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534

WHY SMALL BUSINESSES FAIL

By

William W. Schlepuetz

Bachelor of Science

South Dakota School of Mines and Technology, 1970

An Independent Study

Submitted to the Graduate Faculty of

The University of North Dakota

in partial fulfillment of the requirements

for the degree of

Master of Business Administration

The University of North Dakota Graduate Center

May
1989

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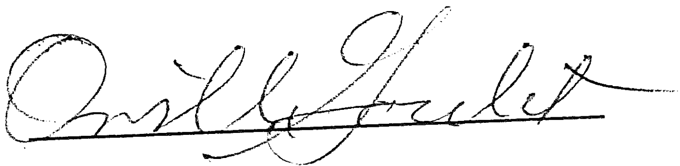

Orville Goulet

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Department: School of Business and Public Administration

Degree: Master of Business Administration

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Date May 22, 1989

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS vii

LIST OF TABLES viii

ACKNOWLEDGEMENTS ix

ABSTRACT x

Chapter

I. INTRODUCTION 1

Background 1
Statement of the Problem 5
Justification of the Problem 5
Limitations of the Study 6
Definitions 6
Summary 11

II. REVIEW OF THE LITERATURE
WHY SMALL BUSINESSES FAIL 13

Introduction 13
Planning 14
Accounting Practices 25
Summary 30

III. SMALL BUSINESS SURVEY 31

Introduction 31
Hypothesis 32
Survey 32
Survey Results 33
Conclusions 36
Summary 38

IV. SUMMARY, CONCLUSIONS AND THOUGHTS
FOR ADDITIONAL STUDY 39

Introduction and Summary 39
Conclusions 40
Recommendations for Additional Study 41

APPENDICES 42

1. Outline for Preparing a Business Plan 43

2. Questions to Use in Formulating Strategy 45

3. Financial Performance Indicator Calculations 47

4. Altman's Bankruptcy Prediction Model 49

5. Survey of Business Accounting Practices 50

BIBLIOGRAPHY 53

LIST OF ILLUSTRATIONS

Figure		Page
1.	Failure Process	18
2.	Planning Model	21

LIST OF TABLES

Table | Page

1. Why 16,794 Businesses Failed in 1981 3
2. Causes of Failures 4
3. Examples of SBA Size Standards 9
4. Description of Financial Performance Indicators 29
5. Preparation of Financial Information 34
6. Use of Financial Information 36

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ABSTRACT

WHY SMALL BUSINESSES FAIL

William W. Schlepuetz

The University of North Dakota Graduate Center, 1989

Faculty Advisor: Professor Orville Goulet

Small businesses fail at an alarmingly high rate. The seriousness of this is underscored by the impact of small business on the economy. Small business accounts for 45% of the U. S. gross national product and employs nearly 60% of the work force.

External factors such as the environment are responsible for some failures. Internal causes of failure parallel all functional areas of the business: however, approximately 90 percent of all small business failures are related to management incompetence or inexperience.

Two major failings of the incompetent or inexperienced manager are the lack of a business plan and poor managerial accounting techniques. Failure to plan, both short- and long-term, results in an operation which has no clear direction. Poor accounting techniques prevent management from assessing cash flow and profitability.

Guidelines for preparing business and strategic plans are presented as are indicators to assess the financial performance of the business.

A survey of local businesses revealed that the use of proper planning and accounting techniques are limited, especially in the very small businesses.

The number of small business failures can be reduced by improving the small business manager's managerial skills.

CHAPTER I

INTRODUCTION

Chapter I is an overview of the small business failure problem. Background regarding the impact on the economy of small businesses, the number of business failures, a look at the causes of failure, a statement of the problem and limitations of the study will be discussed.

Background

There were 11,000 small business failures in the United States in 1980.[1] Commercial and business failures increased for the third straight year, reaching 16,794 in 1981.[2] This is an alarming fact when the impact of small business on the economy is considered.

The Small Business Administration classifies over 97 percent of the enterprises in the United States as small businesses.[3]

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[1]A. B. Ibrahim and J. R. Goodwin, "Perceived Causes of Success in Small Business," American Journal of Small Business 11 (Fall 1986): 41.

[2]Rowena Wyatt, ed., The Business Failure Record, (New York: The Dun & Bradstreet Corp., 1983), 3.

[3]Barbara W. Keats and Jeffery S. Bracker, "Toward a Theory of Small Firm Performance: A Conceptual Model," American Journal of Small Business 12 (Spring 1988): 41.

Small firms account for 45% of the U. S. gross national product (GNP), employ approximately 58 percent of the labor force and are a major source of innovations and inventions.[4] The number of jobs created by businesses with 100 or fewer employees range from 50 to 80 percent of all new jobs.[5]

When assessing business failures, factors both internal and external to the operation must be reviewed.

The performance of an enterprise is influenced by a number of factors emanating from outside the business and thus beyond the control of the owner/manager.

Three macroeconomic variables have been cited as affecting the overall business failure rate:

1. GNP;
2. Stock market performance; and
3. Money supply[6]

Other environmental conditions such as new consumer attitudes, shifting demographics, changing market structure and increased competition, both domestic and foreign also influence the survivability of business both individually and collectively.

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[4]Richard B. Robinson, Jr., John E. Logan and Morage Y. Salem, "Strategic Versus Operational Planning in Small Retail Firms," American Journal of Small Business 10 (Winter 1986): 7.

[5]Justin G. Longenecker and Carlos W. Moore, Small Business Management, (Cincinnati, Ohio: South-Western Publishing Co., 1987), 61.

[6]Albert V. Bruno, Joel K. Leidecker and Joseph W. Harder, "Why Firms Fail," Business Horizons, March-April 1987, p. 52.

These things do not help to evaluate why businesses fail. They simply point out that a high failure rate is often a manifestation of a higher level of economic vitality.[7]

The other major factors influencing the performance of a business originate within the business. Internal factors which cause failure parallel all functional areas of the business.

Table 1 is a compilation of Dun & Bradstreet statistics on business failures.

Table 1.--Why 16,794 Businesses Failed in 1981

Reason	Percentage
Lack of experience in the line	11.1
Lack of managerial experience	12.5
Unbalanced experience*	19.2
Incompetence	45.6
Other	11.6

Source: The Business Failure Record, (New York: Dun & Bradstreet; 1981).

*The management is not well rounded in terms of sales, financing, purchasing and production.

The Dun & Bradstreet statistics show that approximately 40% of the failures in 1981 occurred because the business managers either had no experience in the line of business they were attempting to operate, had no prior experience in managing or they lacked experience in one or more areas of the business; that is, they had an unbalance of skills. The

[7]Kibre Dawit and Robert Friedman, "Myths of Small Business Failure," The CPA Journal 53 (September 1983): 73.

root cause of nearly 90 percent of business failures in 1981 was management's inability or incompetence.

Dun & Bradstreet goes one step further with their analysis of causes. They attempt to identify the apparent causes of failure. Table 2 is a list of causes for the top four items in table 1.

Table 2.--Causes of Failures

Causes	Percentages
Inadequate sales	59.4
Heavy operating expense	24.7
Receivables difficulties	6.4
Inventory difficulties	6.9
Excessive fixed assets	3.1
Poor location	2.2
Competitive weakness	16.3
Other	3.5

Source: The Business Failure Record, (New York: Dun & Bradstreet: 1981).

