to smaller firms but may not be selected by larger companies.

TABLE 2

Accounting Training & Dollars for

Accounting System SBI versus Non-SBI

	SBI	Non-SBI
# of Companies	89.0	242.0
Days Acct Training 1990*	20.7	16.2
Days Acct Training 1994*	10.1	10.7
$ Paid Acct System 1990*	2199.0	1813.0
$ Paid Acct System 1994*	1320.0	1739.0

* trimmed means

Table 3 shows that both groups have had their newest computer for slightly over 2 years on average. SBI companies have had their accounting software a reported 3.9 years versus 4.7 years for non-SBI companies. This difference is not statistically significant. The satisfaction grade given to the software, which represents the actual efficiency of the software relative to expectations of the purchaser, are all in the mid seventies for both 1990 and 1994 for both groups. On a minor note, 42.2% of the non-SBI companies were women-owned relative to

17.6% of the SBI companies. This difference is mainly due to the researchers' deliberate inclusion of
additional women owners into the sample. None of the additional women owners reported themselves as SBI clients.

TABLE 3
Age of Systems & Satisfaction with
Accounting System SBI Versus Non-SBI

	SBI	Non-SBI
# of Companies	89.0	242.0
Yrs. Since Purchased Newest Computer	2.1	2.4
Yrs. Since Purchased Last Acctg. Pkg	3.9	4.7
Satisfaction Score 1990 (0=useless 100=perfect)	72.4	74.2
Satisfaction Score 1994 (0=Useless 100=Perfect)	77.0	75.8
% SBI Clients		
% Female Owned	17.6	42.2

FEMALE- VERSUS MALE-OWNED COMPANIES

With regard to total employment, both men- and women-owned companies were similar in size in 1990 (12.8 employees was the average for women owners and 14.9 for men). However, in 1994 the women owners remained at a similar level (I 1.5 employees average) while the male owners had grown by about 50% to 22.5 employees average. This growth is statistically significant. In terms of office employees, women owners employed an average of 2.8 persons in 1990 and a similar 2.7 persons in 1994. The male owners remained somewhat constant with 4.7 persons average in 1990 and a similar 4.2 persons in 1994. However, the differences between men and women is significant only at the 90% level with women having fewer office employees. This could indicate that women owners were more office efficient, but the difference may be explainable by the different mix as to type of industry. Table 4 also shows that men and women used similar numbers of accounting functions in 1990 and 1994, they had similar numbers of computers in 1994 (three plus), and there was no significant difference in the number of computers per office worker (1.1 for women owned companies and .8 for men owned companies).

TABLE 4
Employment & Computer Characteristics
Female Versus Male Owners

	Female	Male
# of Companies	118.0	213.0
Total Employment 1990*	12.8	14.9
Total Employment 1994*	11.5	22.5

# Office Workers 1990*	2.8	4.7
# Office Workrs 1994*	2.7	4.2
# Acctg Functions Used 1990	6.2	5.6
# Acctg Functions Used 1994	5.0	5.5
# Computers 1994	3.1	3.3
# Computers/ Office Worker	1.1	0.8

* trimmed means

Table 5 shows another interesting difference. Men and women owners had similar training schedules in 1990 for accounting software. Women owners reported 17.6 days/person and men an insignificantly lower 14.2 days of training per employee. However, male companies remained at a similar level by 1994 (IL 3 days) while the women owners reported a lowering of training requirement to 8.8 days, about half of what was measured in 1990. This decrease is statistically significant. In terms of cost of accounting software, both groups are very similar in 1990 and both report similar but not significant decrease in accounting software costs in 1994. The average cost was in the mid $1900 in 1990 and between $1250 and $1700 by 1994.

TABLE 5
Accounting Training & Dollars for
Accounting System
Female versus Male Owners

	Female	Male
# of Companies	118.0	213.0
Days Acct Training 1990*	17.6	14.2
Days Acct Training 1994*	8.8	11.3
$ Paid Acct System 1990*	1951.0	1974.0
$Paid Acct System 1994*	1511.0	1685.0

*trimmed means

Women reported their newest computer at 2 years old and the men indicated a similar 2.4 years. The men and women both reported the age of the accounting package averaging over 4 years. Both groups reported their satisfaction with their current accounting package in the low to mid 70's for both 1990 and 1994. On a minor note, 13.3% of the women owners were former SBI clients as contrasted to 34.2% of the men owners.

TABLE 6
Age of Systems & Satisfaction with
Accounting Software
Female Versus Male Owners

	Female	Male
# of Companies	118.0	213.0
Yrs Since Purchased Newest Computer	2.0	2.4
Yrs Since Purchased Last Acctg pkg	4.1	4.6
Satisfaction score 1990 (0=Useless 100=Perfect)	71.8	74.8

Satisfaction Score 1994 (0=Useless; 100=Perfect)		
% SBI Clients	74.8	76.7
% Female Owned	13.3	34.2

SUMMARY AND CONCLUSIONS

SBI firms and non-SBI firms retain similar profiles for many aspects of their accounting functions. Employee patterns, office computing, and accounting functions show no significant differences. Furthermore, both groups tend toward low cost software with the SBI group leaning toward additional training.

In terms of gender, male-owned companies grew about 50% faster than female-owned companies in terms of total employment. Also, female-owned businesses decreased accounting training significantly relative to male-owned companies during the period of study. Both of these changes are attributed to males greater concentration of manufacturing firms which we believe have a greater employee growth potential and have more complex accounting software packages.

Trimmed means were used for most summary statistics. Although the use of trimmed means reduced distortions they may have increased statistical significance. For that reason only major differences were discussed in this paper.

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SMALL BUSINESS ADVERTISING:"RADIO GETS RESULTS" - - - OR DOES IT?

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ABSTRACT

Small businesses must get their message to consumers. A major medium is radio. Radio as an industry has built an advertising theme around the concept of "Radio Gets Results." This paper examines the penetration of radio in an upper Midwest market of approximately 100,000.

The results of a benchmark survey reveals that radio might be overrated as an advertising media. Or, in the alternative, the extent to which radio gets results must be weighed in light of other media with greater penetration.

INTRODUCTION

A small businessperson must inform potential consumers of the availability of the product the small business is placing on the market. An ongoing decision which constantly vexes the small businessperson is how and where should advertising campaigns be implemented. A common medium is radio.

Most astute observers of advertising recognize the potential influence of radio as a mechanism for reaching the public with messages. General agreement exists that radio continues to be a medium of choice for many businesses, especially small businesses. Rates for radio advertising traditionally have been much cheaper than rates for television. This phenomenon, however, is changing with the influence of cable and satellite TV operations offering a multitude of channels (Eisenhart, 1990).

One of the more interesting and compelling findings from the research is data which would refute an argument that "Radio Gets Results." In fact, it appears it would take a lot of radio on many different stations to get results in a broad segment of the population.

OBJECTIVES

This paper is a preliminary investigation of the "Radio Gets Results" assertion by the radio media industry. Secondly the project analyzed the extent of individual radio station penetration in a representative market.

The study was undertaken in part to equip small businesses with data upon which

to base media purchasing decisions. The ultimate intent of the study was to ascertain the extent of various media penetration and effectiveness of various media. The study was designed to not only determine penetration and effectiveness but
also to establish benchmarks by which media consumers preferred to have various advertising messages presented to them.

The investigators reasoned that if small business owners could have reliable data which presented them with various media purchasing options, advertising purchasing decisions could be made through reasoned analysis of empirical data rather than by gut instinct.

The investigators, working on the premise that media research data would be of great interest to small business owners, wished to equip even the smallest of businesses with limited funds for media research with data which would generally address the basic issue of where a small business owner will get the biggest bang for their advertising dollar.

REVIEW OF THE LITERATURE

The review of the literature reveals that advertising is obviously considered an integral portion of any successful small business. The importance of advertising may even be more magnified due to the prorata share of money invested in advertising in the total expenditures for small business (Eckert, 1993).

Much information was available about the multitude of media available to advertisers. Inherent in the many and varied media was the difficulty of deciding which would be the media of choice for advertisers. Also, much information was available about the two-fold problems of segmentation not only in the choice of media but also within a medium once chosen (Bovee, Thill, Dovel, & Wood, 1995).

