RESEARCH STUDY

A Strategic Disadvantage Profile of the Stages of Development and the Stages of the Exporting Process: The Experience of the Small Business Exporters in Georgia

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CHAPTER I

INTRODUCTION

Statement of the Problem

"...But everyone who is at all familiar with the problems of the small and medium-sized business believes that the majority of these companies could continue to live and prosper if the men at their heads would only spend on preventive planning a fraction of the imagination, care and work they spent on building up the business in the first place.

What the experts think was best summed up by a leading banker in an Ohio industrial city - a man who has been friend, father-confessor and adviser to countless small businesses and their owners:

'I know,' he said, 'how the surgeons in the accident ward down at the hospital must feel when the highway casualties are brought in Saturday nights: frustration at being unable to do much more than make the patient's last hours a bit more comfortable; rage at the needless waste and destruction of so much that could live constructively and productively; and sadness when I ponder what might have been had these friends of mine only started to think about the future of their business a few years sooner.'"


The problems and issues facing an independent small business owner and manager in his/her quest for survival are complex and multiple. He must, but very seldom does, anticipate and prepare for crises before they occur. The inability or lack of desire to recognize and act upon this challenge is the major cause of a business failing or not living up to its expectations.
Convenient and comforting as it may be to place the major blame externally - competition, rising costs, lack of capital availability, unforeseen events or even acts of God - business failures are mostly attributed by the literature to problems peculiar to small business, such as personal lack and misuse of time and personal lack of specialized management skills and need for achievement (Final Report SBDC, 1968; Skorupski, 1979; Business Week, 1978; Troxel, 1978).

The importance of small business to the economy cannot be underemphasized. Forty-three percent of the GNP and forty-eight percent of the gross business product is attributed to small firms. Fifty-five percent of the total U.S. business employment is directly or indirectly provided by small businesses and secures the livelihood of 100 million Americans. In a sense, small business provides the underpinning for about half our economy. In fact, it is axiomatic that our economy cannot grow and flourish unless small business grows and prospers.

It is unfortunate that the field of business administration has concentrated on the management practices and problems of mostly large scale businesses. With few exceptions, descriptions of methods of business operation are limited to the refinements achieved by larger concerns. This assumes that the ways in which the giant producers of steel, automobiles and large machinery solve their problems constitute the "approved ways" and will serve as guides for all businesses.
Strategic planning and its subprocesses, appears to operate under different constraints and opportunities in smaller firms, and any inferences and assumptions from the large firm business policy literature, should be at least treated with caution, until a sound body of knowledge on strategic planning in the small firm evolves. To better illustrate this point, a comparison of a major strategic disadvantage study of a random sample of 358 Fortune articles about large firms written between 1930 and 1974 (Glueck, 1976, pp. 92-96), will be made in Table 1, with the findings from the review of the literature on problems of small business outlined in Chapter II of this study.
## Table 1-1

### Comparison of Strategic Disadvantages Between Big and Small Business

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<th>Internal Weaknesses</th>
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<th>Glueck-Fortune Study on Big Business</th>
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<td>Dependence on survival of principal manager</td>
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<td>Neglect of selection and supervision of personnel</td>
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<td>Lack of management development</td>
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<td>Lack of operating experience in product buying, pricing, and handling of finances</td>
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<td>Poor recordkeeping and control</td>
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<td>Wrong location</td>
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<td>Lack of total capital</td>
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<td>Lack of financial planning and use of financial information and ratios</td>
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<td>Poor credit practices and overextension of credit and bad debts</td>
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<td>Non-aggressive selling, promotion, and advertising</td>
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<td>Inadequate sales</td>
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<td>Lack of concentration on result areas of products, markets, and technology</td>
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<td>Lack of research development</td>
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<td>Excess of capacity; distribution</td>
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<td>Increase in employee unionization</td>
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<td>Takeover bid or threat to ownership</td>
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There has been much attention devoted to the underlying causes of small business failure. It has been assumed that by discovering the malpractices of those who failed, other firms might be saved from a similar fate. (The Business Failure Record, 1977; Alves, 1978; Gru, 1973; Edmister, 1970)