Note: The totals exceed 100 percent because some failures are due to more than one cause.

Inadequate sales was the major problem inexperienced and/or incompetent managers had to deal with. This was followed by heavy operating expenses and competitive weakness.

This table magnifies the mistakes often made by the ineffective manager. These include:

1. Not achieving market uniqueness.
2. Not developing and pursuing market centered strategies.
3. Not setting specific goals and designing relevant plans.
4. Not effectively managing daily operations.

5. Not developing effective controls and management information systems.[8]

The ineffective manager, also, is often too dependent on one customer, has not properly define the policies and procedures of the business and has not developed an adequate distribution system. Basically the manager has failed to plan.

Statement of the Problem

The large number of small business failures indicate an apparent lack of management ability on the part of the small business owner. Causes will be identified and remedies will be offered.

Justification of the Problem

The purpose of this study is to inform small business owners and managers of the need to plan and manage the business effectively if they are to be profitable. Two major causes of business failures will be identified.

This study will contribute to the general body of small business management knowledge in that it will reinforce the need to plan and manage the business properly if it is to be successful and profitable.

A review of the literature will be the first step in this study. Several guides for planning and preparing plans

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[8]William H. Franklin, Jr. and Stephen G. Franklin, Sr., "Analyzing Small Business Mistakes: A Guide for Survival," Business, January-March 1982, p. 19.

will be offered. A survey will be conducted to determine how local businesses plan.

Limitations of the Study

Lack of definitions for the phrase small business and the term failure is the major limitation of this study. Due to the variety of definitions used in the literature, the statistics may not be compatible.

Definitions

Dun & Bradstreet estimated 1982 failures at 25,324. An estimate has been made that for each one of the failures reported by Dun & Bradstreet, 6 to 10 other businesses simply pay their bills and lock the doors.[9] Failures do not represent total business discontinuances. A business may cease operations for a variety of reasons, however if the creditors are paid in full, the discontinuance is not recorded as a failure by Dun & Bradstreet.[10] Webster's New World Dictionary offers two definitions of failure. The first is falling short, not succeeding and the second is becoming bankrupt.[11] Based on the first part of the definition, Sears may be classified as a failure because it

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[9]Susan J. Duncan, "What Small Business Wants From Congress," Nation's Business, March 1983, p. 26.

[10]Rowena Wyatt, ed., The Business Failure Record, (New York: The Dun & Bradstreet Corp., 1983), 12.

[11]David B. Guralnik, ed., Webster's New World Dictionary, 2nd ed., (New York: Warner Books Inc. 1984), 220.

has failed to achieve the annual overall goals set by management.[12]

In most studies applicable to small business failures, bankruptcy is synonymous with failure. Bankruptcy will be used as the definition of failure in this study.

There is no clear consensus in the small business literature for the definition of "small". Businesses are typically classified as small based on either the number of employees or on annual sales. The boundaries for these variables range from one to 2,000 employees, and from "under $150,000 to under $100 million" in sales.[13]

Definitions of small business vary widely.

> A small business could be defined as one that cannot afford the professional management it often needs. If anything, a small business owner/manager must be more resourceful and more versatile than his or her counterpart in a large corporation.[14]

Other proposed definitions of small business are:

1. An organization with a name, a place of operations, an owner and one or more workers other than the owner.

2. A business that is managed by not more than three managers or whose workforce does not exceed 100 persons.

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[12]Subhash Sharma and Vijay Mahajan, "Early Warning Indicators of Business Failure," Journal of Marketing 44 (Fall 1980): 81.

[13]Barbara W. Keats and Jeffery S. Bracker, "Toward a Theory of Small Firm Performance: A Conceptual Model," American Journal of Small Business 12 (Spring 1980): 45.

[14]William H. Franklin, Jr. and Stephen G. Franklin, Sr., "Analyzing Small Business Mistakes: A Guide for Survival," Business, January-March 1982, p. 16.

3. An enterprise employing 500 or fewer employees.

4. A business which is independently owned and has either fewer than 100 employees or less than $1,000,000 in gross receipts.[15]

Another definition of small business is that a business is small if the owner/manager is able to recall the first names of his or her employees.[16]

Table 3 is an example of size standards used by the Small Business Administration to determine loan eligibility and other small business considerations.[17]

It is obvious that General Motors is big business. It is also obvious that the Ma & Pa grocery store is small business. So, what is an appropriate definition of small business?

> Perhaps the most widely used definition is that of the Small Business Administration (SBA), which is based on section 3 of the Small Business Act of 1935 (as amended):
>
> A small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation.[18]

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[15]Robert A. Peterson, Gerald Albaum and George Kozmetsky, "The Public's Definition of Small Business," Journal of Small Business Management 24 (July 1986): 63.

[16]Clifford M. Baumback, Basic Small Business Management, (Englewood Cliffs, New Jersey: Prentice Hall, 1983), 4.

[17]Justin G. Longenecker and Carlos W. Moore, Small Business Management, (Cincinnati, Ohio: South Western Publishing Co., 1987), 57.

[18]Robert A. Peterson, Gerald Albaum and George Kozmetsky, "The Public's Definition of Small Business," Journal of Small Business Management 24 (July 1986): 64.

Table 3.--Examples of SBA Size Standards

Type of Business	Number of Employees /Sales dollars
Advertising agencies	$3.5 million
Copper ore mining	500 employees
Employment agencies	$3.5 million
Furniture stores	$3.5 million
General contractors	$17.0 million
Insurance agents/brokers	$3.5 million
Mobile home dealers	$6.5 million
Newspaper publishing/printing	500 employees
Poultry dressing plants	500 employees
Radio/television repair shops	$3.5 million
Radio Broadcasting	$3.5 million

The definition of small business as one that is independently owned and is not dominant in its field of operation is the definition of small business that will be used for this study.

Planning in general, the aspects of strategy and the concept of operational planning also require definition. Planning is an attempt to make today's decisions in contemplation of their futurity.[19]

> Strategy is defined as managerial planning designed to adapt a small firm to its external environment in a manner perceived to achieve sales and profit goals.[20]
>
> Strategic management is the process whereby managers establish an organization's long-term

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[19]Peter F. Drucker, The Changing World of the Executive, (New York: Truman Tally Books, 1982), 14.

[20]Donald I. Sexton and Philip M. Van Auken, "Prevalence of Strategic Planning in Small Business," Journal of Small Business Management 20 (July 1982): 21.

direction, set specific performance objectives, develop strategies to achieve these objectives in light of all the relevant internal and external circumstances, and undertake to execute the chosen plans.[21]

Strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's business and products so that they combine to produce satisfactory profits and growth.[22]

In contrast to strategic planning, operational planning is the development of detailed short range goals, action plans and procedures to handle the day to day operations of the business. Operational planning focuses on tactical initiatives, issues and problems in the functional areas of the business. Operational planning is more specific, less comprehensive, repetitive, is accomplished at a lower level in the organization, involves the allocation of relatively small amounts of resources, and covers a short time span, usually one year or less.

A business plan is the combination of short- and long-term planning designed to guide the company profitably through the future.

Accounting practices are defined as the company's use of financial information. Financial statements report the historical background of a firm and provide clues to its

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[21]Arthur A. Thompson, Jr. and A. J. Strickland III, Strategic Management Concepts and Cases, 4th ed., (Plano, Texas: Business Publications, Inc., 1987), 4.

