"Case Study Observations of a Small Business: Findings, Comparisons, and Analysis"

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Abstract

This article is based on a year-long field research observational study of a small entrepreneurial business located in downtown Washington, DC. The main objectives of the study were to examine the managerial characteristics and behaviors of the founder-entrepreneur who was also owner-manager of the business and then to compare and contrast them with those found in the literature of the field of study. In addition, marketing, competition, staffing, and business location were reviewed in relation to challenges of changing business environments like the one the subject business experienced. The authors found support for many of the personal characteristics, management styles, financial insufficiencies, and environmental circumstances that often lead to small business failures.

Key-words: entrepreneur, founder, management, managerial deficiencies, owner, small business

"Case Study Observations of a Small Business: Findings and Analysis"

Purpose

This article examines the management of an entrepreneurial and formerly successful small business located in downtown Washington, DC, and compares and analyzes the practices and attitudes of the founder-entrepreneur/owner-manager ("the founder") with specific behaviors found in the field literature.

The Founder-Entrepreneur and Owner-Manager

The founder of the business was a middle-aged man, an engineer by formal training who had never worked in an engineering job. He had been a self-employed business owner throughout his entire career, and was very proud of never having worked for someone else. He was very aware of how valuable his 25 years of experience were in his marketplace.

He lived with his wife and four children in an upper-class suburb of Washington, DC. His house was very comfortable, with a swimming pool and other amenities on the property.

The founder previously had helped two former business associates re-enter the marketplace after they bankrupted their own businesses that were in the same line of business as his. They were both reliable, experienced workers, who now work for the founder.

The company, Downtown Deli (not its real name), was a 12-employee food service and catering company, established 12 years prior, with retail sales serving coffee, breakfast items, sandwiches, salads, and selected hot dishes. Half of its sales were from in-store foot traffic; half were deliveries to corporations either as employee orders or catering. In its early years, Downtown Deli was a successful business with more than 500 in-store customers per day plus corporate orders that required delivery.

Downtown Deli was the third company that the founder had started. He sold the first, then the second to concentrate on Downtown Deli.

Geographical Location

Downtown Deli was surrounded by some of the most prestigious American corporations and government offices. In its early years of operation, a thriving residential community also added to the walk-in and delivery customer bases. Downtown Deli's location dramatically changed for the better due to a prolonged period of economic growth. Foot-traffic increased substantially and the customer base rapidly grew through development in the service sectors, technology-based companies, and government suppliers.

Most of Downtown Deli's customers were executives and office workers who came from the new concentration of multinational companies, law offices, lobbyists, educational institutions, museums, and schools in the immediate area.

Due to this rapid expansion, the number of competitors within a few blocks tripled. In a very short time, many small food service companies competing for the same customers and offering similar products surrounded Downtown Deli.

Then, the situation changed. Office rent increases in that part of the city caused several of Downtown Deli's principal corporate customers to relocate to less expensive locations. Many orders ceased because it was difficult for the Deli to deliver beyond a three-block radius due to traffic constraints. At that same time, renovation began of the building within which Downtown Deli was located. The renovation closed most of the walkways and changed the pedestrian traffic pattern for more than a year. This not only made it difficult to access Downtown Deli, but also created an unattractive and uninviting place for customers to eat.

After renovation, the building landlord leased space to a new tenant, a national chain whose store offered specialty coffees and foods that were in direct competition with Downtown Deli's breakfast menu. This irritated the founder who thought it unacceptable and disloyal for the landlord to place a direct competitor in the same building considering Downtown Deli's long-standing service to the building occupants and surrounding neighborhood customers. The founder considered hiring an attorney to sue the landlord; however, that idea was quickly forgotten in favor of another urgent problem—at the completion of the renovation, the landlord also increased Downtown Deli's rent. Rent was the highest single cost factor in Downtown Deli's operation and now it had been increased to an even higher amount.

Pricing, Marketing, and Competition

Usually, the founder set pricing, but occasionally his store manager did also. Products were sold at slightly below the competition; a few at aggressively lower prices. Some items, like fruits or chocolate, were sold at higher prices. The founder was very cautious when changing prices. He knew that customers were very price-sensitive and he did not want to lose any of them. He worried when he heard customer complaints about a price increase that he had authorized.

