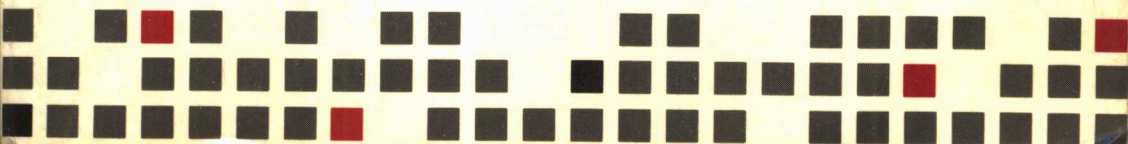




MANAGING • THE • SMALL BUSINESS

Insights and Readings

Cynthia C. Ryans



MANAGING THE SMALL BUSINESS

Insights and Readings

CYNTHIA C. RYANS



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Preface

After World War II, we saw the rapid growth of the multinational corporation and watched in awe as the GMs, ITTs, Fords, P&Gs, and Firestones expanded in market share, profits, and world-wide dominance and prestige. Later these MNCs were joined by Nestlé, Philips, Siemens, Sony, and others, but we still saw America as the most important industrial nation and the prime source of innovation. It appeared that what was good for General Motors truly was good for the United States.

Unfortunately, the past half decade or so has caused us to question the omnipotence of the large corporation. Household names, such as Chrysler, U.S. Steel (USX), Goodyear, and GM, have had their share of problems and, although they once thought of world dominance, they are now often preoccupied with merely retaining domestic market share. Employment in a number of the “blue-chip” industries has also plummeted . . . in terms of both white- and blue-collar jobs. Such “instability,” in fact, may have been one of the reasons that thousands of employees from major corporations decided to “leave the corporate nest” and go out on their own.¹

Fortunately, therefore, there is a new star on the American business horizon. Although small business is certainly not a newcomer—it predates the MNC—the era of the small business is at hand. In fact, in 1986 there were over seventeen million small businesses in the United States, with a 24 percent

¹Harry Bacas, “Leaving the Corporate Nest,” *Nation's Business*, 75 (March 1987), 14.

employment increase during that same year.² Small business is firmly established in the spotlight today.

HIGH TECHNOLOGY START-UPS

Much of the glamour associated with small business has resulted from the dramatic growth/impact of high-tech industries in the United States and particularly the micro-computer and software industries. Silicon Valley and Route 128 (Boston) seemed to symbolize the entrepreneurial spirit of the 1970s and 1980s and the hopes of the Americans. Every city and state seemed to aspire to such recognition, and names like Silicon Rain Forest, Silicon Bayou, Silicon Prairie, and Silicon Mountain began to appear in the press. The high-tech firms and industries were to be the GMs of the next decades, and everyone hoped to find a Steve Jobs in the backyard—or, better still, attract “him” to their hamlet.

In a short space of time—as people were perhaps sobered by the problems Silicon Valley has recently experienced—realism began to creep into the state and local economic development offices. While aspirations to create technology centers are still present, and rightly so, economic development officials are starting to seek more balanced development and have begun to emphasize (1) start-ups of all types (low-, medium-, and high-technology) and (2) expansion (and solidification) of their existing small business base. Biotechnology, lasers, fine ceramics, supercomputers, holography, and chips have their place in the developers’ plans, but so do medical devices, publishers, food processors, and fashion designers.

My co-author on two recent books (William L. Shanklin—(*Essentials of Marketing High Technology* and *Guide to Marketing for Economic Development*) and I feel that the recent emphasis on high technology has had a marvelous “carryover” effect on small business in general. Because the Apples, Compacs, Genetechs, and so on began as smaller start-ups, depended on venture capital, and were primarily the brainchildren of one or more classic entrepreneur-types, they proved once again the value of the smaller enterprise. Add to this the new small business publications, such as *Inc.*, *Venture*, and *Entrepreneur*, that have focused attention on the phenomenal success stories of the myriad of recent start-ups, and you have a virtual “small is beautiful” climate in the United States.

As a result of this carryover effect and “small business is beautiful” attitude, we find many, if not most, states and cities establishing business incubators (or low-cost small business “apartments”), small business development grants and tax abatements, venture capital funds, and special agencies to

²*The State of Small Business* (Washington, D.C.: U.S. Government Printing Office, 1987), 6, 12.

assist the start-up. Further, university-state-private sector linkups in the form of university tech centers are being created to move patents from the pure research labs to the point of development, application, and production. In addition, encouragement and resources are going to service industries and other small business enterprises as well.

