

Entrepreneurship and Venture Management

TEXT AND CASES

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PREFACE

This book developed out of the research and teaching and especially the small business consulting activities of the authors who have taught courses in small business management and in managerial strategy and policy over the past decade. In addition, they actively served in the Small Business Institute program at The University of Texas (now in its fifteenth year), participated in numerous small business seminars, and the Case Research Association program of case development.

Many of the cases developed for this book arose out of a variety of consultations conducted by both authors. They are deeply grateful for the opportunity to test their ideas in practice and to develop class materials out of those consulting assignments. Many of those materials have been utilized in this book.

Encouragement for this book was offered by the former chairman, Department of Management, Roy Harris; the present chairman, Jim Dyer, and by Dean William Cunningham. We owe a debt to those who assisted in so many ways in the typing and the production of the manuscript. To Gary Bauer, whose early faith in us was so vital to this project, we are indeed grateful.

To those professors who have contributed cases and ideas we are most grateful. Authorship of cases is acknowledged for each.

We would also like to thank those who reviewed this book as a manuscript: Joseph Platts, Duane Ireland, Steven Hardy, and Michael Broida. We appreciate the time they gave to this project and their thoughtful suggestions.

Finally, we are pleased to acknowledge the encouragement of our respective families to this lengthy project, as other demands on our time were set aside until the completion of this manuscript.

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PART ONE

INTRODUCTION TO VENTURE MANAGEMENT

1

The Nature of Entrepreneurship

Evolution of the Entrepreneur and His Characteristics

When the Pilgrims finally recognized that their insistence on communal life meant eventual starvation, the opportunity for private initiative first began to emerge in what was a truly primitive land. From these uncertain, perilous, and humble beginnings, the first American pioneers in private enterprise launched an "experiment" whose dimensions were hitherto unknown in the civilized world. These early enterprisers thus commenced an adventure that ultimately created the freest and most prosperous nation in history. The TV program called "Free to Choose" has extolled the very virtues initially practised by our colonial forebears over two centuries ago.

These intrepid men and women represented a revolution—a revolution in the ways in which they practiced economic life, in marked contrast to the typical experience of the past.

In expanding America there was a premium on new devices, new gadgets, and 5,942 new patents were issued in the 1840's; 23,140 in the 1850's. Mechanical drills and saws, steam engines, carders, water wheels, pumps—all were being improved while our new agriculture machinery was winning world supremacy. At the Paris exhibition of 1854, six men were pitted against four different threshers for half an hour. Their respective labors yielded:

<input type="checkbox"/> Six men with flails	60 liters of wheat
<input type="checkbox"/> Belgian thresher	150 liters of wheat
<input type="checkbox"/> French thresher	250 liters of wheat
<input type="checkbox"/> English thresher	410 liters of wheat
<input type="checkbox"/> American thresher	740 liters of wheat

(Cochran and Miller 1942, p. 58)

These giant steps taken by resourceful, tireless, and innovative men and women surely epitomize the unquenchable spirit of the entrepreneur.

By 1890 the United States had passed its "parent," Britain, in output of steel and, only eight years later, in output of coal. A prodigious feat, it was even more remarkable in that it was achieved only a few years subsequent to the devastatingly destructive Civil War. We still marvel at the feats of Eli Whitney, De Witt Clinton, Robert Fulton, Samuel Colt, John Deere, Cyrus McCormick,

Samuel Morse, Alexander Graham Bell, the Wright Brothers, Henry Ford, and Thomas A. Edison—to cite only a few of those ingenious and indefatigable inventors who provided the means and the stimulus to transform an agricultural society into an industrial colossus. Although the first European settlers inherited an unbelievably rich continent, it is also a fact that before there can be a frontier, there must be creative frontiersmen.

What these early entrepreneurs recognized was that, to create wealth, it was necessary to increase productivity. To increase productivity, it was essential to multiply human effort by the right combination of tools—and this what they set out to do. To succeed, they had to be inventive and persistent, willing to risk failure and opposition and, often, willing to accept hardships. Frequently inventions were ridiculed and their creators spurned and harassed. Nonetheless, stimulated by challenge and enthralled by an idea, these dauntless inventors managed to prevail—fortunately for all of us.