Among the information available about advertising relating to small business was the ease in which advertising messages can be lost in the clutter of media. However, little information is directly on point about the dilemma of radio advertising for small business.

General information about the pros and cons of radio advertising are well documented in various sources. References to radio formats, target audiences, and the ease of last minute changes to advertisements arise throughout relevant articles. Downsides to radio advertising generally include expense, difficulty of actually
targeting the audience, and the widespread use of radio as "background" leave many unfocused listeners (Eisenhart, 1990).

The importance of media mix is articulated throughout the literature usually dealing with balance among media advertising outlets and tailoring the media mix.

Experts have developed lists of tailoring the mix by including such factors as cost per thousand, total cost, length of message, completeness of message, life of message, degree of follow-up needed, targetability, dispersion, penetration, demographic match, psychographic match, and the like. The audience, and the widespread use of radio as "background" leave many unfocused listeners (Eisenhart, 1990).

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RESEARCH DESIGN

A telephone survey instrument was designed to probe respondents' media consumption habits. The instrument was designed to track, among other information, broadcast media consumption in fifteen minute intervals throughout the day.

A systematic random sample by eligible zip code of the population of two counties in which two adjacent Midwestern cities are located was drawn. The sample was confined to residential telephones in operation at the time of the sampling.

The interviews were conducted in seven blocks of two hundred interviews (one block for each day of the week). Two hundred interviews were deemed the minimum number of interviews for each day to give a rough estimate within error tolerances which would not exceed double digit percentages.

The interviews were completed during a typical day of broadcasting carefully avoiding special telecasts or events during the programming day. Therefore, the fourteen hundred interviews (two hundred for each day of the week) were not conducted in one calendar week. The intent was to avoid any sort of heightened interest
program or time slot which would improperly reflect listening/viewing choices.

Interviewers probed respondents with questions concerning immediate broadcast consumption during the day in which the respondent was contacted. Questions such as, "What radio station or stations did you listen to this morning?" were asked. Upon receipt of a response from the respondent, the interviewer then probed for specificity concerning station and time the medium was consumed. The same process was completed for afternoon and evening media consumption.

The overriding desire for implementing a telephone survey rather than a mailout "diary" format is the oft mentioned concern about respondent recall. It has been posited that as one completes a diary asking for specific information about events which may be a week past or in many cases even longer the accuracy of the recall may be at best in question and at worst be totally fabricated.

The research team ultimately interviewed fourteen hundred individuals. An eligible respondent was anyone age twelve and older (coincidental with Arbitron and Nielson reporting formats). The format for demographics was expanded beyond only age and gender considerations which are regularly used and reported by national
broadcast media researchers such as Arbitron.

Additional demographic data including employment, income, residential status (own or rent), and education were gathered. The reason for gathering data beyond age and gender information was simply to be able to supply the small business owner with a great deal more information about potential media consumers who might
ripen into a customer sometime in the future.

Respondents were asked a battery of questions concerning media consumption issues such as:

-Radio listenership frequency
-TV viewership frequency
-Radio listenership choice throughout the day
-TV viewership choice throughout the day

SURVEY FINDINGS

The most interesting results centered on broadcast penetration. As expected TV generally commanded the vast plurality of the population in the early evening and beyond until after the time usually set aside for the late local news (10:00-10:30pm). Radio was the medium of choice (by a small plurality) in the morning and the time generally referred to as "drive time." (Appendix A.)

However, the most revealing result was the aggregate of the population consuming radio throughout the day. When asked "What radio station(s) did you listen to today?" the radio listenership varied from a maximum of 25.3% of the population at 8:00 am to a minimum of 1.7% after midnight until 6:00 am.

The importance of these findings must be considered in light of the fact that the results are the sum of all listeners on all stations on the dial for the respective time intervals. Therefore, one may conclude from the sample that the greatest number of listeners, thus potential customers, one could reach through purchasing advertising time on all stations would be 25.3%. In short, only one in four people could be reached through the medium of radio during the time of its greatest penetration on all stations on the dial. Evidence of radio listenership is shown in the following table. The table shows the average (all seven days of a representative week) percent of all population listening to any radio station at intervals throughout the day.

Average total radio listenership to all radio stations by half- hour interval:

Radio

AM	12:-6:00	1.7%		
	6:00	7.5%	6:30	11.7%
	7:00	21.2%	7:30	25.3%
	8:00	21.0%	8:30	16.7%
	9:00	15.0%	9:30	14.3%
	10:00	14.4%	10:30	14.1%
	11:00	13.0%	11:30	13.0%
PM				
	12:00	14.9%	12:30	13.3%
	1:00	12.8%	1:30	12.4%
	2:00	12.8%	2:30	12.3%
	3:00	12.4%	3:30	13.3%
	4:00	11.9%	4:30	11.3%
	5:00	10.2%	5:30	8.0%
	6:00	5.5%	6:30	4.9%
	7:00	4.9%	7:30	4.9%
	8:00	6.2%	8:30	6.5%
	9:00	5.8%	9:30	5.6%
	10:00	4.4%	10:30	4.7%
	11:00	3.6%	11:30	3.2%

The radio listenership penetration should be compared with TV viewership penetration for a preliminary investigation of the "Radio Gets Results" assertion. Average (all seven days of a representative week) percent of all population listening to any television station at intervals throughout the day:

TV

AM	12:-6:00	0.5%		
	6:00	2.5%	6:30	2.0%
	7:00	8.5%	7:30	7.5%
	8:00	7.0%	8:30	5.5%
	9:00	4.5%	9:30	4.5%
	10:00	6.5%	10:30	7.5%
	11:00	7.5%	11:30	7.0%
PM				
	12:00	10.0%	12:30	9.5%
	1:00	6.0%	1:30	6.0%
	2:00	7.0%	2:30	7.0%
	3:00	11.0%	3:30	12.0%
	4:00	9.0%	4:30	12.0%
	5:00	17.0%	5:30	22.5%
	6:00	31.0%	6:30	30.0%
	7:00	40.5%	7:30	41.0%
	8:00	36.0%	8:30	32.5%
	9:00	24.5%	9:30	23.0%

10:00	21.00%	10:30	8.5%
11:00	4.0%	11:30	2.5%

The tables above indicate the percentage of the total population which is tuned to radio and television respectively throughout the day. The comparative data show significantly more consumption of television than radio in total. While aggregate radio consumption exceeds that of television until 3:30 pm, one must take into account audience fragmentation which in many cases translates into a higher cost per thousand during the diminished consumption hours before 3:30 pm.

The chart which indicates aggregate consumption of broadcast media for this market does not reflect the number of channels and stations broadcasting. Fragmentation even in the smallest of markets is quite pervasive due to cable and satellite technology for TV. As for radio, fragmentation has been a factor almost since the advent of radio. Radio may be as, if not more, fragmentized than TV thus resulting in very small followings on a station-by-station basis.

ADDITIONAL SURVEY INFORMATION

Other information obtained in the survey dealt with respondent selection of specific media outlets in the market universe. Respondents were asked which specific outlet they watched/listened. That additional information was used to give small businesses the opportunity to determine which outlet would be the best vehicle for their message(s).

The respondent information was then coupled with demographic data for the entire population and matched with the appropriate media outlet with greatest penetration into the subpopulation(s) served by respective media outlets.

Equipping a small business owner with data other than age and gender information is very important to empower that small businessperson to more accurately craft a message targeted at his/her clientele. Additionally, the demographic information beyond age and gender would enable that small business owner to attract and grow a customer based on economic and/or educational background.

IMPLICATIONS

The major implication from this study is the now documented (at least in this market) skepticism one should attach to the overall effectiveness of placing a general advertising campaign on radio. While one should understand any advertising campaign should have multiple media components, this study should give one pause as to the effectiveness of messages placed in this particular media.

A realistic view of the usefulness of radio to a small business advertiser should include an in-depth analysis of this medium in the local market. As a small business person allocates scarce resources in a business (especially an expenditure in the business as abstract as advertising can be) (s)he should be aware that radio may be overrated, thus an expensive alternative in a cost per unit context of a desired message actually getting to potential customers.

SUMMARY

This preliminary investigation of the "Radio Gets Results" assertion by the radio media industry seems to indicate that while radio may get results, the anticipated results should be realistic. The small business should not be overly optimistic about using radio as the only medium or as the primary medium for an advertising campaign.