Several studies have also sought to discover why selected firms have succeeded - that is, to take a positive rather than the more common negative approach to the study of small management problems and practices. (Anderson, 1970; Potts, 1977; Myrick, 1977)

The literature lacks a systematic examination of the factors that should be considered as serious weaknesses or problems in a strategic advantage sense, and how these strategic disadvantage factors are distributed by the stage of development of the entrepreneurial venture.

The emphasis that this study places on strategic disadvantages rather than on causes of failure or causes of success, stems from the fact that the extensive use of Dun & Bradstreet failure data has tended to create an erroneous impression about the likelihood of failure of a small firm. Massel (1978) argues that generally writers have become so preoccupied with the minority of firms which fail that they paint an unnecessarily pessimistic picture of chances for success in small business ventures. The present study does not deal with business failures, but rather with business difficulties and problems that occur before and may or may not lead to failure. A very specific definition of "problems" may lead to a very narrow concept that may be an unworkable
term, since it can be argued that no group of problems exists because no two problems are quite the same.

In their paper on small business failure, Fredland and Morris discuss the causes and problems of insolvencies and other discontinuances, and illustrate these difficulties with a broad definition of terms:

"On the one hand, the cause of failure may always be said to be a lack of funds, for if the firm had sufficient funds to pay its obligations, there would be no losses to creditors. At the other extreme, the cause of failure may always be said to be poor management. No matter what disaster befalls a firm in the marketplace, sufficient foresight could by definition have avoided it." (Fredland and Morris, 1976, pp. 7-17).

On the other side of this study's spectrum, the stage of development theorists have failed to show any consistency among the characteristics of the stages, their number, and the transitions between the stages.

Glueck (1974, p. 26) offers the following suggestions for the theory's empirical and theoretical improvement:

"What is needed now, it appears to me, are several steps:

1. Take the best from the theories and develop one consistent theory. E.g., at Stage I end, use Filley's analysis, at Stage III-IV draw on Salter, Ansoff, and Brandenburg. For the middle stages, draw on Scott and Thain.

2. Determine how many firms perceive that they are in each of the stages. See if this varies significantly by industry. See if the concept of product life cycles can be empirically tied into the Stages of Development Theories.

3. Test to see if effective firms having Stage I characteristics organize as the theory would predict. This would require a replication of Chandler and extension of it to Stages I and IV."
4. Test to see if there are significant differences on the stages between labor-intensive and capital-intensive industries."

Dun & Bradstreet, Inc. has been studying small business failures and successes for more than a century. The Dun & Bradstreet Reference Book lists over three million businesses in this country of which half are worth less than $50,000, and only five percent are worth over $500,000.

Dun & Bradstreet recently conducted a study to identify danger spots in the operation of a small business. The Dun & Bradstreet reporters asked business owners throughout the U.S. to establish the nature of what constitutes a major internal pitfall by answering the following questions:

"If you were giving advice to people entering business for the first time, what would you consider a pitfall, the thing that must be guarded against and overcome?"

In conjunction with this general question, business people were also asked a more specific question:

"Is there anything in the early history of your own business which proved a pitfall?"

The replies identified at least nine major internal pitfalls and ranked them as follows:

1. Lack of experience.
2. Lack of money.
3. Wrong location.
4. Inventory mismanagement.
5. Too much capital in fixed assets.
6. Poor credit granting practices.
7. Taking too much out for yourself.
8. Unplanned expansion.
9. Having the wrong attitudes. (Kuehn, 1973)

On the other hand, a survey conducted by the U.S. Chamber of Commerce identified several external problems worrying small entrepreneurs, with special reference to environmental threats:

1. Government regulations.
2. Inflation.
3. Taxes
5. Labor unions.
7. High interest rates.
8. Environmental restrictions.
9. Lack of available capital.
11. Insufficient depreciation allowances.

