

CRITICAL BUSINESS PROBLEMS AND ADVISORS

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ABSTRACT

Many small and mid-size businesses rely on external advisors when specific business problems arise. The objectives of this study are threefold: 1) to determine the most serious problems encountered by small and mid-size businesses, 2) to identify the external advisors most important in resolving the problems, and 3) to determine the amount of time a businessperson spends with these advisors. Overall, the respondents named accountants, lawyers, bankers, family members, and trade associations as their most favored advisors. The most critical problems identified by respondents were sales/marketing, personnel/recruiting, organization/administration, government regulations, and taxes.

INTRODUCTION

The owner or chief executive of a small or mid-size business often feels like someone suspended in air without any visible means of support. He/she is focused and driven, but may not have a reliable support system to assist in resolving problems. Many small and mid-size businesses are characterized as having leadership dependent on the charisma of the chief executive, planning directed toward growth, administrative activities plagued by inefficiencies, and a relative lack of organization structure (Brereton 1974; Longnecker, Moore, & Petty 1997). By using external advisors when specific business problems arise, business people can compensate for the lack of a specialized internal staff.

OBJECTIVES

The objectives of this study are threefold: 1) to determine whether small and mid-size businesses with different specializations have distinct problems, 2) to identify the external advisors most important in resolving the problems, and 3) to determine the amount of time a businessperson spends with these advisors. A review of the literature in academic journals and the popular press indicates this research is unique because it identifies both the major problems of businesses and the advisors used to help resolve them. Some literature identifies the major problems facing businesses (Mehra, 1982; Dwyer Group, 1996; and Arthur Andersen 1997) while others identify important sources of information for those starting a business (Gumpert & Timmons, 1984; Kuratko & Hodgetts, 1998; Laventhol & Horwath,

1985; National Federation of Independent Business, 1995; Stevenson & Sahlman, 1988; Stevenson & Sahlman, 1992; & Timmons, 1999). An interesting study ranked the usefulness of business advisors based on their accessibility, informality, and richness of information (Smeltzer, Hook, & Hutt, 1991). None of this literature, however, indicates the particular advisors used to assist in resolving specific business problems. A significant aspect of this study is that it identifies and analyzes the major problems facing businesses and ranks in order of importance the external advisors used to help solve those problems.

METHODOLOGY

A survey of the owners or chief executives of small and mid-size businesses was conducted. The Indiana Corporate Directory published by Indiana Business Magazine was the source of the businesses surveyed. Only Indiana-based firms are listed in the directory. Businesses that had estimated sales of \$19 million or less and employed 100 or fewer workers were selected as potential respondents. There were 1,404 firms that were in this grouping. A mail survey was sent to each of these firms resulting in 340 usable responses, which is a 24 percent response rate. A 30 percent survey response by all businesspeople is cited as high, and a response rate of 20 percent by small business firms is cited as excellent; therefore, a 24 percent response rate was considered highly acceptable (The Editor, 1962; Forsgren, 1989; and Alreck & Settle, 1995).

A pilot questionnaire was developed and six businesspeople were interviewed either by telephone or in person to evaluate their reactions to the proposed research. From this pilot-study and from the literature review, important external advisors and critical problems for small and mid-size businesses were identified.

In the final survey instrument, the respondents were asked to rate in order of importance the five persons or organizations external to their firms whom they considered their principal advisors. All of the respondents' ratings (from one to five) were added together to determine the final rankings for each of the principal advisors. The person or organization with the highest score was considered the most important advisor. The one with the second highest score was regarded as the second most prominent advisor and so on. Based on the pilot study, the following classification choices for advisors were listed on the questionnaire: accountant, banker, independent business consultant, Chamber of Commerce representative, Small Business Development Center (SBDC), computer service company, family member, friend, government agency other than Small Business Administration (identify the agency), insurance agent/broker, lawyer, Small Business Administration, trade associations, university professor or university business/management center, private investor to my business, and other (identify).

A second question on the survey instrument asked the respondents to identify in order of seriousness their five most critical business problems. The order of importance was calculated by adding together all of the respondents' rankings (from one to five) and arriving at a total score for each problem. The problem that garnered the highest score was deemed the most serious one. The problem with the second highest score was viewed as the second most critical one and so on. Respondents were also asked to state the number of hours during a typical month that an advisor spent on a specific problem. To arrive at this calculation, the responses related to the number of hours that an advisor spent on each problem were summed and divided by the number of respondents to determine an average.

RESULTS

Without a staff of competent internal specialists to assist in solving business problems small and mid-size businesses frequently must rely on outside advisors. While some businesspeople rely on a single advisor to guide them through a variety of business problems, the results of this study indicate that most businesspeople recognize the expertise provided by specialists and use them as the situation warrants. Conversations with the businesspeople completing the pilot-form questionnaire tended to confirm this conclusion.