The study determined penetration and effectiveness of radio to be somewhat less than what would be expected from only anecdotal sources. The established benchmark from this study indicated that the extent of an advertising message transmitted through the medium of radio appears to be overrated for small businesses or any business for that matter.

The upshot of this preliminary research reflects that advertising rates may initially look attractive when compared to other media such as TV or newspaper. However, the results of this study cast doubt about the value of those rates when calculated on a cost per unit basis. In short, the cost per thousand may be, in fact, much higher for radio than for other media. The small business should be prepared to look closely and carefully at overall value when using radio as an advertising source.

EPILOGUE

The data, albeit first blush and somewhat restricted in its inquiry, appear to demand further questioning of the public beyond the current ratings now available in the commercial market (Arbitron, Nielson, etc.). Additionally the rudimentary data also point to the need for additional research in the actual penetration for all broadcast media. Not until purchasers of advertising, especially the small business, have an accurate and realistic understanding of the ability or inability of media sources to deliver their message will they have a mechanism to make an informed media purchasing decision.

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RESEARCH-GENERATED, LOW-COST, IN-STORE, RETAILING STRATEGIES

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ABSTRACT

Small retailers can manipulate cognitive and affective consumer processes to increase sales. Recent research is categorized according to two general models. Results from two quasi-experiments are reported which demonstrate a low-cost way to increase sales of an impulse product.

INTRODUCTION

Hunt (1991) claims that the accusation made by business practitioners that academic scholarship is "just" theory is not a valid one: theory and practice are related because theories explain and predict phenomena (practice). Weinrauch, Mann, Robinson, and Pharr (1991) stated that a broadening topic of research is "enhancement of marketing practices within small business firm," one focus being on the experiences of small business owners under tight financial constraints. Weinrauch et al. (1991) report that some business owners have difficulty finding marketing strategies that are both affordable and suitable to their businesses. Weinrauch et al's principal components analysis determined that problems related to cash flow, marketing expertise, and customer-related problems of a tactical nature (e.g., buying advertising time) were among the five major problem areas for small retailers or service firms. Weinrauch et al. (1991) conclude by saying "the future interface between marketing cost and specific marketing problem areas must come to fruition." Likewise, Gaskill, Wickett, and Kim's (1994) factor analysis determined that competitive and promotional strategies (such as visual merchandising) were a significant need for small business apparel and accessory retailers in business five years or less.

The purpose of this article, then, is to help satisfy the need of small businesses, particularly small retail businesses, for low-cost marketing strategies. Gruben and Gresham (1994), among others, remind us that small retailers play a significant role in the U.S. economy. Small businesses employ nine out of every ten workers, while retailers employ one out of every six workers. Gaskill et al. (1994) remind us that 50% to 80% of small businesses fail within the first five years. Therefore, enhancing the competitiveness of small retail businesses via low-cost strategies seems a task worthy of effort.

Weinrauch (1987) defines low-cost strategies as those which "cost little in terms of actual dollars spent, consist of a very small percentage of the total budget, or cost-effectively enhance total revenue." Dreze, Hoch, and Purk (1994) define in-store strategies as tactics the retailer uses "to extract more surplus from consumers once they are in the store." Retailers can increase profits by decreasing costs or increasing sales. Cost reduction strategies tend to be operational in nature. Sales increase strategies, on the other hand, tend to be market-oriented and consist of out-of-store or in-store tactics. Because it is assumed that out-of-store tactics cost more and are less controllable for small retailers, this article focuses on in-store tactics (and only on low- cost ones). It is also assumed that most consumers in small retail stores are low-involved; i.e., they may lack the ability but more likely the motivation and the appropriate context (e.g., they are in a hurry) to do issue relevant thinking in the store (cf. Petty, Cacioppo, and Schumann's Elaboration-Likelihood model, 1983). For example, Hoyer (1984) found that even in supermarkets consumers generally made choices quickly after minimal search, and Dickson and Sawyer (1990) found that consumers made choices after without spending much time comparing prices.

But that does not mean all consumers are low involved. Many are high involved (e.g., when they are comparing works art in small gallery, or comparing apparel or accessories in a small clothing store). Regardless, the retail store environment plays a significant role in determining a consumer's emotional state which in turn influences a consumer's approach or avoidance response to a product category (cf. Donovan and Rossiter's Mehrabian-Russell model, 1982). It also must be stated that regardless of a consumer's ability to process, consumers must first perceive that the product is in the store.

Therefore, this article will focus on ways to arouse the consumer's attention (i.e., make it easier for the consumer to receive information) and increase the consumer's attentiveness in order to increase product sales. Such strategies would be appropriate no matter how involving the products or consumers are.

LOW-COST COGNITIVE TACTICS TO AROUSE CUSTOMER ATTENTION

A primary concern of retailers is how to make consumers aware of products (Dreze et al., 1994). One low-cost strategy involves shelf management (sometimes called "micromerchandising"). Shelf management can consist of (i) space-to-movement strategies (i.e., allocating shelf space in proportion to market share of individual brands) and shelf reorganization strategies. Because small retailers cannot afford to carry a wide assortment of brands due to inventory costs, a low-cost space-to-movement strategy would be to stock only the most popular brands.

Shelf reorganization strategies can be broken down into temporary display strategies and permanent display strategies. Temporary displays have the greatest potential for attracting attention (assuming the same shoppers frequent the store) because by their very nature temporary displays are novel. Permanent displays can attract attention by altering the location of the product within the display area (also called facing), altering what the product is adjacent to (e.g., moving it closer to a complementary product could increase its sales as well as those of its complement, while moving it farther away from substitute products could reduce comparisons of it or the substitute product, depending on which product was in the higher traffic location within the store), and manipulating aesthetic elements such as color, size, and signage.

Obviously, arousing the consumer's attention is particularly important for reminder or impulse purchases. A retailer can increase the sales of such products (e.g., cigarettes) by placing the highest share brands in the most visible locations (Stern, 1962). For high involved consumers, a distinction must be made between thinking (e.g., houses, computers, sedans, etc.) and feeling (e.g, motorcycles, art, fur coats, etc.) products (cf. Vaughn 1986). Directing a consumer's attention to a list of attributes logically-arranged seems more appropriate for high involved (i.e., products which consumers have the ability and motivation to process information about), thinking products. For high involved, feeling products, making test drives and other "trial" experiences seems more appropriate (cf. Smith and Swinyard, 1982).

Finally, if retailers are competing with competitors on price, it has been found (at least on an advertising circular) that retailers can create a lower price image if advertised (and presumably) posted in-store prices are presented as reductions from previous prices. As it turns out, consumers do not remember prices as well as they think they do and need to be reminded of a reference price (see Cox and Cox, 1990). In addition, it has been found that socioeconomic status plays a role (Wakefield and Mann, 1993): consumers with more income tend to be less price sensitive because (it is theorized) search costs outweigh the benefit of price comparisons; therefore, depending on the small retailer's clientele, it may be more beneficial to give reference prices in the store.

LOW COST AFFECTIVE TACTICS TO AVOID AVOIDANCE RESPONSES

A second concern of retailers is how to keep consumers in the store or at least how to keep them from avoiding certain areas of the store. One low-cost strategy is to establish or maintain a pleasant store or display environment. Of course the catch is to determine what consumers perceive as a pleasant environment, but chances are it will include such things as warm colors and warm, but well-lighted and wide aisles, no strong aromas and no litter, etc. For example, book sellers have discovered that book consumers browse longer if they can get specialty coffee and wander among overstuffed chairs.

It has been found that pleasantness of the in-store environment is a significant predictor of willingness to spend time in the store, intentions to spend more money in the store, and actually spending more money! However, emotional arousal (though this seems difficult to measure) was found to interact with pleasure such that arousal intensified pleasure in a perceived pleasant store environment but not in a perceived unpleasant store environment. Therefore, adding more vivid colors, e.g., to certain displays makes more sense in a store perceived to be pleasant, but not in a store perceived unpleasant. In any event, cleanliness and a fresh coat of paint appear, if not next to godliness, at least closer to consumers' hearts. Theoretically, the features of the stores environment are related to approach/ avoidance behaviors within the store environment, and these behaviors are mediated by the consumer's emotional states aroused by the store environment (cf. Donovan, Rossiter, Marcoolyn, and Nesdale, 1994).