THE SMALL BUSINESS OWNER/MANAGER AND THE ENTREPRENEUR

The time is ripe for small businesses in general and for the entrepreneur, especially the high-tech entrepreneur, in particular. Obviously, a heavy failure rate will still occur, but there appear to be fewer barriers to success than in the past, if the product or service being offered is viable in the marketplace.

However, it might be wise at this point to distinguish between an entrepreneur and the small businessperson. Since entrepreneurship generally begin as small start-up enterprises, the confusion between the two is natural. In fact, one might correctly state that almost all entrepreneurs start out as small businessmen or -women but that not all small business owner/managers are entrepreneurs. Generally, the difference lies in the type of product or service being offered, the nature of the risk involved, and the objectives of the enterprise (and owners). The entrepreneur often starts with a new patent or process, is engaged in a high-risk effort, since the demand for the new product or process has not been developed, and hopes to become a major player in a major industry. He or she will likely be dependent on venture capital at the outset but later hopes to expand through stock offerings. In contrast, we have the small local restaurant, bottler, sausage factory, retail store, and so on that is started by someone who wants to be his or her own boss. Initial fundings may have come via personal savings or a local bank (or the Small Business Administration), and the goal for the firm is to make the small businessperson a comfortable living. Most small family restaurants, such as Sally's Kitchen or the Side Door, do not hope to emulate Ray Kroc (McDonald's) or even the real Colonel Saunders (Kentucky Fried Chicken) and become a national restaurant chain. Many—even most—small businesses are just that, but their importance, training, and consultation are just as real as those of the true entrepreneur.

SMALL BUSINESS EDUCATION AND BUSINESS SCHOOLS

While the need for small business management education and entrepreneurial studies is real, U.S. (and Canadian) business schools have been slow to respond to this need. A careful study of the typical curriculum of the accredited

(American Assembly of Collegiate Schools of Business) undergraduate and graduate business school programs demonstrates the lack of attention being directed toward small business. The typical texts and courses in the functional business fields are designed to assist the student in assuming a position with P&G, Westinghouse, Ernst & Whinney, Kroger, IBM, The May Company, or other large corporations. The fields themselves tend to establish a degree of specialization for their majors that is appropriate for the larger enterprise, the public sector (state or federal), or a major nonprofit organization.

Again, as with the changes that are occurring in the economy, it appears that the attention given to small business management, as well as the entrepreneurship education, is on the increase. A recent study found that some 212 business schools and 41 engineering schools offer one or more courses in small business management.³ Further, as a distinctive area of academic research and study, small business management is making important strides and has the requisites such an emphasis requires. Chief among these is an academic journal, *The Journal of Small Business Management*. And, as the small business area grows, the need for additional carefully developed textual materials also increases.

As in so many instances in the functional areas of business, the strong contributions by authors and researchers have been in the form of articles or speeches rather than texts or monographs. This book offers a unique collection of such readings and insights and in this way further contributes to the development of the field and the opportunities available to students. In addition, since practitioners have a constant need to reinforce their understandings of small business and so many new businessmen or -women join the small business ranks each day, this book provides a valuable resource to such readers.

J. K. Ryans, Jr.

*Professor of Marketing
and International Business*

³Karl H. Vesper, *Entrepreneurship Education 1985* (Wellesley, Mass.: Center for Entrepreneurial Studies, Babson College, 1986), p. vii.

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Introduction

In the last ten years, small businesses have grown at an extremely fast pace, contributing two thirds of the nine million new jobs to the economy. Small businesses are considered to be major contributors to the gross national product and to provide a large part of the on-the-job training to the American work force.

Businesses that are owned by the self-employed are generally small but represent a variety of endeavors. Self-employment generates new services and products and provides flexibility and adaptability in the economy. Often small businesses are considered to be training grounds for the nation's entrepreneurs. Some of the reasons people prefer to become self-employed include changes in the economic conditions of the country, the appeal of various opportunities for new and smaller businesses, the effects of the tax code on the formation of a business, the fact that they have been laid off their present job, dissatisfaction with wage-and-salary jobs, the desire on the part of the prospective business owner to supplement his or her income, and the feeling of independence that owning your own business gives. There appears to be an increasing number of individuals making the move from the big corporation to the entrepreneurial ways of the small firm.

