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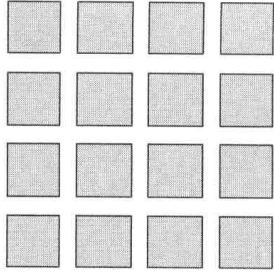
# EFFECTIVE SMALL BUSINESS MANAGEMENT

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THIRD EDITION



Norman M. Scarborough  
Thomas W. Zimmerer



Third Edition

# **EFFECTIVE SMALL BUSINESS MANAGEMENT**

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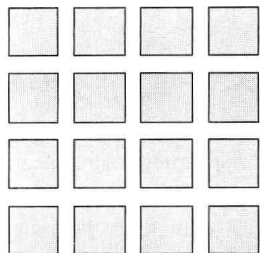
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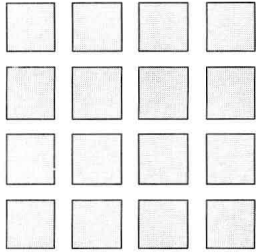




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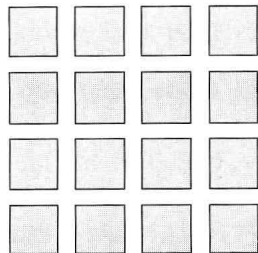
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# I ENTREPRENEURSHIP AND SMALL BUSINESS The Challenge of Independence


## 1

### ENTREPRENEURS

#### The Driving Force Behind Small Business

#### PROFILE Walt Disney— Walt Disney Company

“I only hope we never forget that it was all started by a mouse.”

 As kids growing up, we saw them enter our lives all too infrequently, whether on Saturdays at home or at the movies. At times, we like to remember how happy they made us feel. You know the ones—they created such a stir that we bounded out of the bed on days when we could have slept late just to catch a glimpse of them. Cartoons! From Mickey Mouse to Donald Duck and Snow White, they were the stuff of childhood dreams. They made us laugh. Ah, to be like Mickey, skipping down the country lane, filled with curiosity and wonder! How did it all come about? Walt, how did you become so successful?

Walt Disney displayed the true entrepreneurial drive. Born in 1901 in Chicago, he began producing advertising films by the age of eighteen. His interest then turned to animation, but his first ventures met with little success. He moved to Hollywood, where, with his partner and brother Roy, he made silent films featuring Mickey Mouse.

Walt had drawn a field mouse that he decided he wanted to include in his moving pictures. Initially, it was Mortimer Mouse who was to be depicted with all his antics in an upcoming movie. But Mortimer just didn't sound right, so Walt changed the mouse's name to Mickey because “Mickey Mouse has a good, friendly sound.” The animated character displayed the positive, cheerful attitude that gave a lift to American spirits during the Great Depression.

The partners were unable to release the silent films commercially. Despite the setback, they were willing to risk their future in the business on what was, at that time, an uncertain new technology—pictures with sound. By thinking about the future and realizing that “talkies” were about to bring major changes to the industry, the brothers adapted the film by adding a sound track to the animated characters. “Steamboat

Willie,” featuring Mickey, was released complete with sound in 1928. Disney and Mickey became household names shortly thereafter.

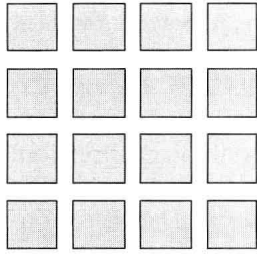
Over the years, the company has endured financial hard times as well as prosperity. Profits in 1954 were near zero. When Walt wanted to raise money to open a theme park and the financial support was not forthcoming, he traded in his life insurance policy to raise \$100,000 to pay a draftsman to plan Disneyland. Today, with theme parks in the United States and abroad and continued commercial success in the movie industry, Disney is prospering financially.

Although Walt Disney died in 1966, the organization still follows the same basic principles that he developed. The first principle, “think tomorrow,” got Walt through his greatest disappointments. Adopting the “talkie” technology and creating feature-length cartoons to keep Disney cartoons on movie schedules are examples of the firm’s first principle. “Free the imagination,” his second principle, has provided the inspirational guidance for the firm over the years.

To “strive for lasting quality” is a principle, although at times costly, that has proven to be a hallmark of Disney Productions. “Stick-to-it-ivity,” the fourth principle, has allowed for innovation and for long-term projects to be completed, during both good times and bad times. Walt’s last principle, “have fun,” has certainly made working for Disney Productions intrinsically rewarding. Walt’s idea was that “the way to make things work is not to worry.” With his five guiding principles, and with his willingness to work hard to bring his visions to the screen so that others may enjoy them, Walt Disney provides an excellent example of American entrepreneurship.