In addition to color and music, width of product assortment within the store has been found to influence purchase behavior within the store. In particular, it has been found the larger the product assortment, the lower the consumer's brand loyalty and the higher the consumer's sensitivity to promotions. The latter is good news for small retailers, since they are usually unable to offer promotions and large product assortments.

PURPOSE OF STUDY

Because many small retailing stores fail and because small retailing stores are important to the economy (not to mention their owners), it is important to develop low-cost in-store marketing tactics which would increase sales for small retailers. For this reason, a quasi-experiment (see Cook and Campbell 1979) was conducted to test a low-cost strategy of using inexpensive (less than $15.00) on-package promotions to increase awareness; namely, the use of quarter-size (i.e., U.S. $0.25 coin-size), flaming red price stickers on the sale of processed beef (here referred to as beef jerky, though not technically the same) in small core-city and rural retail convenience stores. Whether the red price sticker caused the consumer to think the product was on sale or expensive could not be known; either way it would have aroused the consumer's attention. Therefore, results could be exaggerated (if the price sticker caused the consumer to think the product was on sale and it was not) or minimized (if the price sticker caused the consumer to think the product was too expensive).

If it is true that most items near the check-out counter (such as beef jerky) are not bought because they are homogenous shopping products but because they are impulse convenience products (for definitions, e.g. see Bucklin, 1963); it is assumed beef jerky is a product most consumers will not go into a store to buy but may buy if they see it once in the store. Thus, it was anticipated that ease of perceiving an impulse product would increase product sales. Therefore,

(H1) sales of an impulse convenience product will be higher when it is easier for consumers to perceive the product (i.e., when on-package flaming red stickers are used).

METHOD

A distributor of beef jerky and other convenience items was solicited to gather data for this quasi-experiment. He was paid $10/hour for the extra time he spent attaching stickers and charting and archiving sales data so that product sales could be compared.

Seventy-eight stores were selected by the distributor to receive flaming red price stickers. Price stickers were applied to one type of beef jerky though, on average, five other types were sold. Only one type of beef was individually labeled in order to provide contrast between it and the other types.

Most stores were located in low socioeconomic neighborhoods in the West Michigan region (e.g., in Benton Harbor, Muskegon, Grand Rapids, Holland). Other stores were in poor rural areas between the various cities. Sales figures were also gathered for the five-week period before the five-week treatment period and the identical periods of the preceding year (as a control).

Therefore, the study could be considered an untreated control group design with separate pretest and posttest measures (Cook and Campbell 1979). But a main difference between normal quasi-experiments and this one is that quasi-experiments utilize nonequivalent groups. In this experiment the same stores were compared inter-year (i.e., they were matched).

It is important to note that five-week periods were used and that sales were measured in terms of twenty-four count boxes sold. Since sales were tallied in terms of boxes sold (versus individual items), it was thought that a five week period should be used because five weeks allows adequate time for the "treated" product to be sold and reordered. A longer time period could have increased the variation between "treated" and "untreated" product.

RESULTS

Out of the seventy-eight stores selected by the distributor (virtually all of his accounts for this particular product), sales figures were utilized from only fifty. Some stores were eliminated because they did not purchase a box of the promoted product in July or did not buy one until the fourth or fifth week (which means the variability in the dependent measure would not have been noticed). Other stores were eliminated because they did not buy the promoted product in the June and July periods of the previous year (which means there was no test control). Thirteen stores were eliminated because the appropriate price stickers were misplaced and not placed on the product (the product sold at four different prices depending on the store).

Sales figures of June, 1994 were subtracted from sales figures of June, 1995 to obtain a pre-treatment score. Sales figures of July, 1994 were subtracted from sales figures of July, 1995 to obtain a post-treatment score. A t-test was administered between the adjusted June and adjusted July scores (June was compared to July to rule out seasonal factors; 1994 was compared to 1995 to rule out maturation and/or economic factors).

Results show that there was a significant difference between the adjusted five-week period for June and the adjusted five-week period for July. Average adjusted sales were 0.04 boxes (for the five-week June, 1995 less the June, 1994 period) versus 0.68 boxes (for the five-week July, 1995 less the July, 1994 period) ($t=1.99$; $n=50$; $p=0.050$; $df=97$).

LIMITATIONS

First, sales were measured by 24 count boxes sold. A more precise (and variable) measure may have been to utilize individual items sold. Unfortunately, the distributor was unwilling to do such a count. Second, not all stores received the treatment at the same time and for the same period. If they had, scores may have been even more significant. Third, the impact on other items in the product category is unknown. It could be that while individual item sales increased, product category sales did not.

Three months later a second study was conducted using 32 stores. Instead of using flaming red stickers, inventory in the entire product category was shuffled in an effort to attract consumer attention. Sales data of September, 1994 were subtracted from sales data of September, 1995 and sales data of October, 1994 were subtracted from sales data of October, 1995; then the adjusted sales data of September, 1995 were subtracted from the adjusted sales data of October, 1995. No significant differences were found.

CONCLUSION

The studies showed that there is a cost-effective way [less than $15.00 or $0.30 per store; actually, a store could purchase a roll of stickers for $2.50 and expect to increase sales of the item by $16.00 (16 = 0.64 x 24 count box) and profits by about $4.00 (16 x profit margin of 0.40 less cost of stickers) in one month's time] to increase the ability of consumers to perceive an impulse convenience item. However, merely shuffling product in the category is not enough to attract attention. Obviously, more research in the area of cost-effective retailing strategies needs to be done. For instance, what is the impact on category sales when one item in a impulse convenience category is specially marked? Or, is it better to specially mark 10% of the items in a category or 50%? And, what is the influence of items or displays surrounding the category in the store? However, one thing may be certain: it may be more profitable to "tag" the product in the category with the highest profit margin.

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START-UP: CRITICAL SUCCESS FACTORS FROM THE BEGINNING

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ABSTRACT

Since the business start-up strongly reflects the wishes and behavioral choices of the founder, it is important to focus on the behavioral choices of this person. Past research has suggested that two critical behavioral dimensions that impact company performance in small businesses are the owner's tendency to engage in "Type A" behavior, and the owner's tendency to monitor his/her external business environment.

Owners of new businesses were given questionnaires that reflected both their initial startup and their performance after a year in business. Results support the hypotheses that businesses operated by owners who are high in Type A behavior characteristics, high in external monitoring behavior, and to an additional extent high on both are more likely to develop business plans at the time of the start-up of their business, attain initial projected sales goals, attain profitability, and meet or surpass profitability projections.

INTRODUCTION

Perhaps the most critical stage of a business' life is the initial start-up phase. At this point, the following are some of the strong negatives that the business faces:

(1) If the business is introducing a new product (or at least untested variation of an existing class of products), will the buying public accept this innovations?
(2) Will the buying public be willing to accept the company as a provider of the product or service, given the lack of previous experience with knowledge about the company?
(3) Does the business have the financial resources available to allow it to overcome the disadvantages of (2) and (2). Lack of capitalization is a common reason cited for small business failure (Holtz-Eakin et.al., 1994; Hogarty, 1993).
(4) Does the company have both a strong initial plan of action, and the ability to make ongoing adjustments in the face of either (1) initial faulty judgments or (2) incoming data that suggest need for modification or change.

Since the business start-up strongly reflects the wishes and behavior choices of the founder, it is important to focus on the behavioral choices of this person. Past research (Hunt and Adams, 1991) has suggested two critical behavioral dimensions that impact company performance in small businesses are (1) the owner's tendency to engage in a "Type A " behavioral profile, i.e., highly competitive, time obsessive, polyphasic, and lacking planning, and (2) the owner's tendency to monitor his/her external business environment. These past studies have been with broad based samples of small business owners; in this study, the researchers will focus on a sample of owners of newly established businesses. To this point, there have been two waves of data collection: an initial set of data at the outset of the business and a follow-up questionnaire a year later that allows us to measure company performance during the first year of operation.

METHODOLOGY

Potential subjects were determined by comparing the "white pages" business listings of the Kansas City telephone directory for 1993 with the 1992 edition. We assumed that any new listings would be for new businesses, although we did discover a number of cases where the business had changed its name (these were excluded from further consideration). "The only classes of new businesses that were precluded from consideration were professionals, i.e., doctors and lawyers, and franchisees.