WHAT IS SMALL BUSINESS?

But what is a "small business"? The term "small business" is very hard to define. While there are numerous definitions, people tend to have different ideas of what the term actually means. However, Siropolis has provided sev-

eral guidelines that can be used to judge what a small business is. Some of the common yardsticks that can be used to measure the size of a business to determine if it is "small" include the total assets of the business, the total investment made by the investors, yearly sales revenues, and the number of employees (less than 500). Is the business inflation proof, can it easily be understood, does it allow good comparisons of size among other businesses in the same industry, and is it independently owned and independently managed?¹ Whatever definition is used, small businesses play a major role in the economy of the country.

STARTING A SMALL BUSINESS

Each year millions of people pursue independent business careers. The small business owner/manager may start a business for three basic reasons: for profit, for independence, or to satisfy a certain life style.

Marc Levinson offers several reasons that explain the recent growth in new small business formation since the mid-1970s, compared to some basic changes in the American economy. For example, there has been an increase in the service sector (that is, employment services have increased more than twice as fast as overall employment). Through deregulation, there are no longer restrictions that at one time kept small firms from entering into various industries. There is a change in the notion that bigger is not necessarily better, and larger manufacturers are now looking to the smaller firm for orders, which lowers their labor costs and their overhead. The technological change has made it possible for the small manufacturer to underprice major manufacturers due to the introduction of small-scale equipment. With the current amount of unemployment in the country, new businesses are started by workers who have lost their jobs. And finally, the increase in immigration since the 1970s has accounted for an increase in new businesses formed in certain areas of the country.²

The characteristics of a small business owner/manager may also vary. Some have a basic need for achievement, while others are risk takers. But whatever the basic need or the type of individual, the small business owner/manager must have self-confidence. And statistics show that people continue to start new businesses. For example, for the fourth straight year, new business incorporations have increased by about 4 percent and in 1986 alone there were 702,101 new business incorporations, a 5 percent increase over 1985. On

¹Nicholas C. Siropolis, *Small Business Management: A Guide to Entrepreneurship*, 3rd ed. (Boston: Houghton Mifflin, 1986), pp. 6-7.

²Marc Levinson, "Small Business: Myth and Reality," *Dun's Business Month*, 126 (September 1985), 31-32.

the other hand, not all businesses are successful, and there were 80,400 small business bankruptcies in 1986 alone. This figure does not reflect businesses that close due to mergers, sell-outs, relocations, and so on.³ As mentioned above, there are numerous reasons for business failure, but one major cause is lack of management expertise. While there are many points a would-be small business owner must consider before starting a business, perhaps the most important factor that determines the success of a venture is good management practice.

SMALL BUSINESS MANAGEMENT

Small business management covers a wide range of activities involved in running a business. In fact, every aspect of a business operation involves some impact on management. Therefore, the success or failure of a business can depend on the ability of the owner/manager to be proficient in all aspects of management or to hire people who can handle the various aspects of the operation. While it is not likely that one person can know everything there is to know about everything, a good manager does know where to find the information he or she needs and also knows when he or she needs to get help.

SCOPE OF THIS BOOK

This book is designed to provide some helpful information for the owner/manager as well as the student studying the various areas of small business management. It is divided into ten sections, each dealing with major aspects of small business management. A general introduction is given to each of the ten areas. This is followed by current, pertinent articles on the topic. A selective bibliography of journal articles and books is included in each chapter, which provides a source of additional useful insights on the various topics. However, the reader should not consider these reference lists to be comprehensive, as there generally are dozens of other good sources on each subject. Many publications are devoted entirely or in part to small business management. Publications in this category include *Inc.*, *Venture*, *Entrepreneur*, and *Journal of Small Business Management*, to name a few. The articles mentioned here are designed to illustrate the valuable information that can be found in this dynamic field.

This book does not include references to sourcebooks or any type of book that lists names and addresses of organizations that are useful to the

³*The State of Small Business* (Washington, D.C.: U.S. Government Printing Office, 1987), pp. 7, 9.

small businessperson. This information can be found in *Small Business: An Information Sourcebook*, by Cynthia C. Ryans, published by Oryx Press, Phoenix, AZ, 1987.

