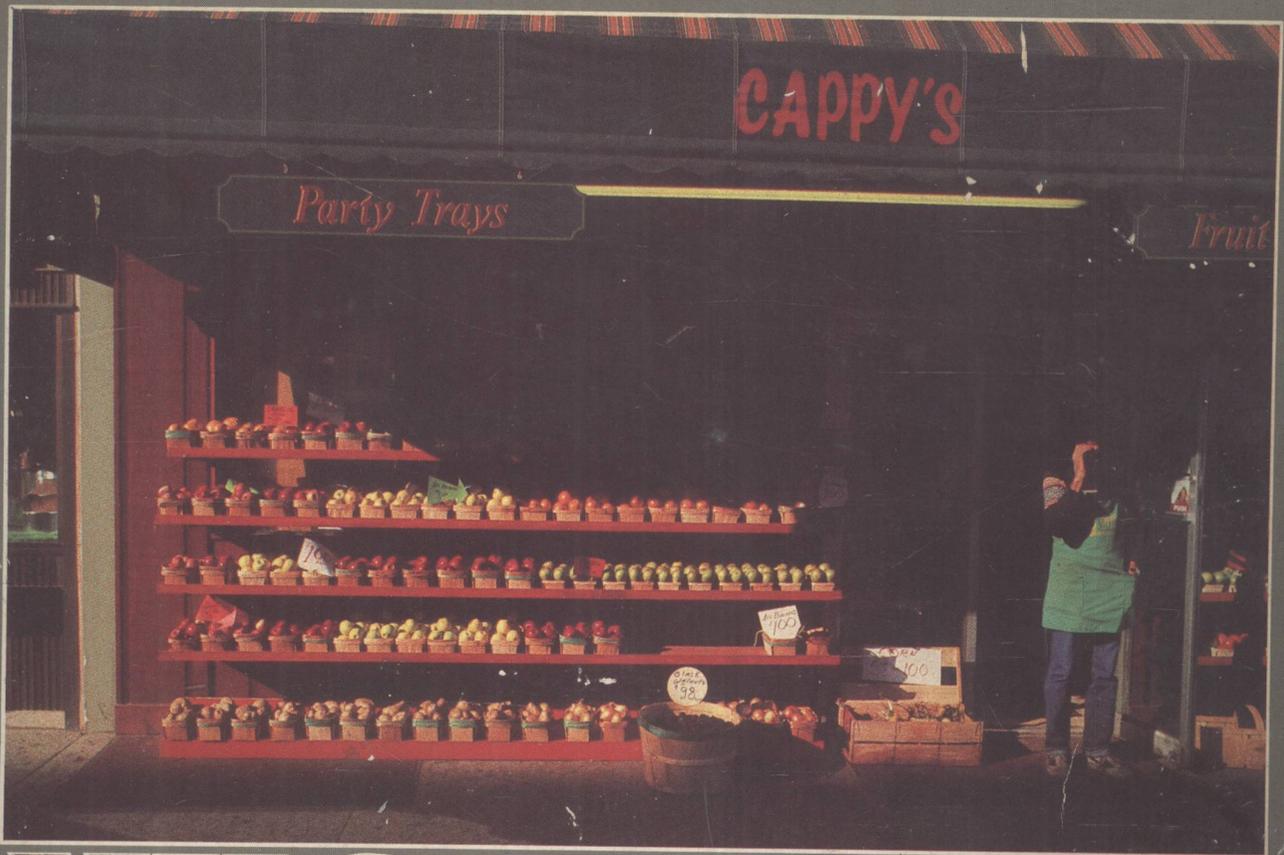
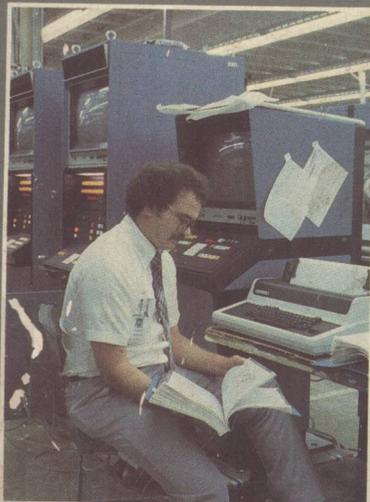