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Adapted from “Disney’s Five Ways to Make Dreams Come True,” by John Culhane, *Reader’s Digest*, November 1988, pp. 27–32; and *Encyclopedia America*, Volume 9, 1988, p. 180.



# 1

## ENTREPRENEURS

### The Driving Force Behind Small Business

No bird soars too high, if he soars with his own wings.

*William Blake*

Going into business for yourself, becoming an entrepreneur, is the modern-day equivalent of pioneering on the old frontier.

*Paula Nelson*

I don't believe in taking foolish chances, but nothing can be accomplished without taking any chance at all.


*Charles Augustus Lindbergh*

About the only thing that can be achieved without much effort is failure.

*Wes Izzard*

Upon completion of this chapter, you will be able to:

- ☐ Define the role of the entrepreneur in American business.
- ☐ Explain how learning management skills can help prevent small business failures.
- ☐ Explain the high achievement needs of the typical entrepreneur.
- ☐ Evaluate your potential as an entrepreneur.
- ☐ Outline the benefits and opportunities of owning a small business.
- ☐ Outline the potential drawbacks of owning a small business.
- ☐ Understand the importance of small business ownership to women and minorities.
- ☐ Describe why small businesses fail.
- ☐ Describe the problems faced by small business managers and how these cause business failure.
- ☐ Analyze the major pitfalls involved in managing a small business, and introduce basic methods to help the small business owner avoid them.

 This is the age of the entrepreneur. Never before have so many people pursued The Great American Dream of owning and operating an independent business. There were 683,686 new business incorporations registered in 1987, a 2.7 percent decrease from the all-time high in 1986 (see figure 1-1). In addition, the number of business starts in 1987 declined 7.7 percent from record 1986 levels. Despite these slight decreases, entrepreneurial activity remains vibrant, though not as robust as in the previous five years. Available statistics suggest that the nation's small business sector remains strong, and has a bright future. Small firms will be the primary beneficiaries of the shift from an industrial economy to a service and information economy in the 1990s. This resurgence of the entrepreneurial spirit is the most significant economic development of the previous two decades. These new entrepreneurs are rekindling an intensely competitive business environment that had all but disappeared from the landscape of U.S. business. Their businesses have introduced innovative products and services, opened technological frontiers, created jobs, and, in the process, rekindled a once sluggish economy.

Small business plays a key role in moving our nation toward certain basic economic objectives—

more employment opportunities, new technological innovations, economic growth, and a higher standard of living—as well as supplying goods and services. Small business gives anyone willing to take the chance the opportunity for economic expression. After traveling across the United States interviewing hundreds of entrepreneurs, Curtis Hartman concluded:

America is filled with entrepreneurs, men and women helping to build the future. They are the new pioneers, immigrants and children of immigrants, rebels and refugees, dreamers of every age and color. . . . They are the builders. But they create more than just new companies; more, even, than new products and new jobs. They also create new human connections, new ways of joining people together to meet our common needs. That is how America has always been built, by pioneers, coming together to push back the frontiers.<sup>1</sup>

Who are these entrepreneurs and what drives them to work so hard with no guarantee of success? What makes them risk so much and work so hard in an attempt to achieve an ideal? This chapter will examine the entrepreneur, the driving force behind the American economy.

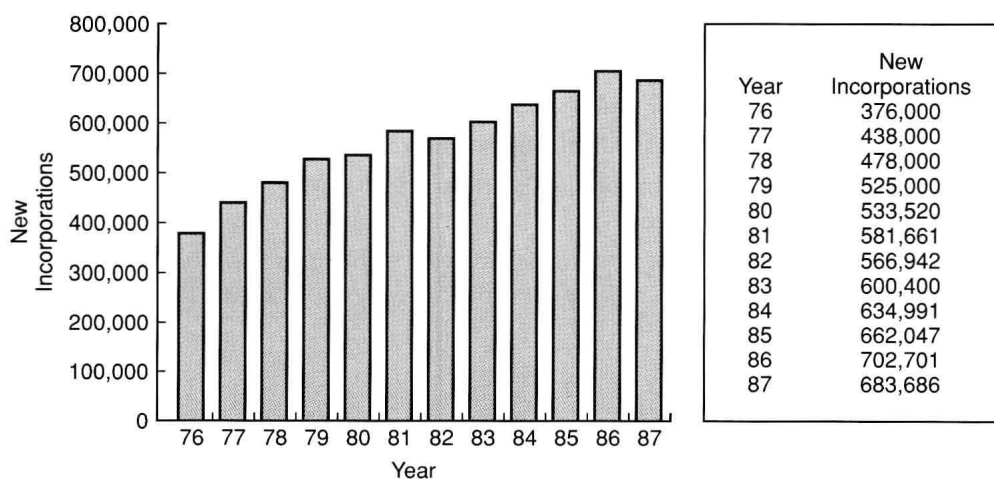
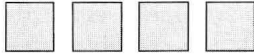


