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Characteristics of Small Business Succeeding in the Next Century

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**CORNELL
AGRICULTURAL ECONOMICS
STAFF PAPER**

**CHARACTERISTICS OF SMALL BUSINESS
SUCCEEDING IN THE NEXT CENTURY**

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Characteristics of Small Businesses Succeeding in the Next Century

Abstract

Success of small business requires enlightened leadership by managers consisting of establishing organizational vision and gaining commitment to the vision. Other success characteristics include customer orientation, performance driven, cost effective, fast and flexible, and a commitment to continuous improvement. Agricultural economists need management training to teach these characteristics.

Characteristics of Small Businesses Succeeding in the Next Century

This is a time of unprecedented change in American business. IBM, once thought to be the premier American corporation and mentioned 76 times in In Search of Excellence (Peters), is in the midst of its first layoffs and its stock has declined by more than half, and some questioning whether it can survive (Belasco). Other companies are in the midst of meteoric rises –Apple, WalMart, Ben and Jerry's. At the same time job growth is occurring in small and medium size businesses with large corporate employment actually declining.

What explains these trends? Economics and social trends are, of course, a part of the equation. More importantly, these trends are the result of a management revolution built around responses and lack of responses to total quality management. This author has recently completed a sabbatical with Executive Education in the Johnson Graduate School of Management where he interacted with academics with expertise in executive education, management consultants, and top executives from large corporations. This paper draws from that experience, the author's experience in management education with managers of farm businesses, and the management literature to delineate the characteristics of successful small businesses. Before presenting the characteristics, a cursory view of management development is presented and the role of a small business owner/manager is explored.

Management

The current management revolution is the product of the interaction of two trends. The first is the evolution of management thought. The second is the dramatic impact of Deming's Total Quality Management. The evolution, based on Milligan and Hutt and Hodgetts begins with the quantitative or scientific management school which arose

to find the most scientific, rational principles for handling people, machines, materials, and money. The objective of this school is to increase output and productivity per person by making work easy to perform. Attention to worker needs is minimal. Workers are essentially only the additions to machines necessary to make them run. Frederick W. Taylor is often considered the father of scientific management. His major contribution was to define the concept of a task as a specific set of activities that instruct a laborer what to do, how to do it, and the time frame in which to accomplish it. Taylor's philosophy about consistently maximizing output led to the development of time and motion studies. Taylor also began scientific decision-making and cost accounting (Taylor).

The second major school of management though is called the process school or classical school and is based on the work of Henri Fayol, who is thought to be the father of modern management theory. Fayol first introduced the administrative operations of planning, organization, command, coordination, and control. Fayol was the first to suggest that management could be taught in a scholarly setting, using a conceptual framework with principles derived from research and experience. Fayol's original fourteen principles of management include some familiar ones such as division of labor, authority and responsibility, unity of command, subordination of individual interests to the common good, centralization and hierarchy. (Fayol).

The final major school of management is the behavioral school, which is commonly divided into two branches; 1) individual behavior or the interpersonal perspective and 2) group behavior or the social system perspective. Contributions to this school come from the social sciences including psychology, social, anthropology, social psychology, and industrial psychology. The behavior school deals with such topics as motivation, leadership, personality style, behavior, teams, power, and authority. The beginnings of this school can be traced to Elton Mayo, whose work is associated with the

early inquiries into the behavior of people in the work place. Mayo's Hawthorne Studies were landmark studies within the field of management (Greenwood, Bolton and Greenwood). This research showed that supervisory style affected worker output; workers changed their behavior when they were aware that they were being watched.

As the study of management progressed, not only schools of management, but philosophies of management developed. These philosophies establish relationships between technologies, materials, things, and people. The classical philosophy draws primarily from the quantitative school, considering people merely an input into the production function. The human relations philosophies is based on the premise that happy people are productive people. The human relations philosophy recognizes the unique input of people and emphasizes how people are treated in an organization.