Downtown Deli had been able to sell its products with prices slightly below competitors' prices because the founder was willing to accept lower profit margins with higher volume to maintain his business. He had been able to sell food innovatively and creatively, while taking into consideration the season of the year and special events. When Downtown Deli packaged food for delivery, they included additional complimentary items such as candies, cards, flowers, special condiments, and dressings. This was a plus that differentiated Downtown Deli from its competitors.

The founder did not spend money on advertising. He believed that the best advertising was good service and products; however, a poll conducted by a local university's business students found that although half of his customers were satisfied with his food and service, the other half were willing to go elsewhere. Nevertheless, Downtown Deli's food quality was rated the best in the area. Another competitive advantage held by Downtown Deli was its ability to fill large orders, for 50 people or more, while maintaining high food quality. None of the nearby competitors could achieve this performance level. Competitors were only willing to sell small volume orders directly to consumers; they would not sell large quantity orders or cater corporate functions.

The Staff

The founder thought that the deli business could not be operated with high labor costs. Downtown Deli's payroll was between 32% and 38% of total expenses. The founder scrutinized labor costs and kept them low; the average was slightly above legal minimum wage. Employees had no cash incentives or bonuses, and no formal benefits. The employees were not unionized. Two-thirds of the employees were minorities—five blacks and three Hispanics. The founder allowed employees to take food for themselves. Food theft was accepted as part of "doing business" and was as close to being a fringe benefit as the employees had.

Employees were recruited principally through local newspaper advertisements. It was common to see several people filling out employment applications at any given time. Turnover was high. Many new employees would work for just a few days before quitting without explanation. During the year of observation, seven of 12 employees left the company and were replaced.

No training was provided. New hires were put to work immediately and all were expected to perform several functions; e.g., three of the attendants and sandwich-makers handled money at the cash register, the manager at times became the main cook, the cashier was in charge of deliveries. Also, the founder worked in all roles of the business. Sometimes he cooked, made sandwiches, or was the cashier. During peak times, like lunchtime when the number of customers usually quadrupled, the founder performed several duties simultaneously.

Although the founder had a warm and congenial personality, he allowed his manager to be severe with employees about mistakes. The manager would get angry with employees who were too slow or could not understand orders. This was especially the case with Hispanics, who did not speak English well. The manager was inclined to punish rather than reward.

Management Style

The founder was proud of the rich experiences he had had creating his three businesses, as well as developing their systems and controls. He developed the menus, new products, and researched market and customer preferences. He was very "hands-on."

Invoices for catering and corporate accounts were generated by a computerized system, but since the founder did not trust it, manual controls were put in place that worked in parallel. Receivables control was difficult. The computer system was checked against the manual system, and if there was a discrepancy, a phone call was placed or a letter was written to the customer.

The founder was reluctant to dun for past due amounts. In some cases, invoices were left pending for almost a year. Stated payment terms were 15 days net, but typical collection times were between 30 and 45 days. There were no credit limits. In a few cases, corporations placed and received food orders, moved from their nearby locations, and did not pay their balances. The founder tried to collect these past due invoices, but he gave up as legal expenses were too high and he believed prosecution could damage future relations with other customers.

Downtown Deli received food orders in person and by telephone and fax. The orders were accepted by the founder, the manager, or any one of three of the most reliable employees.

The business operated with a small number of suppliers with whom the founder had established long relationships. This concentration of suppliers did not bother him; they were consistent and reliable. Most of the suppliers' goods were perishable, delicate food that was delivered daily.

Accounts payable were handled in an unusual way. No matter the maturity dates of invoices, they were paid at the end of the month. When invoices contained errors, the founder would ignore them until the supplier called or sent corrections. Relationships with suppliers were good, although some complained regularly about late payment. In general, Downtown Deli paid its suppliers, employees, and taxes, in a timely manner.

Business forms used in the day-to-day operation of the business had been unchanged for several years. Both the founder and the manager were accustomed to using them. Just one form was used for taking the order, calculating the price, and issuing the invoice. It was also used to assemble the order, sometimes for enough food for 50 people or more. The same form was then used to deliver the order to the customer.

On busy days, controls did not work well or were ignored, invoices were not issued properly, food was either missing or in excess on orders, and there were delays in delivery time. There was no checklist for comparing deliveries to the original order. Oral instructions related to these orders were sometimes forgotten. On days with strong sales of breakfast items and sandwiches, Downtown Deli's maximum capacity was about a dozen orders from corporate customers. Since most of these corporate orders were personalized, with each individual customer asking for specific items, the employees had to hurry to complete everything to deliver the food in a timely manner without losing quality. It was a difficult and stressful task for the small team.

