

THE NEW KID ON THE BLOCK FOR SMALL BUSINESS SUCCESS: ETHICS?*

Harriet Buckman Stephenson

Seattle University

Deborah Kahle

Thomas Management Corporation, Missoula, Montana

ABSTRACT

"By the year 2000, small businesses will be the major growth machine of the U.S. economy, providing a multitude of benefits in the forms of personal independence, financial rewards, and economic dynamism" (Anwar & Stahlecker, 1989). Small businesses now account for 40% of the GNP and create approximately 70% of the new jobs in the U.S., yet the majority of all small businesses fail within a few short years (Polansky).

The most common reasons given for these failures are management incompetence, poor or no planning and the inability to secure financing. For the first time, however, a study of factors important to success of small business places ethics in the workplace high on the list.

The difference between success and failure for many small business owners/entrepreneurs will be their ability to cope successfully with problems associated with running a business (Goodell & Kraft, 1989). Training and education become key to the success of the small business owner, and research indicates that there is a need for educational assistance that is largely not being met (Goodell & Kraft, 1989). Lack of available management training leaves a gap between an idea and the ability to implement it successfully.

Common Barriers to Small Business Success

Two broad classifications of problems, internal and external, must be dealt with by small business owners. The former type becomes the primary focus and includes financing, people skills and physical resources, whereas the latter type needs to be dealt with and recognized but cannot be controlled. In 1978 the literature pointed to the fact that "... it is apparently easier to blame external factors than to apply remedies such as self discipline, training, experimentation, planning strategies and working harder to survive ..." (Goodell & Kraft, 1989). Today, however, more small business owners recognize internal problems as a key to the success of the business and are seeking opportunities to learn how to solve them.

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The list of problems or critical success factors is potentially a long one, and the process of identifying them is ongoing. Garsombke and Garsombke (1989) discussed the influence of technological change on small-medium size firm performance, while Roitman and Emshoff (1984) listed the inadequacy of the financial and human resources needed to implement product ideas and market strategies as major barriers to the entrepreneurial firm's success. Bracker and Pearson (1985) identified firm size, type of product, industry maturity, and the age of the firm as significant factors in company performance. Rocha and Khan (1984) and Peterson (1984) recognized the interrelatedness of several recurring problems confronting small businesses. Anwar and Stahlecker (1989) stressed the importance of planning, and Nahavandi and Chesteen (1988) identified strategic planning deficiencies and the impact of outside consulting as critical factors in venture success. Cragg and King (1988) found that the quality of planning activities, market orientation, and the characteristics of the owner/manager were associated with small business success, while Hofer (1987) zeroed in on industry structure as having the greatest impact on performance.

MacMillan, Siegel, and Narasimka (1985) hold the entrepreneur to be *the* critical success factor. Ibrahim and Goodwin (1986) identified entrepreneurial values, managerial skills, interpersonal skills, and environment characteristics as key indicators of new and established venture success. Psychological or personality traits of the entrepreneur have been examined with contradicting results (Brockhaus & Horwitz, 1986; Carsrud, Gaglio, & Olm, 1987). Dun & Bradstreet's reports (1988; 1977) indicate that the major barriers to business success are managerial incompetence and lack of owner experience.

For many small businesses, financing or financial advice is critical (Lister, 1991). For 15 consecutive quarters, taxes were cited as the number one problem with finances in the *NFIB Quarterly Economic Report for Small Business* (Dunkelberg & Dennis, 1988). Owners rated finances in the following order (after start-up financing): taxes, poor sales, government regulations, competition from big business, quality of labor, cost of labor, general financing, inflation and shortage of material (Dunkelberg & Dennis, 1988).

Marketing is often noted as a critical factor for the successful small business owner (Mendelssohn, 1991; Ram & Forbes, 1989; U. S. Small Business Administration [SBA], No. 4). In a recent survey, 68% of the respondents viewed the lack of a marketing plan as a frequently experienced problem (Weinrauch, Pharr, Mann, & Robinson, 1989), and analyzing the market from the customer point of view may also be a critical success factor (SBA, No.4).

The cost of insurance is a relatively new problem facing the small business owner (Fraser, 1991; Intindola, 1991; SBA, No. 88-1190).

Finally, growth may be an issue in that it creates a need for different systems, skills, structures and, generally, cash, presenting new problems for the small business owner (Flamholtz, 1989; Hambrick & Crozier, 1985). The use or non-use of computers and the ability to create systems to keep the business running smoothly also constitute a potential dilemma for the small business owner (Nadel, 1988; SBA, No. 88-1133; Schleich, Corney, & Boe, 1990). As automation and information overload increase, the owner must take time to plan in order to achieve a satisfactory level of efficiency and effectiveness in managing.