The evolution of management thought has been dramatically altered by total quality management (Deming, Crosby). TQM, although introduced by an academic (Dr. J. Edward Deming), has primarily derived its status from face validity, i.e. it works. The approach is a unique and controversial blend of qualitative and quantitative thinking. The qualitative, behavioral, thinking revolves around the required leadership, the team orientation, and the customer orientation crucial to TQM. The quantitative aspects deal with measurements of quality and performance (Thomas).

The essence of total quality management is Deming's twelve points (Deming, Crosby). This author distills these twelve points to the following four key characteristics:

1. Commitment to the customer, All personnel continuously strive to understand and anticipate the needs, expectations, and satisfaction levels of customers. This is often characterized by the upside down organizational chart with the customer at the top.
2. Participation of all personnel. Everyone is responsible for and involved in the design and delivery of products and services. Deming argues that the greatest waste in America is the failure to use the abilities of people.
3. Leadership from the Top. Management must provide vision and long-term direction. Leadership for quality and innovation cannot be delegated. Management must

provide the resources, support, and coaching needed to produce quality. Deming also states "Everyone doing their best is not sufficient." In this statement he is underscoring the necessity of management providing the vision and direction and the help to all personnel,

4. Long-Term Perspective. All organizations must improve and change to remain competitive. This is best accomplished by commitment to personnel and long-term relationships with suppliers and customers.

Although first introduced in the U.S. after World War II, its application Japan transformed Japanese products from "junk" to "highest quality." In order to remain competitive in our globalized economy, American companies are now scrambling to adopt these management principles.

The Small Business Owner/Manager

The operation of a farm or other small business is a complex job. Most owner/managers have the majority of their training in the production aspects of their job. This is also where they feel comfortable. Successful operation of the business, however, requires that the manager complete both the technical or production and the management or people components of the job. Knowledge of production without effective management will almost always result in unacceptable performance.

Illustration 1 illustrates the management responsibilities of a small business owner/manager. Knowledge of the specific production technologies of a farm or other business is only one of the three categories of knowledge required by a golf course superintendent or any other manager of a small business. The other three are knowledge of the technical aspect of the operation of any business or organization, knowledge of the external environment, and expertise in management is the focus of this discussion. As you will see in the following discussion, management is in fact the management of people. We turn to a look at integrating this view of the small business manager with management thought