At the end of each day, the two cash registers were checked; money was counted and then deposited the following day at a nearby bank. Here, the controls seemed to work well. It was uncommon to find a discrepancy between the amount of money received and the bank deposit amount. Daily controls on the cash register consisted of recording the names of the two cashiers (one being the founder's father who was still active in the business and very reliable), noting the day's weather (like temperature and precipitation), recording the number of individual transactions, finding and correcting mistakes performed on the register, identifying sales through cash or credit card, and computing taxes.

There was no bank debt. The founder was fearful and cautious of taking on debt because he had had trouble repaying it in the past. He also considered interest on loans to be a drain on profits. He had a good relationship with one local bank and, in fact, the bank was a corporate customer that ordered food one or two times per month.

The founder's concentration on costs was restricted to wages and supplier expenses. Utility costs tended to be ignored. Energy-consuming equipment like computers, lamps, fans, and other appliances were left on 24 hours per day. Water consumption was high. Some foods were not maintained adequately or were produced in excess. Since perishable products like fruits were sold at high prices, many were thrown away because of lack of demand. Yogurt and milk, when too old for consumption, were thrown away also. The founder considered his 5% to 8% of purchasing cost level of waste acceptable and within the industry average. He did not verify these percentages; the authors' personal observations led to the conclusion that the level of waste was higher.

The founder's office was a little miracle. In a space that allowed for one desk, a computer, and a small locker, he had also squeezed in shelves for all of his working papers, many utensils needed in the kitchen for food preparation, several small pieces of equipment for catering, first-aid supplies, books with recipes, and legal and accounting papers. The business also rented space in the basement for inventory of soda, water, and non-perishable food and paper supplies. It was also full of dozens of pieces of small equipment, and everything else he deemed necessary for the catering business. The founder believed that this storage space contained enough equipment and inventory for another entire business.

Facility utilization clearly indicated that there was a problem. The premises were over-crowded; equipment too close for efficient handling of food and operational performance. The business gave the impression that it was always working at full capacity; however, it operated at about 60% of its capacity, while the industry average for this type of business is around 90%.

The company's accountant had offices in another part of the city and personal contact with the founder was infrequent. The accountant only took care of preparing required tax documents, with no personal interventions or consulting.

A few months prior to this observational study, the founder accepted the services of a group of students from a local university's program in business to conduct an in-depth study of Downtown Deli's operations. An experienced professor supervised the students and the U.S. Small Business Administration sponsored the project. The students made many recommendations with respect to opportunities in marketing, advertising, accounting, finance, production, operations, personnel, legal requirements, insurance, sanitation, lighting, ventilation, and zoning. They also provided detailed written operating standards and procedures for Downtown Deli's most important functions.

The only aspects of Downtown Deli's business that the students' commented upon positively were the accounting system and the finance operation. This praise, in fact, was not well deserved since the software used for accounting purposes and also for issuing and collecting invoices was out of date and inadequate for the creation of management information reports that could have helped the founder in his decisions.

The founder ignored the students' 70-page report containing detailed analyses, findings, and recommendations that were important to the survival of the business were rendered useless by the founder's lack of interest in implementing any of them.

One year and half later, the manager suddenly left the company. Perhaps as a result of a long-matured plan, the founder sold Downtown Deli few months after that.

Discussion

Garland, Hoy, Bolton, and Carland (1984) developed some concepts that help in understanding the subtle differences between the entrepreneur and the small business owner-manager. In their definition, the entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth, putting into practice innovative behavior and strategic management concepts. On the other hand, a small business owner-manager establishes and manages a business for the principal purpose of furthering personal goals. The business is his primary source of income, an extension of his personality, and will consume the majority of his time and resources. It is clear that the founder was a small business owner even though one could have made a different assessment of him years earlier.

In the earlier years, the founder had started two other businesses in different locations and had to engage in many entrepreneurial activities. He had to craft each company's structure, plan menus, establish relationships with suppliers, and develop food tastes to satisfy his sophisticated clientele's palates. All of this required a great deal of innovation, risk-taking propensity, and achievement motivation (McClelland, 1961)—three entrepreneurial characteristics. The founder could have been considered an entrepreneur at that time, consistent with the dual status of being an entrepreneur and a small business owner (Carrée and Thurik, 2002; Gartner, 1989). Schumpeter (1934, p. 78) noted that " . . . an entrepreneur is not a profession and as a rule not a lasting condition . . ."