Study Guide to Accompany



EFFECTIVE SMALL BUSINESS MANAGEMENT



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STUDY GUIDE TO ACCOMPANY
EFFECTIVE SMALL BUSINESS MANAGEMENT

by Norman M. Scarborough and Thomas W. Zimmerer

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PREFACE

This study guide was specifically prepared to accompany Effective Small Business Management by Thomas W. Zimmerer and Norman M. Scarborough. It is designed to be an effective learning aid to supplement the textbook. Each chapter has five parts: chapter objectives; key terms and concepts; chapter outline; chapter specifics; and a practice exam including matching, true/false, and multiple choice questions. Suggested ways to use these learning exercises are provided in "To The Student." Answers for Chapter Specifics and Practice Exams are given at the end of the study guide.

I would like to express my appreciation to those people who helped with this project. A special note of thanks is due to William D. Clark, Dean of the School of Business at Auburn University at Montgomery, for his encouragement and support during my employment there. Thanks is also due to Jennie Owen of Charles E. Merrill Publishing Company for her support. Appreciation is expressed to Kathleen Gard for proofreading and editing the manuscript. Special acknowledgment is given to Debbie Williams who not only typed the study guide, but also coordinated and supervised the entire process of manuscript preparation.

Linda G. Mitchell
September 1983

TO THE STUDENT



This study guide is designed to help you organize and learn the material which is presented in Effective Small Business Management. It will help you use your time more efficiently by directing your reading, studying, and reviewing of the text material. Students who use the study guide regularly and conscientiously tend to learn the material better and make higher grades.

HOW THE STUDY GUIDE IS ORGANIZED

Like the textbook, this study guide contains 26 chapters. Each chapter consists of five parts:

- Chapter Objectives
- Key Terms and Concepts
- Chapter Outline
- Chapter Specifics
- Practice Exam

Some of these parts are to be used before reading the chapter in the text; other parts are for use after reading and reviewing the chapter.

HOW TO USE THE STUDY GUIDE

Before reading the chapter in the text, you should look over the Chapter Objectives, the Key Terms and Concepts, and the Chapter Outline in the study guide. It will also be helpful to read the Chapter Summary at the end of the chapter in the text. Doing this will give you an idea of what the chapter is about, how the chapter is organized, and which terms and concepts are important.

After reading and studying the chapter, you should fill in the blanks in Chapter Specifics to test your comprehension of key points. The Chapter Specifics section has subheadings which correspond to the main parts of the chapter in the textbook. You may find it easier to study one part of the chapter at a time and fill in Chapter Specifics for that part before going on to the next part of the chapter.

The answers to Chapter Specifics are located at the end of the study guide. If you can't think of an appropriate word to fill in the blank or if you miss a question, spend some time reviewing that part of the text. You will notice that sometimes more than one word is needed to fill in a blank. Some of the questions ask for a list of items; in those cases, the order of items is not so important as the inclusion of all items in the list.

In addition to helping you learn the key points of a chapter, the Chapter Specifics, after being correctly completed, will serve as a quick review of the material before exams.

After you have read and thoroughly studied each chapter of the text, you should test yourself by taking the Practice Exam. If you do well on the Practice Exams, you should do well in the course. If you miss questions on the Practice Exam, review that material again carefully.

The management of small business is an exciting and dynamic area. Enjoy your learning experience!