[22]Philip Kotler, Marketing Management, 6th ed., (Englewood Cliffs, New Jersey: Prentice Hall, 1988), 33.

future.[23] These statements include the income statement, the balance sheet, a sources and uses statement and cash flow predictions.

Managerial accounting is concerned with providing the information managers need to operate a business.

Summary

This chapter is an introduction to the study of why small businesses fail. The background information established the basis for the study. This was accomplished by reviewing the impact on the United States economy of small businesses.

Lack of definition for small business and failure are the major limitations of the study.

A review of the literature will be conducted. It will detail two major reasons for small business failure. The small business owner/manager must be aware of these causes of failure if they are to be successful. These items are the major barriers to a profitable operation. There are other factors which impact small business success but they will not be discussed due to the limited scope of this study.

Chapter II will cover in detail the two primary reasons small businesses fail. Planning and managerial accounting

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[23] J. Fred Weston and Thomas E. Copeland, Managerial Finance, 8th ed., (Chicago: CBS College Publishing, 1986), 15.

guidelines will be offered as tools to use in an attempt to lessen the failure potential.

CHAPTER II

REVIEW OF THE LITERATURE

WHY SMALL BUSINESSES FAIL

Introduction

Chapter I provided background information concerning the high failure rate of small businesses. The scope of the problem was presented and definitions and limitations of the study were discussed.

Accounting and planning are identified as two major problems for the inexperienced or incompetent manager.[24] These often lead to failure in small business. This chapter is a review of the literature relative to management inexperience and incompetence.

Management's failure to plan, both long- and short-term, is reviewed and the effects of poor managerial accounting practices are examined. Their impact on business success is considered and guidelines for overcoming these shortcomings are presented. The guidelines include a business plan outline, strategy formulation questions and financial performance indicators.

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[24]Albert V. Bruno, Joel K. Leidecker and Joseph W. Harder, "Why Firms Fail," Business Horizons, March-April 1987, p. 52.

Planning

Planning is fundamental to the success of a business. The person who operates a business without completing the basic planning steps has less than a 50 percent chance of success.[25] Lack of planning is the result of two major shortcomings: being impatient and underestimating the complexity of operating a business. These characteristics are often displayed by incompetent and/or inexperienced managers.

Considerable evidence has been gathered which indicates that those small businesses which plan are generally more successful than those which do not. These findings are summed up as follows:

1. Successful firms exhibited greater advanced planning.
2. The approach taken to strategic decision-making and planning best distinguished successful from unsuccessful small firms.
3. The major reasons for failure were the lack of planning and systematic decision-making.
4. 12 out of 19 firms that planned had undiminished profitability, while only 3 out of 17 firms that did not plan had undiminished profitability.
5. Successful firms were significantly more involved than unsuccessful companies in planning in general; planning for diversification and new product planning.
6. Business failure was caused by management inexperience, incompetence and lack of planning.[26]

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[25] Emery Toncre, "Nine Ways To Kill Off Your Small Business," Nation's Business, July 1983, p. 65.

[26] Richard B. Robinson, Jr. and John A. Pearce II, "Research Thrusts in Small Firm Strategic Planning," Academy of Management Review 9 (January 1984): 133.

The following examples highlight the importance of planning.

A self-made merchant runs a wholly owned chain of specialty stores growing past $40 million in annual sales. The method of operations and the reporting procedures of each store are carefully documented. So are his current cash position and other current assets and liabilities. But you would look in vain for a current-year budget or a pro forma cash flow projection, not to mention a statement of merchandise policy or long-term growth projection. He keeps it all in his head. He involves himself in all important operating decisions right down to major selections of merchandise.

This personal involvement is essential to his style. The plan and its execution are linked to one person. More than that, this same person monitors results closely, adjusting the plan in light of ongoing results as well as in the light of his long-term, hands-on experience and his assessment of the future. For him, this yields high profits.

There is an argument to be made here for formal planning; actually committing the objectives and strategies to paper, but the point is there is a plan and it is effective.

In contrast is the case of a mechanical engineer who left a large company to exploit his own ideas for a unique machine tool. He operated by his sense of what was best. For five years his sales and profits grew as he built on the unique design of the machine tool and his reputation. But in an economic downturn, the young business plunged into red ink and the engineer lost his equity.

The postmortem revealed that the engineer-CEO had run the business only at full throttle. He could visualize his business only as a major success story, never as a failure. There was no plan in his head or on paper to anticipate sales fluctuations and to relate reduced sales and the business outlook to corresponding rates of purchase of raw materials and of labor output. These misalignments, together with slow collection of receivables, showed up in bulging inventories and negative cash flow at the "corporate arterial bleeding" level. Formal plans per se would not have changed the

outcome. What was needed was good planning, formal or informal.[27]

A carefully prepared business plan provides an opportunity to think out all the aspects of the business in advance. It serves as a valuable reference for decision making. An effective business plan, properly used, will identify risks and problems in the business. It will identify long-term profit potential, future financing needs and cash flow requirements. Operating questions such as location will be answered and marketing and pricing strategy will be reviewed. A business plan should be straight forward, understandable and as short as possible while still covering all the key issues.

> The challenge to every small business is to position itself in the marketplace where its solutions to customer problems achieve a unique competitive edge, targeted where the firm can truly be something special.[28]

Developing a niche such as this is called market targeting. The business plan will aid in identifying these niches. The following case study illustrates the benefits of developing and following through with a plan.

> An engineer started a roofing company that installed only polyurethane foam roofs. This engineer was convinced that a foam roof was the "roof of the future".

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[27]Philip H. Thurston, "Should Smaller Companies Make Formal Plans?" Harvard Business Review 83 (September-October 1983): 162.

[28]William H. Franklin, Jr. and Stephen G. Franklin, Sr., "Analyzing Small Business Mistakes: A Guide For Survival," Business, January-March 1982, p. 16.

> Although computer analysis of reduced heating and cooling costs indicated that over a ten to fifteen-year period the foam roof would be less costly than a conventional roof, the initial cost of the foam roof was almost double that of a built-up roof. However, because of the owner's insistence on selling only foam roofs, sales remained low and the company was always on the brink of bankruptcy.
>
> Careful analysis of the market revealed that a willingness to purchase a particular type of roof was contingent on both the ownership and occupancy of the building.
>
> It was also discovered that most architects and developers, the individuals responsible for specifying a particular roof type for new buildings, were very ignorant about foam roofs and therefore specified conventional roofs in 95% of all new building projects.
>
> With this knowledge, the company designed three specific marketing strategies for each potential client group. These marketing-oriented strategies and the plans to follow-up on them resulted in a new surge of business from the potential client groups and brought the firm to financial strength and stability.[29]

As illustrated in the case, the business plan will help to identify product marketing strategies. It is also beneficial in design and development plans, manufacturing and operations, developing a management team and arranging and controlling finances. The old adage "build a better mouse trap and the world will beat a path to your door" is not true if the world does not know about the new trap or if you cannot get the product to the market. The outline in appendix 1 details the elements to be considered when developing a business plan.

Business plans are made up of long-term, strategic, plans and short-term, operational, plans.

