A Small Business Needs Assessment Study - Greater Muncie Area

An Honors Thesis (ID 499)

By

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[Signature]

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I. Introduction

A. The Social Bases For Small Business

Small business is an important part of the American Dream in which independence, especially financial independence, is the aim of the average working man. The American Dream incorporates the idea that any person of average intelligence, thrift and energy can save enough money to start and develop a business and reap the benefits of material and social success. The cultural emphasis on independence is so strong that the majority of workers in every occupational category, when asked, acknowledge that they have had the goal of entrepreneurship. The small business represents one of the few areas open to individuals who want to escape the bureaucracy of large institutions.(4:3,15)

A lack of social barriers in the American social structure accounts for the competitiveness that characterizes business and American society in general. Historically, with no legally privileged elite and wide horizontal levels of near equality, America has had more loosely defined roles than may be found in more authoritarian or rigidly hierarchical societies. American competitiveness is also a result of the effects of continual migration on the personal bonds of kinship.(1:5-9) The ready movement from place to place characterized, and still characterizes,
the American need for innovation and change; the demands of the market were and are constantly changing.

B. Small Business - A Definition

It is helpful to have a concise, working definition of small business, yet it is practically impossible to find one. The definition of "small" varies among the different organizations and among small businessmen themselves. In order to fit the needs of particular legislation or studies, many different standards have developed over time. The Small Business Act of 1953 defines a small business firm as "one which is independently owned and operated and not dominant in its field of operation." (4:4) This rather broad definition of small business may be complemented by a definition, formulated in 1947 by the Committee for Economic Development, that is still useful today:

The small business must be characterized by a minimum of two of the following categories:

(1) Management is independent and most often characterized by the managers being the owners. Independence, in this case, means independence from outside stockholder control over management decisions.

(2) Equity capital is supplied by an individual or small group. This places a small business in contrast to companies where equity stocks are traded on a stock exchange or as over-the-counter stock.

(3) The operations are essentially
local. One interpretation of this is that "local" may vary with whether the business is service, retailing, wholesaling or manufacturing. However, "local" usually means that the employees and owners live in the same general area.

(4) The business must be small compared to the largest competitors. For example, at one time, American Motors was considered to be a small manufacturer because of the ratio of its sales to those of General Motors.(2:vi)

C. The Risks of Small Business

The small, independently owned business has always played a vital role in the American economy, yet the competitive nature of the economy which it supports plagues small business. Many persons become overconfident at the chance of success and take risks that turn out badly because of lack of understanding.

All businesses have an element of risk, yet for small businesses, these risks are magnified. The risk of failing in a new business depends upon the industry and lines of business within an industry. For instance, retailing, which accounts for half of new small business ventures, consistently shows a high rate of failure; however, the lines of business within retailing vary greatly.(4:6-8)

Small businesses that fail usually do so within their first five years. According to past mortality rates, nearly half of new businesses fail within the first 18
months, and those businesses that do survive have only a 9 percent chance of surviving 10 years. (7:40)

Some of the risks that confront many small businesses are the following:

1. Loss of competitive niche.
2. Changes in demand.
3. Damage to the business.
4. Out-of-date management.
5. Death of key individuals.
6. Improper financial planning.
7. Liability of the business. (2:141-2)

Lawrence Klatt, author of Small Business Management - Essentials of Entrepreneurship, states,

It has been estimated that more than 90 percent of the small businesses established are organized because of ease of entry. But the same conditions that permit ease of entry also make overcrowding inevitable, and only those entrepreneurs with the necessary skills can survive. (4:5)

Although the problems facing small businessmen are many, the single most important reason for failure - according to Dun and Bradstreet and various studies - is lack of managerial skills. Too many small business managers/owners lack the experience and personal qualities to effectively manage a business; these limitations can lead to some of the following specific managerial problems:

1. Starting the venture with inadequate capital.
2. Choosing a poor location and/or an improper form of organization.
3. Putting too much capital into fixed assets.
4. Failing to plan and formulate goals.
5. Keeping inadequate financial records.
6. Failing to follow modern management practices. (4:9-10)
Many existing small businessmen operate their businesses marginally because of ignorance. Forecasting and planning are two of the "unknowns." (4:10) Success is usually associated with hard work and long hours combined with good instinct; a working knowledge of business techniques and practices often has little or no role in the minds of these businessmen. Rather, business knowledge is delegated to professional consultants who are infrequently used because of their high fees.

Even though poor management is responsible for the majority of business failures, the business owner rarely admits to having problems in the area of management. Lawrence Klatt says,

The owner is typically defensive and blames his problems on such factors as poor location, inadequate sales, excessive competition, lack of working capital, and difficulties with receivables and inventories. What one group of experts has noted, "What might be described a 'excessive competition' may be instead ineffectual sales effort... 'bad debts' may in reality have been careless extension of credit..." (4:9)

Thus, most small business owners do not recognize or acknowledge the real reasons behind their failures, and a reality which is not accepted will usually not be changed. An article in the Journal of Small Business Management summarizes the realities of small business:

Clearly, the odds are against survival. Perhaps this is as it should be. Ill-conceived ideas, entries into inappropriate markets, and inefficiently managed ventures are quickly eliminated.
However, the cost of this process in terms of misused and wasted resources is extremely high, and all small business failures are not inevitable. (11:6)