Kets de Vries (1996) analyzed some of the psychological traits of small business owners and mentioned as a characteristic their need to micromanage. This implies that the owner or the entrepreneur wants to be involved in all decisions, even the small ones. Due to his lack of confidence in others or inadequate delegation, he performs small tasks that make no sense considering that he is the owner-manager. These include such things as discussing small details about cooking, size and weight of food portions, or perhaps replacing an absent worker. Kets de Vries (1985) argued that entrepreneurs and owner-managers have a strong need for control. The founder clearly demonstrated his need for control by keeping all vital information of the business to himself. This desire for control can lead to extreme behavior like ". . . needing to be informed about even the most minute operation of the company" (Kets de Vries, 1985, p. 161), an idiosyncratic attitude also reported by Young (1987) and McClelland (1975). Since just one person makes the decisions, the information needed for decision-making does not circulate in the business.

Larson and Clute (1979) reviewed the records of 350 small businesses in Chicago that had financial difficulties and had sought assistance from the SBA. They identified managerial and financial knowledge deficiencies in the small business owners in addition to negative personal characteristics. They discovered the tendency of the owner-managers to overestimate their own management knowledge, make decisions based primarily on intuition and emotion, and resist advice from other qualified people (Larson and Clute, 1979, p. 42). These findings were confirmed by Peterson, Kosmetzky, and Ridgeway (1983) and Julien (1998). Probably such resistance is a display of the need for control or power (McClelland, 1975). Some of the founder's behavioral characteristics—his use of personal opinion and practical experience as standards for decision-making, his resistance to suggestions from others, and his general orientation towards the past, not the future—seem to confirm Larson and Clute's findings. When shown a magazine article about a person with traits similar to his own that could bankrupt a company, the founder ignored it completely and refused to discuss it. His reaction, probably based on his judgment that practice is better than theory, was not surprising.

The founder considered delegation risky, thus supporting Kets de Vries (1996) and Larson and Clute's (1979) observations that, in general, owner-managers failed to understand or appreciate the principles of delegation. The founder also believed that most of the problems at Downtown Deli were exogenous such as the competitive environment, the economic recession, or high rental rates. This seems consistent with Larson and Clute's observations that many owner-managers prefer to ignore their own realities and blame others for their problems. Fuller (1994) stated that deficiencies in delegation and passivity, when facing external factors like economic recession, explained why so many small businesses fail.

Marshal, Alderman, Wong, and Thwaites (1995) concluded that training is scarce in small businesses and most owner-managers provide only the minimum training necessary for the employee to start to work. Some of their conclusions, extracted from several other authors, refer to the concern that training of staff will make them more attractive to other employers and, therefore, encourage turnover. Their research examined the impact of management training and development on small businesses by sampling 170 small businesses in Britain. Their findings demonstrate the value of using consultants to train and develop management in small businesses. They also concluded that firms that practiced formal training became better organized and experienced a range of improvements in areas such as financial control, customer service, product quality, and more frequent introduction of new technologies. In Downtown Deli, considering the difficulty the founder had with sharing vital information and delegating authority to employees, it was obvious that employees would not receive formal training. If the founder had shared information and delegated duties, then employees, who needed development of new skills, would indeed be trained and, therefore, would be more attractive to other employers. The founder, however, saw formal training at Downtown Deli as a waste of time; he could not afford to keep employees away from work in order to train them (also see Bradley and Rubach, 1999).

As there was no intention to provide a positive motivational environment (see Larson and Clute, 1979), morale was low and the reaction to special tasks or for working extra hours was negative. Because of this, the founder often asked for additional help from temporary employees. The regular employees accepted this practice but with irritation.

Jefferson (1997) reached the arguable conclusion that small businesses employ only relatives, friends, and ethnically related people. Through a model that included a credit market and its associated labor market, he demonstrated that employees of small businesses are closely affiliated with the owner and “there is a large degree of homogeneity in the ethnic composition of the work force in the small businesses (Jefferson, 1997, p. 110).” Although the founder kept his father as a cashier, the main consideration given to hiring people was not family relationship, friendship, or ethnic origin, but rather the worker's availability and willingness to accept the wage offered. Since about two-thirds of the total workforce were minorities, but from different minority classifications, the claim of ethnical homogeneity seems unconfirmed here. On the other hand, as minorities are prone to accept lower wages, Brock and Evans’ (1989) assumption that small businesses hire mostly minorities or contractually weaker workers (as per Tommaso and Dubbini [2000, p. 3]), seems confirmed.