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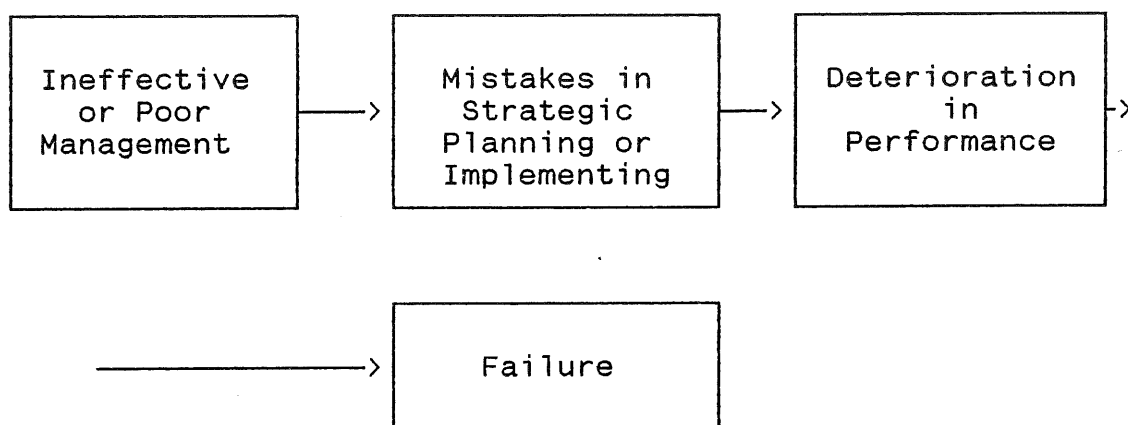
[29]Ibid, p. 18.

Strategic or long range planning, as defined earlier, is the managerial process of developing and maintaining a fit between the objectives, resources and changing market opportunities of the business.

Ineffective management usually leads to mistakes in formulating strategic plans and/or in the implementation of these plans. This often leads to failure. Figure 1 illustrates the failure process.[30]

Figure 1. Failure Process



Various studies have used the following to describe strategic planning in small businesses.

1. Unstructured, irregular and incomprehensible.
2. Strategies developed segmentally and evolutionarily in response to problems.
3. Decisions involved consideration of an average of four factors.
4. The planning approach was nonrational, nonsystematic.

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[30]Subhash Sharma and Vijay Mahajan, "Early Warning Indicators of Business Failure," Journal of Marketing 44 (Fall 1980): 81.

5. Information used to evaluate planning came from sources less knowledgeable than the owner/managers.
6. Planning was the most difficult function to perform well in the small company.
7. Setting goals was the weakest aspect of small business planning.
8. Small firm planning required considerable time investment.
9. A "rather anemic level" of strategic planning was found in the small business.[31]

Research supports the fact that strategic planning pays off in successful operations. Based on previous studies and the failure process, it appears that those businesses which plan are generally more successful than those which do not plan. Yet only one out of five owners of smaller businesses (less than 50 employees) and only 47 percent of businesses with more than 50 employees have written plans.[32]

The reasons for the lack of strategic planning appear to be four-fold.

1. Time - managers report that their time is scarce and difficult to allocate to planning in the face of continual day-to-day operating problems.
2. Getting started - small firm owner/managers have minimal exposure to and knowledge of the planning process. They are uncertain of the components of the process and their sequence. They are unfamiliar with many planning information sources and with how they should be utilized.
3. Broad expertise - small business managers typically are generalists and they often lack certain specialized expertise that becomes necessary in a planning process.
4. Lack of trust and openness - small firm owner/managers are highly sensitive and guarded

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[31]Richard B. Robinson, Jr. and John A. Pearce II, "Research Thrusts in Small Firm Strategic Planning," Academy of Management Review 9 (January 1984): 132.

[32]Bill Liebtag, "Entrepreneurs," Journal of Accountancy 162 (October 1986): 70.

> about their business and decisions that affect them. Consequently, they are hesitant to share their strategic planning with employees or outside consultants.[33]

Among the barriers to planning, lack of planning knowledge may be the most serious. If the business manager does not know how to start the planning process, they cannot hope to succeed with it.

The limited knowledge and use of strategic planning may not all be the small businessman's fault. The small business is often looked at as a little big business and the strategic planning techniques used for big business are adapted for use by the small business. These techniques are not appropriate for small businesses.

> Many such techniques cannot be used in small businesses at all because of differences in scales of operations; few appear to account fully for the limited resources (including time) of the typical small business. None explicitly includes the personal characteristics of the important people in the business so that the strategy reflects their strengths and weaknesses and satisfies their personal needs and objectives.[34]

Figure 2 is a strategic planning model for small business.[35] The steps in the model are meant to serve as general planning guidelines for small business management.

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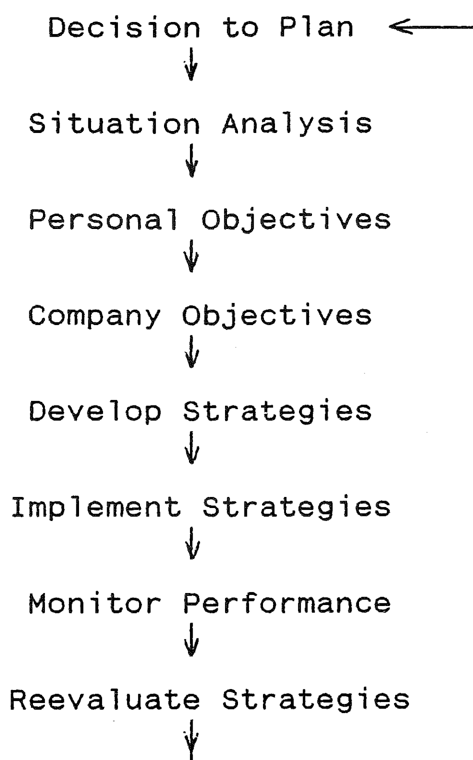
[33]Richard B. Robinson, Jr. and John A. Pearce II, "Research Thrusts in Small Firm Strategic Planning," _Academy of Management Review_ 9 (January 1984): 129.

[34]Jeffery C. Shuman and John A. Seeger, "The Theory and Practice of Strategic Management in Small Rapid Growth Firms," _American Journal of Small Business_, 11 (Summer 1986): 8.

[35]Ibid., 11.

Figure 2. Planning Model



The decision to plan may be the most difficult aspect of the strategic planning process for the small business owner/manager. At this point, the small businessman has made the decision to allocate some of his limited resources (time and money) to the planning process. The resources must be sufficient to allow for the process of learning how to plan in addition to the resources consumed during the planning process itself.

The situation analysis enables management to gain an understanding of the business. Internally, strengths, weaknesses and resources are identified. Externally the

competitive position is established and the environment as a whole is reviewed.

To perform the situation analysis with any degree of success, management must be able to accurately define the business they are in. This definition must not be short-sighted. A carefully crafted, realistic business definition establishes the firm's present position, and should also chart its future course.[36] For example, define the business as marketing fasteners rather than selling bolts.

In smaller companies, the owner's or owners' personal objectives become interwoven with the company's objectives. The objectives must be selected with due regard to the strengths and weaknesses of the business and what can be achieved in current and anticipated market and economic conditions.[37]

After the business is defined and the objectives are chosen, the strategies to reach the goals are developed and evaluated. This includes a determination of the planning horizon, an evaluation of distinctive competence, a competitor analysis and a customer analysis. Appendix 2 is a list of questions that can be used to help formulate strategy.