D. The Importance of Small Business

Of the 11 million businesses in the United States, the Small Business Administration considers 98 percent of them to be small. Even though the rate of bankruptcies and dissolutions has risen, more small businesses are opening up than ever before. The SBA says that 575,000 businesses were incorporated in the fiscal year ending last September 30 (1981) -- 10 percent more than the previous year. (7:40, 42) According to the SBA,

Businesses with fewer than 20 employees create two of every three new jobs. About 80 percent of new jobs were created by firms with 100 or fewer employees. Nine of 10 small businesses have fewer than 10 employees. Four of five U.S. businesses are sole proprietorships, and virtually all of these are small businesses. (7:40)

David Birch, a Massachusetts Institute of Technology researcher, says, "Smaller businesses more than offset their higher failure rates with their capacity to start up and expand dramatically." (7:42) The flexibility and ability to adapt rapidly to changing conditions and to continually generate new jobs makes small business an invaluable part of the U.S. economy. (2:141, 10:65) Most small businessmen find success by exploiting the advantages of smallness, and
by finding a competitive "niche" in the economy.(4:11) Many small business owners will take more risks than a larger firm will, and this capacity for innovation is an especially important characteristic of small business. According to the SBA, small businesses are responsible for more than half of new products and services since World War II. Some examples of important innovations that have come from small businesses are the air conditioner, gasoline engine, and electric light.(7:40)

Service is another area in which small business excels. Small business is traditionally less bureaucratic and impersonalized than larger firms, and can provide more specialized services and attention than a larger firm.

Although small firms generate many new jobs, not all small firms generate new jobs. President Reagan's 1983 report to Congress on the state of small business states that a fraction of small firms creates all new jobs created by small firms.(10:65) Marjorie Odle and Catherine Armstrong were The Brookings Institution's chief researchers on job generation for a study commissioned by the Small Business Administration(Reagan drew heavily on the work of this study and Birch's study). They learned that, ...nearly two-thirds of existing businesses don't contribute positively or negatively to job generation. Rather...economic growth is the result of almost no change in most companies, but violent growth(and shrinkage)in a minority of businesses.(10:65)
A point to consider from one of Birch's mathematical models created to illustrate the job generation process among companies of different size is that, "...the gains and losses from company births and deaths, respectively, are nearly four times as large as the resulting 2.3% net gain...it takes a lot of activity at the margins to create just a little change."(10:66) It appears that both business births and deaths are important in the job creation process, and that one of the things we need to encourage is business births.(10:66)

E. Trends in Small Business

The service and recreation fields are growing at the fastest rate in the 1980's. Small businesses have been able to do a more effective job than large firms in serving consumers' individual needs. Small business owners will often take the risks that provide innovative ideas and products for our economy.(2:141) The size of small businesses often allows the small business innovator to concentrate on the needs and interests of a single target market. Witness the plethora of small dating/matchmaking services, travel clubs for the elderly, and specialized craftsmen who make everything from wooden toys to elegant furniture. The survival of the small business is insured by its unique ability to discover and exploit
An increasingly important trend in small business is the participation of small business people in the political process. Small business owners are realizing that many of the forces that threaten and hinder small business, forces that often have their origins in Washington D.C., can be controlled. Small business people are realizing that it is necessary to be personally active politically if they want to solve many of the problems facing them as entrepreneurs.

One of the problems that small business people face in dealing with the government and its representatives is a lack of organization. Often, congressmen who look for unanimity in the messages of their constituents find, instead, a confusion of different messages. According to Rep. Norman D. Shumway (R-Calif.), "I sometimes have a difficult time establishing the identity of small business. There seems to be no unified voice." Another problem facing small business owners who wish to be politically active is the practical consideration that running a small firm is a full-time job. Elaine W. Donaldson, a small business owner, explains, "Small business people are becoming advocates, but it takes so much time to be even routinely active." Gerry Dodd, head of a four-employee management assistance firm, confers: "These business owners put in 12-hour days. They don't have much time for things like political action..."
that don't bring immediate, tangible results." (7:42)

Despite the political problems which plague small business, real gains have been made in the political arena. Small business had a signigicant role in electing Ronald Reagan and other pro-business candidates in 1980. (7:39) It is highly likely that small business will have an effect on the upcoming 1984 presidential election.

In a study conducted for Nation's Business by the Center for Small Business of the U.S. Chamber of Commerce, it was discovered that,

More than 85 percent of members of Congress who responded to a recent survey said small business involvement in their 1980 election campaigns was important, and 91 percent said they expected even greater involvement in (future) elections. (7:39)

There is other evidence of the small business' increasing clout:

* The SBA's Office of Advocacy has grown into its role as defender of small business interests at other government agencies, particularly in its aggressive monitoring of the Regulatory Flexibility Act. The act requires federal agencies to tailor regulations to small firms' ability to comply.

* Major portions of last summer's (1981) Economic Recovery Tax Act were designed with small business in mind. The three-year 25 percent personal tax reduction benefits most small businesses -- 90 percent of them are sole proprietorships, partnerships or Sub-chapter S corporations and pay at individual rates.

* Reduction of corporate income tax
rates on the first $500,000 of corporate income. That would free more money for capital formation.

* Further reduction in capital gains taxes.

* Easing of tax rules on small business rollovers. Small firm owners would be able to defer taxes if the proceeds of a sale were reinvested in another business.