Wages paid at Downtown Deli were only slightly above the minimum legally required and no other benefits were offered to workers, which seem to support contentions by Brock and Evans (1989), Loveman and Sengenberger (1990), Kirchoff (1991), Acs (1992), and Audretsch (1995), that the level of wages is generally low at small businesses. Although turnover was high at Downtown Deli, some workers were stable and provided good reliable work. Others showed a different behavior quitting the job without giving notice. Davis, Haltiwanger, and Schuh (1994) argued that small businesses provide poor quality jobs in comparison to large businesses, which offer better wages, training, fringe benefits, and are more concerned about a worker's motivation and well-being.

Efforts were made by the founder to keep wages between 32% and 38% of total revenues. Any change in revenues caused the level of wages to appear higher or lower than before. At one point, an economic recession had reduced sales, consequently leading to the conclusion that the company was overstaffed. The founder used this rationale to make decisions about the number of workers required, while not taking into account the effects of seasonal or cyclical changes that could produce an incorrect impression that the company was either over- or understaffed. In Downtown Deli, some employees performed multiple duties, which might lead to the conclusion that the business was understaffed. The founder believed that Downtown Deli was overstaffed and refused to accept or understand that sales had decreased in the last two years while wages remained constant; in both situations, it demonstrates that many small businesses operate at suboptimal scales (Audretsch, 1995).

Downtown Deli was not unionized, supporting Von Potobsky’s (1992) assumption that unions lack interest in organizing small businesses. Unions prefer to concentrate their efforts on larger businesses where there are greater numbers of employees and, therefore, the union’s gains are greater if they successfully organize the business. At Downtown Deli most workers were minorities with minimal qualifications, who needed the job for economic existence, despite the low wages and absence of benefits. Workers could be fired, and were, at any time without stated cause. This confirmed Tommaso and Dubbini’s (2000) assumption on reasons for higher worker turnover in small businesses.

Practical recommendations to enhance success are taught in case studies in many business courses. Among these is the need to network (Paul, 1997) with other business owners in the same industry. The founder rejected this idea because it implied socializing with competitors, who were seen as enemies in this competitive business environment. This stance hindered accepting another important recommendation—to profile and understand the competition.

Many small business owner-managers think that to have a viable business, price must only cover costs and a margin to remunerate capital. They disregard how external competition affects pricing considerations. Strategies and tactics regarding price-setting are usually rudimentary (Larson and Clute, 1979). In some cases, the potential reactions to price changes by customers prevent small business owner-managers from making changes. They prefer instead to change products rather than pricing on current products, so as to not upset customers. Since businesses like these operate in market niches (Penrose, 1959) and the number of customers is static, keeping customers is essential for the company's survival (Julien, 1998, 1993).

Financial constraints caused by a lack of adequate financial knowledge were identified by Larson and Clute (1979), Bradley and Rubach (1999), and Gorton (1999). These included either no or minimal inventory controls, accounting books that were incomplete or inaccurate, failure to understand the importance of cash flow and liquidity, failure to use financial statements when planning the future of the business, or failing to check the accuracy of accounting information reported by staff or consultants. In the founder's case, the lack of an adequate management information system was evident in his decision-making process, a problem reported by Nayak and Greenfield (1992). Information was reserved only for himself. He frequently did not consider realities like aging receivables and how they affect the company's cash position. The accounting system failed to reveal crucial information like past due accounts, cost levels of certain products, and break-even points. This was because the founder preferred to keep a manual system that unfortunately proved to be ineffective. In fact, both the computer and manual systems were not reliable and often produced different output information, therefore adding even more confusion to decision-making. Additionally, the founder maintained only occasional contact with the company's accountant. This confirmed findings by Bradley and Rubach (1999) that failed small businesses relied less on the advice of accountants than successful small businesses.

Timmins (1987) found that consultants were considered the most helpful in assisting small businesses, a favorable opinion also shared by Robinson (1982) who called consultants "outsiders." Stevenson and Sahlman (1999), p. 451) also recommend hiring consultants, because in competitive and confusing environments, there is no such thing as an "all-knowing accountant or banker" (Stevenson and Sahlman, 1999, p. 451). Timmins (1987) also concluded that the most helpful advice to small business owner managers is to control costs. It seems, however, this is easier to discuss than to implement. As in the case of Downtown Deli, several operational costs were left out when calculating total costs. Paul (1997), writing about his "General Lack of Success" model to explain small business failures, concluded that their failure could be traced back to the lack of a clear mission statement or business plan. Bradley and Rubach (1999) and Castrogiovanni (1996) argued that small businesses generally do not produce business plans. This was confirmed in the founder's case since he considered a business plan a useless tool in view of his practical experience derived from 25 years working in his industry.