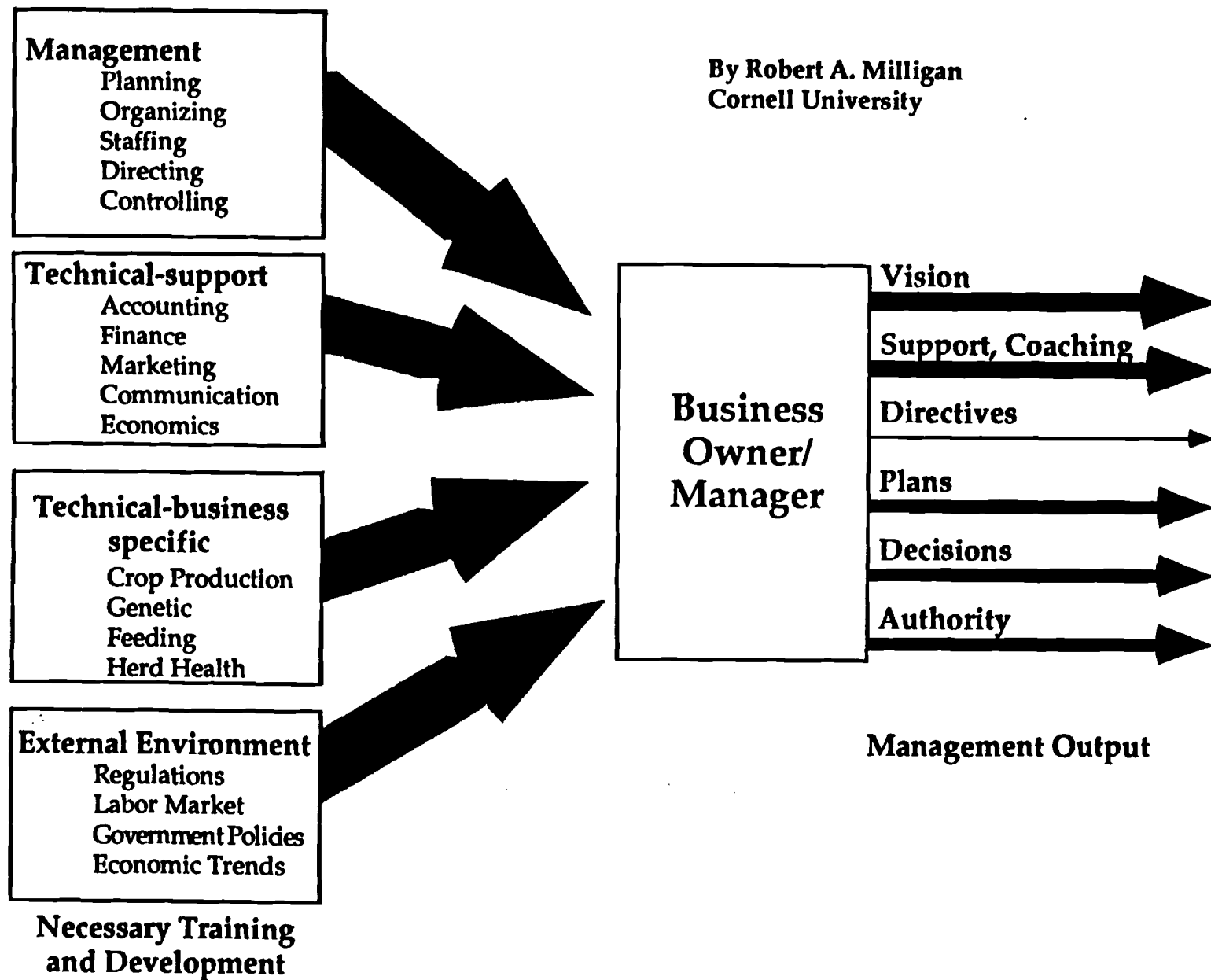


Illustration 1: The Small Business Owner/Manager

Characteristics of Successful Small Businesses

The evolution of management thinking and the rapid development of total quality management provide a challenging opportunity for the owner/manager of a small business including farms and other agricultural businesses. The challenge is the difficulty and time required to master and implement modern management thought; the opportunity is the potential for increased productivity and achievement of business mission. The following six characteristics, summarized in Illustration 2, are presented to assist the small business manager.