* Vice President George Bush's Task Force on Regulatory Reform has developed a small business regulatory hit list. Two targets: Employee Retirement Security Act rules that Bush says are "driving small business out of the pension plan area," and complex paperwork requirements that discourage small companies from selling abroad. (7:41-42)

For better or for worse, small business is here to stay, and current trends point to a brighter future.
II. The Study

A. Census Information - Greater Muncie Area

Muncie, Indiana - the object of study in the famous Middletown study by the Lynds in the 1920's - represents a typical middle-sized midwestern city. Perhaps small businessmen from the greater Muncie area and their concerns characterize to a certain extent the average American small businessman and his concerns.

The 1980 Census of Population & Housing defines self-employed workers as: "those who work for profit or fees in their own unincorporated business, profession or trade or who operate a farm." (6:B-9) For our purposes, farmers were not included when making small business categories.

In Delaware County, there were 3,686 households with non-farm self-employment income in 1979. The mean self-employment income was $12,299. (6) In Muncie city, there were 1,862 households with non-farm self-employment income, and the mean non-farm self-employment income was $14,373. (6)

In Muncie city in 1979, there were 3,590 self-employed white households with a mean non-farm self-employment income of $12,523. Black self-employed households numbered 69, and the mean non-farm self-employment income was $3,131. (6) The difference in income between self-employed white and black households is rather shocking; the average
white household had an income close to the national average income, but the average black household had an income below the poverty level.

B. The Small Business Assistance Center (SBAC)

A high rate of small business failure is a problem in Muncie and Delaware County, and the unemployment rate for this area is higher than the national average. The Small Business Assistance Center, and affiliated organization with the Muncie-Delaware County Chamber of Commerce, was designed to assist businesses in correcting their underlying management problems in order to strengthen the small business and economic base of the community. With the business base strengthened, the unemployment and job training potential, especially for the socially and economically disadvantaged, will be enhanced since it is known that small businesses often generate many entry-level positions. (12)

The primary goal of the SBAC is the generation of new jobs and the retention of existing jobs. The SBAC's services are targeted to small business and entrepreneurs contemplating opening new businesses; the primary area of service is Muncie and Delaware County. The target population is the socially and economically disadvantaged. The SBAC coordinates available community resources to assist small businesses in correcting management problems, and uses these resources to their full potential. New
services have been created when necessary in order to provide a well-rounded package of services. The assistance program coordinates the various services offered by local businesses, financial and educational institutions, state and federal employment and training programs, and public and private sector sources of assistance. The significance of the SBAC project is not only the specific local results (new and retained jobs), but also validation of the concept of preserving employment by assisting management of small businesses. (12)

Some more specific goals of the SBAC are the following:

1. To reverse the trend of permanent job loss in the manufacturing sector of the local economy.

2. To strengthen the economic base and thus employment and job training potential of the local economy by helping improve small businesses' understanding of basic management concepts.

3. To try to reduce the percentage of start-up business failures.

4. To create and maintain a favorable business climate in the Muncie area.

5. To design a program of assistance to provide ongoing help to specific businesses.

Specific activities designed to reach the SBAC's goals include:

* Using existing services to determine the needs of small businesses and then in meeting those needs.
* Collecting and disseminating economic and business data from a central point to all potential businesses.

* Assisting businesses in developing more efficient marketing and distribution channels.

* Promoting the Private Industrial Council (PIC) job training and placement programs in small businesses in Muncie and Delaware County. (14:42)

Once the SBAC has targeted the needs of a business, it develops an assistance program from the reservoir of information supplied by supporting volunteer organizations such as SCORE (Service Corps of Retired Executives) and the Small Business Institute (SBI) at Ball State University. The assistance program is designed to fit the individual needs of a particular business.

C. The Proposal

Because the Small Business Assistance Center is concerned with the needs of its target market, the organization must identify those needs and develop and market its services accordingly. In order to better identify the needs of its target market, the SBAC proposed the following needs assessment study:

In cooperation with Ball State University, the Small Business Assistance Center will undertake a needs assess-
ment study in an effort to identify and respond to the needs and interests of small businesses in the greater Muncie area.

**Purpose**

1. Over 60% of all new jobs created in Indiana during the remainder of this decade are expected to come from small companies with 20 or fewer employees.
2. Over half of all new businesses fail within the first year and perhaps as many as 80% fail within the first five years.
3. Over 90% of these business failures are attributed to poor management, including incompetence, lack of managerial experience, unbalanced experience.

Realizing the full job creation potential of small business has become a top priority for economic development. Large amounts of tax dollars (as well as private sector monies) are being spent on programs to encourage entrepreneurship and to support and sustain young ventures. In Indiana our emphasis has been placed upon locally designed and controlled programs to coordinate existing resources available to assist small business. These organizations inventory and maintain a cross reference file of organizations which can provide assistance and serve as a broker between the entrepreneur and the resource which will provide assistance. In cases where a service is not readily available (such as help with written business plans) the staff of the local programs may offer these
specific services in-house.

To successfully design and operate a local small business assistance program on a scale appropriate to the individual community, it is necessary to know several things:

1. Demographics: the characteristics of the area; characteristics of existing businesses including type and number; basic characteristics of the population of small business owners/managers such as the age of the entrepreneur, number of years in business, level and type of education, business trends, increases or decreases in employment planned in the next 12 months, etc.

2. Major problems or obstacles facing small business from the entrepreneur's point of view (differentiating between those that the entrepreneur can control and those that are outside his control such as inflation, high taxes, etc.)

