

Small Business Entrepreneurship

AN ETHICS AND
HUMAN RELATIONS
PERSPECTIVE

LAVERN S. URLACHER

SMALL BUSINESS ENTREPRENEURSHIP

An Ethics and Human
Relations Perspective

Lavern S. Urlacher



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To my wife, Joyce Muggli Urlacher, for her support and encouragement, and to my children: Brian, who provided much needed computer technical support; Wyatt, whose artistic talent was put to use in drawing the bridge model; and Janna, who sacrificed time with her dad so that this book could be written.

I would also like to acknowledge every teacher who ever looked into the eyes of a student and saw the promise of a better tomorrow. I would especially like to thank those teachers who gave me hope, who strived to build me up and not tear me down.

Preface



A Letter to the Student · · · · ·

It is my profound hope that this book will have a positive impact on your life. If you or anyone else had asked me if I would ever write a book, much less a textbook, I would have answered “never in a million years.” In the end I wrote this book because I thought it needed to be written. I wrote it out of frustration. As an adjunct professor, I was teaching a class in small business management, and was frustrated with the textbook.

Partially, this was because of my experience with small businesses. I spent fifteen years as a small business owner and as a manager in three different types of businesses before attending graduate school to pick up an advanced degree. After graduation I worked part time as an adjunct professor and full time as an unemployment tax representative for the state of South Dakota. I worked exclusively with businesses and wound up doing a lot of coaching and consulting with new proprietors. One day I walked into a new establishment and visited with the new entrepreneur. As I was helping this person set up her payroll and handing her the appropriate forms for both state and federal filing requirements, I discovered that she had just graduated from college with a degree in accounting. She had been taught a lot about accounting, but not from a practical how-to, small business perspective. She had never seen the forms and did not understand the steps required to get a business off the ground from a legal-requirement point of view.

It is my intent in this book to fill in many of those gaps. I discuss what forms must be filed when and with whom. You will find the forms to file income tax and payroll in an appendix at the end of Chapter 10. You will find the forms to file a loan request with the SBA. I have included a format to form a franchise, buy a business on a contract for deed, and to deal with many with similar concepts. You will find an interview with a lender and two formats with which to file a business plan as well as an in-depth look at marketing research prior to the marketing plan format. In this type of course, more than any other in a typical business degree curriculum, the focus should be on a step-by-step, how-to framework. The only problem is that in a small business the steps are rarely sequential. It often seems that everything progresses at the same time, or remains stagnant.

I have developed a bridge model, which the book elucidates. This model was the outcome of an attempt to demonstrate to my students how the functional areas are integrated into a small business system. The model confirms that business is supported by people and systems that must generate an acceptable level of quality in the products and services that are produced. The model demonstrates that successful long-term business endeavors must be grounded in honesty and integrity—that a business must be grounded in ethical conduct if it intends to be successful. The ethical conduct a business engages in is most evident within the human relationships that support the business and also in the products and services the business produces. The model demonstrates that small businesses make decisions as an ongoing process. To make good-quality decisions, good information systems must be an integral part of the business structure.

In this book I have used many of my own experiences and have made extensive use of interviews with small business owners and with people in firms that tend to work with and support small business. I used this format to demonstrate how similar small businesses are but how unique they are in bringing their products or services to the marketplace. Although their problems and challenges are similar, they require very different approaches. It is my hope that the generosity of these people in sharing their life and business experiences will inspire readers not only to learn from them but to really gain an aptitude for creative problem solving.

The businesses that I chose to profile are truly entrepreneurial endeavors. These are not the sons and daughters of wealthy people who were groomed in the family business to take over when their parents retired. These are everyday working people who had a dream and possessed the ability and courage to pursue that dream. That doesn't mean they found the gold at the end of the rainbow. The process of running their businesses goes on in a very daily sort of way. These people were willing to share their hopes, fears, successes, and failures with the hope that you might learn from them. In the telling, take what you can and leave the rest. I am very grateful to those who opened their doors to me to share with us.

