

Are you really suited to run your own business?

THINKING of going into business on your own? Better talk to small business researcher Alan J. Williams first.

Professor Williams is Professor of Commerce at the University of Newcastle, NSW. After four years of research he says it is possible to predict with reasonable confidence whether a man or woman will succeed in small business by examining their background and personality.

Between a half and two thirds of those who start up in business on their own do not have the necessary skills and attitudes for success, he says.

More than that – in more than 90 per cent of small business failures he has analysed, the “unwittingly destructive influence of the inexperienced, naive and incompetent owner/manager is the underlying factor.”

Professor Williams has devised a questionnaire which he says will indicate whether an individual has the necessary entrepreneurial and managerial skills to succeed in small business.

Several banks in Perth and Newcastle are using the questionnaire to help assess a borrower's potential for business success.

Professor Williams has refined the questionnaire over a number of years. Earlier versions have bettered the usual banker's assessment of investment/loan potential by 4:1, he says.

A Commerce graduate from the University of Tasmania, Professor Williams was head of the Department of Management at the Western Australian Institute of Technology, and senior lecturer in the Department of Accounting and Financial Management at the University of New England, Armidale, NSW, before taking up his present post.

His research into the characteristics and performance of small business owner/managers in Australia earned him a Ph.D. from the University of Western Australia.

Professor Williams says his research has been aimed at creating a method by which a person intending to start or

Most small business failures are due to the proprietor's incompetence or simply because he lacks appropriate personality and drives.

Careful testing of would-be entrepreneurs is suggested.

By Michael Batten

buy a small business may measure the extent to which he or she has the necessary characteristics which will improve the likelihood (but not guarantee) of success.

He says, “To some people, stepping out of the employee role to owning and managing their own business, can prove financially rewarding as well as being an exciting and most enjoyable experience.

“To others, unfortunately probably the majority, small business ownership turns into a nightmare.

“Business failure can be avoided in the great majority of cases – the quality of management performance of the owner or owners will determine whether the firm succeeds or fails, in the great majority of cases.

“Sometimes, external factors over which the owner can have no control may lead to a failure, but the evidence shows clearly that in well over 90 per cent of all small business failures, it is the unwittingly destructive influence of the owner/manager.”

His questionnaire is designed to test two sets of skills, qualities and characteristics.

The first broad group tests the subject's entrepreneurial characteristics, which are related to personality, while the other relates to skills and competence in the wide field of management.

Professor Williams says good entrepreneurs tend to have the ability to be effective – they are able to do the right things.

Good managers, on the other hand, are regarded as efficient – they do things right.

Ideally, the intending small business owner will be both effective and efficient, but few have both characteristics in the necessary quantities, he says.

The questionnaire consists of four groups of questions under the following headings:

1. **Personality and Perception**, which covers task and achievement motivation, interpersonal relations, role perception, business ownership motivation, and stress management.
2. **Experience and Preparation**, which covers occupational experience, management experience, ownership experience and start-up preparation.
3. **Other Role Obligations**, including marital and family obligations and other obligations, such as association or club membership.
4. **Other Factors**, including education, age of starting business, physical health and family background.

He is unwilling to allow the questionnaire to be reproduced because he says that “self-testing” is not desirable.

The questionnaire is quite exhaustive – there are 292 questions to be answered, plus 52 others for those already in business who want to assess their survival potential.

In the course of testing the questionnaire, he interviewed 250 small business owners from a wide range of industries, including 75 who had recently failed.

The key factor in his findings was that individuals who can adapt to and cope with the stress of managing a small firm are most likely to be successful.

“A stressed person suffers impairment of emotional and cognitive functions, and in a business situation this will almost certainly result in faulty judgements, poor decisions, bad timing, inability to make necessary decisions, inadequate reasoning, impatience, bad temper, and many other symptoms,” Professor Williams said.

He found that the factors which

make for success in small business are as follows:

1. Experience and preparation.

- 1) Management competence is vital, particularly in a relevant area of activity.
- 2) Relevant occupational experience is very important.
- 3) Previous experience as an owner does little to improve ability to cope with stress.
- 4) Relevance of experience to the needs of the present business is much more important than the length of that experience.
- 5) A sound foundation is a prerequisite for any new business venture and relevant specific preparation for this is a critical factor.