3. Resources currently available in this community to assist small businesses including those that are currently known to small business owners/managers.

4. Some general opinions of small business owners/managers including attitudes about known or potential sources of assistance.

5. Suggestions from entrepreneurs about the types of assistance currently available (or unknown) that would be of most benefit: What is needed? How would it be used? Who should offer this assistance? What should it cost? Who should pay for it? (13:1-2)
D. The Process

1. Timetable

The proposed project began on November 30, 1982 with hopes of completion by the end of May 1983. Focus groups were conducted in April and surveys were mailed out starting in June. Surveys were returned throughout the summer of 1983, and the surveys were coded and run through the SBI's computer from September 1983 to February 1984. Completion of the project was delayed because of the limitations of the academic calendar.

2. Roles and Goals

Three persons were partners in the process of developing the study -- Mr. David Munson, Professor Ronald Sparling and Amy Fluke. Mr. Munson is the Director of the Small Business Assistance Center, Professor Sparling is an Associate Professor of Marketing at Ball State University, and Amy Fluke is an undergraduate student at Ball State University. In the beginning, roles were somewhat unclear, but soon became clear, working roles. Mr. Munson, as director of the SBAC, provided the group with goals, information about his organization, and its needs, preliminary demographics of Muncie area small businesses, and basic problems of small businesses. Professor Sparling provided the group with academic insights and expertise including how a study is developed, etc. I(Amy Fluke)
provided the group with outside research and other legwork, note-taking during meetings, and insights resulting from research and thought. The primary goal of the project, established by Mr. Munson, was a survey design that would yield good results for Muncie. A survey model that other communities could possibly use was an important consideration, but the first priority was the needs of the Muncie area. This primary goal was to be kept in mind throughout the process of developing the study.

3. The Learning Process

The varied backgrounds of the three persons contributing to the project complemented one another and thereby added to the learning process of developing a study. Mr. Munson's contributions represented the realities of the business world because of his background as a businessman the director of the SBAC. Professor Sparling's contributions represented academic theory and the realities of conducting a study because of his expertise in marketing and experience in conducting and evaluating studies. My contributions were the result of my English and marketing background, and my outside research. Being an English major allowed me to brainstorm freely and organize my information, and my marketing knowledge kept me aware of the study's first priority -- assessing the needs of small businessmen.

Our varied backgrounds, of course, resulted in
communication gaps at times, but usually we complemented one another so that we could build upon our collective experiences and insights. Our differences did not detract from the effectiveness of our group, but rather aided in the crucial critical evaluation of one another's contributions.

4. Focus Groups

On December 16, 1982, Mr. Munson mentioned that he had participated in a focus group, and that we might be able to apply this concept to the task of developing the survey. Research on focus groups indicated that they might be very helpful in developing a survey. Focus groups often can help structure a questionnaire by identifying new areas to investigate in a quantitative study. Also, focus groups can help the researcher to know how to structure a particular question.

The American Marketing Association gives the following definition of a focus group:

The focus group interview, or group depth interview, is a technique which grew out of the group therapy method used by psychiatrists. The concept is based on the assumption that individuals who share a problem will be more willing to talk about it amid the security of others sharing the problem. It offers a means of obtaining in-depth information on a specific topic through a discussion group atmosphere which allows an insight into the behavior and thinking of the individual group members. Rather than using a structured question-and-answer methodology, the procedure
is to encourage a group to discuss feelings, attitudes, and perception about the topic being discussed.

Focus groups were an important step toward reaching our goal of developing a good survey. It was decided that we needed to spend as much time as possible on planning and less time on implementation, and focus groups helped us to plan our strategies. The focus group interview provided the "why" behind the numbers. We determined that what we wanted was an instrument that would uncover the "whys", the real feelings of the entrepreneur, and we also wanted a more quantitative instrument that would sufficiently test and back up the qualitative focus groups with both techniques being applicable to any community. We decided to use open-ended questions in the focus groups because we felt that this type of questioning might insure more spontaneous and valuable responses.

One advantage of focus groups is also a disadvantage: "In spite of being one of the most frequently used techniques in marketing research today, there are no book of rules, nor formulas and no strategems." Members of focus groups should be relatively homogeneous, but we did not know what the definition of homogeneous was. It was thought that if we got all of the same type of business owners (ex. retailers) together, the focus groups would become an industry gripe session. But, if different groups were to get together, there was the possibility that the focus groups might become a "my problem is worse
than your's" discussion. It was finally decided that members of the focus groups would represent the percentage of the particular types of businesses present in the greater Muncie area. The ages of the businesses represented in the focus groups were varied because we felt that the focus groups should be fairly representative of the small business community in the greater Muncie area. We arrived at these decisions after much discussion and contemplation.

Some ideas such as the following were considered and rejected: putting the same type of businesses together into separate focus groups, i.e., one focus group of retailers, one of manufacturers; making a focus group consisting of failed businesses only; making a focus group consisting of zero businesses (businesses that haven't started for one reason or another) to ask people what problems kept them from starting. Each of these potential focus groups would have provided us with interesting information, but time prevented us from coordinating many focus groups with special characteristics. Focus groups should concentrate on the few segments most useful to the specific purposes of the study, and the objective is to try to have as few focus groups as possible. (15:9) We decided that it was important to identify universal problems, and that perhaps the stage or type of business was not as important as we had thought previously.

