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DEPARTMENT OF COMMERCE

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April 3, 1979

Mr Albert Smith,  
Managing Editor  
Rydges  
74 Clarence St  
SYDNEY NSW 2000

Dear Mr Smith,

Enclosed are two copies of a rebuttal, proposed for publication in Rydges,  
in the form of a letter to the editor. Thank you.

Yours truly,

A handwritten signature in cursive script that reads "M. E. Spautz".

MICHAEL E SPAUTZ, Ph.D.  
Senior Lecturer

cc Prof A J Williams  
Prof M O Jager  
Prof K E Lindgren  
Prof D W George

ARE YOU REALLY SUITED TO RUN  
YOUR OWN MANAGEMENT CONSULTING  
BUSINESS, PROFESSOR?

3 April, 1979

by M E Spautz, Ph.D  
Senior Lecturer in Management  
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Michael Batten's article "Are You Really Suited to Run Your Own Business?" has recently come to my attention (Rydge's, Jan. 1978). As an industrial psychologist with considerable experience in diagnostic testing, I was especially interested in the impressive claims made in that article for the effectiveness of certain psychological measures in predicting failure in small business ventures. The statement attributed to Professor A J Williams to the effect that some 90% of small business failures are the result of personal limitations of would-be entrepreneurs is quite eye-catching. If true, this finding must rank as one of the most important in the history of industrial psychology! Coming from a researcher who is not a professional psychologist, such a discovery would be especially noteworthy.

Consider Mr Batten's statement: "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." Sounds plausible--but is it true?

I understand that the evidence for this and other statements in Mr Batten's article is contained in Professor Williams' doctoral thesis. (A Study of the Characteristics and Performance of Small Business Owner/Managers in Western Australia. University of Western Australia, 1975.)

I have studied that thesis, and have found that its main conclusions are entirely unwarranted on the strength of the data presented therein. There are several serious flaws in that thesis, and in subsequent interpretations of its meaning, which invalidate the conclusions and the statements cited above. These flaws include: 1) computation of product-moment correlation coefficients from bimodally distributed and nonparametric data; 2) inappro-

in a stepwise regression analysis; 3) an inverted cause-effect model resulting from the post-criterion (success vs. failure) measurement of an alleged predictor variable (affective reaction); 4) incorrect interpretation of 90% variance accounted for in the criterion, in terms of "90% of small business failures" etc.

If Professor Williams' "key factor" results show anything at all, it is that failure is associated with subsequent verbal stress reactions, such as assenting to the question: "Do you ever regret investing money in your own business?" If causation can be inferred from correlation (overlooking the spurious character of the correlation coefficients in question), a conclusion such as "failure causes stress" would be more appropriate to this research thesis, than the opposite.

Other statements in Mr Batten's article, e.g. as to the superiority of "Protestant owners" might well be challenged at their evidential base, as well as in terms of their socio-political and ethical implications--but such challenges I leave to another time and place.

Mr Batten informs us that Professor Williams has developed a questionnaire to get at some of these personal characteristics, and that "Several banks in Perth and Newcastle are using the questionnaire to help assess a borrower's potential for business success." It would seem appropriate, from the viewpoint of professional ethics, that those banks (and other individuals and organizations who are similarly involved) consider these criticisms and take suitable action, if action should be warranted.

I would welcome a retort from Professor Williams.