The ten areas discussed here are (1) the small business owner/manager, (2) the business plan, (3) accounting/finance/venture capital, (4) franchising, (5) management, (6) location and production, (7) marketing/promotion/advertising, (8) laws/taxes, (9) government relations and regulations, and (10) special topics. The topics covered in this section are all important to the operation of a business and should not be considered as "extra."

While this book does not provide all the answers that the small businessperson needs to operate a business, it does provide enough information to stimulate the thought process to proceed in successfully operating a small firm.

As always, there are numerous people who help in some way in the process of preparing a book such as this. Thanks go to the Interlibrary Loan Department of the Kent State University Libraries/Learning Resources for their help, as well as to Dr. Don L. Tolliver, Director of the Kent State University Libraries/Learning Resources, for arranging for me to have research leave time. In addition, Linda Poje has done an excellent job in putting the manuscript into its final form. My particular thanks go to Dr. Gail Mullin of Old Dominion University, Dr. Joseph C. Latona of the University of Akron, Dr. W. Keith Schilit of the University of South Florida, and Charles Schaffer of the Minnesota Department of Energy and Economic Development for their helpful contributions on the development of this book. And a special thanks goes to Dr. John K. Ryans, Jr. for his help and suggestions throughout the entire preparation of the book.

The Small Business Owner/Manager

Chapter One

Small businesses come in all sizes, shapes, and levels of funding. Some depend on venture capital while others grow from the owner/manager's own private investments. Today the owner/manager represents one of the most interesting and glamorous sides of the business world. The entrepreneurial spirit has led the Edisons of this world to offer dramatic scientific breakthroughs to the public. But all are not such classic contributors to society. A recent look at *Venture* magazine, for example, finds small businesspeople engaged in everything from the selling of buffalo meat to "Peek-a-Boo-Bears".¹

Quite often the same exciting kinds of problems face both the high-tech and the low-tech owner/manager. Thus, the articles in this chapter provide direction to a borrowed spectrum of small business owner/manager types. Even the definitions of entrepreneurship and of small business owner/manager have been widely debated. While a standard dictionary defines an entrepreneur as one who organizes, manages, and assumes the risk of running a business, experienced writers in the field provide considerably more insight into this often-mystical area of business.

For example, some authors view an entrepreneur as a person who starts and manages a business for the primary purpose of profit and growth and the small business owner as one who establishes and manages a business primarily for furthering personal goals.²

¹"Entrepreneur News," *Venture*, 9 (February 1987), 9.

²James W. Carland, Frank Hoy, William R. Boulton, and Jo Ann C. Carland, "Differentiating Entrepreneurs from Small Business Owners: A Conceptualization," *Academy of Management Review*, 9 (1984), 359.

OWNER/MANAGER RISKS

Small business ownership is associated with personal risk. The success (or failure) of a small business can be dictated by economic cycles, communications technology, various aspects of competition, fluctuations in the population, changes in consumer demands, political and social trends, changes in exchange rates, inflation, and much more. While some of these may look like negatives, they can in fact be opportunities. However, they do need to be monitored on a continuous basis.

On the positive side, an owner/manager can look forward to rewards such as economic rewards and career development, as well as an increase in motivation. In order to make a success in any business venture, an owner/manager must first prepare himself or herself for starting a business.

WHAT IT TAKES TO OWN YOUR OWN BUSINESS

One of the first questions to ask is: Do I have what it takes to be an owner/manager? While this is one of the most difficult questions to answer, it is also one of the most important. Some of the considerations the potential small businessperson needs to examine include his or her life experiences, personality, motivation and drive, age, health and general family situation, willingness to assume new responsibilities, financial readiness, and managerial know-how.³ All of these variables should be considered and weighed against the type of venture the owner/manager is considering before actually starting the business.

There are also a number of small business owner/managers who actually start out working for large corporations but for a variety of reasons choose to leave the corporate world to start their own business. Robert W. Bly and Gary Blake recommend five steps for those considering leaving the corporate job to go “out on their own.” These include the following:

1. Look at the reasons you are not happy in your present job.
2. Study the options open to you (that is, do you have a business plan, do you want to start your own business, buy a business, or freelance?)
3. Plan for your own business venture by assuring that you have an income cushion; study areas in your present job that will help your new career; work out a plan with goals, operations, resources, and timetables.
4. Be sure you are financially and emotionally ready before you resign, including having health and life insurance coverage.

³Charlotte Taylor, “Do You Have What It Takes (to Be an Entrepreneur)?” *Business and Economic Review*, 31 (July 1985), 4.