Linda G. Mitchell

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PART TWO: ANSWER KEYS

PART ONE: LEARNING EXERCISES

CHAPTER 1

ENTREPRENEURS: THE PEOPLE WHO GET SMALL BUSINESS GOING

CHAPTER OBJECTIVES

After studying this chapter, the student should be able to:

- Appreciate how capitalistic societies depend on entrepreneurs.
- Describe the unique personality characteristics of entrepreneurs.
- Discuss the benefits of owning and managing a small business.
- Discuss the drawbacks of owning a small business.

KEY TERMS AND CONCEPTS

Entrepreneur
Income
Invested capital
Profit
Reward/risk tradeoff
Self-actualization
Small Business Administration

CHAPTER OUTLINE

INTRODUCTION

WHAT IS UNIQUE ABOUT ENTREPRENEURS?

Traits of entrepreneurs
Management of small business

THE CHARACTERISTICS OF ENTREPRENEURS

Desire for responsibility
Preference for moderate risk
Confidence in personal success
Desire for immediate feedback
High level of energy
Possess a future orientation
Skilled in organization
Money vs achievement
Self-test for potential small business managers

THE BENEFITS OF SMALL BUSINESS OWNERSHIP

Opportunity to gain control over your own destiny
Opportunity to reach your full potential
Opportunity to reap unlimited profits
Opportunity to make a contribution to society and
receive recognition for your efforts

THE POTENTIAL DRAWBACKS OF ENTREPRENEURSHIP

Uncertainty of income
Risk of losing your entire invested capital
Quality of life until the business gets
established
Complete responsibility

CHAPTER SPECIFICS

After reading and studying the chapter, review the material by filling in the blanks in this section. Correct answers are provided at the end of the Study Guide.

INTRODUCTION

The majority of men and women who start a business do so because of the (1) _____ and (2) _____ which they associate with owning their own business. Their primary motivation for starting the business is not immediate (3) _____, (4) _____, or (5) _____.

WHAT IS UNIQUE ABOUT ENTREPRENEURS?

Entrepreneurs have a high (6) _____, the (7) _____ despite obstacles, and the ability to (8) _____ in ambiguous, ever-changing situations. Entrepreneurs possess a willingness to (9) _____, and they are able to (10) _____ in the environment which others may overlook.

Managers are not (11) _____; they are (12) _____. Therefore, the skills of managing a small business can be (13) _____.

THE CHARACTERISTICS OF ENTREPRENEURS

David McClelland describes the entrepreneur as having a dominant psychological drive to (14) _____.

The entrepreneurial personality is characterized by a desire for (15) _____ and for (16) _____, by a preference for (17) _____ risk, by (18) _____ in personal success, and by a (19) _____ time orientation. To be successful, entrepreneurs should be skilled (20) _____.

THE BENEFITS OF SMALL BUSINESS OWNERSHIP

Business ownership provides (21) _____ for the entrepreneur and allows the entrepreneur (22) _____ to make decisions and take risks. Although owning your own business does not guarantee that you will be successful, it does offer an opportunity to achieve (23) _____.

Most potential entrepreneurs say that they want to start a business to (24)"_____." For many entrepreneurs, the opportunity for (25)_____ earnings is most important; however, some entrepreneurs expect (26)_____ financial returns.

THE POTENTIAL DRAWBACKS OF ENTREPRENEURSHIP

The failure rate of new businesses is (27)_____. Approximately (28)_____ percent of all new businesses fail in the first year, and (29)_____ percent fail within five years.

Entrepreneurs whose businesses fail often suffer (30)_____ losses as well as (31)_____ setbacks. Potential drawbacks of business ownership include (32)_____ of income, excessive (33)_____ and energy required to manage the business, and stress from sole (34)_____ for decision-making.

PRACTICE EXAM

Matching. Match the following terms and concepts with the correct definition or description provided below. Write the appropriate word(s) in the blank to the left of the definition. Correct answers are provided at the end of the Study Guide.