It is to this spirit that this book is dedicated.

The Typical Entrepreneur

Spurred by an inner compulsion to achieve, the typical entrepreneur is undeterred by difficulties, is willing to take risks, is decisive, versatile, self-confident, and a finisher. This need for achievement has been emphasized by David McClelland, who also has commented on the importance of feedback to verify the degree to which goals are accomplished.

John Welch, co-author of *The Entrepreneur's Master Planning Guide*, concluded from his studies of the activities of entrepreneurs that they appear to have the following characteristics: *

- ☐ good health
- ☐ a basic need to control and direct, with freedom to act and choose courses of action (although no need to exert power over others)
- ☐ self-confidence, especially in the face of adversity, as long as he is in control; uncomfortable as a team member (a real maverick); a little increase in control generates a large increase in self-confidence
- ☐ a relentless drive; high degree of achievement orientation
- ☐ a comprehensive awareness of total environment
- ☐ realistic; wants to measure results, personally verify data; his word is his bond; high sense of integrity
- ☐ superior conceptual ability; can see important relationships in seemingly confusing situations; quite clear in approach and in seeking alternatives
- ☐ low need for status; status is achievement; wants to be where the action is
- ☐ objective approach to interpersonal relationships
- ☐ sufficient emotional stability
- ☐ attracted to challenge where the odds are “interesting,” which may create the impression of a high risk taker, though this is not true

*From an address given on 8 April 1982 at a conference, “Robust Companies and the Entrepreneurial Spirit,” sponsored by the RGK Foundation, the Institute for Constructive Capitalism, the College of Business Administration Student Council, and the Graduate Business Council of the University of Texas at Austin, Texas.

Dr. Welch, who also is the director for entrepreneurship of the Caruth Institute in the Edwin Cox School of Business at Southern Methodist University, believes that the dominant characteristic is the basic need to freely control and direct.

This profile is further supplemented by the findings of John Hornaday and John Aboud, which emphasize the importance to entrepreneurs of recognition, independence, and leadership. Other significant attributes include careful budgeting of time, expectations of quick and concrete results, and the strength to make decisions in the face of unknowns. Admittedly, nearly all decisions are made without all the desired data. But the entrepreneur does not dwell on this fact. He acts. Once he has studied the circumstances and possible risks, he does not agonize over the possibility that he might be wrong. Even if the desired results are not evident as soon as anticipated, the entrepreneur is not unduly dismayed, typically, developing new energy to proceed.

One attribute may surprise some observers. A formal education is not always involved in success. The spectacular performance of Ray Kroc with McDonald's and Lear with the jet aircraft bearing his name underscore this circumstance. For the high-technology type of small enterprise, however, a high degree of formal education is usually involved; many such successful entrepreneurs possess master's degrees. The developer of bakelite, for example, had a doctorate in science.

The absence of formal education does not mean that the successful entrepreneur is indifferent to analysis of the product or service relative to its most probable market, competitive factors, or the relationships of resources to the demands of various market segments. Cause-and-effect connections are thoroughly studied as the learning process continues. Consequently, the lack of a degree does not preclude very astute judgments and techniques from being formulated. Even in the most difficult of times, opportunities exist for exploitation by the quick and alert entrepreneur.

It was at the height of the great depression (the early 1930s) when an out-of-work oil field mechanic decided that it was ridiculous for oil companies to install permanent drilling derricks over each drill sight [sic]. He conceived the concept of a portable drilling rig which revolutionized the oil industry.

Now this out-of-work mechanic had a few handicaps that might lead you to believe that he would never make a successful entrepreneur. He could barely read and couldn't write. He had absolutely no experience in either management or finance and therefore developed some unique opinions that should have killed his company's chances. For example, he believed, "No man who wears a necktie can be trusted." and "Never put your money in a bank or do business with a banker or you'll lose it all." And, "Never plan beyond today. The Lord will take care of tomorrow regardless of how much you fret."