One hundred four questionnaire responses were returned (10.4% response rate); 22 deemed inappropriate for use in the study as they were either name changes of long established companies (9), newly established branches of companies headquartered in other cities (6), franchisees of companies that had not done business in Kansas City (4), or cases where the business had missed the deadline for inclusion in the 1992 telephone directory and therefore were past the start-up phase (3). This left us 82 usable subjects.

In the summer of 1994, a follow-up questionnaire was sent to these 82 companies. By this time, eight of these businesses were already out of business (1). Of the remaining 74, 64 filled out the follow-up questionnaire.

The following measures were used for the independent and dependent variables of this study:

(1) Did the business owner have a business Plan? Two questions were asked regarding use of a business plan for initial projections and acquisition of start-up capital. A "yes" response to either was sufficient to indicate that there was a business plan.

(2) Did the business attain its projected first year's sales goals? In the follow-up survey, respondents were asked to indicate how close they were to their initial projected sales goal for the first year of business. This variable was coded 0 = below projection, 1 = within 20% of projection, and 2 = above projection.

(3) Did the business attain a profit in the first year? This variable was coded 0 = no and 1 = yes.

(4) Was the business meeting its initial projections for when it would attain a profit? This measure was included because (a) a business owner may anticipate operating at a loss for more than one year and decide to persue the venture or (b) may have achieved a profit, but later than originally anticipated. Respondents were asked to indicate if they were surpassing, basically meeting, or not meeting their initial profit projections. This variable was coded 0 = not meeting, 1 = meeting, and 2 = surpassing their initial projection.

(5) Owner's monitoring behavior. One of the two key independent variables in this study is the degree to which the business owner monitored the external environment of his/her business (2). To measure this, the following categories were used:

(a) monitoring customers reaction to your product/service,
(b) monitoring customers changes in preference/needs regarding your product or service,
(c) monitoring competitors,

(d) monitoring the market place for your product/service, and
(e) monitoring written/data bank sources of information.

For 5e a list of twelve separate sources was given, and the respondent was asked to check all that applied.

As will be discussed later, an overall measure of the respondent's monitoring behavior was used. This was created by computing a standardized score for each of the five measures and developing an overall score of the sum of these five standardized scores for each respondents. Those respondents with an overall score greater than zero (0) are classified as "high" monitors, while those with zero (0) or below are classified as "low" monitors.

(6) Owner's Type A behavior. A set of 14 questions developed by Everly and Girdano (1980) was used. These questions measure the four submeasures of Type A behavior: time urgency, competitive/hostility, polyphasic behavior, and lack of planning have been used by the authors in several previous studies. An overall Type A score (range of 0-14) was computed, with the average score being 6.96 (note: this compares closely to the average score of 6.83 for all previous research populations where the authors have used these questions, thus suggesting strong reliability). For the purposes of our analyses, respondents were classified as "high" Type A if they scored 7-14 or "low" Type A if they scored 0-6.

HYPOTHESES

Previous research with owners of ongoing small businesses (Hunt and Adams, 1991) has shown results that suggest the following hypotheses:

(1) Businesses run by individuals who are high on Type A behavior will be more successful than businesses run by individuals who are low on Type A behavior.

(2) Businesses run by individuals who engage in high levels of monitoring of their business' external environment will outperform businesses run by individuals who engage in lower levels of environmental monitoring.

(3) Businesses run by individuals who are high on both Type A behavior and monitoring behavior will outperform businesses run by individuals who are high on only one of these two dimensions, which will, in turn, outperform businesses run by individuals who are low on both of these dimensions. In order to test for this, a composite variable was created with the values 0 = low on both, 1 = high on only one, and 2 = high on both.

These three hypotheses will be tested for each of the following dependent variables (discussed earlier):

(1) The development of a business plan during the start-up phase of the business

(2) The attainment of projected sales objectives in the first year of operation

(3) The attainment of profitability in the first year of operation

(4) The attainment of profitability projections.

RESULTS

(1) The Impact of Owner's Type A Behavior. The following were the results of T-Test comparisons of those owners classified as high versus low in Type A behavior:

	High	Low	T-Score
Proportion with initial business plan	.454	.422	.28, n.s.
Meeting sales projections (0-2 scale)		1.07	2.09, $p < .05$
Proportion attaining profitability	.785	.518	2.13, $p < .05$
On schedule re profitability (0-2 scale)	1.00	.59	2.38, $p < .05$

These results offer strong partial support for the hypothesis that owners who engage in more Type A behavior will outperform those who are lower in Type A behavior. One additional piece of support evidence is that when we compared the Type A scores of the owners of the profitable businesses with the Type A scores of the owners of the unprofitable businesses, there was a strongly significant difference (7.47 versus 5.31, $p < .01$).

(2) The impact of the Owner's Monitoring Behavior

The following are the T-Test results comparing owners who were high on monitoring their business' external environment with those that were low:

	High	LOW	T-Score
Proportion with initial business plan	.578	.150	3.38, $p < .01$
Meeting sales projections	1.40	1.09	1.94, $p < .10$
Proportion attaining profitability	.72	.57	1.15, n.s.
On schedule re profitability	1.05	.47	3.49, $p < .001$

These results offer strong partial support for the hypothesis that businesses run by owners who are high monitors of their business' external environment will outperform those businesses operated by owners who are low monitors. The most interesting finding is the huge difference in the proportion of businesses with initial business plans (almost a 4:1 ratio between high and low monitors).

(3) The Impact of the Owner's Combined Type A/Monitoring Behavior
The following are the ANOVA results comparing businesses operated by owners low on both Type A and monitoring behavior, high on one of the two, and high on both:

	Both Low	One High	Both High	F Score
Proportion with initial business plan	.111	.444*	.578**	2.85, $p < .10$
Meeting sales projections	.91	1.28*	1.47**	3.24, $p < .05$
Proportion attaining profitability	.36	.68*	.77**	2.51, $p < .10$
On schedule re profitability	.27	.76**	1.25***	9.85, $p < .001$

*p < . 10 when compared to "both low" group
**p <.05 when compared to "both low" group
***p <.0001 when compared to "both low" group and p <.05 when compared to "one high" group.

These results strongly support the contention that being high on at least one of the two markedly improves company performance. Being high on both does contribute to further improvement, with the level of significance increasing in all four cases, although we should note that in only one of the four dependent variables did this result in a significant improvement over being high on just one.

CONCLUSIONS AND DISCUSSION

Owners of new businesses were given questionnaires that reflected both their initial start-up and their performance after a year in business. Results from these questionnaires supported previously tested hypotheses that businesses operated by owners who are high in Type A behavior, high in external monitoring behavior, and to an additional extent, high on both, are more likely to develop business plans at the time of the start-up of their business, attain initial projected sales goals, attain profitability, and meet or surpass profitability projections.

These results reinforce previous findings from subjects in more well established businesses. In the earlier studies, we found that these trends continued over time, with the "high" groups improving their percentage improvement of sales increases versus the percentage improvement of sales increases of the previous year. Given this, we will continue to track these business' over the next several years. Thus, we can engage in multiyear comparisons of performance. Also, we may be in a position to compare those companies that survive with those that fail given that we lost eight of our starting 82 first year companies (now up to 19--just under 1/4--as they complete their second year of business). It will prove interesting to see how behavioral differences between owners impact their businesses over an extended period of time.

(1) A subsequent check pursuant to a different research issue determined that by June of 1995, 19 of the companies had failed. If this trend continues, we would expect approximately 60% of these companies to be out of business by the fifth anniversary of their start-up, a figure somewhat better than typically cited figures, but grim nonetheless.

(2) The measures for monitoring the external environment were developed from Mark Snyder's (1987) "self-monitoring" measures. The business monitoring measures have been used successfully in previous research.

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CHANGING OF THE GUARD FOR FAMILY BUSINESSES AS "BOOMERS" RETIRE AND "BUSTERS" TAKE-OVER

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ABSTRACT

Baby busters, generation x, whiners, slackers, or twenty somethings, call it media bashing or stereotyping, the fact remains that most of the books, television shows and articles that have featured the current group of 19-to-29-year-olds paints one long streak of misery. The consensus from these sources is that this generation possesses attitudes and values different from those of their predecessors - the baby boomers. From a family business perspective, this paper assesses, on the basis of research and experience to date, the leadership potential of generation xers as baby boomers approach retirement. While this paper agrees with the proposition that the new generation of men and women entering family businesses today are "marching to the beat of a different drummer," it maintains and supports the unpopular position that this march is consistent with the beat of the changing environment of family businesses.