John Hess has summarized some of the potential advantages of the focus group as follows:
Synergism- combined group effort produces a wider range of information, insight and ideas.

Snowballing- random comments may set off a chain reaction of responses that further feed new ideas.

Stimulation- the group experience itself is exciting, stimulating

Security- the individual may find comfort in the group and more readily express his ideas.

Spontaneity- since individuals aren't required to answer each question, the answers given become more meaningful. (15:17)

The researchers watching and evaluating the focus groups may benefit by:

Serendipity- key items or concepts unthought of may be discovered.

Scientific scrutiny- sessions may be analyzed in detail after the interviews are completed.

Speed- the use of groups speeds up the interview process and the data accumulation.

Structure- group structuring is not so obvious and leading arrangements can be used that are unavailable in individual interviewing. (15:17-18)

According to the American Marketing Association, the ideal focus group is 8 to 12 people. Fewer than eight is likely to burden each individual, while more than twelve tends to reduce each member's participation. (15:9) The physical environment is also very important to the success of the focus group. Ideally, the atmosphere should be as
relaxed as possible to encourage informal, candid discussion.(15:10) However, the environment of the focus group should be conducive to the expression of opinions and feelings, not judgments: "It is imperative to avoid giving the group members the impression that they are experts and you want their intellectual opinions."(15:11) We decided to use a comfortable, carpeted room in the Ball State Student Center because of the relatively informal atmosphere of a university facility, and because of the Student Center's central location in Muncie.

The moderator's role is of prime importance to the success of the focus group and his important responsibilities include rapport, level of verbal ability, relevancy, and direction of the study.(15:11) A high degree of interpersonal interaction is needed; the degrees of interaction can be determined by the focus of the interview. If discussion centers upon the subject of research, and the moderator has a very minimal role, interaction has been achieved.(15:12) It is important to use the same moderator for all focus group sessions because the moderator learns from each session and becomes more effective in subsequent sessions.(15:17) Mr. J.Allan Rent, of J.Allan Rent & Associates, was selected to be our focus group moderator because he is well-known and respected in the community, has a very quick mind, and is a skilled interviewer.

Two focus groups were held -- one on March 30, 1983 and one on April 13, 1983. The first focus group included owners of retail, wholesale and service businesses that
were less than three years old. The second focus group included owners of retail, wholesale and service businesses that were over five years old. Both focus groups were no longer than 1\frac{1}{2} hours long, and were held between 10:00 and 11:30 a.m. because concentration would likely be stronger at this time of the day. The focus groups were taped and transcripts typed from the tapes so that the results could later be analyzed and evaluated.

The following are areas of concern identified in the two focus groups:

I. Management
   A. Financial
      1. Banking - Discourteous; won't listen; discriminatory against women; unwilling to take risks with a small business; should inform better about technicalities of accounts, etc.
      2. Cash Management - Lack of knowledge; a general naivete which leads to financial disaster.
      3. Capital(sources & acquisition) - Banks not interested in small business loans; money acquired seems enough, but never is.

   B. Personnel -
      A lack of good personnel willing to work; theft; compensation of personnel; insurance.

   C. Legal -
      Zoning problems; compliance with government rules and regulations.

   D. Business Background -
      Most entrepreneurs unfamiliar with basic knowledge needed to run a business; a business background does not insure success with every venture.
II. The Community -

Pricing strategies for the area; delinquent shoppers going to other cities to shop (especially Indianapolis); bad attitudes of the public; competition; advertising.

III. Relationship with partners, investors.

5. The Survey

Two surveys were used as reference guides in creating our needs assessment survey: a Nashville Area Chamber of Commerce survey and an Evansville Area Chamber of Commerce survey. These surveys were useful in presenting basic guidelines, but, from the beginning of the project, we felt that we could improve upon these surveys, and expressed the concern that these surveys assumed answers to questions and worded questions so that these answers would be obtained. We wanted to delve below stereotypical problem areas that could not be solved, i.e., taxes, inflation, the economy, and uncover real needs that could be worked on. The focus groups provided us with much insight into needs that were perhaps hidden and unconscious to the business owner. Several questions used by the moderator, J. Allan Rent, which were particularly effective in the focus groups were placed in the written survey.

One particularly troublesome problem encountered in developing the survey was the question of whether or not we should make the questionnaire closed-ended or open-ended.
We wanted to assess small business owners' needs, and open-ended questions seemed best for this purpose, yet a questionnaire with all open-ended questions would fatigue our respondents. All closed-ended questions would be easier for the respondent to answer, and for us to tabulate, but might not provide the honest, revealing answers that we desired. Our solution, of course, was to create a questionnaire which contained both closed-ended and open-ended questions. Some of the open-ended questions were worded so that they would parallel some of the closed-ended questions and act as checks to verify the accuracy of responses. The questionnaire was designed to be answered easily, and many checklists and yes/no questions were included.

The questionnaire is five pages long and contains eight sections. These sections are: demographics; reasons for going into business; business planning; operational sources of assistance(1); business background and attitudes; needs for assistance; and sources of assistance(2). (Refer to Appendix C) Questions which were both open-ended and closed-ended include the areas of business planning; reasons for going into business and sources of assistance. The responses to open-ended questions paralleling closed-ended questions were coded using the possible choices provided in the closed-ended questions.