He was a frugal man so that when he was laid-off, he had over \$400 hidden in a sock (a small fortune in that era). He watched his savings dwindle to \$325 in three months while he searched for 'respectable' work and then he decided to risk \$200 on his portable drilling rig concept. At this point the mechanic sold the International Harvester Truck dealer of Tulsa on his concept and borrowed a ten-ton truck to demonstrate (the dealer couldn't move his inventory and agreed to the loan if he received payment in full when the mechanic sold his rig). He rented (at \$10/month) a 50-ton draw-works from a hoist manufacturer (balance to be paid when the rig was

sold) and spent all of his spare time (the hours when he wasn't standing in long lines looking for work) building his rig. It took him three months.

On his first demonstration, the drilling manager immediately saw the advantages of the concept and immediately bought the demonstrator. Oddly enough, the mechanic was thinking of asking \$7,500 (taking price he hoped would be at least \$5,000) but when the manager seemed so enthused, the mechanic raised his price to \$10,000. When the manager didn't balk, he then added \$3,500 for the truck. He left the demonstration rig at the sight [sic] and hitchhiked home to await his \$13,500 payment. He felt that the \$8,500 profits would hold his sock in order until he found "respectable" work. However, when the check came, it was accompanied by an order for ten more units at \$13,500 each.

This caused our mechanic a very real personal problem. One cannot build ten drilling rigs in his spare time and still search for proper work. If he accepted the order, he might miss out on a safe job. While he debated as to whether to return the order or not, another oil company (whom he had never demonstrated to) sent him a purchase order for fifteen rigs, and so the mechanic's company was born.

Now \$8,500 doesn't go too far when you want to build 25 drilling rigs unless you use some sound money-leveraging principles. Here's how our Okie made money stretch:

He put an advertisement in the local paper requesting the cream of mechanics for top wages (75 cents an hour) provided that the candidates accept the following terms: (a) they would have to work 50 hours/week in a farmer's barn (which he rented for \$5/month); (b) they be given only rent money and groceries until the rigs were delivered and payments were made; and (c) no interest would be paid on back wages. Five applicants for every opening showed up and he selected the cream.

Since this was a sizable order for both the truck and hoist dealers, they agreed to supply him with 5 percent down and the balance when he was paid. Of course no interest was charged.

He found several grocery stores which agreed to sell him all of the food his employees needed at 50 percent down, the balance when he got paid. Thereafter, every worker received a large sack of groceries each evening after work.

The scrap steel dealers drove a harder bargain. They received 25 percent down, 25 percent after two months, and the balance when he got paid.

Since excess inventories of paint, cables, chains, etc. existed, he rarely paid over 5 percent down and the balance when payments were received.

When the twenty-fifth drilling rig was delivered his sock had dwindled down to \$2,300. When he was finally paid, the company was in a cash-rich posture, a position which never changed until it was sold in the 1950s.

There were some problems which might amuse you. The management organization consisted of just the mechanic for the first fifteen months. When government auditors came in to inspect the books, they were unhappy to learn that there were no books. The record keeping system was very simple. In the top right hand drawer of the company's only desk, all unfilled orders were kept. In the upper left hand drawer, all unpaid bills were kept. When an order was filled or a bill paid, it was pulled from the drawer and thrown in the wastebasket. "That way, we could always open a drawer and know what was coming in and what was going out." All other records were kept in the mechanic's head.

The auditors didn't feel that this was an acceptable accounting system and gave our Okie 30 days to develop proper records. He hired his first staff man, a cousin of one of his mechanics who was an educated man (he had finished high school and had once had a bookkeeping course). When the auditors returned 30 days later, they found a

single sheet of paper which was a combined balance sheet, income statement, and miscellaneous additional items. They were extremely unhappy and when they started to padlock the door, the president pulled out a dozen socks (filled with about \$650,000 in cash) and told them to "take what you think is fair."

When they took more than what the president felt was fair, he hired a qualified accountant, told him to leave his neckties at home, and to protect him the "next time those bandits come." The new controller was also given the following instructions: "Don't put a penny in the banks. Put 10 percent of all cash into dimes so that we can melt them down for silver if we have to. Don't keep any bills larger than \$5 because counterfeiters never work that low."