INTRODUCTION

The majority of family businesses founded in the wake of World War II are now coming of age along with their founders - the baby boom generation. The baby boom generation is comprised of those individuals born between 1946 and 1964. As founders of family businesses contemplate old age and retirement during the next decade, a critical question for many owners is how to ensure perpetuation of the business. Today's economic environment presents a greater opportunity for family business to attract family members into the business. With corporate downsizing becoming the norm and few employment opportunities for new college graduates, more people are turning to family business as their next best option to stay employed. However, with this opportunity has come the need to critically evaluate this generation's motivations and preparedness to carry on the family tradition. There has been considerable speculation in the popular press (Scott & Scott, 1990; Bernstein, 1991) that the values and expectations of this cohort are different from the values and expectations of their predecessors - the baby boomers.

If this group of young men and women are in fact "marching to the beat of a different drummer" as Burke (1994:555) claims, this may have significant implications for the future of family business. This paper makes the case that the so-called "march of the new generation to the beat of a different drummer" is consistent with the beat of the changing business environment of the 21st century. In other words, the values, education, expectations and experiences of the new generation create a better "fit" with the demands of the future business environment. This alternative thesis goes against the popular though untested notion that generation x's take-over of the family business will mean future uncertainty and a threat to the family business way of life in the post baby boom period.

BABY BOOMERS AND THE FAMILY BUSINESS

This generation is comprised of those born between 1946-1964. Some of the discussions about baby boomers have focused on the motivations, expectations and values of this group. Raised by parents who had survived the hardships of war, more baby boomers grew up in traditional households where hard work and achievement were commonly accepted values. It is against this background that some have suggested that baby boomers are as competitive and committed to work as their seniors (Magnet, 1985), while others argue that baby boomers are driven more by inner needs for self-fulfillment at work than by the traditional and pragmatic work ethics of their elders (Yankelovich, 1981). The latter argument is shaped by economic realities and cultural differences between the baby boomers and the pre-boom generation.

Contrary to popular notions that the baby boomers had an easier time entering the job market, many baby boomers faced the same economic realities (lack of employment opportunities, low paying jobs and job insecurity) as members of the new generation (Levy and Michel, 1986). Facing a hostile economic environment, baby boomers initiated both economic and demographic adjustments, such as reduced childbearing, delayed marriage and self-employment that helped to minimize the impact. A common form of self-employment was the creation of private businesses that eventually became family businesses. These businesses are not just a source of financial support but also an employment base for the entire family. In the majority of cases, the family gambled all its assets in the business--the proverbial act of "putting all your eggs in one basket."

The importance of the business to the founder's ego and to the family's economic well-being, explains in part, the tendency of most founders to not want to be dependent on others for the control of any part of the business. According to Wilkie and Young (1971), most founders (baby-boomers included) of family businesses assume multiple roles and, as the business grows, attempt to perform a variety of functions themselves. In the founder's life (Hollander and Elman, 1988), the business emerges as a central and important component that needs to be protected and nourished.

It is generally accepted (Beckhard and Dyer, 1983), that the transition from first generation to second generation family businesses is the most difficult, due in part to the founder's need to remain the central figure in the life of the business. The first generation family business (Hershon, 1975), is usually a one-man show, mirroring the needs of the founder for centrality. This uneasiness with giving up control often results in the premature death of many family businesses. Edelman (1990), reports that only one third of all family businesses make it to the second generation and only 15 percent make it to the third generation. This bond with the business highlights critical characteristics of the founder--his total and sometimes over-commitment to the business. The family becomes secondary in the founder's scheme of events.

As the baby boom generation, mainly the leading edge cohort (born 1945-1949) approaches retirement, many of them in family business settings are contemplating the future of the family business under the leadership of a new generation. If, as reported by scholars, consultants, journalists and business practitioners, the values and expectations of this new generation are different from those of their predecessors, what impact will this have on the future outlook of family businesses now dominated by baby boomers? Though little in the way of rigorous academic research has been devoted to explaining these differences, an in-depth and objective review of the current thinking about this generation, may provide a better foundation for discussing the managerial implications of a new generation take-over of the family business.

GENERATION X, WHO ARE THEY?

The phrase Generation X has been coined to describe a large group of men and women who are approaching or are in their 20s (Coupland, 1991). Saddled with names that connote nothing but negative impressions about this generation, some say this group of 18-to-29-year-olds is a generation in need of a press agent (Shapiro, 1993). According to Shapiro (1993:50), their elders, the baby boomers think of them as "a generation of uppity, MTV-rotted minds and sound-bite attention spans, so poorly educated that they can't find Vietnam on a map or come within 50 years of dating the civil war." Highlighting the work ethic of this generation, Ramano (1994), describes this group as a whinny bunch of apathetic slackers who seem to place more value on personal time than work, expecting raises, promotions and titles to happen fast. The printed press has weighed in on this topic with even more damaging headlines (Giles, 1994). A Washington Post headline read, "The Boring Twenties: Grow Up, Crybabies. You're America's Luckiest Generation." New Republic columnist Michael Kingsley commented, "These kids today. They're soft. They don't know how good they have it. Not only did they never have to fight in a war ... they never even had to dodge one." And Newsweek labeled Generation X "a bunch of whiners."

Whether these labels and descriptions of the new generation are stereotypes or representations of reality remains to be tested. But, it is also true that most of the writings that have defined this generation in the public imagination are overwhelmingly negative to say the least. As a whole, these writings paint a picture of a generation that according to Elliott (1994:69), feels a "distinct and undeniable alienation from the society and whose members wonder why they were even born."

A central element of the "new generation" thesis is that young Americans have values and expectations different from the baby boomers. Stepping away from the labels and unflattering descriptions of generation x, certain facts remain indisputable about this group. Generation x thinks differently about issues such as marriage and family, commitment to organizations and work, the environment and materialism. Fewer members of generation x marry in their 20s. More members of this group, compared to previous generations are likely to be children of divorced parents or latch-key children. They are likely to have a different definition of success. To them, a quality of working life and quality of life, and a balanced investment in work and family are more important measurements of success than material and monetary wealth (Manter and Benjamin, 1989; Solomon, 1992). They are a generation better skilled in the use and application of computer technology than their predecessors. And while baby boomers grew up in mostly racially homogenous environments, the new generation is a more racially diverse group, with 14% blacks, 12.3% Hispanics, and 3.9% Asians. These are significant statistics given that for the entire population, blacks are 12.4%, Hispanics are 9.5% and Asians are 3.3%.

To the extent that these differences are significant, they have helped shape the thinking and motivations of the members of the new generation--thus a justification for the assertion that they are marching to the beat of a different drummer. There is a pessimistic and optimistic perspective regarding this assertion. Each perspective draws a different conclusion on the future state of family business under generation x leadership.

FOUNDER-SUCCESSOR MINDSET

It is impossible to deal with transition or succession in the family business without considering the founder and his values, needs and expectations. The founder is often viewed as representing not only the past and present history of the family business, but also as the prime influencer of the destiny of the business. In this school of thought, examining the values, needs and expectations of the founder becomes a way of understanding the mission, strategy and culture of the business. Thus, the culture of the business becomes, at least in part, an embodiment of the founder; this culture then influences the operational style of the business (Dyer, 1986; Schien, 1983), which in turn affects the future development of the business. Therefore, to carry on with the founder's tradition, requires a situation whereby the new generation's values match those of the old generation. Given the differences in experience, values, expectations and orientations between the baby boomers and generation x, supporters of the founder-driven literature on family business development, predict difficult times ahead as baby boomers approach retirement. They maintain the position that if the same cultural and philosophical differences between the boomers and generation x persist into the 21st century, the future state of family business will be in question.

This paper presents an alternative viewpoint that takes into account the changing landscape of the family business environment. There does appear to exist a better "match" or "fit" between the characteristics described of generation x and the changing business environment (internal and external) of the 21st century.

