



A model small business management curriculum for two-year post-secondary institutions in Montana
by James Laurence McCabe

A thesis submitted in partial fulfillment of the requirements for the degree of MASTER OF SCIENCE
in Business Education

Montana State University

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Abstract:

The initial inquiry for this study was made when this researcher became aware that 80 per cent of small businesses cease doing business within five years. There was a high correlation between small business success and business educational training and technical business assistance.

The primary problem of this study was to determine whether or not any significant differences existed between small business managers who had business educational training and technical business assistance and those who did not have training or assistance.

The secondary problem of this study was to compare two-year post-secondary business education curriculums in Montana with two-year post-secondary small business management curriculums from institutions in other states. Upon completion of this comparison, a model small business management curriculum was designed for two-year postsecondary institutions in Montana.

The review of literature supported the statement of the problem that there was a need to develop a model small business management curriculum. Business education training and technical business assistance were identified as important criteria in determining the success of small business managers. Components for a small business management curriculum were also identified. The findings of the review of literature were used to construct a survey of small business managers in Montana.

The Small Business Management curriculum prepared students for mid-management or manager/owner of a small business. The curriculum was two years in length. Training included personnel management, planning, and operating a business, business credit, decision making, human relations, marketing, and other business skills.

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A MODEL SMALL BUSINESS MANAGEMENT CURRICULUM FOR
TWO-YEAR POST-SECONDARY INSTITUTIONS IN MONTANA

by

JAMES LAURENCE McCABE

A thesis submitted in partial fulfillment
of the requirements for the degree


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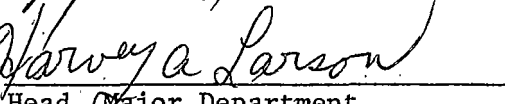
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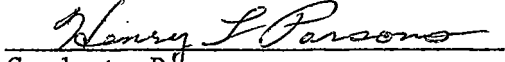
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TABLE OF CONTENTS

	Page
LIST OF TABLES.	viii
LIST OF FIGURES	xi
ABSTRACT.	xii

Chapter

1. INTRODUCTION	1
STATEMENT OF THE PROBLEM	2
NEED FOR AND BENEFIT OF THE STUDY.	4
LIMITATIONS.	5
DEFINITION OF TERMS.	5
2. REVIEW OF LITERATURE	8
IDENTIFYING SMALL BUSINESS	8
Identifying Success Among Small Business Managers.	9
Identifying Management Problems Among Small Business Managers	10
THREE DEVELOPMENTAL STAGES FOR SMALL BUSINESS MANAGEMENT	12
Starting a Business (0-2 Years).	12
Growth Stage (3-5 Years)	14
Maturity Stage (6 or More Years.	15
TECHNICAL BUSINESS ASSISTANCE.	17
BUSINESS EDUCATIONAL TRAINING.	19
Personnel.	19
Planning	20
Marketing.	20

Chapter	Page
Financial Control.	20
Business Credit.	20
Decision Making.	21
Growth Potential	22
Community Relations.	22
COMPONENTS FOR SMALL BUSINESS MANAGEMENT CURRICULUM. . .	22
Components for a Small Business Management Curriculum.	39
SUMMARY OF THE FINDINGS.	41
3. METHODS AND PROCEDURES	44
POPULATION SURVEY.	45
SOURCES OF DATA.	46
POPULATION SIZES	48
SURVEY INSTRUMENT.	49
ADMINISTRATION OF SURVEY INSTRUMENT.	49
ANALYSIS OF DATA	51
ADDITIONAL CROSS TABULATIONS	55
EDUCATIONAL INFORMATION.	56
DELIMITATIONS OF SURVEY DATA	56
4. PRESENTATION OF SURVEY DATA.	57
INDEX ONE.	57
INDEX TWO.	71
INDEX THREE.	79