The distinction between the major internal pitfalls or weaknesses and the external worries or threats for the small business could be better demonstrated by labeling the pitfalls as "you've no one to blame but yourself" and the worries as "it can happen to you - but don't blame yourself." (Hazel and Reid, 1973).

On the exporting front small business marks the field with its inadequate and ineffective participation.

The reasons to engage in overseas operations are stronger than ever. The unprecedented shortfall in the U.S. trade account
in recent years is costing the nation hundreds of thousands of jobs and millions of dollars of added business activity that expanded exports would generate for industries and communities throughout the country.

A considerable number of research studies have investigated the obstacles or barriers to exporting—the apparent rationale being that the government could stimulate exporting by removing those obstacles which usually are institutional or infrastructural.

The most frequent serious obstacles to exporting reported by U.S. firms in the empirical studies are insufficient finances, foreign government restrictions, insufficient knowledge about foreign selling opportunities, inadequate product distribution abroad, and a lack of foreign market connections (Bilkey, 1978, p. 35). The particular type of obstacles tend to vary by industry and by the firms' export stages.

Many analysts regard a firm's size as critical for its propensity to export, yet empirical findings on this issue have been mixed (Bilkey, 1978, p. 36). The contradictory findings among analysts are attributed to the fact that exporting is essentially a sequential learning process, the coefficients of which tend to differ from one stage of the export process to another and from one stage of overall development of the small firm to another.

The objective of this study is to investigate the relationship among internal, functional problems in General Management, Operations, Finance, and Marketing that client small business firms of the Small Business Development Center experience. The
purpose is to determine if a common set of problems occurs among small businesses of similar stage in the firm's development, since the literature on the stages of development of small business is replete with inconsistent statements to the kind of problems a small firm is most likely to experience at each specific stage. Another problem to be addressed in this thesis is that of attempting to formulate in an analytical way a strategic disadvantage profile of small exporting firms by relating functional exporting problems of small businesses to their respective stage of export development process.

The strategic disadvantage profiles will be formulated by answering the relevant research questions that follow:

1. What are the specific functional problems that small exporters experience?
2. How do the problems vary at each stage of development of the exporting firm?
3. How do the problems vary at each stage of the exporting process?
4. Can a problem or set of problems be identified which is common to small exporters regardless of the export stage, and stage of development?
5. Does the frequency of occurrence of particular problems enable the formulation of a strategic disadvantage profile for the small exporter's stages of development and the stage of the exporting process?

A. Managerial Implications. This study has the possibility of developing a no nonsense, practical checklist that can be put to immediate use by the businessperson that wants to identify and pick the stage of the business life-cycle and the stage of the exporting process that most closely describes his or her present situation. This practical checklist will include
the characteristics of each stage of development, the characteristics of each exporting stage, the most likely problems that are usually encountered, a "what to do" section, and finally, a highlight of "keys to survival" tips.

B. Policy Implications for Congress. Consider legislation that would design and implement specific statutory guidelines to ensure the "quality" of exporting small business rather than the "quantity" of small business with more permanent and positive results for the U.S. Balance of Trade. By providing serious consideration to the fact that different types of instrumental legislation are needed at different stages of development, Congress can play a vital role in ensuring a bright future for America's small businesses.

C. Policy Implications for the SBA. To be competitive, small businesses must adopt the profile of their competitors, big business. Economies of scale, mass advertising, successful talent, and other characteristics of a successful firm need to be amply provided to small businesses through comprehensive and specialized export assistance as well as management and financial development for specific stages of development of the subject firm, as well as specific stages of their export potential development. This specialized aid should go beyond the typical "I need money" request of the small businessman through custom-made programs and allocation of financial and consulting resources appropriate to the firm's life-cycle stage, and export process stage.