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[36]Reed Moyer, "Strategic Planning For The Small Firm," Journal of Small Business Management 20 (July 1982): 9.

[37]Jeffery C. Shuman and John A. Seeger, "The Theory and Practice of Strategic Management in Small Rapid Growth Firms," American Journal of Small Business, 11 (Summer 1986): 13.

The most important point for the small business owner or manager to understand is that this is a dynamic process. Conditions are constantly changing. Goals and strategies must be continually reevaluated and updated if they are to be of benefit.

Strategic planning is meant to be a management tool not a burden. The planning should be kept simple, practical and straightforward. The small business planner should avoid the following:

1. Complex organizational charts
2. Exceptionally formal planning documents
3. Highly elaborate policies and procedures
4. Lengthy job descriptions
5. Superfluous staff support
6. Extremely formal progress reports and memorandums
7. Formalized committees.[38]

Decisions regarding objectives and strategy makeup the long-range portion of the business plan. Short-range or operational planning is the second part of the planning process.

Operational planning generally consists of four types of plans: marketing, financial, personnel and inventory control.[39] These plans are the action and operating plans for dealing with the day to day running of a business.

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[38]Philip M. Van Auken and R. Duane Ireland, "An Input-Output Approach To Practical Small Business Planning," Journal of Small Business Management 18 (January 1980): 50.

[39]Richard B. Robinson, Jr., John E. Logan and Moragea Y. Salem, "Strategic Versus Operational Planning in Small Retail Firms," American Journal of Small Business 10 (Winter 1986): 8.

They are developed for the use of the line and mid-level managers. These managers should have input into the preparation of the operating plans. Their input into the strategic plans is also desirable.

Existing capacities, projected near-term capacities, short-term changes to improve efficiency, current pricing and distribution structures, and buying patterns are points to consider when preparing the operational marketing and production plans.

Budgets, cash flow and short-term borrowing needs comprise the short-term financial plan. Breakeven point analysis is a continual, ongoing task which is a very important part of the operational plan.

The single most limiting factor in any organization is, to a large degree, the people.[40] Establishment of policies for dealing with the day to day questions of how to handle absenteeism, tardiness, sick leave, union grievances, etc. is necessary. Consideration should also be given to future needs and procedures established to begin training current employees to meet projected requirements.

Inventory control plans are concerned with the ups and downs of the inventory and the mechanisms to control buying and/or production.

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[40]Philip H. Thurston, "Should Smaller Companies Make Formal Plans?" Harvard Business Review 83 (September-October 1983): 188.

The business plan and the planning process should be of benefit to the organization. There are traps to avoid in the planning process. These include:

1. Substituting form for substance
2. Neglecting existing markets
3. Using planning as a "quick fix"
4. The 100 page detailed plan
5. Failure to involve key people
6. The inflexible plan.[41]

Accounting Practices

The second major problem faced by small business is financial instability and poor accounting practices. This includes initial undercapitalization, assuming too large a debt load too soon, rapid expansion and inadequate use and understanding of managerial accounting techniques.

Rapid expansion is every business person's dream. It can also be their nightmare because there is danger in the assumption that all growth is good. Some owner/managers tend to prize growth for growth's sake without evaluating its impact on the profits of the business.[42] Rapid growth beyond normal levels requires highly specific plans if risk is to be minimized.[43] These plans should include cash flow projections and the sources of this additional cash both

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[41]Ibid, p. 184.

[42]Justin G. Longenecker and Carlos W. Moore, Small Business Management, (Cincinnati, Ohio: South-Western Publishing Co., 1987), 383.

[43]Emery Toncre, "Nine Ways To Kill Off Your Small Business," Nation's Business, July 1983, p. 65.

internal and external to the business. It is important that the firm have a working estimate of its total funds needs for the coming years.[44]

> One primary cause of the high failure for small businesses is a lack of knowledge on the part of owners and managers about accounting, particularly management accounting and internal control.[45]

The use of accounting and bookkeeping services in the small business is limited. In many cases the managers themselves perform these functions. The importance of the role that financial record keeping and reporting play in operating the business properly and profitably may not be clear to them. A strong accounting system provides the valuable information necessary for adequately planning, controlling and evaluating the performance of a small business. An accounting system structures the flow of financial information from the initial transaction to the points necessary to develop a financial picture of business activity.[46]

A study of internal control systems in small businesses found that of managers that have good financial records many

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[44]J. Fred Weston and Thomas E. Copeland, Managerial Finance, 8th ed., (Chicago: CBS College Publishing, 1986), 241.

[45]E. Lewis Bryant, "Why Small Businesses Fail: Testimony Proposes Solutions," Management Accounting, 65 (January 1984): 16.

[46]Justin G. Longenecker and Carlos W. Moore, Small Business Management, (Cincinnati, Ohio: South-Western Publishing Co., 1987), 503.

do not use them for decision making.[47] Only 11 percent of the small businesses receiving financial services use the financial data as part of the evaluation, planning and decision making process. Most used the information primarily for tax preparation purposes.[48]

An income statement, a balance sheet and a sources and uses of cash statement summarize how the assets, liabilities and equity change over time. This type of information helps to answer the small business manager's most common question: "If my income increased this year, where did all my cash go?"[49] The following example underscores the importance of having a monitoring system to track cash on hand, expenses and receivables.

> With the economy throwing off such mixed signals, it's critical to have systems in place that give you early warning of trouble spots in your operations. Without such systems, you're walking in very dangerous territory. Consider the case of a $1.7 million dollar video-supply company we know. One Friday morning last year, the company's bookkeeper suddenly realized she couldn't meet that week's payroll or the bank-loan payment. The panic-stricken chief executive had little choice but to call his banker with a plea for an immediate infusion of $50,000 into the company's credit line. Not only do bankers dislike surprises, but this particular one had heard from the CEO only two days

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[47]Robert A. Leitch, Gradis J. Dillon and Sue H. McKinely, "Internal Control Weaknesses in Small Businesses," Journal of Accountancy, 152 (December 1981): 99.

[48]Arthur R. DeThomas and William B. Fredenberger, "Accounting Needs of Very Small Business," The CPA Journal, 60 (October 1985): 18.

[49]David B. Bryd and Sandra D. Bryd, "Using the Statement of Change in Financial Position," Journal of Small Business Management, 24 (April 1986): 38.

> before that purchases orders were up 25% and that, in short, "things were fine". The banker was far from willing to increase the credit line, and it was hard to argue with his reasoning: "If you had anticipated your cash needs-and you should have-I could have helped. I'm afraid we'll have to call the loan."[50]

The information on the income statement and the balance sheet also serves another very important purpose. It can be used to assess the financial performance of the company by considering profitability, inventory levels, leverage conditions, interest expense, and accounts receivable.[51]

Table 4 is a description of financial performance indicators. The calculations for determining the indicators are in appendix 3.

The items listed in table 4 can be used, with caution, to identify trouble spots within a business by comparing the indicators with those of successful operations. Industry averages are generally published annually in trade journals. These can be used as a barometer to gauge success or pending failure.

Caution in applying these indicators is necessary for two reasons. First, accounting techniques vary from company to company. This variance may skew the ratios with the resulting effect being detrimental to the business under review.

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[50]Stanley R. Rich and David Gumpert, "Closely Watched Trends," INC, January 1987, p. 94.