2. Personality traits.

- A high level of achievement motivation is essential. This is defined as a general and fundamental psychological drive, characterised by:
 - a strong need to compete, succeed and excel
 - moderate risk-taking
 - energetic and innovative activity
 - preference for tasks where results are due more to ability than chance
 - a substantial streak of independence
 - organisational skill
 - interest in excellence for its own sake, rather than consequential material rewards, prestige or power
 - realistic self-confidence
 - long-range time perspective
 - desire for quick and objective feedback on results of decisions and actions.
- The person with an aggressive personality (competitive, self-interested, manipulative strategist) or detached personality (independent, unemotional, nonconformist), is needed rather than a compliant personality (sensitive to others, unselfish, conformist).
- Role perception is also important - how realistically a person sees the requirements of his work role. The more successful owner is the one with inner-directed role perception (forceful, imaginative, independent, self-confident, decisive) rather than the other-directed perception (co-operative, adaptable, cautious, agreeable, tactful).

3. Concurrent role obligations.

Successful performance as a business owner depends very much on how many other concurrent obligations he has.

Pressures of demands from any or all of these may decrease the busy entrepreneur's ability to cope with his work.

Professor Williams' findings were that family and other work responsibilities had an important effect, but the main other outside involvement -

club or association membership - did not increase the stress factor.

4. Other factors.

- The extent of education is not important, but its relevance to the work chosen is significant.
- The most appropriate age to start business is between 30 and 39 years.
- Protestant owners perform better than those from other religious groups. Professor Williams postulates that early childhood training by achievement-oriented parents may be responsible for Protestant owners being able to cope with stress in business than other religious affiliations.
- Successful entrepreneurs tend to come from middle socio-economic status families.
- Males and females are equally successful.
- Good health is vital.

Professor Williams said it is possible to assist some individuals lacking in the necessary characteristics to achieve a greater chance of success.

He said there are at least two distinct phases of small business operation, each with its own particular problems and characteristics.

Initiation phase

The first is the initiation phase. Possession of an idea, invention, new product possibility or new production process is frequently the reason behind a new venture.

The development of the idea or invention to the point where it is a feasible and marketable proposition requires entrepreneurial activity, i.e., innovation, organisation, challenge, imagination, responsibility and a degree of risk taking.

Once the firm is functioning and through the initial and most difficult phase, there is usually a marked change in the type of activity required of the owner/manager.

There is generally a real need for efficient management of what can become, in part, routine-type operations, e.g., general supervision of increasing numbers of employees, costing, record-keeping and sales, and possibly supervision of production processes.

Professor Williams says those who start small businesses can be categorised as follows:

1. Those who are both good entrepreneurs and efficient managers.
2. Those with ability in neither area.
3. Those who are good entrepreneurs but poor managers, and

4. Those who are efficient managers, but have little entrepreneurial ability or inclination.

He says probably no more than 10 per cent of small businessmen in Australia fall into the first category. They are found in the most successful ventures.

Those with neither entrepreneurial skill nor managerial ability (category 2) would probably be happier in employment. They should be discouraged from entering small business. Those already in business, says Professor Williams, are almost certain to fail, since it is doubtful if remedial action can offset the serious deficiencies.

Lack expertise

Category 3 men and women have the ability and motivation to start new ventures but lack the necessary managerial expertise to follow through and operate a successful business.

Substantial remedial action is necessary to train and develop required skills and techniques for effective management.

Category 4 - the "non-entrepreneurs" who lack the necessary creativity, motivation, imagination and energy to lift their ventures out of the ranks of the marginal operation can be helped, according to Professor Williams.

Professor Williams concludes by saying that knowledge of the background and personality of any existing or aspiring small business owner makes it possible to predict with reasonable confidence the potential for success. Weaknesses can be identified and remedied before failure occurs, he says.

He sees as the major problem the inducement of such people to undergo the necessary testing and consequent remedial training and education where necessary.