Chapter	Page
INDEX FOUR	84
INDEX FIVE	87
TESTING THE NULL HYPOTHESES.	94
ADDITIONAL CROSS TABULATIONS	103
EDUCATIONAL INFORMATION.	109
5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS.	119
SUMMARY.	119
CONCLUSIONS.	129
Need for Business Educational Training	129
Use Business Educational Training.	130
Need Technical Business Assistance	132
Use Technical Business Assistance.	133
Need for Small Business Management Curriculum.	134
RECOMMENDATIONS.	134
Recommendation 1	135
Recommendation 2	135
Recommendation 3	141
Recommendation 4	141
APPENDICES	142
Appendix A: Survey Instrument	143
Appendix B: Pre-Test Evaluation Form.	151
Appendix C: Letter of Intent.	153
Appendix D: Follow-up Letter.	154

Chapter	Page
Appendix E: Variables for Index One	155
Appendix F: Variables for Index Two	157
Appendix G: Variables for Index Three	159
Appendix H: Variables for Index Four.	160
Appendix I: Variables for Index Five.	161
Appendix J: A Model Small Business Management Curriculum for Two-Year Post-Secondary Institutions in Montana	163
LITERATURE CITED	169

LIST OF TABLES

Table	Page
1. Eight Counties Served by Institutions	47
2. Method for Random Selection	48
3. Question 13: Check Those Areas in Which You Are Most Capable	58
4. Question 17: How Much, on the Average, Are Your Competitors Paying Their Employees?	59
5. Question 19: Do You Use a Management Consulting Team for Planning?	60
6. Question 20: How Often Do You Do Budget Planning?	61
7. Question 22: Do You Use Sales Forecasting in Your Business?	61
8. Question 26: What is Your Current Share of the Market?	62
9. Question 29: Do You Know What is Your Least Profitable Product?	63
10. Question 31: What are the Average Annual Sales Figures of Your Competitors?	64
11. Question 32: Check All the Ratios You Use for Financial Analysis.	65
12. Question 34: Do You Use Professional Accounting Help With Your Monthly Financial Statements?	66
13. Question 42: How Many Years of Previous Managerial Experience Did You Have Before Becoming Manager of This Business?	68
14. Question 45: Do You Have Enough Technical Information About New Products Before Making a Decision to Add Them to Your Product Line?	69
15. Question 49: When Have You Personally Succeeded in Introducing a New Product Into Your Product Line?	70

Table	Page
16. Question 52: Are You a Member of the Chamber of Commerce? . . .	71
17. Question 18: Do You Use Committees, Conferences, or Suggestion Systems When Managing Your Personnel?	73
18. Question 33: Where Have You Had Formal Instruction in Financial Analysis?	76
19. Question 41: Where Did You Learn to Make Business Decisions?	78
20. Question 30: Do You Attend Trade Association Conference Workshops or Seminars to Find Out Current Trends in the Market	81
21. Question 36: Do You Use Equity Capital?	82
22. Question 37: Do You Use Venture Capital?	83
23. Question 23: Are You Using Technical Assistance From Your Trade Association to Help You in Your Planning?	89
24. Question 27: Do You Use Trade Journals in Planning Your Market Strategy?	90
25. Question 35: Do You Use Professional Accounting Help to Prepare Income Tax Statements for Your Business?	92
26. Question 39: Have You Attended Workshops or Seminars to Determine Available Sources for Credit?	93
27. Question 44: Do You Use Computers or Time Sharing Terminals in Your Business?	94
28. Null Hypothesis Number One.	96
29. Null Hypothesis Number Two.	97
30. Null Hypothesis Number Three.	98
31. Null Hypothesis Number Four	99
32. Null Hypothesis Number Five	101
33. Null Hypothesis Number Six.	102