For months, this controller was developing ulcers concerning himself about the vast amounts of unprotected cash he had to carry. Then he started cutting out newspaper stories of holdups and left them on the president's desk. After several months and dozens of stories of how people had lost everything in holdups, the controller asked his president about the high risks they were taking with their bundles of cash. It was then that he learned that his president hadn't read the newspaper clippings because he could hardly read. So the controller read him the clippings aloud, scared the president, and was allowed to place half of the company's cash in five different banks. The other half had to remain in reachable cash. When the controller retired 20 years later, he handed his replacement in excess of \$4,000,000 in dimes, ones and fives. The company had never been robbed.

From a production and service standpoint, this company also had unique problems. For the first 250 units produced, the company never used anything but scrap steel. This forced unique production practices. Each rig was completely built by one master mechanic and three apprentices. Since the materials were scrap, each rig had to be engineered and built from supplies on hand. No records were ever kept and since serial number 131 was completely different from serial numbers 130 and 132, the field service people had to be extremely flexible and innovative. However, since he only hired the cream, this was never a real problem. When the Japanese government started buying all of the scrap steel they could get their hands on, the prices rose so the Okie was finally forced to use new steel.

In the late thirties, the oil companies' demands finally exceeded his master mechanic's engineering abilities and he was forced to hire a real engineer. When the poor man first showed up to work, there wasn't one blueprint or one written production instruction in the entire company (it now employed over 500 people: one accountant, one engineer, one woman who handled all clerical jobs, one president, and 496 production mechanics). It took this engineer four years to convert the company to sound engineering control systems.

The company continued to be unique in many operating modes. When the Second World War hit, the government asked them to quote on building barrage balloon launchers. They quoted \$12,000 while the next lowest bidder quoted \$62,000. The company made \$8,000 per launcher in profits while their competitors made less than \$6,000 per launcher. (White 1977, pp. 5-7)

On the other hand, Sandra Kurtzig, 36, started ASK Computer Services Inc. of Los Altos, California, with a master's degree in aeronautical engineering and four years' experience in computer operations. She launched her company on a part-time basis while raising a family. "I never anticipated running a \$12-million-a-year operation." Her initial outlay was \$2,000.

When Lore Harp's husband designed a microcomputer memory board, she and Carole Ely marketed it. Vector Graphic Inc. of Westlake Village, the company they started, now sells its own line of small business computers worldwide. Three years later, the company raised \$725,000 in venture capital and projected a 350 percent jump in sales to \$18-million within the following year.

After being passed over in her bid for a partnership, Charlotte Taylor left the international management consulting firm where she had worked for three years to set up her own firm. Michelle Heller's six years with firms on the Chicago Board of Trade and the Chicago Mercantile Exchange were getting her nowhere, so she opened an employment agency specializing in commodities brokerage jobs. After approximately a year in operation, her firm acquired 60 brokerage houses and expected to obtain \$150,000 in fees by the end of its first year. She has expanded into securities and options jobs, with further plans for expansion. (All of these examples were featured in *Business Week* 1980.)

The Environmental Basis for Entrepreneurial Activity

Given the fundamental aspects of entrepreneurship, our attention should now shift to the nature of the environment in which the entrepreneur must function. Consider, for instance, the evolution of the corporate man, and his influence on the inventor/innovator who tries his hand in the marketplace.

Concern Over Individualism

As small firms prospered and grew, and we entered the age of the large corporation and the ascendancy of the corporate man, many observers decried what they saw as the unhealthy demise of individualism. The corporate man, they exclaimed, was increasingly divorced from ownership, as the corporate form of organization evolved into economic and political power centers whose influence rapidly spread across America. Pushing aside the "rugged individualist"—the original entrepreneur—this new breed of executives in grey flannel suits ushered in the era of the professional manager. This professional group, declared the same alarmed observers, was becoming far too dominant; their decisions appeared to exert undue influence on the overall economy. Increasingly, the drive was toward concentrated bigness. Small, it was reluctantly concluded, was no longer "beautiful," the case histories of successful small entrepreneurs—even the ever-increasing numbers of resourceful women business founders—notwithstanding.