The survey/questionnaire is titled, "Anonymous Small Business Needs Assessment Survey;" anonymity was encouraged in order to receive candid, honest answers to questions.
Mr. Munson of the SBAC provided the business addresses to which the questionnaires were mailed. The sample was not random.

III. Analysis of Survey Results

(note: all percentages are adjusted frequencies)

The total number of surveys mailed was 1157; a total of 188 surveys, or 12% of surveys mailed, were returned. This is a decent return, especially in light of the fact that the survey was five pages long and contained many open-ended questions.

A. Demographics

Types of businesses responding to the survey include service(32.1%), retail(30.5%), professional practice(17.1%), manufacturing(7.5%), construction(6.4%), wholesale(5.3%), and other(1.1%). (Table 1) The forms of organization include sole proprietorship(37.5%), Sub Chapter S Corporation (28.2%), regular corporation(27.2%), dental or professional corporation(3.3%), partnership(2.7%) and other(.5%).(Table 2) The primary market for the product or service of a majority of small business owners is consumers(73.1%). The majority of respondents(80.3%) were the president or owner of their businesses.(Table 14)
Most respondents were not members of the local Chamber of Commerce (70.6%), State Chamber of Commerce (89.3%), U.S. Chamber of Commerce (89.3%), or the National Federation of Indiana Business (82.4%). Lack of activity in organizations other than trade associations (49.7% are members) reflects either ignorance of the organizations and their benefits or indifference to them. Either way, this trend of complacency poses a potential threat to the well-being of small businesses in the greater Muncie area.

The length of time that the business has existed ranged from one year (4.3%) to 50 or more years (6.4%), with 21.4% of the businesses surveyed being under 5 years old, 76.6% over 5 years old and 38.8% over 20 years old. (Table 3)

Over one-half (50.4%) of respondents had gross sales of 499,999 or less the most recent year, while 41.5% had gross sales of 499,999 or less the previous year. Businesses grossing under $1,000,000 the most recent year numbered 62.1%, while 55.9% of the businesses surveyed grossed under $1,000,000. These figures seem to indicate a financial downswing for many businesses between the years of 1981 and 1982. (Tables 4 & 5) Perhaps this downswing is partially related to the recession during that time.

The majority of respondents had at least some college (71.5%), and only 4.3% did not graduate from high school. Those respondents having at least some technical school numbered 7.5%. The majority of respondents appear to be fairly well-educated. (Table 6)

Those with special status ownership include: 7 persons
belonging to a minority group; 28 females; 9 Vietnam-era veterans; and 2 handicapped or disabled persons. Only 3% of respondents were minority business owners, and only 15% of respondents were women business owners. Both of these figures surely are not indicative of the percentage of minorities and women present in the greater Muncie area; white males own 82% of the businesses in the sample.

Almost one-half of the respondents (45.1%) saw themselves as being innovators. This figure correlates with the entrepreneurial aspect of small business. Only 31.1% of respondents answered that the reason they chose to go into business was to be their own boss; this percentage correlates with the 45.1% who saw themselves as being innovators, and perhaps the 6.6% who always wanted to own a business and the 12.6% who wanted to fill a need in the community qualify as innovators. (Tables 6 & 7)

B. Goals and Objectives

Business owners whose initial goal and objective was to obtain a specific return on investment numbered 23.3% of those surveyed, and 9.5% changed their expectations to this category during the course of running a business. Those having the initial goal and objective of making enough money to live on numbered 41.3%, but only 31.7% continued to keep this goal. At the start of their businesses, 14% of respondents wanted primarily to expand their businesses:
however, after running the business awhile, this number jumps up 9% to 23% of respondents who expect to expand their businesses. (Tables 8 & 9) These figures point out that initial goals and objectives may not be appropriate later on in the life of the business, and that goals and objectives do change. Respondents who answered that they modified their initial goals and objectives numbered 31.4%. Of these people who modified their goals and objectives, 15.4% increased expectations and 14.4% decreased their expectations or cut back or reorganized. (Table 10) Three-quarters of those surveyed felt that they had reached their initial goals and objectives, but apparently not much written planning was used to reach these goals because only 26.5% indicated that they prepared periodic written reports to reach goals, and only 50% considered long-range planning to be essential. However, while 50% considered long-range planning to be essential, only 35.1% actually make a conscious effort to plan. Of those considering long-range planning to be less-than-essential, a surprising 12.9% did not consider long-range planning to be at all helpful, 20.4% considered it a minor consideration, and 16.7% thought it helpful, but it was either too time-consuming to be used, or they did not have the knowledge to plan. (Tables 11 & 12)

It is no wonder that a significant number of respondents modified their goals and objectives because 73.9% declared that they made no conscious effort to initially plan. Also, it is curious that 84.6% of respondents claim to make a
conscious effort to plan because only 30.9% make a conscious effort in reactive planning and only 37.8% make a conscious effort in daily planning. (Table 13) Most small business owners (33%) planned only one year or less into the future, and most did not plan over 5 years into the future. The majority of small business owners are apparently oblivious to the necessity of planning in order to achieve and surpass goals. Continued success requires some sort of long-range planning, and it appears that those who make no conscious effort to do so (64.9%) have a rocky road ahead of them.