Table	Page
34. Index Two Compared with Index Four.	104
35. Index Two Compared with Index Five.	105
36. Index Three Compared with Index Four.	106
37. Index Three Compared with Index Five.	108
38. Question 6: What is Your Highest Level of Education.	109
39. Question 7: Are You Currently Enrolled in School?.	110
40. Question 8: Why Are You Currently Enrolled in School?.	111
41. Question 9: What Programs Do You Attend?	112
42. Question 10: If You Had the Choice, Where Would You Like to Attend Classes?	113
43. Question 11: What Are the Best Possible Times for You to Attend Classes?	114
44. Question 12: What Class Schedules Would Be Best for You?	115
45. Question 13: Those Areas in Which You Are Most Capable	117
46. Model Small Business Management Curriculum.	136
47. Major Business Educational Components Matched with Common Business Management Courses	138
48. Major Business Educational Components Matched with Addi- tional Small Business Management Courses.	139

LIST OF FIGURES

FIGURE	Page
1. Small Business Operation Courses, American River College. .	24
2. Business Management Courses, Cowley County Community College	25
3. Business Management Technology Courses, Indiana Vocational Technical College	27
4. Associate in Business Technology Major in Marketing, Piedmont Technical College.	28
5. Business Mid-Management Department, Three Rivers Community College	29
6. Retail Management Program, Milwaukee Area Technical College	31
7. Model to Test Null Hypotheses	53
8. Comparison of Indexes	95

ABSTRACT

The initial inquiry for this study was made when this researcher became aware that 80 per cent of small businesses cease doing business within five years. There was a high correlation between small business success and business educational training and technical business assistance.

The primary problem of this study was to determine whether or not any significant differences existed between small business managers who had business educational training and technical business assistance and those who did not have training or assistance.

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Chapter 1

INTRODUCTION

There is a significant number of small business managers who are failing. In 1960 Theodore Johnson (1960:1) stated, ". . . of these new businesses, about one-third are sold or liquidated in the first year; roughly another 15 to 20 percent in the second year; and as high as 70% by the end of five years." That is an alarmingly high failure rate. Worthington (1973:VI-1) stated, "For every successful entrepreneur in 1973, there are four who will fail." Four out of five failures is 80 per cent. The failure rate of small business has not been reduced in thirteen years but has increased by 10 per cent.

The two-year post-secondary institutions have provided inadequate educational training to specifically aid in the development of successful small business managers. "From all that we know of successful enterprise development, there has in the last thirty years been a high correlation between business success and educational background (Worthington, 1973:VI-1)." This is the basis for this master study. Knowing that this high correlation of business success and education does exist, this study is necessary to develop a curriculum in the two-year post-secondary institutions in Montana to aid in the success of small business managers.

A survey of Barron's Guide to the Two-Year Colleges (Graham, 1972) revealed that there are only 44 out of 1,230 two-year colleges in

the United States that are offering a small business management curriculum. None of these institutions exist in Montana. There is a definite need to develop a small business management curriculum in Montana.

In addition to business educational training, technical business assistance is also desperately needed. According to the SBA Economic Review (1972:3-4):

. . . the primary requirement for entry and survival in business in the years ahead will be the acquisition of technical and managerial skills needed to cope with rapid change. Accordingly, agency programs to protect and strengthen the competitive position of the small business community should be so shaped as to satisfy this paramount need.

The reasons for small business management failures are attributable primarily to poor management and business skills. The current business curriculums are not meeting the needs of the small business managers as evidenced by the high failure rate.

Managerial competence in small firms is often seriously diluted by uncritical adherence to the belief that the principles of management are applicable in companies of every size. When this belief extends beyond managerial generalizations of the broadest scope, serious problems often arise (Cohn, 1972:1).

STATEMENT OF THE PROBLEM

Small business in the United States, as well as in Montana, represents a major portion of our economy.

Over the years government statistics have shown that 80% of all businesses cease doing business within five years. An article in Federal Times (August 5, 1970) indicated that of the nearly 390,000 businesses begun each year, 320,000 fail in their first year of operation (Worthington, 1973:Notes VI).

There is a definite need to develop a model small business management curriculum to improve the survival rate of small businesses in Montana.

It was necessary to determine the educational training and technical assistance needs of the small business managers. Null hypotheses to the .05 level of confidence were used to determine the answers to the existing problems in this study.

Null hypothesis number one. There is no significant difference in the success of small business managers who need business educational training and the success of small business managers who do not need educational training.