Indeed, judging from the attention accorded the large corporations by the news media and the Congress, the casual observer might well suspect that, today, business in America is conducted exclusively by giants: General Motors, Exxon, DuPont, US Steel, and a handful of other very large companies. Was it really true that the whale had finally swallowed Jonah, leaving only a few insignificant survivors? Did not the world believe that America was the land of huge firms?

Several years ago the story circulated that President Nixon, impressed by the lightning Israeli victory in the famous Six-Day War, asked the prime minister to give the U.S. two of the top generals in the Israeli army. "Gladly," was the response,

"providing you give me two of your generals." "That seems fair enough," said President Nixon, delighted that he was about to score a coup. "Which ones do you want?" "I'll take General Motors and General Electric."

Predominance of the Small Firm

Although these substantial corporations are undeniably influential, the fact is that they clearly represent the minority of all American business organizations. Although estimates vary, the evidence suggests that there are between 14- and 15-million businesses of all types and sizes in America. It is also a fact that over 95 percent of these companies are small. As reflected in Tables 1.1, 1.2, and 1.3, the position of small businesses in the American economy and their contributions to the Gross National Product and level of employment are well established, if not well known.

Few would dispute, for example, that the automobile industry is big business. However, thousands of small firms supply parts that are critical to the assembly lines of General Motors, Ford, Chrysler, and American Motors. "Of the approximately 189,000 automobile repair shops in the U.S., for example, 70 percent only have one to four employees, or none at all; and of the more than 318,000 service stations, three-quarters of them are in this size range. Of the 104,000 new-car dealers, 70 percent employ fewer than 50 people." (Baumbach and Lawyer 1979, p. 11)

Small Business and Innovation

Economically small business plays a critical role in the process of innovation. When one surveys the new products and new processes of the past 25 years, it is extraordinary how many of them were introduced by aggressive entrepreneurs or smaller business firms. The Xerox copier, the Polaroid camera, the mini-computer, high fidelity recordings, frozen foods, wash-and-dry clothing, and so forth—the list is long and impressive. Nor is it only product innovation that small business is so good at. It also rates high marks for conceptual innovation, for coming up with a new way

TABLE 1.1

Sole Proprietorships, Partnerships, and Corporations, 1974-78
(numbers in thousands)

<i>Year</i>	<i>Sole Proprietorships¹</i>	<i>Partnerships¹</i>	<i>Corporations²</i>
1974	10,874	1,062	1,966
1975	10,882	1,073	2,023
1976	11,358	1,096	2,082
1977	11,345	1,153	2,242
1978	12,018	1,234	2,377
Annual Percentage Increase, 1974-78	2.1	3.2	4.2

¹Department of the Treasury, Internal Revenue Service, *Statistics of Income Bulletin*, Vol. 1, No. 1, Summer 1981.

²Department of the Treasury, Internal Revenue Service, *Corporation Income Tax Returns*, 1977 and earlier years.

Source: *The State of Small Business: A Report to the President*. Washington, D.C.: U.S. Government Printing Office, March 1982, page 70.

of organizing older services. Containerization; the discount store; the motel; franchising the sale of hamburgers, fried chicken, and other food products—these, among others, were ideas in the head of an individual that proved fruitful and beneficial because our economic system permitted them to compete with existing ideas as to how things should be done. (Kristol 1975)

In the same vein,

A study by the Office of Management and Budget shows that more than half of the major technological advances in this century originated from individual inventors and small companies. A sampling of those achievements is remarkable. And many of these inventions sparked major new U.S. industries and growth companies:

DDT	Frequency modulation radio
Insulin	Self-winding wrist watch
Vacuum tube	Helicopter

TABLE 1.2

Job Growth in Establishments by Employment Size of Establishment, 1977-79
(thousands of jobs)

<i>Industry/Division</i>	<i>Employment Size Class</i>				<i>Total</i>
	<i>Under 20</i>	<i>20-99</i>	<i>100-499</i>	<i>500+</i>	
All Industries	1355.4	2103.0	1919.5	1742.0	7119.8
Agriculture, Forestry, Fisheries	90.4	149.7	88.8	15.7	344.6
Mining	9.7	29.4	22.2	20.6	81.9
Construction	211.0	257.6	151.3	25.5	645.4
Manufacturing	34.1	223.3	497.3	869.6	1624.3
Transportation, Communications, Utilities	42.0	95.3	70.3	-0.2	207.4
Wholesale Trade	119.2	211.6	143.0	40.5	514.3
Retail Trade	178.6	480.6	326.4	213.3	1198.9
Finance, Insurance, Real Estate	78.9	96.1	108.7	108.9	392.6
Services	591.6	559.1	511.0	449.5	2111.2

Note: Detail may not add to totals due to rounding. Totals exclude government.