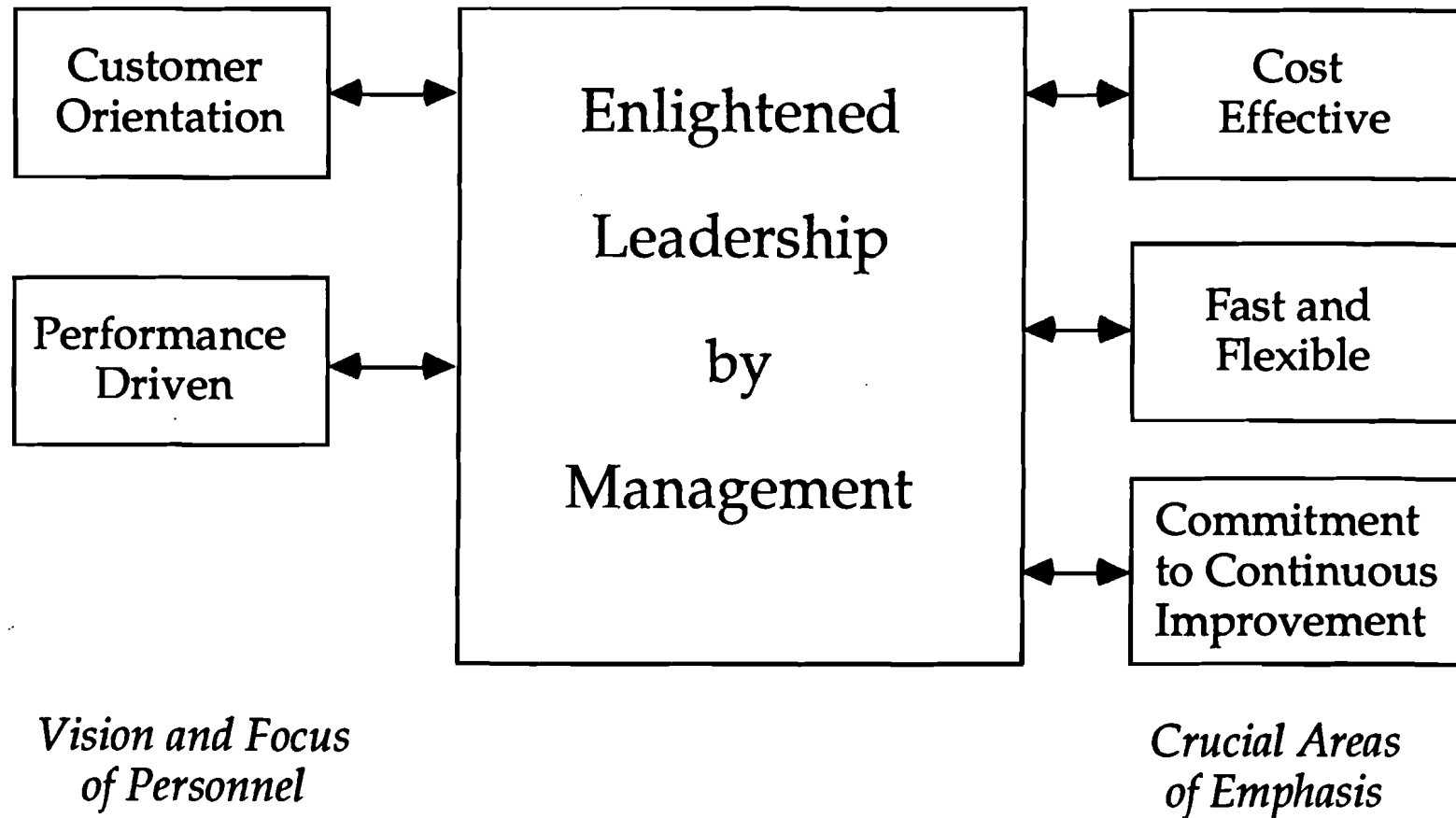
Enlightened Leadership by Management

The application of modern management principles -- total quality management, Japanese management, empowerment -- has clearly illustrated that effective leader/managers emphasize two roles:

1. Establish the vision, mission, and objectives of the organization; attain commitment of all business personnel to the vision and the mission and objectives.
2. Provide support and coaching to enable people to attain peak performance in order to maximize their contribution to fulfilling the vision, mission, and objectives established by the leader.

This approach is inconsistent with the view most of us have of management. This common view, implicitly or explicitly, is that the manager has power and, therefore, should control the actions of employees. In contrast, the modern view of management is that by vision and coaching we enable employees to develop and reach peak

Illustration 2 Characteristics of Small Businesses Succeeding in the Next Century



performance. I refer to the former as viewing management as control and the latter as viewing management as performance. The following contrast the two views:

	Control	Performance
Mechanism for Achievement	Do job "right" (Duck)	Exceed expectation (Eagles)
Emphasis	Means/tasks	Ends/ accomplishments
Development of People	No Need	Way to do better
Biggest Fear	Upset Boss	Not Meet Performance Expectations
People's response	Demotivating	Motivating

Danny Cox, author of Leadership When the Heat's On, describes the management needed to empower and motivate people as humanagement. He defines humanagement as "the ability to use the job to develop the person while having fun in the process." In this people oriented view of management, the manager is leading people by unlocking all of the talents available. The fun part comes from the enjoyment motivated people have when they are developing and have a sense of achievement and fulfillment.