Null hypothesis number two. There is no significant difference in the success of small business managers using business educational training and the success of small business managers who are not using business educational training.

Null hypothesis number three. There is no significant difference in the success of small business managers who need technical business assistance and the success of small business managers who do not need technical business assistance.

Null hypothesis number four. There is no significant difference in the success of small business managers using technical business assistance and the success of small business managers who are not using technical business assistance.

Null hypothesis number five. There is no significant difference

between small business managers who need business educational training and small business managers who use business educational training.

Null hypothesis number six. There is no significant difference between small business managers who need technical business assistance and small business managers who use technical business assistance.

NEED FOR AND BENEFIT OF THE STUDY

Eighty per cent of the small businesses are failing within five years. This is an alarmingly high rate of failure. There is a definite need to help small business managers from failing. Leading authorities have identified two major areas of failure by small business managers: poor management skills and the lack of technical assistance.

This study is necessary to determine which small business managers need educational training to improve their management skills. This study is necessary to determine which small business managers need technical assistance. This study is necessary to determine which two-year post-secondary institutions in Montana can provide educational training to small business managers. This study is necessary to identify which governmental agencies and private agencies can provide technical assistance to small business managers.

There are benefits which can be of value to small business managers in Montana from this study. Small business managers can use criteria from this study to determine if their small business is

successful or needs managerial training or technical assistance. A model small business management curriculum will be developed for small business managers which can be used in two-year post-secondary institutions in Montana.

LIMITATIONS

This study is limited to two-year post-secondary institutions in Montana.

This study has been specifically limited to aid small business managers in Montana.

This study has been limited to the development of a model small business management curriculum for two-year post-secondary institutions in Montana.

DEFINITION OF TERMS

Definition of terms is needed to clarify the meaning in which these words are to be interpreted in this study.

Small business. Small business is divided into three categories: manufacturing, wholesale, and retail trades and services. The Small Business Administration defines small manufacturing as a business that employs 500 or fewer people. A small wholesaler is defined as having annual sales or receipts of less than \$5,000,000. Small retail trades and services have sales or receipts of less than \$1,000,000

(Parris, 1968:7).

Two-year post-secondary institutions. This definition includes the following two-year post-secondary public schools in Montana: Dawson Community College, Flathead Valley Community College, and the Vocational Technical Centers at Butte, Helena, Great Falls, Billings, and Missoula.

Small business managers. Small business managers: For purpose of this study, managers of business firms which have only one major level of management. The study focuses on the manager who has the highest line authority in each of the small businesses surveyed (that he might also own the business would have no effect on the definition) (Pickle:1964b:4).

Business educational training. This includes but not limited to these areas: personnel, planning, financial control, decision making, growth potential, community relations, marketing, and business credit.

Technical business assistance. Such assistance includes:

- (1) management consulting teams;
- (2) Small Business Administration;
- (3) trade associations;
- (4) trade journals;
- (5) professional accounting help;
- (6) supplies;
- (7) Chamber of Commerce;
- (8) Service Corps of Retired Executives;
- (9) Small Business Investment Companies;
- (10) Active Corps of Retired Executives; and
- (11) suppliers.

Successful small business manager. A person who uses business educational training and uses technical business assistance.

Small business failure. A business that is sold or liquidated. The causes of failure include but not limited to lack of technical business assistance and business educational training by small business managers, competition, economic or social changes, government regulations, inadequate sales, and/or financial difficulties.

Manufacturers. The primary function of the business is to produce material into goods which are sold to other businesses or consumers.

Wholesaler. The primary function of the business is buying goods from manufacturers and reselling goods and/or services to other businesses.

Retailer. The primary function of the business is buying produced goods and/or services from manufacturers/wholesalers and selling these goods and/or services to consumers.

Services. The primary function of the business is providing intangible (non-good) activities, benefits, or satisfactions and selling these services to other businesses or consumers.

Chapter 2

REVIEW OF LITERATURE

Some existing dissertations which were related to small business management curriculums were found to be beneficial to this study.