The focus of this book is not the SBA's definition of small business, which for most of us is big business, but on a much smaller scale. The intent is not to preclude or limit the size of the prospective entrepreneur's dream, only the size of the beginnings. I have a special appreciation for the fact that starting a small business involves an extensive search for information. Starting and running a small business often seems to be a continuous quest for solutions to ever-changing problems. To help simulate that process, I added a number of outside-the-classroom activities, to involve you in your communities in the search for firsthand information.

In small business management so many of the decisions that need to be made are financial in nature that I felt it particularly important that readers have a thorough understanding of the time value of money concepts. Included is a segment intended to expand your understanding of that concept, with a special focus on the capital budgeting process, which is what a business plan is really all about.

I hope that this book will act as a resource for you after this class has ended. It is my hope that the information contained in the book teaches lessons that are larger than just an exercise in academics. I would also like to thank you for allowing me to share in this part of your educational experience.

A Note to the Instructor

This text is written to be used with a very hands-on approach. Although I believe there are several ways in which this course could be taught using this text, in one sense the content resembles a bell curve, with the more general information at the very beginning of the book, in Part I, and also at the end, in Part III. If the book is used in a 17-week semester-length course, my recommendation would be to spend no more than a week each on the three chapters in Part I, to spend approximately 12 weeks in Part II, and to finish with a week each on the two chapters in Part III.

One suggested method of teaching the course using this text would be with the use of a class project that attempts to simulate the starting of a new business. I have found it useful to divide the class into teams of three to five, depending on the size of the class. I have allowed approximately one hour a week of class time, of which I float between the groups to lend support and ideas. The intent is to have the students come up with a workable small business concept and to prepare a busi-

ness plan, which includes a marketing plan, on a small business proposal. Once complete, I have the groups present their business plans to a peer loan committee for approval. Peer grading may be incorporated. Once the loan committee approves the business plan, I will run the students through the SBA loan guarantee process, which includes obtaining an SBA loan package for a 7(a) loan. I generally set a target date of around week 12 for the project to reach this point, and the completion of Chapter 9. If you are teaching under a quarter system, this process will have to be accelerated. The time frame may vary depending on the groups as well, but with the start of Chapter 10, I follow the project with small business accounting principles. From the pro forma income statements I will have the groups set up a check register, prepare a schedule C and form SE, and file a 1040. Once the income tax process is complete, I run the students through the payroll process, starting with the SS-4 federal identification number application and all the federal and state forms to complete a full year's payroll. Nearly half of the federal government's budget comes from the payroll tax. From personal experience I know many businesses that fail because of gaps in knowledge of these expenses. I have included all the forms in the appendix to Chapter 10, with the exception of state-specific forms. The South Dakota forms that are included as samples could be assigned to demonstrate the general use of state forms.

Because small business management is heavily involved in making financial decisions, in Chapter 7 I address ratio analysis, time value of money, and capital budgeting. In the time value of money discussion we use present and future value tables exclusively. The answers to the worksheet, work problem, and minicase-type problems are given at the end of the chapter. This chapter could be handled by students through self-study, but they may need a little guidance. I have found that few students understand the concepts well enough to get through the problems on their own; they usually need a few pointers along the way. I have also found that most students are very appreciative of the knowledge and skills they obtain in this segment, because the applications are so universally applicable. The capital budgeting process can be emphasized as well. Most students have been exposed to that process in a finance class, but I have found that few students know how to apply a sensitivity analysis to a capital budgeting process. I leave it up to the instructors' discretion whether to cover this material.

Another approach to teaching small business management or entrepreneurship using this book would be to use the outside-the-classroom exercises extensively, either in addition to a project or in lieu of a project. At the end of some of the chapters are suggested outside activities to get the students involved in information seeking and problem solving processes. It has been my experience that as a small business owner, a constant search for information from primary sources is a requirement. These activities are intended to get students involved in actively seeking out resources and experiences that emulate the activities of a small business manager.

I believe this text could also be used to teach small business management in a very traditional way. I have included end-of-chapter questions that attempt to force the student back into the chapter to identify the main points. A video series such as *Growing a Business* could also be used to support the text. Additional video recommendations are provided in the instructor's manual.