Providing theoretical support for the changing family business environment is research on developmental phases and stages of the family business (Hershon, 1975; Danco, 1975; and Ward, 1987). While a number of developmental phases models have been proposed, the general structuring of each is similar. The starting point is a struggle for autonomy in the creation and development of a viable enterprise. This is followed by expansion and then stability and institutionalization (Dodge & Robbins, 1992). Each phase can be characterized by an index of size, diversity and complexity and described by management factors such as: managerial style, organizational structure, extent of formal systems, major strategic goals, and the founder's involvement in the business.

As a family business progresses towards any of the later phases after creation, the founder or his/her successor has to contend with changes in all of these areas. Also, the importance of the factors change as the business grows and develops. These changes often require different managerial skills, values and experiences for the family business to achieve future growth or stability. This has important implications for evaluating the choice between maintaining a founder-driven strategy or accepting and supporting a new generation of family business leaders.

IMPLICATIONS

In terms of managerial style, the family business does reach a point where the founder must spend less time doing and more time managing. The inability of many founders to let go of doing and to begin managing and delegating explains the demise of many businesses during the growth and expansion stages. For instance, conflict may begin as the family business grows and requires more formal administration. The need for planning and delegation can conflict with the hands-on style of the founder that worked so well in the early founding stages of the business. Compared to baby boomers, generation xers are said to seek a balance between career persuits and family life. This characteristic would seem to predispose generation xers to a leadership style of delegation and greater employee involvement in management than the baby boomers.

The issues of staffing, planning, and programming gradually increase in importance as the family business progresses through the growth and stability phases. There is greater diversity in the labor market today than there has ever been. This factor presents a challenge to founder-managers of family businesses to find, hire, train and motivate employees from different cultural, ethnic, gender, racial and national backgrounds. The generation of baby boomers grew up in a more homogeneous work environment than their children's more diverse environment. This new generation has been part of the debate on multiculturalism on college campuses. Therefore, generation xers are better positioned to understand the current and future human resource environment of business than their predecessors.

As founders, baby boomers have become accustomed to running the family business as a "one-man-show." The organizational structure has remained simple with the owner doing everything and directly supervising all subordinates. Updated systems and formal planning have been minimal to non-existent. Technology has often been seen by some members of this generation not as a helping tool but as a threat that may lead to the loss of control. This contrasts with generation x's sophistication with today's technology. This generation uses computers the way other generations used the telephone. Educated and experienced in new technologies, raised in a multi-cultural environment and tempered by the hardships of broken family life and the economy, generation xers offer a better chance of effectively and efficiently managing future family businesses than they are given credit for today.

CONCLUSION

In terms of values, motivations, expectations, beliefs and experiences, members of generation x possess the right ingredients or basic requirements for implementing the five key managerial factors that will be prominent in ultimately determining the future survival of family businesses. These are: (1) human resources, (2) systems resources, (3) business resources, (4) managerial ability and willingness to delegate responsibility and to manage the activities of others, and (5) strategic abilities for looking beyond the present and matching the strengths and weaknesses of the family business with its goals.

The conclusions reported here must be treated with caution. They are not based on research findings of empirical quality. Rather, they are based on reviews of books, commentaries, editorials and opinions of scholars, jour consultants and educators. There is a definite need for further research about this emerging topic of generation x and the future workforce. There are still important issues that need to be addressed in order to legitimize this topic's relevance to family business performance and success.

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WELLNESS PROGRAMS AS A MEANS TO REDUCE HEALTHCARE COSTS

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ABSTRACT

In recent years small and large businesses have had to rein in healthcare costs. According Wyatt Worldwide, a Washington D.C. consulting firm. Sixty-one percent of small businesses have some type of healthcare program. However, controlling healthcare costs has not been easy for most U.S. employers because reducing medical costs means changing employee lifestyles. To place the problem in perspective, the United States has faced an increase in medical costs from less than 5 percent of the gross national product (GNP) in 1973 to 14 percent in 1993. This amounts to one trillion dollars of which Corporate America pays 35 to 40 percent.

As a result of the tremendous growth associated with Health Care Costs. Various large and small businesses have had success in implementary wellness programs. Not only have these programs reduced health care costs but other benefits have accrued to employers such as less absenteeism, better productivity and happier employees.

INTRODUCTION

In recent years small and large businesses have had to rein in healthcare costs. According Wyatt Worldwide, a Washington D.C. consulting firm. Sixty-one percent of small businesses have some type of healthcare program. However, controlling healthcare costs has not been easy for most U.S. employers because reducing medical costs means changing employee lifestyles. To place the problem in perspective, the United States has faced an increase in medical costs from less than 5 percent of the gross national product (GNP) in 1973 to 14 percent in 1993. This amounts to one trillion dollars of which Corporate America pays 35 to 40 percent. (8)

On a case basis one recent study, involving Chrysler Corporation employees, fo found health case risks for certain types of employees were significantly higher for smokers, poor eaters and the overweight. The study indicated that smokers had 31% higher healthcare costs. Those with poor eating habits generated 41 percent more health case claim costs, while employees that were 20% above or below their normal weight range required more important care than any other group and their hospitals integration rate was 143 percent higher than any other health risk group. (10)

To curb many escalating health care costs employers have increased deductible and watered down programs while others have turned to wellness programs. These programs encourage employees to participate in programs that prevent health problems and occupational injuries.

There are three types of programs--primary prevention, secondary prevention, and tertiary prevention. The primary prevention focuses employees on changing their lifestyle such as smoking cessation, weight reduction, and exercise. Secondary prevention emphasizes early detection and intervention of health problems. Tertiary prevention the third type treats existing illnesses. The primary and secondary prevention are the most cost effective since they intervene which reduces absenteeism. (2)

IMPLEMENTING A WELLNESS PROGRAM

Implementing a wellness program requires five steps: (2)

1. Organizations need some type of committee or area within the company to design and communicate the program.

2. Once the committee is set up a needs assessment is required to categorize healthcare risks.

3. Choosing a vendor to implement the program can insure success. Hospitals and health centers are available to help generate appropriate information for employees.

4. Wellness programs need promotion to facilitate employees usage. Newsletters, posters, and notices in payroll envelopes are some of the methods utilized to foster participation.

5. Evaluate the program by measuring absenteeism, productivity, turnover and medical costs before and after implementation. Then after evaluation adjust the program to meet specific needs.

Although every employer wants to reduce medical costs, careful evaluation of the results is needed. For example, medical bills for chronic illnesses do not decrease as a result of implementing a wellness program. On the other hand, absenteeism and prevention of industrial injuries may more than pay for a wellness program.

WELLNESS PROGRAMS THAT WORK

Until recently there were doubts about how wellness programs worked or whether they actually saved businesses money, but there are numerous successful examples. According to Max Morton, manager of Wellness Programs for the brewing company, Coors, has a special cardiac rehabilitation program that begins as soon as the patient is out of intensive care. Morton reports, the Coors cardiac program alone has saved the company $1,390,661 over a six year period (these figures are just for one segment of Coors overall wellness program). According to Celia Shenemann of Coors' corporate communications staff, the least savings for every dollar spent on wellness programs has been $1.24 and the most savings $8.33 for each dollar spent. The worst case figures were based on 580 participants. Best case figures were based on three times the number of participants.

Another example of a successful wellness program is a midsize CPA firm, Berry Dunn, McNeil & Parker.(12) A wellness committee was formed with the assistance of the Lifeline Center at the University of Southern Maine. With the Center's assistance, workshops were scheduled on problem areas identified in employee health assessments and profiles. Both the employees and their spouses were invited to the workshops. Once a month a presentation was given on subjects such as: nutrition, smoking cessation, weight loss, and stress management.

Although the program emphasizes voluntary participation, the voluntary emphasis resulted in a 60 to 70 percent employee participation use rate, with an annual $100 per employee budget. Each employee can choose to use the money to pay for health screening, aerobic or yoga classes, or a health club membership.

In the same article the author, Violette stresses the importance of wellness programs in general, although he does not give the results of this particular wellness program. He points out that the demands of the accounting profession make wellness programs important. Although there is an investment on the part of the firm, the benefits can be substantial, (12).

For benefits that resulted in cost reduction, the Omaha based Wellness Councils of America reports that wellness programs have paid off in lower health care costs, reduced absenteeism, increased productivity, and higher employee morale. For example, Johnson & Johnson, General Electric, Scoular Grain and McDonnell Douglas all have programs that provided statistical results.(1)

* Johnson and Johnson claims that its Live for Life Wellness Program saved the company $378 per employee last year by lowering absenteeism and by slowing the rise in the company's health care expenses.