Fifty percent of respondents indicated that they researched their market and products before starting their businesses, but only 53% did not research their markets on a regular basis. Of the respondents who did initial research, the majority (34.3%) stated that their experience in the business is how they researched their markets and products, but experience does not really qualify as outside research. The majority (29.2%) of those who did regular research used journals, magazines and statistics, but only 4.2% continued to cite experience as a regular research tool. Many business owners used other businessmen initially (21.4%) and regularly (16.7%) research their markets and products; these figures show that many businessmen trust and rely on the opinions of their peers. Initially, 10% of business owners researched their competitors; this percentage jumped up to 18.1% who researched their competitors on a regular basis. Perhaps the 8.1% who decided to research their competitors became aware of the competition during
the course of running a business not because they consciously decided to research, but because the competitors made themselves known through their pricing, sales, marketing, etc, which adversely affected the sales of beginning businessmen who were caught off guard. (Tables 18 & 19) Research is a necessary step in planning, and it appears that most of those who research their businesses regularly (29.2%) also make a conscious effort to plan (35.7%). Most businessmen were aware that they did not possess the knowledge to research their business needs because 65.5% acknowledged that they had only some (35.2%) or no (30.3%) knowledge in that area. (Table 20)

Some business owners apparently can not correctly gauge the successfulness of a business because although 82.4% considered their businesses to be successful, the number of those who claimed to have made a net profit the previous fiscal year (79.5%) fell down the last fiscal year to 68.8%; over 10% of these businesses changed from profitable ventures to non-profitable ventures. (Table 17)

C. Major Problems and Obstacles

When respondents were asked to indicate their levels of formal education/preparation, they marked that they had some or no knowledge in the following categories: bookkeeping (53.9%); advertising (68.2%); pricing (50%); planning (51.1%); projecting income (59.8%); researching business needs (65.5%); and financial management (43.7%). (Table 20)
It is interesting to note that although 56.3% of respondents considered themselves to be either very knowledgeable (18.2%) or moderately knowledgeable (38.1%) in financial management, the second biggest operational problem indicated by respondents, cash management and cost reduction, is in the financial management category.

The number one problem, according to respondents, is recruiting personnel. Many business owners complained that employees had bad attitudes, and that quality employees were hired away by larger businesses that could afford to pay better wages.

Complying with government roles is the third most troubling operational problem for small businessmen. In general, they feel that there is too much paperwork and too many government regulations in the operation of a small business. One gets the impression that beginning entrepreneurs were surprised at the amount of paperwork involved in running any business, and that they felt the amount of paperwork required of them was stifling and a waste of time.

The fourth largest problem indicated was employee compensation. Small business owners could not afford to take large sums of money out of their businesses in order to offer competitive wages.

Pricing strategies, retaining personnel, and credit and collection tied for the fifth most troublesome problem in small business.

Most of these problems can be gathered together under the broad category of management problems: recruiting and
retaining personnel, cash management, credit and collection, employee compensation, and complying with government rules are all managerial duties required of almost any manager. All of these problems are business conditions which can be worked on and improved.

D. Available Sources of Assistance

The most frequently used source of assistance consulted before starting a business was bankers (41.8% of respondents). About 88.1% of respondents felt that they were treated fairly by financial institutions. Over one-half of respondents agreed that they received a significant amount of operational assistance from financial institutions. Only 16.5% of respondents felt that banks were unwilling to take the risk of helping a small business, and, happily, only 2.7% felt that banks did not pay enough attention to them, and only 1.1% felt that banks discriminate against women and/or minorities. These figures contradict the tone of the focus groups in which small business owners complained of the indifference of banks and other financial institutions to the problems of small business. In the focus groups and in one response to the questionnaire, it was stated that the prospective business owner was forced to seek assistance in another city where banks were more receptive to their needs. (Table 22)

The other source of assistance which many businessmen
consulted before starting a business was other businessmen (23.6% used this source); this confirms the bond that small business owners feel with their peers. Other sources such as friends and family (7.3% consulted); trade associations (3.6% consulted); professional consultants (5.5% consulted); and suppliers (4.5% consulted) were used less frequently when starting a business. (Table 23)

In the actual operation of a business, other businessmen were consulted most frequently (29.6% consulted). Professional consultants were used by 18.5% of small business owners and 15.4% consulted a trade association in operating a small business. Other sources such as academic institutions (3.7% consulted), seminars and workshops (3.7% used), bankers (6.7% consulted) and friends and family (3.1% consulted) were used less frequently in operating a business. (Table 23)

Sources of assistance that respondents indicated they were reluctant to use include: the Small Business Administration (14.3%); other government agencies (12.7%); academic institutions (14.3%); and, surprisingly, bankers (11.1%), the most consulted source of assistance when starting a business. (Table 24) Over and over, in the survey, respondents stated how they mistrusted both government agencies and academic institutions.

When asked whether or not they were aware of a central source of information, 87.4% of respondents indicated that they were not aware of such a source. A majority of respondents (108) indicated that they were in favor of the
the creation of a central source of information. When asked how often they would use a central source, 20% said often; 24.5% said as often as necessary; 22.7% said occasionally; 19.1% said seldom; 10% said never and 3.6% said that they did not know. (Table 25); in other words, 67.2% of the responses were positive and 32.7% of the responses were negative. When asked if they would pay for the services of a central source of information, 57% of respondents said yes and 43% said no.

E. Suggestions and Miscellaneous Comments

The majority of suggestions offered by respondents were negative. The government, academic institutions and the length of the survey were frequent topics of comment. Several respondents gave instances in which Ball State University did not meet their needs. The tone of other comments about academic institutions was one of doubt and disdain. The businessmen felt that academicians were locked away in ivory towers from the nitty-gritty realities within which these businessmen operated.