Entrepreneur
Invested capital
Profit
Reward/risk tradeoff
Self-actualization

- _____ 1. Money from loans and personal savings which is used to finance business operations and to buy buildings and equipment.
- _____ 2. The achievement of one's full potential.
- _____ 3. Compensation gained by entrepreneurs for the assumption of risks in business enterprises.
- _____ 4. An individual who recognizes opportunities and takes the necessary risks to start and manage a business which provides goods and/or services that society demands.
- _____ 5. An analysis of potential benefits and potential losses, both financial and psychological, which helps determine whether or not to undertake a particular business venture.

True/False. Determine whether the following statements are true or false. In the blank to the left of each statement, write "T" for true or "F" for false. Correct answers are provided at the end of the Study Guide.

- _____ 1. Entrepreneurs are rarely willing to take risks.
- _____ 2. Managers are born, not made.
- _____ 3. Entrepreneurs generally believe that they possess the capabilities necessary for success.
- _____ 4. A desire for responsibility and a preference for control over one's own resources are characteristic of the entrepreneurial personality.
- _____ 5. Entrepreneurs have a lower level of energy than the average person.
- _____ 6. Entrepreneurs are less concerned with what was done yesterday than with what might be done tomorrow.

- _____ 7. An individual has greater potential for success as an entrepreneur if he or she is a "self-starter."
- _____ 8. The business and the entrepreneur are psychologically one and the same.
- _____ 9. The opportunity to reach one's full potential is more likely to be provided by employment in a large, stable organization than by small business ownership.
- _____ 10. Owning your own business does not guarantee that you will be successful.
- _____ 11. Entrepreneurs generally work just to satisfy personal needs, and they provide very little value to society as a whole.
- _____ 12. Business ownership guarantees the entrepreneur a high standard of living.
- _____ 13. In the United States, small businesses have an unusually low failure rate.
- _____ 14. Starting a new business can place considerable strain on one's health and personal relationships.
- _____ 15. Many individuals experience debilitating stress when they realize they are solely responsible for decisions which will lead to the success or failure of their business.

Multiple Choice. Choose the best answer for each of the following questions, and write the letter of your choice in the blank to the left of the question. Correct answers are provided at the end of the Study Guide.

- _____ 1. Which of the following statements is incorrect?
- Entrepreneurs are willing to take risks.
 - Entrepreneurs have a great amount of self-confidence.
 - Entrepreneurs are born with the skills necessary to manage a business.
 - Entrepreneurs are especially able to identify opportunities in the environment.

- _____ 2. Entrepreneurs are
a. achievement-motivated.
b. gamblers.
c. both a and b.
d. neither a nor b.
- _____ 3. Which of the following statements is true?
a. Entrepreneurs are driven by the chance to make money.
b. Sales serve as a method of reinforcement for entrepreneurs.
c. Money is more important than achievement for the entrepreneur.
d. All of the above.
- _____ 4. The self-test developed by the Small Business Administration for potential small business managers
a. is administered each month in the regional offices of the federal government.
b. must be taken and passed before one can start a business.
c. includes ratings in twenty different managerial areas.
d. provides an indication of the likelihood of one's success as an entrepreneur.
- _____ 5. Of the following, which is the primary barrier to success faced by the entrepreneur?
a. economic recession
b. corporate policy
c. owner's creativity
d. high interest rates
- _____ 6. Which of the following are generally considered benefits of small business ownership?
a. independence and personal freedom
b. opportunity to achieve self-actualization
c. chance to make a contribution to society
d. all of the above
- _____ 7. Everybody's Business: An Almanac reports that _____ percent of all new businesses fail in the first year.
a. 10
b. 20
c. 40
d. 80

- _____ 8. Most new businesses which fail do so in
- a. 1-5 years.
 - b. 6-10 years.
 - c. 11-15 years.
 - d. none of the above.
- _____ 9. Which of the following statements is true?
- a. Small business ownership guarantees a regular income.
 - b. The small business owner is always the first to be paid.
 - c. Small business ownership provides an opportunity to reap unlimited profits.
 - d. Small business ownership offers a secure investment for personal savings.