Most Important Business Advisors

One of the objectives of this study was to identify the most important external advisors to small businesses. Table 1 shows the most mentioned business advisors for the businesses surveyed without regard to the type of problem being solved. Each business ranked their top five business advisors. A five was assigned to the advisor that each business ranked as their number one advisor. A four was assigned to the advisor that each business ranked second, and so on. The assigned numbers were totaled for all respondents resulting in the scores presented in Table 1. As shown, the five principal advisors in order of importance were accountants, lawyers, bankers, family members, and trade associations. Of particular interest is how the respondents' rankings for accountants, lawyers, and bankers substantially exceeded the rankings for the other advisors. A possible explanation is that these advisors provide specific, specialized services that many medium to small businesspeople cannot do on their own. Therefore, since banking, legal, and accounting services are needed by most businesses and require a degree of expertise, these advisors are viewed as being very important to small and medium businesses.

TABLE 1: MOST IMPORTANT BUSINESS ADVISORS

Order of Importance	Score Based on Sum of Respondent Rankings	Advisor
1	1184	Accountants
2	923	Lawyers
3	549	Bankers
4	396	Family Members
5	287	Trade Associations
6	269	Insurance Agents
7	262	Friends
8	218	Computer Service Co.'s
9	162	Consultants
10	121	Private Investors

Most Important Business Problems

The problems experienced by businesses are often determined by the current business climate. For instance, during the current period of low unemployment, personnel/recruiting would be expected to be identified as a major business problem. The results of this survey supported this assumption. Table 2 presents the most critical problems facing businesses in the marketplace today. In order of importance, the five most critical problems identified by respondents were sales/marketing, personnel/recruiting, organization/administration, government regulations, and taxes. According to the survey, sales/marketing (630) and personnel/recruiting (528) distance themselves substantially as the most important problems facing businesses today. These results show the continued need for businesses to emphasize

the development of good marketing programs as well as the development and maintenance of a good personnel and recruiting plan.

**TABLE 2: MOST IMPORTANT BUSINESS PROBLEMS
OF SMALL AND MID-SIZED BUSINESSES**

Order of Importance	Score Based on Sum of Respondent Rankings	Most Important Business Problems
1	630	Sales/Marketing
2	528	Personnel/Recruiting
3	353	Organization/Administration
4	286	Government Regulations
5	272	Taxes
6	226	Working Capital
7	218	Competing with Large Firms
8	214	Growth
9	208	Pricing
10	205	Inventory Control

Key Advisors for Each Important Business Problem

One of the major contributions of this research was identifying which advisors are used for each of the important problems facing businesses. While some businesses may use multiple types of advisors given certain business problems, the results in Table 3 indicate the key advisors used for each specific business problem. For example, the main advisors used by businesses to assist with sales/marketing problems were outside sales/marketing consultants and suppliers; whereas, the main advisors used for personnel/recruiting problems were lawyers and business service firms.

Of particular interest are the differences in rankings for accountants and lawyers compared to the other business advisors. Obviously, these two types of outside advisors are very important to businesses in resolving their difficult problems. Bankers and family members also appear to be more important than other advisors in handling some key business problems, whereas, consultants and suppliers were important advisors for sales and marketing problems. Since sales and marketing problems were ranked as the most important problems facing small and medium businesses (Table 1), the results in Table 3 show the importance for these businesses to develop good working relationships with their suppliers as well as with certain outside marketing or sales consulting agencies.

Hours Spent by Advisors

Respondents were asked to indicate the average number of hours over the period of a typical month that an advisor spends on a problem with the respondent. Table 3 presents the average number of hours spent by different types of advisors on each of the most important problems (shown in parentheses). Because of the difficulty associated with the recall of an event, the number of hours a month that a respondent recalls spending with an advisor is only an estimate and should be viewed with some skepticism. If the estimates were always correct, one would expect that the greatest number of hours would be spent with the most important advisor and fewer hours with the less significant advisors. The results indicate that this behavior did not always occur. Possible explanations are that the main advisor simply may be

able to deal with the particular problem more quickly than some of the secondary advisors or the advisor needs to learn less about the problem since he/she already knows the business.

As indicated in Table 3, when dealing with a sales/marketing problem, businesses spend an average of 57 hours per month with the external sales/marketing consultants. In certain instances, companies may use suppliers as advisors when dealing with sales and marketing

TABLE 3: KEY ADVISORS RANKED FOR EACH IMPORTANT BUSINESS PROBLEM BY CATEGORY*

(In parentheses are the typical number of hours during a month that the advisor spends on the problem)**