Diligence was used in the review of literature to identify important material which directly related to this study. This review of literature was divided into several important sections.

IDENTIFYING SMALL BUSINESS

Small business has been defined by many authors and government organizations. The Small Business Administration, which was begun in 1953, defined small business several different ways to encompass inflation and economic growth. The definition used in Chapter 1 of this study which was quoted from Small Business Administration represented most of the review of literature. This definition stated that small business manufacturing had less than 500 employees, small business wholesaling had less than \$5,000,000 gross sales or receipts, and small business retail trades and services had less than \$1,000,000 gross sales or receipts. This definition comprised ". . . 95% of all private business firms in the United States, which account for 51 percent of the nation's business employment, and which furnish over 43 percent of the privately-produced Gross National Product (Carson, 1973:XVI)." Yet, over the years government statistics have shown that 80 per cent of all

businesses cease doing business within five years (Worthington, 1973: Notes VI).

Small business managers were the highest line authority in each small business that had only one major level of management. This person may or may not have been the owner of the business (Pickle, 1964b:4).

Identifying Success Among
Small Business Managers

Hal Pickle (1964a:1633) stated that an analysis of the personal characteristics of managers was necessary to identify success characteristics in business managers. These personal characteristics included thinking ability, human relations ability, drive, communication ability, and technical knowledge.

Some of the elements needed for a small business manager to become successful were technical knowledge, ability to handle people, motivation, and personal financial resources (Dible, 1971:42). Decision making by the small business managers was vital. A successful small business had a manager who delegated authority to his staff. Small business managers gave staff responsibility and the freedom to complete their assigned tasks. The manager of a small business did not pretend to know everything and delegated authority. Included in decision making were elements of planning and organization. Successful small business managers were persons who used business education training and technical business assistance.

Identifying Management Problems
Among Small Business Managers

There were internal and external reasons for business problems. Internal considerations were the management practices with the business, while the external factors were changes that affected the business, such as competition, government regulations, and economic or social changes in the community (Worthington, 1973:X-38).

Most of the small business failures were related to the internal profitability of the business. In The Report of the President's Task Force on Improving the Prospects of Small Business (1970:28), Dun and Bradstreet was used to determine the apparent causes of small business failure. It was stated that 40 per cent of the failures were due to inadequate sales, 14.2 per cent were caused by heavy operating expenses, 8.7 per cent were due to difficulties with receivables, 4.4 per cent were caused by excessive fixed assets, 3.3 per cent were because of a poor choice of location, and 21.9 per cent was because of competitive weakness.

Wayne (1972:170-171) suggested ways which small business managers could have avoided failure. First, they need to recognize the danger signs of bankruptcy. When a small business could not pay its creditors because of an unforeseeable financial business crisis, then it was necessary for the small business manager to contact his creditor and ask for help. Overhead costs were extremely dangerous to the success of a small business.

If overhead runs rampant, the company must act fast to stay alive. Within two weeks, each overhead item from personnel down to the company yacht should be analyzed for its total cost. After analysis, cuts should be made instantaneously. Fast and definite action will leave a highly efficient and motivated company (Wayne, 1973:32).

The lack of managerial competence was often seriously impaired by small business managers who used large business management principles to operate their small businesses. Cohn (1972:1) established that small businesses by their competitive nature had to use different management techniques than large businesses in order to survive.

External factors were identified with small business problems. A decline in the business market was due primarily to product obsolescence or aggressive competition. To overcome these problems, the small business manager had to increase sales, methods of distribution, or new product innovation.

Other external factors were cited for failure in small business. A deterioration of the business population, change in the economic business conditions, and social and cultural influences were important in defining small business failures (Samli, 1962:129).

Binford (1957:436) concluded that there were several problems that small business managers had. These deficiencies included inadequate managerial training, managers were hampered by physical limitation, the managers lacked adequate technical assistance, managers were not keeping informed, and managers did little problem solving. That study was completed twenty years ago and is just as relevant today as it was then.