FIGURE 1-1

New business incorporations, 1976–1987. (Source: Data from “Current Economic Indicators,” #88M12, Dun & Bradstreet Corp., New York, N.Y., 1988.)





## SMALL BUSINESS REPORT 1-1

### An Entrepreneurial Trilogy

When Brett Gibson agreed to take over the failing Comtel Corporation—a small telephone services company in Terre Haute, Indiana—he did so on two conditions: 1) a bank would provide the necessary financing, and 2) his grandmother would agree to drive him to his business appointments. Gibson was just 15 years old at the time!

Gibson had started his career in electronics at age 10, when he began repairing and installing telephones for fun. His hobby soon turned into a business, and within a few years, he was earning \$5,000 a year running his company after school! Gibson found running Comtel (which he renamed Mid-American Telephone Supply) to be a greater challenge. His age proved to be a disadvantage in some cases. “All of my employees were much older than me,” he says. In addition, “Most of our clients . . . are executives, and 15-year-old salesmen are not persuasive.”

But, Gibson hasn’t let such obstacles stop him. He lets the company’s success speak for itself. Mid-American’s staff and revenues *doubled* within three years. “I know what I want to do with my life, and I’m doing it. How many people can say that at 19?” he says.

Lori Hoskins founded Westend Sailboat Rentals in Panama City Beach, Florida when she was 15 to help pay for her college education. Her father provided the company’s “seed capital,” but she (and her siblings) ran the entire operation themselves—including buying liability insurance and incorporating the business. Lori’s primary competitor was a sailing and surfing shop, which had a long-term monopoly on the local market. Hoskins broke into the market by charging lower prices and by providing “extra services such as giving free sailing lessons,” she says. The company has generated \$10,000 toward Lori’s college tuition so far. “I think it’s good for teenagers to start their own business. . . . I’ve learned so much about people and the importance of customer satisfaction,” she claims.

Audie Cashion, president of Trade East Horizons in Chapel Hill, North Carolina, says one of his goals is “to reduce the trade deficit with Japan.” Cashion, 23, founded the business with UNC classmate Nancy Milliron. She works in Japan to scout out contacts interested in their products, and Cashion searches the U.S. to find products to export. The company exports everything from Snoopy gadgets and pickles to Arizona Indian jewelry and early American furniture. The proof exists. *Never* let anyone discourage your entrepreneurial spirit just because you’re “too young!”

Adapted from Nancy L. Croft and Dan Dickenson, “To Be Young and in Business,” *Nation’s Business*, March 1988, pp. 63–65. Copyright 1988 U.S. Chamber of Commerce; Nancy L. Croft, “Fostering Young Entrepreneurs,” *Nation’s Business*, May 1987, pp. 55–56. Copyright 1987, U.S. Chamber of Commerce.

## I. CHARACTERISTICS OF ENTREPRENEURS

In his classic book, *The Achieving Society*, David McClelland reports his research on the personality characteristics of entrepreneurs. McClelland describes the entrepreneur as having a dominant psychological drive to achieve. The following is a brief summary of the entrepreneurial personality.<sup>2</sup>

1. *Desire for responsibility.* Entrepreneurs feel a personal responsibility for the outcome of ventures

with which they are associated. They prefer to be in control of their resources, and use those resources to achieve self-determined goals.

2. *Preference for moderate risk.* Entrepreneurs are not wild risk-takers, but they do take calculated risks. Unlike professional gamblers, they rarely “gamble.” Entrepreneurs look at the project or venture in terms of the level of personal risk. The goal may be high in others’ perceptions, but the entrepreneur has usually thought through the situation and believes the goal is reasonable and attainable.