[51]Harlan D. Platt, Why Companies Fail, (Lexington, Massachusetts: D.C. Heath and Company, 1985), 8.

Table 4.--Description of Financial Performance Indicators

Profitability Ratios	
1.	Profit Margin on Sales
2.	Return on Total Assets
3.	Return on Net Worth
Leverage Ratios	
4.	Debt to Total Assets
5.	Times Interest Earned
6.	Fixed Charge Coverage
Liquidity and Activity Ratios	
7.	Current Ratio
8.	Quick Ratio
9.	Inventory Turnover
10.	Average Collection Period
11.	Fixed Asset Turnover
12.	Total Asset Turnover
Growth Ratios	
13.	Sales
14.	Net Income

Source: J. Fred Weston and Thomas E. Copeland, *Managerial Finance*, 8th ed., (Chicago: CBS Publishing, 1986), Chapter 8.

The second reason for caution lies in the fact that ratio analysis often leads to an evaluation of the symptoms and fails to get at the underlying cause of the problem.[52] For example, the indication may be that debt service is out of line. Earnings will be labelled the culprit when the real problem is that excessive fixed assets have been purchased and they are not being utilized properly.

Trouble spots within a business are highlighted by the individual performance indicators. The indicators do not

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[52]Constantine Konstans and Randall P. Martin, "Financial Analysis for Small Business: A Model for Control," *Business*, January-March 1982, p. 22.

yield an overall picture of the health of the business. This is left to the judgement of the business manager.

This subjective judgement can be eliminated by using a bankruptcy prediction model.[53] This model uses several ratios to assess the health of the business. Appendix 4 lists the calculations for the model.[54] Using this model, indications of bankruptcy can be detected two to three years prior to the failure.[55] This gives the owner/manager the opportunity to rectify the situation before bankruptcy occurs. It is important for the owner/manager to realize that the accuracy of the model is dependent on the information on the income statement and the balance sheet.

Summary

The two major causes of small business failure have been discussed in this chapter. Symptoms of failure were identified and remedies suggested.

Chapter III is a discussion of a local survey investigating small business planning and accounting practices.

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[53] J. Fred Weston and Thomas E. Copeland, Managerial Finance, 8th ed., (Chicago: CBS College Publishing, 1986), 206.

[54] Ibid, p. 207.

[55] Ibid, p. 208.

CHAPTER III

SMALL BUSINESS SURVEY

Introduction

Chapter II identified two major shortcomings of small business managers; failure to plan and poor accounting practices. This chapter reviews a survey taken to determine local business management practices.

Not specifically addressed in the survey was the development and use of a business plan. The assumption was made, based on the literature and the fact that most of the businesses surveyed would be very small-sales of less than $250,000 annually, that few, if any, would have formal written plans.

Questions concerning the preparation and use of a budget were designed to test the planning function of the businesses surveyed. A budget represents a plan for the future expressed in formal quantitative terms.[56]

As stated in Chapter II, the use of bookkeeping and accounting services is the small business is often limited. The managers themselves perform these function in many

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[56]Ray H. Garrison, Managerial Accounting, 5th ed., (Plano, Texas: Business Publications, Inc., 1988), 321.

cases. In those businesses which have accounting services provided, the use of such traditional management tools as the income statement, the balance sheet, the budget and cash flow predictions may not be clear to the manager.

Hypothesis

Inexperienced or incompetent managers fail to use sound business management practices; that is, they do not plan for the future nor do they use managerial accounting techniques to assess the health of the business. The null hypothesis is that the use of sound management practices and good accounting procedures do not affect the size, profits or success of a business. The alternative hypothesis is that the use of managerial accounting techniques and planning result in a more profitable and successful operation.

Survey

A mail survey was used to gather data on small business accounting and management practices. The survey questioned the preparation and use of accounting information, business size and the manager's background in bookkeeping and accounting. Appendix 5 contains the survey.

The population consisted of businesses in Minot, ND. To obtain a random sample, businesses listed in the 1986-87 yellow pages directory were chosen using a random number method. There are 1,966 businesses listed alphabetically in

the directory. They were numbered from 1 to 1,966 and a sample of fifty, corresponding to numbers chosen from a random number table, was selected. Thirty-one of the fifty, 62%, questionnaires mailed were completed and returned.

Survey Results

Sample data regarding the preparation of financial information is summarized in table 5. Eighteen of thirty-one respondents reported an annual gross income of less than $250,000. These are defined as very small businesses for the purpose of this study. The right hand column represents the responses of small businesses with gross incomes of 250,000 dollars or more annually.

Sixty-six percent of the very small businesses responding to the survey used some type of formal system for recording revenues and operating expenses. The balance apparently continue to use the shoebox to maintain the business's history.[57]

Of the very small businesses, 66%, receiving formal financial information from their accountants, all received either an income statement, a balance sheet or both. None received a cash flow projection or a sources and uses statement. Only 17% of the very small businesses utilized a budgeting system. In contrast, all business with sales over

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[57]Herbert N. Weinstein and Thomas V. Zug, Jr., "Better Systems for Small Business," Journal of Accountancy 154 (December 1982): 57.

Table 5.--Preparation of Financial Information

	Annual Sales Less Than $250,000	Annual Sales Greater Than $250,000
Method of recording transactions(10)		
No formal system	34%	--
Formal system	66%	100%
Financial information received(12)		
Traditional accrual	66%	100%
None received	34%	--
Budget prepared(14)		
Yes	17%	31%
No	83%	69%
Sources and uses information received(12)		
Yes	--	54%
No	100%	46%
Responsibility of recording transactions(11)		
Manager	62%	--
Business bookkeeper	28%	92%
Outside bookkeeper	5%	8%
Accounting firm	--	--
Not recorded	5%	--
Preparation of financial statement(13)		
Manager	11%	7%
Business bookkeeper	22%	--
Outside bookkeeper	--	--
Accounting firm	39%	93%
Not prepared	28%	--
Background in bookkeeping and/or accounting(17)		
Yes	34%	54%
No	66%	46%

Note: Number in parentheses refers to survey question number.

$250,000 annually indicated they received formal financial statements; however only 31% prepared an annual budget and 46% did not receive cash flow information.

The lack of cash flow data is interesting. The value of the information in maintaining business solvency is stressed.[58] Of all the firms responding, 77% do not receive the information. Twenty-nine, 94%, of the replies indicated the respondent had managed the business for five or more years. These appear to be mature, long-lived businesses. Apparently the owners and managers have a "sixth sense" concerning cash flow.

Sixty-two percent of the very small business managers are involved in the day-to-day recording of financial transactions. None of the larger business managers are involved on a daily basis. The only significance of this may be that the larger businesses have the resources to employ a bookkeeper or accountant.

Financial information is interpreted or evaluated by 92% of the larger business managers (Table 6). Fifty percent of the very small business managers perform this function. Thirty-four percent do not use this information.

Only 44% of the very small businesses used the financial information to evaluate business performance and

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[58]David B. Byrd and Sandra D. Byrd, "Using The Statement Of Change In Financial Position, "Journal of Small Business Management 24 (April 1986): 33.