The lack of management training and technical assistance were the main reasons cited for the failure of small businesses. However, this knowledge has not been used by small business managers as evidenced by the high failure rate. Eighty per cent of the small businesses fail within five years. A possible conclusion was that small business managers were unaware of the educational training and technical assistance available to them.

THREE DEVELOPMENTAL STAGES FOR SMALL BUSINESS MANAGEMENT

Various sources of literature related to different developmental stages in business, i.e., Worthington (1973:VIII-11) stated, "In practical terms it becomes possible to differentiate between the types of assistance and training needed in terms of a short run (1-3 years), intermediate (3-5 years), and long run (6 years and beyond) problems." These three stages were then identified for purposes of this study as: (1) starting a business (0-2 years); (2) growth stage (3-5 years); and (3) maturity stage (6 or more years).

Starting a Business (0-2 Years)

Three basic steps were identified as necessary for a small business manager to start a business. The first step was for the small business manager to recognize what he wanted to accomplish. Next, the manager had to secure the financial resources to start the business.

Finally, the small business manager had to prepare the business for operation (Dible, 1971:XXIII).

To survive the initial start of the business, the business manager had to have a thorough technical knowledge and managerial training. Without those two key elements, business managers often failed. Financial assistance for new small business managers was unique to their needs. One of the characteristics of successful managers was their use of personal financial resources. In addition to these resources were personal loans and short-term loans from commercial lending institutions. Management and organization of the business was also important in starting a business. The review of literature indicated that most small business managers did not have the technical training to organize and operate a business.

"From all that we know of successful enterprise development, there has in the last thirty years been a high correlation between business success and educational background (Worthington, 1973:VII)." This is true because well-educated people were more likely to seek help if needed. Pride was also a factor in seeking management training when starting a business. Even with the understanding that managerial training and technical assistance was needed, pride had prevented some small business managers from succeeding.

Small business had two major advantages over large businesses. Small businesses were more flexible and were capable of allowing the

manager to make quick decisions. Small businesses were more efficient and were capable of specializing and catering to their customers (Cohn, 1972:2-3).

Growth Stage (3-5 Years)

"If a company is to grow, it will come face to face with the problem of change. The future of the company will depend on how management handles this problem. Management must ask, How much change is needed to get a particular result (Wayne, 1972:155)?"

Change in a small business was essential for survival. If a small business manager had become stagnant, competition would drive him out of the market place. If growth was too rapid, then insufficient capital, poor decisions, insufficient data, or loss of managerial control could cause failure.

The small business managers who experienced growth had to have technical assistance which would meet their needs. Growth was never constant within the small businesses. Business decisions were of a technical nature and were of major importance to the small business managers within the intermediate growth stage.

Historically, technical skills such as engineering, physics, and chemistry have played a key role in most of our higher growth business development. In fact, the only documented areas of higher growth small business success have required skills in one or more of these technical areas (Worthington, 1973:VIII-16).

Financial assistance was an important criteria for growth of small businesses. Rich (1964:5644) concluded that "the managers

encountered difficulties that pertained to all aspects of their accounting records." Most small business managers were unaware of the most basic key business ratios which were necessary for business management. There was numerous related literature that was available for small business managers to use ratio analysis. Dun and Bradstreet had several sources available: (1) Key Business Ratios in 125 Lines, (2) Dun's Review and Modern Industry, and (3) Cost of Doing Business.

Small business management has needed to plan for growth. Most small businesses lacked even the most casual amount of planning. Growth rates needed to be identified by small businesses in terms of profitability, capital, sales, employment, and skill development. Planned growth developed a successful business. Profits were spent wisely for continued growth and expansion of the small business. One of the ironic results of growth was usually that the small business manager lost control or sold the interest in the small business to a larger firm when merging took place. Most profitable small businesses were usually absorbed by larger businesses.