Gorton (1999, p. 61), researching the financial habits of 366 small business owner-managers in the United Kingdom, discovered that even with the use of proper financial management techniques it does not necessarily mean that there will be growth in business, although the use of these techniques is a major source of improvement for the business. About 34% of firms he surveyed used some form of budgeting while only 11% used financial statement information as a part of their managerial evaluation and decision-making. His studies specify the importance of setting financial plans and maintaining comprehensive accounting systems.

Edwards and Turnbull (1994) concurred with Gorton. With findings based on questionnaires and personal interviews from 101 British companies, they determined that small businesses suffer from the lack of appropriate financial information, do not recognize the importance of budgets in planning, and do not appreciate the use of computers as valuable tools in generating financial reports. The projection of future cash flows and other analyses are not new, as international banks and businesses adopted them in the 1970's; however, their use was restricted to large businesses for several reasons, chief among them being the attitudes of small business owner managers toward budgeting (Edwards and Turnbull, 1994). Budget information is deemed confidential. The same authors noted that cash flow and capital budgets were the most restricted documents inside the small businesses they studied.

Downtown Deli had a good relationship with its bank; however, the bank was used only for cash deposits because the use of bank debt financing was taboo. The founder had once concluded that paying interest reduces profits; thus, he used his own money to finance the operations of the business instead of borrowing from a bank.

Julien (1998) mentioned the existence of a financial gap in the supply of funds to small businesses, which seems to have two main components. The first is the limited use of debt financing, probably as a consequence of lack of knowledge about the different sources of financing and their advantages and disadvantages. The second is that funds are not readily available for small companies or if they are, at a higher cost than to larger businesses. This situation is confirmed by Binks, Ennew, and Reed (1990), Edwards and Turnbull (1994), and Jefferson (1997), especially regarding long-term financing, which if lacking may challenge the ability of a small business to prosper. These authors posit that information transfer between client and bank might be used to reduce the finance gap; however, this seems unrealistic in Downtown Deli's case given the nearly nonexistent management information system, the lack of familiarity with computer generated reports, and the founder's resistance to bank debt financing.

Perhaps identifying the marketplace and customers through careful planning and taking into consideration different points of view could have been a solution to better position Downtown Deli in terms of sales and market penetration, as explained by Litz (1996) on small businesses responses to large firms entries. Fuller (1994) reported that deficiencies in marketing techniques are one of the reasons for many small business failures. He also concluded that a systematic approach to marketing was found among exporters, but other sectors lack the perspective provided by the use of marketing techniques. Because the decisions in Downtown Deli were highly concentrated, the founder lost the insights he might have gained from other people and preferred to think about tactics and solutions alone, confirming his need to face alone the company's problems as a kind of personal battle (Kets de Vries, 1985, 1996).

Wichman (1983) concluded that failure of owner-managers was due to inadequate managerial skills. Yet, Marshal, Alderman, Wong, and Thwaites (1995) demonstrated that managers with limited experience in management training, as well as firms with weak management, could make substantial gains in less than a year with adequate management training. However, if this kind of management education already existed in the business, is there a specific discipline that could be taught to owner-managers to enable them to be more effective in terms of financial and managerial techniques?

Robinson and Pearce (1984), cited by Lussier, Sonfield, Corman, and McKinney (2000, p. 30), argue that there is such a discipline. These authors concluded that strategic planning is critical for small businesses both for their survival and increased performance and that strategic planning enables advances in performance when combined with operational planning. Additionally, small businesses perform better with simple business plans rather than comprehensive strategic plans, which seem to be “the domain of large firms” (Lussier, Sonfield, Corman, and McKinney, 2000). They also suggest that there are barriers that prevent small business owner-managers from adequate planning. They cite time scarcity, lack of knowledge and expertise in planning, and lack of trust and openness as factors. Simon (1987) argued that it is not an easy task “to incorporate the future into the managerial style” (Simon, 1987, p. 63), and Frizelle (2001, p. 6) contend that small businesses are “likely only to undertake formal planning when faced with some major change or crisis.”