Source: *The State of Small Business: A Report to the President*. Washington, D.C.: U.S. Government Printing Office, March 1982, page 66. Data derived from the U.S. Department of Labor, Bureau of Labor Statistics, Unemployment Insurance (UI) System, unpublished data, January 1981.

TABLE 1.3

Activity Shares of Firms With Less Than 500 Employees, 1976-78

<i>Measure</i>	<i>Percentage of Total</i>
Number of Companies (1978) ¹	99.7
Gross National Product (1976) ²	38.0
Private Sector GNP (1976) ²	44.0
Employment (1978) ¹	46.8
Payroll (1977) ³	46.0
Gross Revenues (1978) ¹	42.7

Note: Detail may not add to totals due to rounding. Totals exclude government.

Source: *The State of Small Business: A Report to the President*. Washington, D.C.: U.S. Government Printing Office, March 1982, page 52.

Penicillin	Mercury dry cell
Titanium	Power steering
Cyclotron	Kodachrome
Shrink-proof knitted wear	Air conditioning
Zipper	Ball-point pen
Automatic transmission	Cellophane
Gyrocompass	Tungsten carbide
Jet engine	Bakelite

(Office of Management and Budget 1980)

Yet, Is Small Business Losing Ground?

Despite these impressive accomplishments over the years, clearly all is not well with small businesses in today's economy and environment. Milton Stewart, now an editor of *Inc.* magazine and formerly the chief counsel for advocacy in the Small Business Administration, viewed with considerable concern the decline in the share of Gross National Produce (GNP) produced by small businesses—a decline that he believes to be of long-term proportions. The small business share had dropped from 43 percent in 1963 to 40 percent in 1972 to 39 percent in 1976. "This growing imbalance (large businesses and government are significantly increasing their share of GNP) in our economy is disturbing for many reasons. First, it runs counter to the deeply-held desires of individual Americans for an opportunity to work in an atmosphere providing the greatest independence, where they are not subject to the regimentation or impersonal bureaucracy of a large organization." (Stewart 1980) Additionally, he continues, this shift in contribution is a manifestation of a real structural change now underway where the small, dynamic, very innovative firms are crowded out by the very largest companies. Consequently, in his opinion, a serious drop-off in productivity and innovation could be set in motion that may be extremely difficult to reverse in the near future. An examination of the environment in which firms must operate may help to provide a sharper focus of the picture that Stewart is drawing.

The Small Business Environment

For any small business there are two principal environments—one external, the other internal (Table 1.4). The internal environment largely can be controlled by the firm's managers, whereas the external one is largely beyond their control. Both environments influence the manager's decision-making process and each acts upon the other in varying ways. The boundaries between them are not as distinct as the table might imply and, usually, a certain amount of territorial crossing occurs as events unfold. While it is true, for instance, that the choice of the business location is an internal matter, once the decision has been made the firm is subject to whatever influences that location entails. The employees also bring to the company their different attitudes, education, and experiences; but, once employed, they in turn are influenced by what occurs on the job.

Increasingly, it seems, the external environment is becoming more influential, impinging significantly on what a firm can and cannot do. All businesses must cope with regulations that make compliance costs appear to balloon without limit. The CBS program, "60 Minutes," estimated that small businesses pay \$20-billion a

year to respond to government paperwork requirements. Since the typical small business has few resources and little or no reserve, it is especially vulnerable to external factors that add to the costs of doing business. Current and significant examples of this situation are the frequent substantial increases in Social Security taxes and the minimum wage. In 1979, it will be recalled, Congress passed a \$227-billion tax-increase package intended to rescue Social Security from pending financial "demise." Unfortunately, by Spring of 1983 the Congress added another \$165-billion in new taxes to accomplish the same purpose.