I. Sales/Marketing Advisors	IV. Government Regulations Advisors	VIII. Growth Problems Advisors
1. Consultants (57)	1. Trade Associations (7)	1. Accountants (19)
2. Suppliers (33)	2. Lawyers (5)	1. Bankers (9)
3. Family Members (22)	3. Accountants (16)	1. Family Members (8)
3. Business Service Firms (20)	4. Consultants (5)	1. Consultants (6)
3. Friends (8)	5. Friends (80)	5. Friends (4)
6. Trade Associations (4)		6. Trade Associations (4)
II. Personnel/Recruiting Advisors	V. Taxes/Tax Planning Advisors	IX. Pricing Problems Advisors
1. Business Service Firms (12)	1. Accountants (6)	1. Accountants (6)
1. Lawyers (7)	2. Lawyers (14)	2. Consultants (17)
3. Consultants (19)		
4. Trade Associations (6)	VI. Availability of Working Capital Advisors	X. Inventory Control Advisors
	1. Bankers (38)	1. Computer Service Companies (7)
III. Organization/Administration Advisors	2. Accountants (53)	2. Consultants (7)
1. Consultants (14)		3. Accountants (6)
2. Accountants (11)	VII. Competing with Large Firms Advisors	4. Family Members (7)
3. Family Members (5)	1. Friends (6)	
3. Trade Associations (5)	1. Trade Associations (3)	
5. Lawyers (3)	3. Consultants (9)	
	3. Suppliers (8)	

* Because only the advisors that received frequent mentions are listed, the number of advisors for each problem differ. For some problems there were ties in the rankings of advisors.

** In several instances lower ranked advisors spent more hours on a problem than higher ranked advisors.

problems. According to the survey, businesses spend an average of 33 hours per month on sales/marketing problems with their suppliers. Of particular interest in Table 3 are the results found when dealing with the difficulties attributed to government regulations. The most important advisors used for these particular problems are trade associations while the fifth most mentioned advisors are friends. Note, however, that businesses will spend an average of only 7 hours per month with trade associations on government-regulation problems while spending 80 hours per month on this same problem with friends. One possible explanation is that you usually do not have to compensate friends, who may be other businesspeople, to

discuss mutual problems; and, perhaps, the atmosphere for discussing a problem with friends is much more casual.

Another example of where more time is spent with a secondary advisor is in dealing with pricing problems. Notice that the most important advisors for pricing problems are accountants and the second most mentioned advisors are sales/marketing consultants. Although accountants are the most important advisors used for this problem, more time is spent per month on pricing problems when using sales/marketing consultants as advisors. A possible explanation for these results is that while accountants are often needed as advisors on pricing problems, the problems the accountants deal with may not be extremely time consuming. However, the results could also indicate that because of previous work with a firm, accountants are simply more efficient at dealing with its pricing problems. The results of Table 3 give businesspeople and future businesspeople an idea of who to use for each general type of business problem and how much time they might need to spend with each type of advisor for each problem.

CONCLUSIONS

The results of this survey indicated that the critical problems identified by the respondents reflected the business climate of the late 1990s. In order of importance, respondents declared their five most critical problems were sales/marketing, personnel/recruiting, organization/administration, government regulations, and taxes. To assist in resolving their sales/marketing problems, the respondents relied mainly on consultants. When respondents encountered personnel/recruiting difficulties, they were equally divided between using either lawyers or business service firms as their most valued advisors. To help resolve organizational and administration problems, respondents depended on consultants. The key advisor to assist businesses to become responsive to government regulations was a trade association. For taxes and tax planning problems, accountants were the overwhelming choice of respondents.

Limitations

While this research extends other studies by matching business problems to the advisors most favored to resolve the problem, there are some limitations. The research for this study was not designed to be theoretically oriented. The research was structured to be more practical, applied, exploratory research with the idea of identifying information that could be useful and interesting to business managers/owners. More precisely, theoretically oriented research can be used to build on these findings. All of the respondents were based in Indiana, possibly giving the results a Midwestern bias. However, the Midwest is often identified as a representative demographic region of our nation. Indiana communities such as Indianapolis, Fort Wayne, and Marion, are frequently used for test marketing. Because of their demographics, those cities are cited as a microcosm of the United States market. Still, comparative data from a larger number of firms nationwide would be useful. The presence of Hispanic, Asian and other minority businesspeople, particularly in the West, Southwest, and major metropolitan centers, may generate different responses to this survey.

Implications

The results of this study should assist small and mid-sized businesses to recognize the key advisors for particular business problems. A hierarchy of significant advisors for a problem is recognized. This allows a businessperson that is experiencing a problem to identify the advisors that others turn to for assistance. The respondents' answers indicated that marketing and personnel/recruiting problems were major concerns affecting all types of businesses.

For accountants, lawyers, and bankers, this study demonstrates that a significant market exists among small and mid-size businesses for their expertise on specific business problems. The research indicates that trade associations and insurance agents are also important advisors to small and mid-size businesses. To serve their members more effectively, trade associations may wish to strengthen their advisory function. Insurance agents should recognize that by providing a comprehensive plan for controlling a firm's risks, the agents can enhance their value to the small and mid-size businesses. Many businesspeople rely on insurance agents to assist them in planning for the succession and continuity of their businesses after they retire, requiring an agent to build strong personal relationships with business owners.

Another implication of this study is the importance of family members and friends to the owners or chief executives of small and mid-size businesses. Trust, loyalty, expertise, similarity of viewpoints, and cost-free counsel are factors that cause businesspeople to consult with family members and friends.

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