A central theme of the book is the bridge model, which I developed after years of personal experience owning and managing several small businesses and after many years of consulting with small business owners as an unemployment tax representative. The bridge model was actually developed for the classroom while I was teaching small business management as an adjunct professor. I needed a tool that

would attempt to demonstrate the interrelatedness of the functional areas in which a small business owner must perform. The bridge model is also intended to emphasize and prioritize the critical element of management: the premise that small business, actually all business, must be grounded in ethical conduct. A position of honesty and integrity will provide a foundation that allows a business to survive over the long haul. I attempted to emphasize with the pillars that business success comes from people. The quality of the internal and external relationships influence whether a business succeeds or fails. The model demonstrates that the quality of human relationships also affects the quality of products and services that a business produces, and that quality is a major pillar of support for any business. The functional areas, which are each important, must be supported by the human systems and quality pillars, and all are tied together with information. Thus the girders of management and customer information systems make the business complete. The bridge model also demonstrates that we operate in a larger environment as well.

Within this book are a number of entrepreneurial profiles. I wanted to include real stories of real people to demonstrate the similarities and uniqueness of each business venture. I also felt it would lend credibility to the book and to the bridge model to relate these entrepreneurial stories, including my own. I believe the challenges of small business ownership are best described by the people currently experiencing those challenges. The advice and lessons given in the entrepreneurial profiles are intended to represent and emphasize the functional areas. For example, Hurly's Candies' primary constraint is the production process, whereas Prairie Gardens is faced with a huge marketing dilemma. In support of almost every major topic, I conducted interviews with people in that line of business. The book is supported heavily with primary research and personal examples.

Thank you for selecting this book; I hope it serves you well.

Vern Urlacher

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1 Entrepreneurial Beginnings

Chapter Objectives

- To provide a bridge model overview that will allow the student to visualize and prioritize the functional areas of a business.
- To assist in building an appreciation for the interrelationships between the functional areas in the management of a small business.

• THE BRIDGE MODEL • • • • •

This book is based on a bridge model premise (Figure 1–1). A number of marketing research firms and small business owners that were interviewed seemed in general agreement that this model makes sense. The bridge model was the outcome of a decade or so of my experience owning and managing several small businesses and nearly a decade of working with small business owners. The model was developed for a course that I was teaching in small business management, for which I needed a way to tie together and prioritize the critical functions of managing a small business. I believe this model would be valid for many large corporate entities as well.

At a very basic level, for a business to remain successful, it must be grounded in honesty. The model uses the term *ethics*, because it encompasses a broader horizon. In plain language, though, a business must obtain the basic trust of its customer base to remain healthy. Businesses demonstrate this by presenting themselves to the public in the form of their products and services as being honest and worthy of customers' trust. The issue of ethics extends beyond the realm of a firm's customer base; it should also be reflected in the relationships the business establishes, including relationships with the larger community. A successful business should strive to be a good neighbor and a responsible citizen.

The bridge model is just that—a model. It is not a proven law of business conduct. It does not suggest that exceptions do not exist or that an economically successful enterprise cannot be created that violates the principles of the model, particularly the ethics foundation. The truth of the matter is that many exceptions exist. If a violation of ethical standards were a guarantee of failure, the number of unscrupulous business owners would be on the decline. Similarly, the number of legal actions taken to correct a wrong or a harm caused by a company's products or services would also be on the decline. We would have little need for a state's department of revenue or the federal Environmental Protection Agency, Occupational Safety and Health Administration, and/or any other regulatory agency empowered by a state or the federal government to protect the rights of the public, because everyone would do what is ethically right. I'm not that altruistic, nor am I naive enough to believe that such is the case.

Still, with the combined experience of those firms represented in this book, I believe that a high degree of correlation exists equating small business success to the bridge model. I maintain that a solid foundation on which to build a successful business is obtaining the trust of customers as well as all others who are associated with the business. Those relationships are grounded in ethical behavior. It would be interesting to do a study of businesses that failed and those that succeeded and attempt to correlate those results to this model.

Somewhat similar to the concept of grounding a business in ethics rest two sets of pillars that support the functional areas of the business. The first set of pillars deals with human relationships. The premise is that organizations, in this case small business organizations, are not simply made up of physical assets such as building and equipment, but are made up of people. The essence of what makes a small business a success and/or a failure depends on the people who are affiliated with that business and the quality of their relationships between each other. The premise suggests that high-quality output is a function of the quality of the human relationships both internal and external to the business.