Most small firms are labor-intensive. Therefore, whenever payroll costs rise appreciably, it becomes more and more difficult to pass those costs on to customers in a depressed economy. More than forty years ago, Will Rogers pinpointed the essence of this problem. "It's not what you pay a man, but what he costs you that counts." In a competitive market, the small company generally has little or no real influence on prices. To compete successfully, the small organization must control expenses effectively on a sustained basis. Consequently, it is not surprising that concern is mounting about the impact of government on small businesses.

According to a survey by the U.S. Chamber of Commerce, the top ten problems worrying small-business men and women in 1976 were government regulations in general, inflation, taxes, government paperwork, labor unions, the federal deficit, high interest rates, environmental restrictions, lack of available capital, and minimum wage laws (*U.S. News & World Report* 1976). By April 1984, according to data compiled by the National Federation of Independent Business (1984), the top nine concerns were

1. Taxes
2. Interest rates and financing
3. Poor sales
4. Competition from large business

TABLE 1.4
Chief Factors in the Small Business Environment

<i>Internal (largely controllable)</i>	<i>Individuals and Groups (largely mobile)</i>	<i>External (largely uncontrollable)</i>
Strategy, goals, and policies	Attitudes and beliefs	Bankers
Identity of tasks	Values	Community beliefs and customs
Identity of skills needed	Motivation	Competitors
Selection of key staff members	Experience and background	Courts
Authority and assignment of duties	Abilities	Customers
Organizational structure	Changing needs and desires	Economy
Selection of location		Educational institutions
Physical plant		Governments
Procedures, processes and systems		News media
Training and educational programs		Religious institutions
Leadership		Special-interest groups
Motivation		Suppliers and distributors
Performance		Technology
		Unions
		Weather

5. Other government regulations, red tape
 6. Inflation
 7. Minimum wage laws, cost of labor
 8. Quality of labor
 9. Shortage of fuels, materials, or goods
- (The tenth category was "other; no answer").

In view of the deplorable state of the economy, and the highest incidence of business failures since the 1930s, it is not surprising to note the anxieties over financing business operations, which probably includes implicit recognition of the impact of huge federal deficits on interest rates and the availability of capital, and the continued high-level concern over taxes. Had a poll been taken as the Congress prepared to increase payroll taxes significantly in the Spring of 1983, to "rescue" Social Security one more time, taxes probably would have advanced materially in the preceding listing. The somewhat lessened worry about inflation is a reflection of general awareness that the Federal Reserve System has indeed impacted importantly—and painfully to many—in this struggle.

Nearly all these problems result from government action of one form or another. It is clear that as the role of government expands—consider, for example, the widely held belief that federal deficits are responsible for high interest rates—the latitude for independent action by business owners diminishes correspondingly.

As Murray Weidenbaum concludes in his *The Future of Business Regulation*,

The rising tide of regulation has become a major barrier to productive economic activity. The costs arising from government regulation are basic: (1) the cost to the taxpayer for supporting a galaxy of government regulators, (2) the cost to the consumer in the form of higher prices to cover the added expense of producing goods and services under government regulation, (3) the cost to the worker in the form of jobs eliminated by government regulation, (4) the cost to the economy resulting from the loss of smaller enterprises which cannot afford to meet the onerous burdens of government regulations, and (5) the cost to society as a whole as a result of reduced flow of new and better products and a less rapid rise in the standard of living. In a fundamental way, albeit unintentionally, the increasing power assumed by government over business often results in a diminution of business performance. It is not mere coincidence; in good measure, it is cause and effect. (Weidenbaum 1979, p. 6)*

Furthermore, as Weidenbaum continues,

The first-order effects of regulation—the direct costs incurred by American business firms in complying with the directives of regulatory agencies at all levels of government—are becoming larger and more acute. As shown, those costs amount to billions of dollars annually, and they seem bound to increase. The second-order effects—indirect costs incurred by private companies as the companies change their basic

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