* General Electric, Cincinnati, found that regular exercisers were absent from work 45 percent fewer days than non-participants.

* The Scoular Grain Company, Omaha, opened a fitness center for its 600 employees, and as a result in 1989 the company saved more than $1 million in health care costs, about $1500 per employee.

* McDonnel Douglas' employee assistance program has returned more than $4 for every dollar spent helping employees recover from alcohol related problems, (1).

* Mesa Petroleum's program based in Dallas, which is one of the largest independent producers of oil in the U.S., estimates that they have a yearly savings of $1.6 million in health care costs for its 650 employees. As a result Mesa's costs for health care were far lower than the national average and nearly three times lower than the energy industry, (1). For example, in 1988, Mesa's health care costs per employee were 60 percent lower than the national average ($1,121 vs $2,750) and 68 percent lower than the energy industry average ($1,121 vs $3,560). The reason for these reduced costs is attributed to Mesa's full health promotion program which includes fitness centers with four racquetball courts, an indoor running track, a multipurpose room, two weight rooms, and basketball court.

According to a survey conducted by Heidi Jacobs, assistant editor of Small Business Reports, it was found that employees' bad habits, such as smoking, drinking, etc. costs their employers more money which puts upward pressure on their premiums. Because of the increase in their premiums, some businesses have implemented reward systems where employees are rewarded for abstaining from their bad habits. For example, each employee must have a physical to determine what risks he/she has. The results of the tests are combined and a group profile is established, (7).

These combined profiles are compared with health standards. Employees whose scores are equal or above the standard get paid. For example, at Potpourri Press Inc., a wholesale and retail gift-ware company, employees get paid to live healthier lifestyles. Those employees who work out at a gym eight times a month receive $12.50; those who work out 12 times a month take home twice that amount. Reformed smokers receive $100 after 90 days of non-smoking plus $75 more after six months, (7).

ANOTHER CASE STUDY

An important study reported the results of four worksite wellness programs that offered different benefits and framework for wellness programs. Site

A, which was used as comparison Site, offered only health education classes. Site B offered a physical fitness facility, while Sites C and D used employee outreach and follow-up counseling, (3).

Site A offered only health education classes. This is the most common wellness program design. Classes were offered at least twice a year during the three year study period. Blood pressure monitoring was available at any time. Emphasis was on promotional events and participation.

Promotional events included a health fair and events to help with smoking cessation and weight loss. Site B also offered health education classes on weight reduction and smoking cessation. However, because of little participation, these classes were offered only once during the study period. Site B took a slightly different approach than Site A by setting up a physical fitness center for the employees. Although slightly different, Sites A and B both used the most common wellness program design. This traditional approach usually screens the employees for health problems and risks for cardiovascular disease (CVD). The employees are advised on how to reduce those risks and what resources are available. However, this approach does not use employee outreach or follow-up counseling to supply the support needed to help employees make the needed changes, (3).

In contrast, Sites C and D offered employee outreach and follow-up counseling during the three year study period. These sites not only focused on awareness, but also emphasized support and assistance with interventions classes, individual screening and counselors. In addition, Site D included another component. It added plant wide employee organization for encouragement and support. Here, wellness counselors worked with committees to organize health related competitions and events. The emphasis was on health and wellness for all employees, with the counselors on site about two-thirds of the plant operation time, (3).

The added components resulted in significant improvements. Employee outreach and follow up counseling at Sites C and D realized a positive impact in the areas of hypertension, weight loss, and smoking cessation. Figures show that 82 percent of employees with hypertension had blood pressure readings below 160/90. Fifty-one percent of the overweight employees lost three pounds or more, while 28% maintained a loss of ten pounds or more. Initially, 20 percent of the smokers quit smoking, with 57% of that group still not smoking at the end of the three year period. In contrast, Sites A and B found no improvement in employees with hypertension and no significant weight loss among overweight employees. Also, participation was low and the relapse rate was high in the smoking cessation programs at Sites A & B (3). On the other hand, cardiovascular risks were reduced at Sites C and D; they showed a nine percent and twelve percent decline respectively.

From the results of these Site studies, a cost-effective analysis was conducted for programs for high blood pressure, overweight, and cigarette smoking. The analysis included the costs of operating each of the four programs in relation to reducing the targeted health risks and prevention of relapse. Average annual cost per employee ranged from $17.68 at Site A, to $39.28 at Site B. Site B, with the fitness center, was the least cost effective. Incremental annual cost per employee was calculated by subtracting the cost of the program at Site A from the costs at Sites B, C, and D. This incremental cost gives the cost of the additional program components. This cost amounted to: Site B with $21.60, Site C with $13.28, and Site D with $20.89. Site D had the highest rate of employees exercising three or more times a week, (3).

As a result of this cost-effective analysis the authors conclude that wellness programs designed with employee outreach and follow-up counseling can be cost-effective.

A LONG TERM APPROACH

A long term approach involves getting to the root cause of high medical costs, which is lifestyle related illnesses. Lifestyle related illnesses, such as heart disease, cancer, and stroke are preventable. It is estimated that these preventable illnesses cover half of all medical costs incurred. Long range plans emphasize the need to focus on preventing disease through health promotion. Research supports a positive economic impact with work site wellness programs that focus on prevention through healthier lifestyles. However, evaluating the economic impact can be a difficult task, (8).

Evaluation can be presented two ways, through cost-benefit analysis and cost-effective analysis. The cost-benefit analysis measures the outcome in terms of dollars saved or lost by the company. For example, with every dollar invested there was a savings of $3. On the other hand, cost-effective analysis measures the change in the targeted behavior or condition, such as, on the average, one dollar was invested for every two pounds loss in the weight loss program. Although hard to measure, businesses are realizing a positive impact with wellness programs, (8).

Mesa Petroleum is one of these firms, with a positive benefit to cost ratio of $1.07. In addition, employees who participated had one less day per year of absence and used $217 less in health care benefits than nonparticipants. This resulted in annual health care costs per employee to be $1600 less than the national average. Also, Prudential Life Insurance realized a benefit to cost ratio of $1.91. Motorola and Blue Cross of Indiana reported ratios of $3 and $2.51 with their wellness programs, (8).

OTHER BENEFITS

Besides, favorable benefit to cost ratios other benefits accrue. For example, on a survey conducted by Prudential Company, it found that absenteeism dropped by 20.1 percent in average disability days among one group that participated, (11). The New York State Education Department recorded a per-employee 4 to 7 hour sick leave for all participants, (11).

Absentism isn't the only benefit to employers. Studies have shown that health-related factors affect productivity levels more than social and economic factors. The effect that health-related factors have on productivity levels has created the need for businesses to recognize the impact wellness programs can have on their total profitability. This wellness awareness has lead businesses to undertake wellness programs in order to improve profitability and hence to be more competitive, (6).

In his article "Hospital Health and Fitness Centers Promote Wellness," Alan J. Kania tells how wellness programs were once considered non-productive and unprofitable, but are now recognized as profitable collaborations in any community. It is the realization of the contributions made by wellness programs that has forced businesses to employ wellness measures to improve productivity and competitiveness to curb increases in productive costs.(5)

Despite the primary role of exercise in reducing sick leave and in boosting productivity, it is important for business to make sure that their employees enroll in well accredited health and fitness centers. Health and fitness centers need to have four health attributes. They are a clinically trained staff, a hospital affiliation, proper medical supervision and a doctor referral. Any health and fitness center lacking one of these attributes is not worthy of operation and is likely not accredited.

CONCLUSION

Despite the positive reports emanating from some wellness programs businesses need to remember that their are some pitfalls associated with wellness programs. Employees can resent lifestyle changes and where wellness programs penalize employees the program may run afoul of the American Disabilities Act. For example, American civil Liberties Union has lobbied successfully in 28 states to prevent discrimination against smokers particularly during off duty hours.

From the research and information available from various businesses large and small. Properly designed wellness programs work, but those that have counseling and follow-up measures produce the greatest benefit for the employees by reducing medical costs and employee absenteeism. For small businesses implementing a wellness program may produce an initial financial drain but long term benefits are possible particularly if small businesses cooperate and pool their resources. In fact, just offering memberships in health clubs can produce positive results.

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