As cited by Naffziger and Muller (1999, p. 2) several researchers have confirmed Robinson and Pearce’s concerns, despite the fact that it has been difficult to establish a strong empirical connection between strategic planning and an organization’s performance. Understanding the concept and use of strategic planning is not easy for entrepreneurs or small business owner-managers, as it depends on learned and practiced techniques. A common misconception, discussed by Mintzberg (1998, p. 20) is that a manager is a “reflective, systematic planner”. Many studies have shown that “managers work at an unrelenting pace, that their activities are characterized by brevity, variety, and discontinuity, and that they are strongly oriented to action and dislike reflective activities”. Because the founder was primarily responding to the pressures of his job as Downtown Deli's owner-manager, it would have been hard for him to think about Downtown Deli in strategic terms. Andrews (1998, p.47) argued that strategy is

> . . . a pattern of decisions that determines and reveals its objectives, purposes, or goals; produces the principal policies and plans for achieving those goals; defines the range of business the company is to pursue; the kind of economic and human organization it is or intends to be; and the nature of the economic and noneconomic contribution it tends to make to its shareholders, employees, customers, and communities" (Andrews, 1998, p. 47).

It is clear by its intent that the above concept of strategy works better for large businesses than for small businesses. Julien (1998, p. 393) mentioned the difficulty of identifying ". . . a single small business strategy when a strategy changes in response to the economic context, previous actions, and the personal or family itinerary and objectives of the entrepreneur or owner manager". Another conclusion is that businesses are becoming more complex (Stevenson and Sahlman, 1999) and the effects of market globalization produce an intense feeling of battling against the unknown. Although not the case with Downtown Deli, even small businesses compete with other businesses from distant lands that may have different cost structures that make it hard to compete on price alone. Rapid changes in the marketplace also produce the feeling of losing control, even though good planning may have taken place in the past.

Table 1 summarizes the above discussion of personal, human resources, and managerial deficiencies exhibited by small business owner-managers.

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Conclusions

The observations made in this study lead in three different directions. The first indicates some of the psychological characteristics presented by Kets de Vries (1985, 1996) and Larson and Clute (1979) that make entrepreneurs and small business owner-managers often prone to failure. Among them is the need for control that affects their ability to take or give directions appropriately and their tendency to keep to themselves information for decision-making. Closely related to the need for control is a “proclivity toward suspicion of others” (Kets de Vries, 1985, p. 162), which could relate to the difficulty in the delegation process and the lack of discussions about the company's strategy.

Some authors (Peterson, Kozmetzky, and Ridgeway, 1983; Julien, 1998) believe that personality traits or psychological characteristics are the most difficult to change. They cite items such as resistance to authority and reluctance to give opportunity to other qualified people to make decisions, the entrepreneur and small business owner’s decision process based on intuition, the use of personal opinion as the decision standard, and overestimating their own knowledge based on past experiences and feelings. Simon (1987, p. 63) has argued that judgment comes with intuition, and this is “simply analyses frozen into habit,” an important skill that needs many years of experience and training.

The second direction from this study leads to two closely related factors with owner-managers who have a high propensity for failure. These factors are financial constraints and management deficiencies. Inadequate management knowledge or improper training (Young, 1987; and Hughes, 2000) generates financial constraints in such areas as inventory control, bookings that are incorrect, failure to use historical financial statements to plan the future, lack of accurate accounting reports, no evaluation of cash flow and liquidity, and poor or non-existent management information reports. These deficiencies appear easy to remedy using available tools like specialized software for accounting, business or marketing planning, inventory and cost control systems, and also management education (Ball and Shank, 1995). In these areas, personal characteristics could negatively influence decisions. For example, the decision to use a manual system to issue and collect receivables for Downtown Deli and then to use the manual system in combination with the computer system, when the current computer with new software could have been used, was an agonizing process (see reasons for that in Simon, 1987, p. 62). The new software seemed too complex for the founder to use (see Young, 1987), but he could have employed a specialized worker to perform the tasks required. This, however, would have put the founder in a dependent position. His need for control appears to have played a strong role here, together with Simon’s (1987) idea about owner-manager’s procrastination for fear of consequences. Ball and Shank (1995), researching educational needs of small business owners, argue that there are three areas generally covered by small business management texts: finance and accounting, management, and marketing. These areas are covered in business courses in universities and in secondary schools; however, Liedholm and Mead (1999, p. 108) skeptically warn that “. . . training programs . . . have generally proven to provide only limited benefits while operating at high costs”.

