

SMALL BUSINESS BRIEF

**RESPONDING TO THE CHALLENGES AND
OPPORTUNITIES OF WORKFORCE 2000**

**Arthur Shriberg
Thomas D. Clark
Sherrie E. Human
Xavier University**

ABSTRACT

We report results of a national study examining the impact of demographic changes in the American workforce on small business management practices. Telephone interviews with a national random sample of 94 small business owners explored a) if small business owners are aware of changing workforce demographics, and b) if these small business owners are proactively responding to these changes by modifying their personnel practices. Findings indicate that while small business managers are aware of changing workforce demographics, only a minority have changed their practices to take advantage of the new population available to them.

INTRODUCTION

We report the results of a national study examining the impact of U.S. workforce demographic changes on small business management practices. An earlier pilot study (Clark, Shriberg & Wester, 1995) found that while US small business owners were aware of workforce demographic changes, few had active programs for recruiting and retaining diverse employees. Given the predictions from the Hudson Institute's landmark study, *Workforce 2000* (Johnston & Packer, 1987), and its sequel, *Workforce 2020* (Judy & D'Amico, 1997), we would expect US business owners to perceive increases in mature, female, and non-white workers, and to change their employment practices accordingly. The current study investigates these expectations, drawing on a national random sample of U.S. small business owners, to ask two primary research questions: 1) Do small business owners perceive that demographic changes are occurring in the workforce? 2) Are small business owners implementing employment practices implied by demographic projections?

METHODOLOGY

204 small businesses were randomly selected from *Ward's Business Directory of US Private and Public Companies* (Ward's Business Directory, 1996). To meet our selection criteria as "small business," sample firms were private companies with no more than 100 employees and annual sales less than \$4 million. Respondents were owners of the selected firms. We developed a structured 12-item telephone interview protocol. Respondents were first presented with seven statements regarding their perceptions of the workforce general environment, such as "there are

fewer entry level workers today," to which they responded on a range from "strongly agree" to "strongly disagree." following the same format as in the pilot study (Clark, et al. 1995). These statements were designed to test the major assumptions from Tower-Perrin's (1990) report on the employment practices of U.S. firms, an important indicator of whether demographic changes are impacting business practices. In addition, telephone respondents were asked five company-specific questions, such as "have you noticed a change in the number of women in your company?," requiring dichotomous "yes/no" responses. These five questions were designed to determine if U.S. small business owners were adapting their own personnel practices to an increasingly diverse workforce. The telephone interview was administered in 1997. 94 of the 204 companies in the sample completed the interview for a 46% response rate.

RESULTS

The twelve items in the telephone interview can be categorized into four issues important for understanding workforce perceptions and practices among small U.S. firms. These issues include labor shortage, age, women and minorities, and personnel practices, and correspond to workforce related themes suggested as important for "the future of small business and entrepreneurship" (U.S. Small Business Administration, 1995: 3). Table 1 presents our interview questions and findings.

Labor Shortage

Question #1: There are fewer entry level workers today.

Question #2: There is a national labor shortage today.

Finding: Small business owners do not perceive increased difficulty in locating entry level workers or the existence of a national labor shortage. Over half of small business owners interviewed do not believe that there are fewer entry level workers in the workforce today or that a national labor shortage exists (51.1% and 64.9%, respectively; Table 1).

Age

Question #3: There are more older workers in the workforce today.

Question #4: Have you noticed a change in the average age of the employees in your company?

Finding: While most small business owners recognize the aging of the workforce in general, they do not perceive the same pattern within their own companies, and, in fact, some perceive a decrease in employee age in their own firms. 53.2% (Table 1) of the respondents agreed that, in general, there are more older workers today, while 33% disagreed. Responses were nearly split between those who have seen employee age change in their own companies (47.9%) and those who have not (52.1%). 40.5% of those who have seen an age change in their companies perceived a decrease in employee age.

Women and Minorities

Question #5: There are more women in the workforce today.

Question #6: We have a more culturally diverse workforce.

Question #7: Most business owners I know are concerned about the changing demographics of the workforce.

TABLE 1
Workforce Demographic Changes:
Perceptions & Practices of U.S. Small Business Owners

Interview Questions	Strongly Agree	Agree Somewhat	Don't Know	Disagree Somewhat	Strongly Disagree	N=94
<u>Labor Shortage:</u>						
1. There are fewer entry level workers today.	4.3%	35.1%	9.5%	44.7%	6.4%	100%
2. There is a national labor shortage today.	2.1%	24.5%	8.5%	53.2%	11.7%	100%
<u>Age:</u>						
3. There are more older workers in the workforce today.	5.3%	47.9%	13.8%	30.9%	2.1%	100%
4. There are more older workers in the workforce today.	47.9%=Yes 52.1%=N	If yes, in what direction?		59.5% Increase; 40.5% Decrease		
<u>Women and Minorities:</u>						
5. There are more older workers in the workforce today.	34.0%	58.5%	2.2%	3.2%	2.1%	100%
6. We have a more culturally diverse workforce.	17.1%	73.4%	3.2%	6.4%	0.0%	100%
7. Business owners are concerned about the changing demographics of the workforce.	12.8%	60.6%	9.6%	14.9%	2.1%	100%
8. Have you noticed a change in the number of women in your company?	37.2%=Yes 62.8%=No	If yes, in what direction?		94.3% Increase; 5.7% Decrease		
9. Have you noticed a change in the number of minorities in your company?	36.6%=Yes 63.4%=No	If yes, in what direction?		93.9% Increase; 6.1% Decrease		
<u>Personnel Practices:</u>						
10. Many business owners I know are formulating new ways to recruit minorities, women, older employees, & disabled workers	10.6%	46.8%	11.7%	27.7%	3.2%	100%
11. Is your company implementing new strategies for recruiting minorities?	26.1% = Yes 73.9%=No					
12. Is your company implementing new strategies for training managers in diversity?	26.9%=Yes 73.1%=No					