A number of respondents were particularly alienated by and hostile toward government agencies. Often, any government involvement was seen as an intrusion upon the free-enterprise system. One memorable demand stated, "Get government out of business!!"
IV. Conclusions and Recommendations

An analysis of the results of this needs assessment survey points to lack of understanding as the number one problem of small business owners. Related to the problem of ignorance is the problem of complacency. Not only are the majority of small business owners unaware of the realities and possibilities of the outside world, but they are unaware of their own needs. Most of these businessmen have opinions and beliefs, but these opinions and beliefs are not action-oriented. A businessman may believe that seminars and workshops are useless, but he will not investigate the matter further in order to confirm his belief. It is a lot easier to form an opinion and stick with and hide behind that opinion than it is to make an effort to learn and grow as a businessman and as an individual. I believe that this complacency is behind much of the scapegoating that businessmen take part in when they blame the government, and economy for all of their problems. A successful entrepreneur states: "You have to have some failures in order to learn. You probably won't make it any other way in this business. If you have trouble admitting occasional failure, you will have trouble owning your own business." (9:37)

It is understandable that a person may not comprehend all of the necessary managerial skills, but blaming one's problems on uncontrollable variables is not a constructive
way to deal with one's problems. Uncontrollable variables such as government regulations and the economic environment are always with us, and one must work within these constraints in order to achieve one's goals. But, many individuals are too lazy or too afraid to look beyond their problems to find assistance. The irony of the situation is that many entrepreneurs see themselves and are often seen by others as being rugged individualists who resent any intrusion into their business. A true individualist relies upon himself and at the same time realizes when he is not capable of dealing with a situation; a true individualist knows himself and his limitations. Since many of these businessmen do not know themselves and their limitations, they do not realize when it is necessary to seek assistance to boost their own abilities.

The following are several specific recommendations:

(1) Advertising - The majority of small business owners surveyed in the greater Muncie area are not aware of the Small Business Assistance Center. Suspicion breeds from ignorance. A good advertising campaign could inform many small business owners about a central source of information -- the SBAC. Catching the attention and interest of small business owners is of the utmost importance. Reaching the business person on the level of his personal needs and preconceived notions is an effective way to gain interest. A radio
spot which begins, "You say the government won't help your small business save on taxes? The SBAC can show you how...," could catch the attention of a small business owner with tax problems. Advertising, of course, costs money, but the SBAC should use all of the money that its budget allows to its fullest potential.

(2) A Booklet or Pamphlet - Publishing a simple, but eye-catching and interest-arousing booklet for potential entrepreneurs that states some basic "hows & whys" of starting a business, and the personal and financial requirements for entrepreneurial success may be useful. The booklet or pamphlet could be distributed in locations that possible entrepreneurs may visit -- i.e., banks and other financial institutions, universities, etc.

(3) Focus Groups - Focus groups are helpful in uncovering needs, opinions and attitudes. A semi-annual focus group study to periodically check up on the needs of the small business community, and perhaps focus groups on specific needs would be useful.

(4) Seminars - The inability to effectively deal with problems and to plan in order to achieve goals seems to be an area which many small business owners need to work on. Several seminars on how to attack problems and how to make written plans and manage time may be useful.

(5) Peer Counseling - Small business owners indicated that
they trust the opinions and advice of their peers. A program which offers peer counseling or "tutoring" would, I feel, be very helpful. Universities have successfully used peer tutoring for many years.

(6) Further Study - The attitude towards minorities, particularly Blacks, in this community is sometimes hostile and cool at best. Because the SBAC is interested in helping the socially and economically disadvantaged, more research into this problem needs to be done. Most black business owners in this community are at a definite disadvantage; the census statistics prove this disadvantage.

V. Evaluation of the Study

The purpose of this survey was to assess the needs of small business owners in the greater Muncie area and quantify those needs. The problem is that needs and opinions are rather nebulous and not easily quantifiable. In fact, it may very well be impossible to quantify these needs with impeccable accuracy. Also, it may not be desirable to look only at facts and figures. I think that much good, useful information can be derived from a look at the broad spectrum of generalities; truth often lies in the comparison and contrast of these generalities and not in isolated percentages.

The focus groups and survey succeeded in that they
captured the tone of the small business owners' concerns, and identified major categories of problems that small businessmen could control with some chance for success.

The survey failed in that it did not minimize participants' fatigue. The survey was involved and time-consuming, and ignoring questions that required more than usual amounts of effort was one way that respondents reacted to this obstacle. Our idealism in creating the survey is partly responsible for this problem. We wanted to create the best possible survey to assess needs, but in this case, the best possible survey simply required too much time and effort on the part of the respondents. Most of the open-ended questions would have revealed much about respondents' needs, but the respondents just were not willing to comply with our idealism. This is a problem that we should have contemplated further when forming the design of the questionnaire.

VI. Evaluation of the Learning Process

One thing that I learned from taking part in this study is that one should not take the results of any study as exact, final truths; there are too many little problems which crop up during the course of any study which make data less than perfectly reliable. The most important skill that I learned during the process of developing and implementing this survey was how to work well in a group.
APPENDICES
APPENDIX A

FOCUS GROUP INTRODUCTION/OUTLINE