Maturity Stage (6 or More Years)

Technical problems were different from those of the short run and intermediate stages of technical assistance. Internally, some of the influences on profitability were (1) the allocation of overhead items in setting selling prices; (2) policies and practices in granting credit; (3) inventory control in relation both to sales and operating

capital; (4) balancing of assets; (5) management of both current and long-term liabilities; and (6) apportionment of earnings to current liabilities and future growth (Sanzo, 1970:3).

Small Business Investment Companies were used as a means of supplying equity capital or venture capital to the small businesses in the maturity stage.

"Equity Capital" means funds received by a small concern from a licensee as consideration for the issuance of the small firms equity securities, which may be certificates of stock or debt instruments providing potential ownership rights or privileges. "Venture Capital" means SBIC financing through purchase of common or preferred stock, any right to purchase such stock, or debentures or loans (whether or not convertible or having stock-purchase rights) which are subordinated to all borrowings of the small concern from other institutional lenders and have no part amortized during the first three years (Carson, 1973:69).

Those definitions of equity capital and venture capital have had a significant impact on small businesses. When a small business reached the long-run maturity stage of development, they needed equity or venture capital to expand. The preceding quote stated that small businesses literally gave up legal rights to their own companies by making investments with Small Business Investment Companies. The result was that some small business managers lost control of their businesses because contracted obligation could not be met.

Small business managers have different problems within each of the three developmental stages. When starting a business, a small business manager is concerned with how to start, what financial resources are available, and how to prepare the business for operation. During

the growth stage, the small business manager was concerned with capital for expansion, decision making, and more technical knowledge and data for business expansion. There was also a definite need for financial analysis. The maturity stage had problems with equity capital and venture capital. Also, the maturity stage had problems with pricing and inventory control.

TECHNICAL BUSINESS ASSISTANCE

Small business managers who were starting a business needed technical business assistance. Starting a business included determining what the small business manager wanted to do, what financial resources were available, and how to start the business operations. Technical business assistance for these problems was provided by government organizations, trade associations, civic, and professional organizations. Seeking advice was necessary for small business managers to determine what were their business goals. Pride of the new small business manager prevented some from seeking advice. The lack of sound planning was a major problem.

A source of technical assistance which was of value to small business managers was technical consultants such as certified public accountants. Also, trade associations and professional groups provided good technical and management assistance. Dobson (1962:2729) stated that the:

A source of technical assistance which was of value to small business managers was technical consultants such as certified public accountants. Also, trade associations and professional groups provided good technical and management assistance. Dobson (1962:2729) stated that the:

. . . reasons given for the employment of outside aid in general terms include (a) the felt need for outside objectivity, (b) the lack of familiarity with certain problem areas, (c) the lack of staff to do the work, (d) the inability to solve problems internally, and (e) changing economic conditions.

Ratio Analysis for Small Business by Richard Sanzo had an excellent summary of sources of ratio studies. Sanzo had listed government sources, trade association sources, and other private sources for ratio studies.

Broadly speaking, there are three kinds of ratios. The first are balance sheet ratios which refer to relationships between various balance sheet items. The second are the operating ratios which show the relationships of expense accounts to income. The third group is made up of ratios which show the relationship between an item in the profit-and-loss statement and one on the balance sheet (Sanzo, 1970:5).

Technical assistance was needed for these small business managers who were in the growth stage of development. Available technical assistance was found in the review of literature. A good government source was the Small Business Administration (SBA). Within the SBA were technical programs such as SCORE (Service Corps of Retired Executives) and ACE (Active Corps of Executives). Technical assistance was also provided by local community colleges offering management training.

Some small business managers in the growth stage of business management were able to hire consultants. Other small business managers used their trade associations and attended conferences and seminars to learn about their technical problems.

Small business managers who had become successful used many sources of technical business assistance. The review of literature on technical business included (1) management consulting teams, (2) government consultants, (3) technical trade assistance, (4) professional accounting help, and (5) suppliers.