Internal relationships relate to business manager and employee relationships. This implies that each person has unique skills and abilities, but it is the quality of the relationships, based on mutual trust, respect, and commitment, that

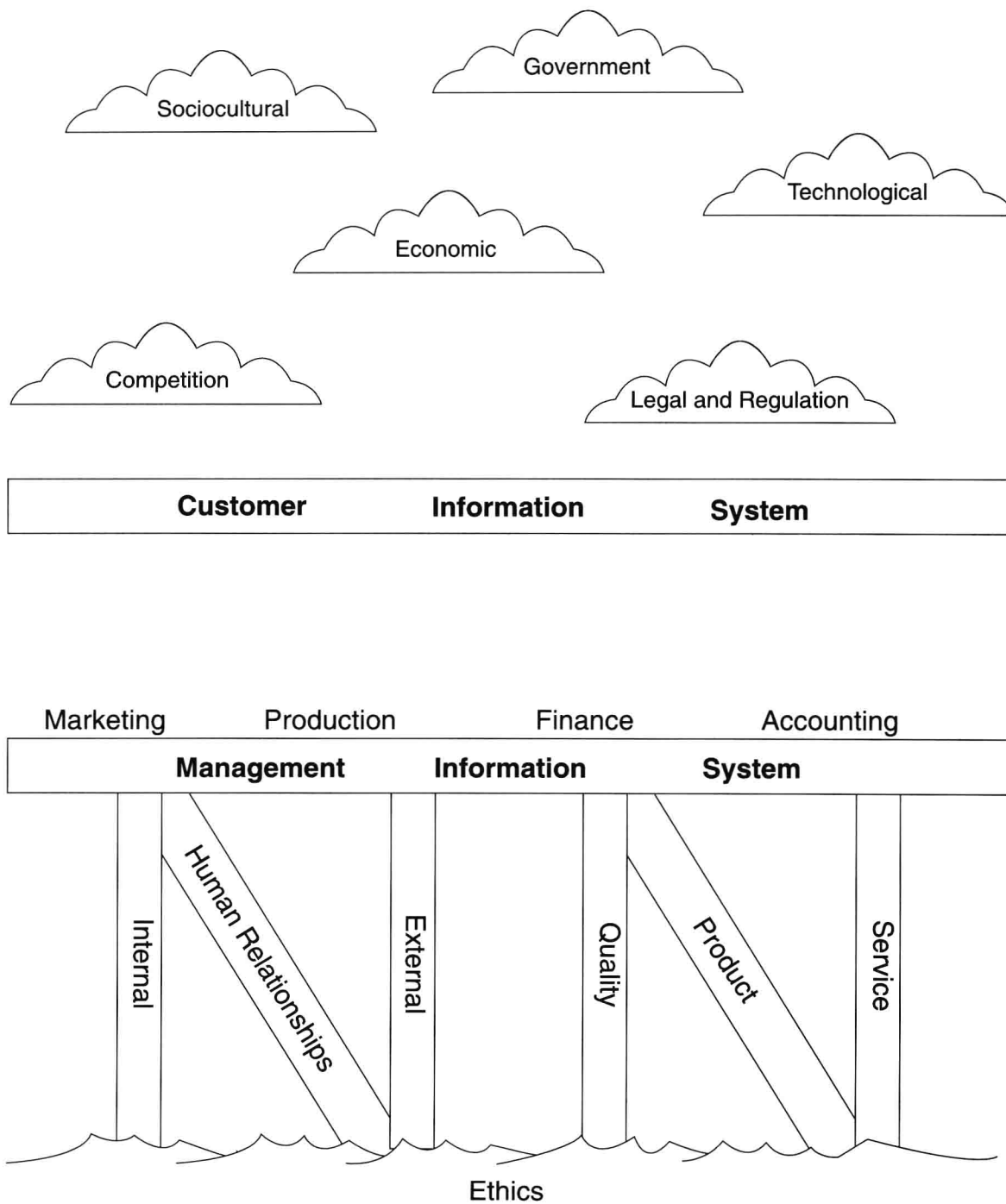


FIGURE 1-1