Success in this approach requires changes in the view of the organization's structure. The establishment of a vision must be accomplished through the traditional top/down structure. Of course, there should be input at all levels and from the customers; however, the vision is the responsibility of top management. Implementation of this vision requires a bottom/up organization framework. At each level the supervisor is a coach and supporter to enable the employee to perform. At the now top level the customer is the principle focus.

In this view the accountability is to soundness of the process and the results. The employees are empowered to carry out their jobs to meet the vision. There is no need to control every task; in fact any attempt is a large demotivator.

Customer Orientation

It is nothing new and is easy to say that all businesses should be customer oriented. It is much more difficult to build the customer orientation into the business culture. Traditional top/down business structures implicitly and explicitly encourage subordinates to be responsive to their boss and, therefore, upwards. This tends to create a situation where the interests of customers, who are usually viewed as at the bottom of the chart, are not viewed as important. Ken Blanchard, Author of The One Minute Manager, talks about ducks, who complain and blame their condition on everyone else ('quack, quack, quack') and eagles, who soar above the crowd to meet customer needs. The greater the customer orientation and the lesser the top/down organization; the more likely business personnel will perform as eagles.

Performance Driven

When we analyze businesses, we consider performance in terms of production and profitability. These are measures of business performance; they are generally not good measures of individual performance. Peak individual performance can generally only be obtained by committed, motivated personnel. Both motivation and peak performance require effective goal setting and feedback concerning goal achievement.

This necessitates the development of effective performance measures for individuals, processes, and businesses; this is not easy. We often do not establish measures because they are not easily identified. That excuse should not be tolerated.

Often a single measure is not available; multiple parameters are acceptable and even desirable. The measures should be established with the customer in mind.

Cost Effective

The 90's and beyond will be characterized by their intense competitiveness as globalization and improved communication remove barriers that can protect businesses from competition in other regions or countries. This means that the goals being established as part of the accountability of empowered employees must include cost. Modern management, in addition to the very qualitative orientation on vision, emphasizes quantification of accountability goals, quality control, and cost effectiveness. Small business people often view the idea of competition as bad.. These managers cannot allow this view to hinder their ability to instill a commitment to cost effectiveness as a part of a commitment to excellence and peak performance.

Fast and Flexible

With change occurring at an ever increasing rate all businesses must be prepared to change quickly; this is one area where small business can have an advantage over large businesses. One important vehicle for being fast and flexible is to encourage creativity and innovation. A small business working toward a shared vision should be operating as an effective team; in fact a common vision is the most important characteristic of an effective team.

Commitment to Continuous Improvement

We often hear about invisible assets or assets that do not show on the balance sheet. In a humanagement approach the most important invisible asset is people. Investing in your people is at least as important as investing in your physical capital.

Training and education are the formal forms of investment; coaching is the informal form of investing in your people.

Continuing peak performance requires a continuing dissatisfaction with the status quo. This means an unwillingness to accept current excellent performance as acceptable in the future. It does not mean low morale; in fact morale must be high for this to occur. An important contributor to this dissatisfaction and determination to do better is continuous improvement through education and development. Many organizations provide funds for their employees to obtain additional education often with no restriction on what is studied.

Conclusions

We in Colleges of Agriculture and Department of Agriculture Economics have generally resisted developing a comprehensive program to meet the needs of farm and other small business managers. Most college efforts have dealt with the business specific technical needs (Illustration 1); most efforts of agricultural economists have focused on general business technical needs. Rarely have we developed programs to address the total needs of modern small business managers as portrayed in Illustration 1.

Our traditional and potential small business clientele have great need for research and educational programs addressing all their needs. If we choose to address this need, our program must be based on modern management thinking. If we choose to continue to only partially meet the needs of our clientele, they will seek at least expertise in executive education programming from other sources.

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