BUSINESS EDUCATIONAL TRAINING

Personnel

Small business managers were not using good personnel practices. For the majority of the small businesses, personnel were hired for the least amount of pay and technical skills were of low priority. Cohn (1972:2-3) stated that personnel hiring should be of a high priority and especially top management personnel. The top management personnel should be hired to complement the small business manager's weaknesses. Small business management should recruit top management personnel from four-year colleges. The result would be a higher competitive advantage. Other areas in personnel included a need for personnel training programs. These could be on-the-job training programs or consist of sending employees to two-year post-secondary institutions for technical training.

Planning

Planning was a major problem with small business managers. As was previously stated, small business managers lacked technical knowledge. Planning was identified as setting goals or objectives, formulating sound business ideas, establishing small business policies, and planning budgets.

Marketing

Marketing was important to the success of small business managers. Marketing trends and the product market-mix was reviewed. Location for technical assistance was explored including the use of both private and public management marketing consultants. Trade association journals were mentioned as a source of marketing information.

Financial Control

A large volume of literature was reviewed on small business financial control. Small business managers needed to learn about ratio analysis, budgeting, where to locate financial assistance, and how to organize a financial management team.

Business Credit

Most small business managers did not know where to find credit for their business. Managers needed to learn what types of credit were available. Equity capital and venture capital were found to be of importance to small business managers. A good source of information

for financial assistance was the Small Business Administration; the SBA 1974 Annual Report (1974:173-174) listed 195 small business firms in Montana which had secured loans from SBA. Many small business managers were unaware of SBA and the educational assistance it can provide.

Most of the owners in the sample were utterly unaware of the existence of the Small Business Administration and of the voluminous guidance literature distributed by it free of charge. Moreover, even if these owners had had the knowledge of and access to this literature, it would have availed them little because of the technical character of a number of the publications. Similarly, formal courses and business clinics conducted at universities and colleges under the sponsorship of the Small Business Administration bypass these owners. The owners are unaware of the existence of these courses, and the courses themselves are not oriented to the educational level or to the needs of the owners of very small firms (Mayer, 1961:159).

Decision Making

Cohn (1972:1) stated that small business managers should not rely on the managerial decision making techniques used by large businesses. There were definite decision making differences. One of the major advantages small businesses had was maneuverability which required quick decision making. Another advantage was simplicity which required a high degree of efficient decision making. Pride was a factor that caused small business managers not to seek needed educational training or professional advice.

Growth Potential

The lack of product innovation was a problem in small business management. Growth was not usually planned in small business. Failure of a small business sometimes resulted in not foreseeing the hidden expenses involved in growth. Produce obsolescence prevented growth. Educational training was needed to learn how to effectively introduce change into the small business.

Community Relations

A small business manager needed to be involved in the community so as to judge the market, local economy, social needs, and know where to seek out information. Educational training was considered necessary to keep up with the current local trends of the business.

The review of literature revealed that certain fundamental areas of business organization and management were essential for a successful small business management curriculum. The major areas of importance were summarized into personnel, planning, marketing, financial control, business credit, decision making, growth potential, and community relations.

COMPONENTS FOR SMALL BUSINESS MANAGEMENT CURRICULUM

There was a high correlation between business success and educational training. A method of presenting relevant material to small business managers was needed. A review was conducted of

existing small business management curriculums for two-year colleges by using the 1972 Barron's Guide to Two-Year Colleges by R. William Graham. There were 1,230 two-year institutions listed. Only forty-four of these colleges had small business management curriculums. None of the eight two-year post-secondary institutions in Montana which were identified in Chapter 1 of this study had small business management curriculums.

One community college and/or vocational technical center was chosen from each state that had a small business management curriculum. Eighteen institutions were contacted by mail, seven returned college catalogs, three responded that they were out of stock, and one did not offer a small business management curriculum.

American River College. American River College in Sacramento, California, had several vocational management training programs. These programs were two years in length and were offered on an academic semester system.

The management program prepared students for entry into management positions in business, government, industry, or organizational logistics, and in-service education for personnel presently in management positions.

The Retail Management program prepared students for a variety of retailing occupation careers. These included retail organization, location, buying and merchandising, credit, accounting, personnel