When the European Economic Community unlocks the doors to the largest economic power in the world, the 1990's will begin a new focus for the world that has never existed before (Naisbitt & Aburdene, 1990). While small business owners will be seeking opportunities abroad (Edmunds

& Khoury, 1986; Morrow, 1988; Sisisky, 1989), there will be obstacles to overcome including personnel issues, tariffs, taxes, monetary systems and cultural diversity. Selling internationally will require hard work, perseverance, a commitment of resources, market research and attention to detail (SBA, 1989). The business owner who has planned ahead will have carefully evaluated each of these issues in order successfully to penetrate this market.

Ethical Issues – A New Potential Barrier to Success

Ethical issues have become an increasing area of concern for the entrepreneur (Ackoff, 1987), and many AACSB member schools are searching for ways to inject ethics into the curriculum (Schoenfeldt, McDonald, & Youngblood, 1991). In Shostack's view, "all entrepreneurs who value their companies and hope to see them prosper must take a firm stand on ethics" (1990), but small business owners may be more demanding in the area of ethics than managers of larger firms (Longenecker, McKinney, & Moore, 1989). Unfortunately, many people may just pay lip service to ethics. According to Godfry, ethics has a long way to go (1988).

James Chrisman summarized the major problems that were identified from nine small business surveys conducted between 1978 and 1984 (1988). Again, problems ranged from financing, accounting, long-term planning, advertising and promotion to taxes, inadequate sales, employee motivation, capital, and marketing. However, the subject of ethics was not included.

METHODOLOGY

A survey containing issues of concern noted from past studies and interviews was mailed to 155 book store owners listed in *Contacts Influential*, an inclusive directory covering a metropolitan geographical area in the Pacific Northwest. Thirty-three responses were received for a return rate of 21%.

The sample includes mostly small businesses with under \$1 million in sales (81%) and under 100 employees (94%) and with 84% having twenty or fewer employees. Of the respondents identifying their gender, 60% of the owners were male and 40% were female.

FINDINGS

Out of the list of issues of perceived importance to the group of business owners, the number 1 issue was "Reaching and Maintaining Customers," followed closely by "Ethics in the Workplace." Table 1 contains the list of problems presented in the rank order of their perceived importance.

CONCLUSIONS AND IMPLICATIONS

The literature suggests that management competence, use of some type of planning process and the ability to manage finances are critical factors related to the success of business owners. While this new study, like its predecessor, includes many of these same factors (e.g. "Reaching and Maintaining Customers," "Ethics in the Workplace," "Stabilizing Cash Flow," "Development of Management Skills," and "Determining Your Customer Base"), for the first time, the issue of ethics emerges as the number two concern. The ethics issue was not significantly more important to small business owners than bigger businesses; however, unlike previous studies, both small and larger business owners were keenly aware of ethics as an integral part of their business.

Table 1*Business Owner Survey (Including Means of Responses)*

Given the items listed below, please rate each item from 0-5. Consider "0" to be Not Important to "5" being Very Important to the success of your business.

	Not Important		Important		Very Important		TODAY
	0	1	2	3	4	5	
Reaching & Maintaining Customers							4.75
Ethics in the Workplace							4.53
Stabilizing Cash Flow							4.38
Development of Management Skills							4.09
(i.e. planning, negotiating, analyzing)							
Determining Your Customer Base							3.97
Employee Education/Training							3.87
Lack of Capital							3.72
Taxes							3.68
Development of Operational Skills							3.61
(i.e. hiring, delegating, collecting on bad checks)							
Availability of Quality Workforce							3.61
Company Culture, Value System & Mission							3.61
Benefits/Compensation for Employees							3.55
Managing Growth							3.53
Community Involvement							3.44
Benefits/Compensation for Owner							3.09
Effective Utilization of Computers							3.03
Defining Your Competition							3.03
Financial Retirement Planning for Owner							2.88
Environmental & Social Responsibility Issues							2.71
Network/Associations for Owners							2.47
Managing Accounts Receivables							2.42
Effective Selection & Use of Consultants							2.03
Diversity in the Workplace							2.10
Planning For & Developing Your Successor							1.66
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The high rating of "Ethics in the Workplace" was not anticipated in that prior surveys did not indicate such perceived importance as a success factor by small business owners. It is possible that the nature of the businesses surveyed and/or their geographic locations influenced these results. This does suggest that prior studies were not totally generalizable, a fact which is not surprising. In any event, the question of whether these findings may be appropriately generalized should be explored. Further development and clarification are desirable to determine if this indeed suggests that the issue of ethics is a "new Kid on the Block," one which should be defined and incorporated

into entrepreneurial training, education and consulting. How should this be explored in the SBI programs? Can students deal with ethical issues for the client? It may be too late to send the new kid back, and the problem may be here to stay for the 90's . . . and beyond.

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