Table 6.--Use of Financial Information

	Annual Sales Less Than $250,000	Annual Sales Greater Than $250,000
Responsible for interpreting information(15)		
Manager	50%	92%
Business bookkeeper	--	--
Accounting firm	16%	8%
Not used	34%	--
Use of financial information(16)		
Not used	34%	--
Tax return preparation	22%	--
Scanned for key items	--	15%
Used to evaluate business and make decisions	44%	85%

Note: Number in parentheses refers to survey question number.

to make financial plans and decisions while 85% of the larger businesses utilized the information for control and planning purposes.

Conclusions

Use of a budget was limited to 23 percent of the businesses responding to the survey. Preparation and use of a budget was used as an indicator of the small business planning process. The results of this survey are consistent with published surveys concerning planning; that is planning in the small business is limited. The effects of planning on the businesses surveyed are inconclusive. That portion of the null hypothesis which stated that formal planning affects the size of the business cannot be rejected.

Of businesses with annual revenues in excess of $250,000, 85 percent use financial information to evaluate business performance and make decisions concerning future operations. This is nearly double the number of very small businesses which utilize the information. The use of managerial accounting techniques appear to affect the size (revenues/profits) of the business. That portion of the null hypothesis which stated that the use of managerial accounting techniques do not affect the size, profits or success of a business can be rejected and the alternative hypothesis that the use of managerial accounting techniques do affect the profits and success of a business can be accepted.

The limitations of the study include a small sample drawn from one city, the limited size of the annual revenues of the businesses surveyed, only two classifications of business (retail or service) and ambiguities in the questionnaire. The assumption that larger annual revenues equate to a more profitable operation may not be correct.

No attempt was made, when the businesses were selected, to determine if they were retail or service oriented. Of the replies, twenty-three considered themselves service businesses and of these twenty-three, sixteen reported annual incomes of less than $250,000. This may be a reflection of the craft type manager and the goals they

set.[59] This would tend to skew the results of the survey.

Summary

A survey of local business management techniques was reviewed in this chapter. Based on the lack of budgeting and the limited use of accounting, the conclusion is drawn that the business managers surveyed are either incapable of using sound management techniques to operate a business or they are unaware of these techniques.

Chapter IV will summarize the study, offer ideas for further study and suggest means for improving small business management.

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[59]Robert W. Hornaday and Walter J. Wheatley, "Managerial Characteristics And The Financial Performance Of Small Business," Journal of Small Business Management 24 (April 1986): 2.

CHAPTER IV

SUMMARY, CONCLUSIONS AND THOUGHTS FOR ADDITIONAL STUDY

Introduction and Summary

The purpose of this study was to identify the reasons small businesses fail.

Chapter I served as a foundation for the study. The high failure rate among small businesses was identified and the scope and limitations of the study were stated.

A literature review was the basis for Chapter II. Management inability and/or incompetence were identified as major failings of small business managers. Failure to plan, either formally or informally, and lack of use of managerial accounting techniques are symptoms of a management problem.

An outline for the preparation of a business plan was offered and questions to ask when developing strategy were presented. A number of financial indicators for use in assessing the performance of the business and a bankruptcy prediction model were also listed.

A survey of local small business management practices and the correlation between these practices and the size of the business was established in Chapter III. Based on the

limited nature of the study there appears to be some correlation between size and management background and abilities in these local businesses.

Conclusions

How can the failure rate among small businesses be reduced? Education the managers. Make them aware of the need to plan and to maintain and use financial information.

Planning techniques for small businesses must be developed. Large business techniques cannot be modified for use in the small business.

Planning in small business is a must. Controls are indispensable; these include financial controls as well as good records. In general, successful management of a small business requires:

1. Careful study of markets
2. Wise planning of activities
3. Vigilant control of investment, merchandise, personnel, equipment and buildings to ensure maximum use for production
4. Adequate expense records
5. Thoughtful selection of goods
6. Strategic location with particular reference to the market, but also bearing in mind resources and transportation of goods
7. Sound policies, unalterable in general objectives, but flexible and adjustable to meet obvious business expediencies
8. Strong working relationship with suppliers
9. Judiciously controlled credit
10. Customer selection and market concentration
11. Skillfully selected personnel
12. A well-planned sales promotion program[60]

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[60]Clifford M. Baumback, Basic Small Business Management, (Englewood Cliffs, New Jersey: Prentice Hall, 1983), 32.

A competent manager can accomplish the above with the use of a well prepared business plan, adequate financial records and an understanding of managerial accounting.

Recommendations for Additional Study

A survey questioning small businesses specifically about planning practices, both short- and long-term, could be used to establish an awareness of small business management's knowledge of planning, their ability to plan and the effects of planning on the business. With the baseline established, educational programs to assist the small business manager in planning can then be developed. Training in the management accounting area is also necessary. This need was identified by the survey taken and discussed in Chapter III.

Establishment of a correlation between business size and the manager's educational background (knowledge of planning and accounting) would establish the effects of the manager's background on the business. The assumption being that those versed in planning and accounting would be more successful than those who were not.

This would be of benefit especially in service-type businesses. Generally the owner/manager of this type of business begins as a technically capable individual. They may lack the managerial skills needed if the business is to grow and prosper.

APPENDICES

APPENDIX 1

Outline for Preparing a Business Plan

Introduction

Summary of business plan and strategy

The company and its industry
- The company
- Discussion of the industry
- Strategy

Products or services
- Description
- Proprietary position
- Potential
- Technologies and skills

Market research and evaluation
- Customers
- Market size, trends and segments
- Competition--strengths and weaknesses
- Estimated market share and sales
- Ongoing market evaluation
- Economics--margins, costs

Marketing plan
- Overall marketing strategy
- Pricing
- Sales tactics and distribution
- Service and warranty policies
- Advertising and promotions
- Profitability and break-even analysis

Design and development plans
- Development status and tasks
- Difficulties and risks
- Product improvement and new products
- Costs

Manufacturing and operations plan
- Geographical location
- Facilities and improvements
- Strategy and plans
- Labor force

Management team
- Organization-roles and responsibilities
- Key management personnel
- Management compensation and ownership
- Board of directors
- Management assistance or training needs
- Supporting outside professional help

Overall schedule (monthly)

Important risks, assumptions and problems

Community impact
- Economic
- Human development
- Community development
- Environmental

Financial plan (monthly for first year; quarterly for next two to three years)
- Profit-and-loss forecast
- Pro forma cash-flow analysis
- Pro forma balance sheet
- Break-even charts

Proposed company offerings
- Desired financing
- Securities offering
- Capitalization
- Use of funds

Source: Jeffery A. Timmons, Leonard E. Smollen and Alexander L. M. Dingee, Jr., New Venture Creation: A Guide to Small Business Development, (Homewood, Illinois: Richard D. Irwin, Inc., 1977), 246.

APPENDIX 2

Questions to Use in Formulating Strategy

1. Record current strategy:
   a. What is the current strategy?
   b. What kind of business does management want to operate (considering such management values as desired return on investment, growth rate, share of market, stability, flexibility, character of the business, and climate)?
   c. What kind of business does management feel it ought to operate (consider management's concepts of social responsibility and obligations to stockholders, employees, community, competitors, customers, suppliers, government, and the like)?

2. Identify problems with the current strategy:
   a. Are trends discernible in the environment that may become threats and/or missed opportunities if the current strategy is continued?
   b. Is the company having difficulty implementing the current strategy?
   c. Is the attempt to carry out the current strategy disclosing significant weaknesses and/or utilizing strengths in the company?
   d. Are there other concerns with respect to the validity of the current strategy?
   e. Is the current strategy no longer valid?