Professor Williams points out that entrepreneurs are not found only in running their own businesses. Many are employed in large businesses.

However, entrepreneurial management is often stifled by "the system", or by well-meaning executives overly concerned with order, stability, efficiency and conservatism.

"Management practice and management education have both tended to be oriented towards non-entrepreneurial management - towards efficiency rather than effectiveness.

"Economists are increasingly realising that there may be some grain of truth in the proposition from David McClelland that some of the forces which provide economic recovery and growth lie largely within man himself — his motives and propensities.

"In any case, it has been shown that increased entrepreneurial spirit and activity has been associated historically with upturns in economic growth.

"Neglected asset"

The size and importance of the small business sector in the Australian economy has become more widely recognised in recent years, but according to Professor Williams, the entrepreneur is "one of our most potent, but neglected assets".

He calculates that there are probably 350,000 non-rural small business enterprises in this country, employing about 42 per cent of the work-force and directly providing livelihood to as many as 8 million Australians.

About 20,000 new small ventures are started each year, and some 15,000 existing ones fail. Professor Williams says, in fact, that small business represents 90 per cent of business failures in Australia.

He says for too long the community at large has been indifferent to the needs and problems of the small businessman.

"The attitude has been, 'If they succeed, good luck to them, but if they fail, that's their problem'," he said.

Convinced that the failure of enterprises, no matter how small, had serious effects on others and the community as a whole, he conducted a study of business failures in Melbourne and Perth over two periods, 1960-63 and 1970-73.

His conclusion was as follows:

"The 863 failures resulted in 6,943 individuals becoming unemployed and caused financial difficulty to a reported 9,497 creditor firms.

"A total of 1128 families suffered the indignity, economic loss and psychological suffering of business failure.

"Ill-health and a distinct pattern of emotional stress were evident in a large number of the affected families. Marital tension was also evident in 9 per cent of the cases studied."

He makes the point that if this impact of 863 failures is multiplied to the estimated 15,000 small business

failures annually, the consequences are considerable.

But quite apart from humanitarian considerations, there are many reasons for concern that small business should succeed.

Some are obvious, such as contribution to employment, national production and export income.

Others Professor Williams lists are:

- Balance within the economy — economies of scale favour small firms in some industries.
- Geographical balance — a factor in decentralisation.
- A means whereby entrepreneurial talent and creative independence may be exercised fruitfully.
- A "seed-bed" for growing new firms which may develop and prosper.
- A stabilising influence particularly in suburban areas and small towns.
- Breeding ground for new inventions and innovations.
- Development of free enterprise economy with strong competitive spirit and concern for efficiency in product and service.
- Means of gainful employment for those unable to find acceptance in public service, professions or large business — such as older persons, handicapped, minority groups etc.

The establishment of government departments to assist small business at both Federal and State levels is recognition of the importance of the problem.

But Professor Williams believes the starting point in solving the problem is analysis of the types of skills and functions necessary for successful small business management.

"For too long, well-meaning educators have assumed that small firms are simply small-scale versions of the larger ones, with identical (but smaller) problems and operating processes.

"This assumption is as fallacious as regarding and treating a child as a small adult. Small firms are peculiar beings and deserving of study in their own right."

Professor Williams says it is common to blame small business failure on a variety of factors such as bad debts and slow debt collection, slow stock turnover, excessive use of discounts to bring in funds, increasing overheads, decrease in gross margins, etc.

But these, he says, are not causes of failure, they are merely symptoms of deeper-rooted weaknesses.

"Lack of money, so often given as a

cause of failure, is not a cause, but a result of management inexperience and incompetence."

Professor Williams says support for the thesis that inexperience and incompetent management are the real cause of failure comes from the fact that new ventures are much more likely to fail than old ones.

Analysis of his own study of business failures showed that by far the largest percentage (27.6 per cent) failed in the first year.

"No matter how one defines inexperience or incompetence, the fact is clear — in no other area of economic activity is the calibre of one person (or several) so vitally important for success.

"The small businessman is self-selected and thereby virtually indisposible." ■

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