At the time Downtown Deli started, the founder was very aware of all the costs and the benefits it could obtain in the marketplace in which it was operating; however, with the enormous changes that happened in the economy in a brief period, his knowledge became out-of-date. It is an open question whether one can change personality traits; be willing to give up specific knowledge accumulated by practical experience that may not be appropriate for the current situation; and, update one's business abilities with readings, training, open dialogue with others, and be able to plan the future.

The third direction from this study refers to the broad socio-economic view. The more volatile an environment—the more it changes—the more the risky business becomes. High business mortality rates support the turbulence mentioned by Audretsch (1995) generated when many businesses enter and exit a marketplace. With major changes in an environment, the number of small businesses can vary significantly, due to opportunistic reactions, business frailties, dependencies, (Ripsas, 1997) or even their isolation (Arzeni and Pellegrin, 1997).

The decline of a small business can be caused by a myriad of endogenous problems and circumstances. However, some of the most important are clearly exogenous, like sudden external changes, additional costs of transactions, or new government regulations. Some (see, for instance, Hebert and Link, 1989) suggest that small business economics is an area that is clearly in transition and related theory seems still under construction. Julien (1993, 1998) proposes a "theory of instability" or a new theoretical corpus (Tommaso and Dubbini, 2000) as opposed to the classical economic theory based on the idea of systematic tendency towards equilibrium. Schumpeter (1936) and his theory of "creative destruction" is an option being slowly accepted by orthodox economists (Kirchhoff, 1991). Any considerations given to the subject of small businesses should take into account that small businesses pass through their entrepreneurial inception and beginning, development and growth, and nimble disappearance, differing from what large firms do.

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Table 1:
Personal, Human Resources, and Managerial Deficiencies Exhibited by Small Business Owner-Managers

Attributes and practices	Literature (reviewed)
Personal Deficiencies	Authors Commenting
Overestimates own expertise/resistance to change/lack of flexibility/problems are exogenous/decisions based on intuition and emotions………………………………	Larson and Clute (1979); Simon (1987).
Suspicion of others / need for power, control / tendency for micro-management..	Kets de Vries (1996; 1985); McClelland (1975); Young (1987).
Resistance to suggestions from qualified people………………………..…	Larson and Clute (1979); Peterson, Kosmetzky, and Ridgeway (1983); Kets de Vries (1996); Julien (1998).

Human Resources Deficiencies	Authors Commenting
No delegation process……………………	Larson and Clute (1979); Julien (1998).
No motivation or training...............……..	Larson and Clute (1979); Marshal, Alderman, Wong, and Thwaites (1995); Julien (1998); Bradley and Rubach (1999).
Low salaries, no other benefits…………..	Brock and Evans (1989); Loveman and Sengenberger (1990); Kirchoff (1991); Kirchoff (1991); Acs (1992); Audretsch (1995).
No unionization…………………………..	Von Potobsky (1992); Julien (1998).
Work with underpaid minorities…………	Brock and Evans (1989); Jefferson (1997).
Provide low-quality jobs…………………	Davis, Haltiwanger, and Schuh (1994).

Managerial Deficiencies	Authors Commenting
No effective pricing / inventory control…	Larson and Clute (1979).
No effective bookkeeping, accounting….	Bradley and Rubach (1999); Gorton (1999).
Advertising not relevant.………………..	Larson and Clute (1979); Fuller (1994).
No identification of markets…………….	Larson and Clute (1979); Liedholm and Mead (1999); Frizelle (2001).
No use of banks, loans…………………..	Timmins (1987); Binks, Ennew, and Reed (1990); Edwards and Turnbull (1994); Julien (1998).
Unfamiliar with computers………………	Young (1987); Edwards and Turnbull (1994).
Lacking management training…………...	Wichman (1983); Young (1987); Fuller (1994); Bell and Shank (1995); Marshal, Alderman, Wong, and Thwaites (1995); Julien (1998).
Ineffective use of formal planning and information……………………..……..	Larson and Clute (1979); Robinson and Pearce (1984); Nayak and Greenfield (1992); Paul (1997); Castrogiovani (1996); Julien (1998); Mintzberg (1998); Bradley and Rubach (1999); Lussier, Sonfield, Corman, and McKinney (2000); Frizelle (2001).

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