Question #8: Have you noticed a change in the number of women in your company?

Question #9: Have you noticed a change in the number of minorities in your company?

Finding: While small business owners recognize increased workforce diversity, this recognition is reflected in the workforce demographics of only a minority of the companies surveyed. 92.5% and 90.5% of respondents perceive more women and more cultural diversity, respectively, in the workforce. 73.4% perceive that business owners in general are concerned about changing workforce demographics. Significantly, when asked about their own companies, a majority (62.8% and 63.4%) have not seen general workforce patterns regarding women and minorities translate to their own companies.

Personnel Practices

Question #10: Many business owners I know are formulating new approaches to recruiting ethnic minorities, women, older employees, and handicapped workers.

Question #11: Is your company implementing new strategies for recruiting minorities?

Question #12: Is your company implementing new strategies for training managers in diversity?

Finding: Small businesses are just beginning to adapt to the changing demographics of the workforce by formulating new personnel practices. While 57.4% of the respondents perceive that other businesses are implementing new personnel recruiting practices, 73.9% are not implementing new recruiting strategy and 73.1% do not have diversity training strategies in their own companies.

IMPLICATIONS AND CONCLUSIONS

Our findings suggest that, while U.S. small business owners are aware of rapid changes in workforce composition, building a diverse workforce has not yet become an action priority within their own firms. These results have three significant implications. First, a gap may exist between small business owners' awareness of the external environment and the specific actions that need to take place internally to adapt to changes in the environment. Indeed, our findings of 20-30% difference between small business owners' perceptions and actions with regard to recruiting women and minorities -- suggest this interpretation. Second, what is being labeled "inaction" may actually be the result of small businesses not yet experiencing the difficulties in workforce recruitment and training implied by predicted demographic changes. For instance, previous authors suggest that, due to widespread corporate downsizing and the proliferation of entrepreneurship and small business educational programs, the "relative attractiveness" of careers in the smaller firm sector has increased in the recent decade (Kuratko and Hodgetts, 1995; U.S. Small Business Administration, 1995: 5). Indeed, our findings that a substantial number (40.5%) of small business owners perceive a younger workforce in place, while contrary to demographic projections, lends support to a conclusion that small businesses are not yet experiencing the predicted workforce demographic changes. As research indicates that shortages encourage owners to create more welcoming environments for the increasingly multicultural workforce (Cox, 1993; Jamieson and O'Mara, 1991), if no shortages are perceived in the small business sector, then these firms may not incorporate new practices to encourage diversity within their companies.

Third, contrary to the Tower-Perrin (1990) report indicating that businesses that demonstrated a strong awareness of, and interest in, the changing demographics of the workforce were likely to actively respond to this work force trend, our findings show that only a minority of small

business owners have changed their personnel practices regarding a diverse work force. This implies that future employment practices of most small business owners will be more "reactive," or driven by demands made by new employees, than "proactive," or implemented to attract multicultural talent by making small business workplaces more welcoming for minorities, females, and mature employees.

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Arthur J. Shriberg is an Associate Professor of Management of Xavier University (Cincinnati). He received his Ed.D. from Columbia University and his M.B.A. from Xavier. He has served as Dean and/or Vice-President at four universities. He co-writes a weekly syndicated column entitled, "World of Difference." He is currently on the editorial board of three professional journals, and has made several presentations concerning diversity and small business. His primary teaching and research interests are leadership and diversity.

Thomas D. Clark is a Professor of Management at Xavier University and President of CommuniSkills, a training company. He received his Ph.D. from Indiana University. He directed Xavier's S.B. I. Program from 1981-1989, served as an associate editor of *The Journal of Small Business Management*, and has made several presentations concerning diversity and small business. His primary teaching and research interests are interpersonal communication and legal issues.

Sherrie Human teaches management and entrepreneurship at the graduate and undergraduate levels. Prior to receiving her Ph.D. in 1995 from the University of Kentucky she worked as a consultant to industry on quality and manufacturing design projects, and founded and managed businesses in the hospitality and technology industries. Her scholarly research interests focus on new venture initiation, and entrepreneurial and interorganizational networks. Dr. Human has published articles of her research findings in the *Academy of Management Journal*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Frontiers of Entrepreneurship Research*, and the *Journal of Small Business Management*.