3. *Confidence in personal success.* Entrepreneurs believe in themselves and show this belief by getting the facts before making decisions. Entrepreneurs believe they have the capabilities necessary for success. This explains why some of the most successful entrepreneurs fail several times before finally succeeding.
4. *Desire for immediate feedback.* Entrepreneurs like to know how they are doing and are constantly looking for reinforcement. Tricia Fox, founder of Fox Day Schools, Inc., claims, "I like being independent and successful. Nothing gives you feedback like your own business."<sup>3</sup>
5. *High level of energy.* Entrepreneurs are more energetic than the average person.
6. *Future orientation.* Entrepreneurs are always searching for opportunities. They look ahead and are less concerned with what was done yesterday than what might be done tomorrow.
7. *Skill at organizing.* Entrepreneurs know how to put the right people together to accomplish the task. The effective combination of people and jobs will inevitably lead to the accomplishment of objectives.
8. *Value of achievement over money.* One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire

to make money. Money is a symbol of achievement, but that is the real driving force behind the typical entrepreneur. Having money, and the things money can buy, is evidence of their success and justification for the long hours worked to attain that success.

McClelland also conducted an international study of entrepreneurs. Table 1-1 summarizes the nine characteristics that successful entrepreneurs demonstrated overall.

## II. THE BENEFITS AND OPPORTUNITIES OF SMALL BUSINESS OWNERSHIP

A survey by Heller Small Business Institute of chief executives of small companies found that 73 percent thought they worked harder, 72 percent thought they earned more money, and 91 percent thought they were happier than if they worked for a big firm.<sup>4</sup>

Choose a job you love, and you will never have to work a day in your life.

*Confucius*

When asked who should be an entrepreneur, one small business founder made these statements: "[An entrepreneur is] anyone who wants to experience the deep, dark canyons of uncertainty and ambiguity and wants to walk the breathtaking highlands of success. But I caution: Do not plan to walk the latter until you have experienced the former."<sup>5</sup>

Before launching any business venture, every potential entrepreneur should consider the benefits and opportunities of small business ownership.

*Opportunity to gain control over your own destiny.* While this may not be the reason most often given for wanting to own a business, it is likely to fit in with the personality profile of entrepreneurs. Business ownership provides independence and the opportunity to achieve what is important to the individual. Entrepreneurs want to "call the shots" in their own lives, and they use their business as an extension of this spirit. The rewards of ownership come in the freedom to make decisions and take risks, to challenge your competitor, and to reap the intrinsic



Source: From *The Wall Street Journal*, March 4, 1985, p. 27.  
Permission, Cartoon Features Syndicate.

TABLE 1-1

Competencies that are more characteristic of successful than of average entrepreneurs.

<b>Proactivity</b>			
1. Initiative	Does things before being asked or forced by events.	7. Monitoring	Develops or uses procedures to ensure that work is completed or that work meets standards of quality.
2. Assertiveness	Confronts problems with others directly. Tells others what they have to do.	<b>Commitment to Others</b>	
<b>Achievement Orientation</b>		8. Commitment to work contract	Makes a personal sacrifice or expends extraordinary effort to complete a job. Pitches in with workers or works in their place to get job done.
3. Sees and acts on opportunities	Seizes unusual opportunities to start a new business, obtain financing, land, work space, or assistance.	9. Recognizing the importance of business relationships	Acts to build rapport or friendly relationships with customers. Sees interpersonal relationships as a fundamental business resource. Places long-term good will over short-term gain.
4. Efficiency orientation	Looks for or finds ways to do things faster or at less cost.		
5. Concern for high quality work	States a desire to produce or sell a top- or better-quality product or service.		
6. Systematic planning	Breaks a large task down into subtasks or subgoals. Anticipates obstacles. Evaluates alternatives.		

Source: *Entrepreneurship and Small-Enterprise Development*, second annual report by McBer and Co. to the United States Agency for International Development, March 25, 1986.

rewards of knowing you were the driving force behind the business.

*Opportunity to reach your full potential.* Too often, people find their work unchallenging. The small business, therefore, becomes an instrument for self-expression and self-actualization. In your own business, all of your skills and abilities will likely be challenged. The only barriers to success are those that your creativity and determination cannot overcome, not limits artificially created by the organization that employs you.

*Opportunity to reap unlimited profits.* Although money is not the primary force driving most entrepreneurs, their ability to keep the money their businesses earn certainly is a critical factor in their

decisions to launch companies. There are dozens of rags-to-riches stories of businesses that flourished due to their founders' creativity and ingenuity. Without question, men and women who apply their knowledge to produce valuable goods and services and to solve problems in our society often are rewarded bountifully.

Profit and income can have different meanings to each potential entrepreneur. Those who expect immediate returns will seek to start businesses that derive income from seizing possibly temporary opportunities. Such entrepreneurs may start dozens of businesses in their lifetimes. Others may see profit as a long-term reward for building a stable and reliable business deeply rooted in the community. They may