3. Discover the core of the strategy problem:
   a. Does the current strategy require greater competence and/or resources than the company possesses?
   b. Does it fail to exploit adequately the company's distinctive competence?
   c. Does it lack sufficient competitive advantage?
   d. Will it fail to exploit opportunities and/or meet threats in the environment, now or in the future?
   e. Are there various elements of the strategy internally inconsistent?
   f. Are there other considerations with respect to the core of the strategy problem?
   g. What, then, is the real core of the strategy problem?

4. Formulating alternative new strategies:
   a. What possible alternatives exist for solving the strategy problem?
   b. To what extent do the company's competence and resources limit the number of alternatives that should be considered?
   c. To what extent do management's preferences limit the alternatives?
   d. To what extent does management's sense of social responsibility limit the alternatives?
   e. What strategic alternatives are acceptable?

5. Evaluate alternative new strategies:
   a. Which alternatives best solve the strategy problem?
   b. Which alternative offers the best match with the company's competence and resources?
   c. Which alternative offers the greatest competitive advantage?
   d. Which alternative best satisfies management's preferences?
   e. Which alternative best meets management's sense of social responsibility?
   f. Which alternative minimizes the creation of new problems?

6. Choose a new strategy:
   a. What is the relative significance of each of the preceding considerations?
   b. What should the new strategy be?

Source: Frank F. Gilmore, "Formulating Strategy in Smaller Companies," Harvard Business Review 49 (May-June 1971): 80.

APPENDIX 3

Financial Performance Indicator Calculations

Profitability Indicators

The profitability ratios answer the question of how well the business is being managed.

1. Profit Margin = Net Income/Sales

2. Return on Total Assets = $\frac{(\text{Net Income} + \text{Interest}(1-T))}{(\text{Total Assets})}$

   T = Tax Rate

3. Return on Net Worth = Net Income/Net Worth

Leverage Ratios

Leverage ratios measure the ability of the firm to meet debt service obligations.

4. Debt to Total Assets = Total Debt/Total Assets

5. Times Interest Earned = $\frac{\text{Earnings Before Taxes \& Interest}}{\text{Interest Charges}}$

6. Fixed Charges Coverage = $\frac{\text{Income Available for Meeting Fixed Charges}}{\text{Fixed Charges}}$

Liquidity and Activity Ratios

Liquidity and activity ratios are used to determine if the firm is able to meet maturing obligations and also how well the company's resources are being utilized.

7. Current Ratio = Current Assets/Current Liabilities

8. Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

9. Inventory Turnover = Sales/Inventory

10. Average Collection Period = Receivables/Daily Sales

11. Fixed Asset Turnover = Sales/Fixed Assets

12. Total Asset Turnover = Sales/Total Assets

Growth Ratios

Growth ratios measure how well the firm is maintaining its economic position in the economy as a whole as well as in its own industry.

13. Sales = Ending Values/Beginning Values

14. Net Income = Ending Values/Beginning Values

(Growth ratios are calculated by dividing last period figures by first period results. This yields a compound sum interest factor. By referring to compound interest tables, the growth rate can be determined.)

Note: All ratios are calculated using data normally found on correctly prepared income statements and balance sheets.

APPENDIX 4

Altman's Bankruptcy Prediction Model

$$Z = .012X_1 + .014X_2 + .033X_3 + .006X_4 + .999X_5$$

Z = Model value indicating success or failure.

$$X_1 = \frac{\text{Current Assets - Current Liabilities}}{\text{Total Assets}}$$

X_2 = Retained Earnings/Total Assets

$$X_3 = \frac{\text{Earnings Before Interest and Taxes}}{\text{Total Assets}}$$

$$X_4 = \frac{\text{Market Value of Equity}}{\text{Book Value of Equity}}$$

X_5 = Sales/Total Assets

A business with a Z value of 2.675 or greater is classified as a successful business. A Z value of less than 2.675 indicates a potential failure.

APPENDIX 5

Survey of Business Accounting Practices
(To be completed by the manager of the business)

1. Have you ever taken any courses in accounting?
   [] Yes [] No

2. Have you ever taken any courses in bookkeeping?
   [] Yes [] No

3. If yes, were these courses taken in:
   [] College [] High School [] Other

4. Do you use a budgeting system for watching income and expenses?
   [] Yes [] No

5. The business is managed by: [] Owner [] Employee

6. The function of the business is primarily:
   [] Retail [] Service

7. The number of employees including the manager is: (please check only one)
   [] Less than five
   [] Five to ten
   [] Eleven to twenty-five
   [] More than twenty-five

8. Is the business a franchised operation?
   [] Yes [] No

9. Please check the approximate gross income from sales and/or service last year (calendar or fiscal).
   [] Less than $250,000
   [] $250,000 to 499,999
   [] $500,000 to 749,999
   [] $750,000 to 1,000,000
   [] Over $1,000,000

10. What method do you use to record sales/service revenue and operating expenses?
    [] Rely on check stubs and deposit slips
    [] Prepare daily sales summary report
    [] Hand post to ledger accounts
    [] Use a computerized accounting system
    [] Other (please describe)

11. If a daily summary report, hand posting or a computerized system is used, who records the transactions?
    - [] The manager
    - [] The business bookkeeper
    - [] An outside bookkeeper
    - [] An outside accounting firm
    - [] Other (please describe)

12. If formal financial statements are prepared, which do you receive?
    - [] Income statement
    - [] Balance sheet
    - [] Sources and uses statement
    - [] Cash flow projections
    - [] Other (please describe)

13. If formal financial statements are prepared, who prepares them?
    - [] The manager
    - [] The business bookkeeper
    - [] An outside bookkeeper
    - [] An outside accounting firm
    - [] Other (please describe)

14. Do you prepare an annual budget?
    [] Yes [] No

15. If formal financial statements are prepared, who is responsible for interpreting, evaluating and using the information?
    - [] The manager
    - [] The business bookkeeper
    - [] An outside bookkeeper
    - [] An outside accounting firm
    - [] Other (please describe)

16. If formal financial statements are prepared, how is the information used? (please check primary use)
    - [] Not at all
    - [] For preparation of tax returns
    - [] Scanned for a few key items such as net income, accounts receivable, etc.
    - [] To evaluate the business performance or financial condition
    - [] Used in the preparation of operating or financial plans and in making management decisions
    - [] Other (please describe)

17. Do you have any background or training in bookkeeping or accounting?
    [] Yes [] No

18. If you are the owner of the business, is this your primary source of income?
    [] Yes [] No

19. How many years have you managed this business?
    [] Less than 2 [] 5 to 10
    [] 2 to 5 [] 10 or more

20. Please check whether you are: [] Male [] Female

21. What is your approximate age?
    [] Under 18 [] 25-34 [] 45-49 [] 55-64
    [] 18-24 [] 35-44 [] 50-54 [] 65+

22. Please check the highest level of education you have achieved. (check one box only)
    [] Post graduate degree
    [] Graduate of 4-year college
    [] Graduate of junior college
    [] Completed 1-3 years college, not a graduate
    [] Completed less than 1 year of college
    [] High school graduate
    [] Trade or technical school graduate
    [] Did not graduate from high school, trade or technical school

THANK YOU FOR YOUR COOPERATION
If you would like to comment on any of the areas covered in this survey, please use the space below.

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