D. Policy Implications for the SBDC. This research study lays the groundwork for an "anticipatory" type of managerial
style on behalf of the owner of the small business and an "anticipatory" style of consulting for the small business consultant. The means toward this end are:

1. Identify the type of the industry the firm finds itself in.

2. Analytically classify the subject firm in one of the three stages of development (start-up, early growth, later growth) through:
   a. A management audit.
   b. A checklist on the characteristics of the stages of development developed from the literature and from the study itself.

3. Analytically classify the subject firm into a stage of development of the exporting process.

4. Identify the immediate, apparent problems.

5. Identify the subliminal cause or effect problems that should be expected at the specific stage of development.

Definitions

A set of definitions must be developed in order to analyze and understand the data.

1. Small Business: As defined by the Small Business Administration, this is an enterprise with fewer than 250 employees, no more than $9 million per year in wholesaling receipts, or no more than $2 million per year in receipts from retailing trade or services (U.S. Small Business Administration, Office of Advocacy, 1977).

Furthermore, an outline of qualitative standards prepared by the Committee for Economic Development (CED), characterizes a business as small if it fulfills at least two of the following key features:
a. Management is independent. Usually the managers are also owners.

b. Capital is supplied and ownership is held by an individual or a small group.

c. The area of operations is mainly local. Workers and owners are in one home community. Markets need not be local.

d. The business is small when compared to the biggest units in its field. The size of the top bracket varies greatly, so that what might seem large in one field would be definitely small in another (CED, 1947, p. 14).

2. Functional areas: The firm's material, financial, ideational, and other resources that constitute strengths and weaknesses (Glueck, 1976, p. 88), and are categorized into Management, Operations, Marketing, and Finance.

3. Problem: An internal weakness within the functional areas of General Management, Operations, Finance, and Marketing, that prevents the small firm from exploiting the opportunities and/or meeting the threats of its environment (Glueck, 1976, p. 88).

4. Overall problems: The aggregate of the strategic weaknesses or problems that a firm experiences in all functional areas.

5. Stages of Development: The fairly obvious changes that firms that are relatively successful experience as they grow larger in size and scope (Thain, 1969, p. 2).

Organization of This Study

The following is a brief chapter-by-chapter description of the contents of this study:

Chapter I: Introduction to the problem to be investigated, definitions of the variables that form the conceptual framework of this study, and the significance of the study.

Chapter II: A survey of the literature pertaining to the problems of small business exporting problems, stages of development, stages of the export development process, and the strategic advantage (disadvantage) profile.

Chapter III: The hypotheses to be tested and the methodology employed in this study.

Chapter IV: The results of the study.

Chapter V: A summary of the major findings and their implications.
CHAPTER II

REVIEW OF THE RELEVANT LITERATURE

This chapter reviews the literature in the two significant concepts of this study: problems of small business and stages of development. The first section reviews the literature on small business problems and continues with exporting problems in particular; then, the research on the stages of development of the firm in a small business context is examined along with the specific subject of the stages of the exporting process. The chapter will conclude with a brief review of the empirical research on the role of the strategic advantage (disadvantage) profile in the field of strategic management and policy.

Problems of Small Business

Any business, large or small, faces a variety of problems. Problems make life difficult for the independent owner. He or she may easily become so conscious of the problems confronting the firm as to feel that the business has more than its share. Any phase of business operation that requires attention or decision might be described as a problem area. However, some aspects of the business present more perplexing problems than do others. A few major areas provide unusually difficult problems in small concerns. Some of them are shared
by both large and small firms, while others are peculiar to small enterprises. The first step toward good management is found in the identification and understanding of these problem areas.

The external problem areas or environmental threats are common to all enterprises and are periodically monitored by the National Federation of Independent Business. Its Quarterly Economic Report for Small Business recounts with extraordinary consistency that inflation, higher prices and interest rates competition, taxes and government regulation are viewed by the members of the NFIB as the most important problems, as Table 2-1 indicates.

On the other hand, most of the research on strategic planning and internal weakness-problems analysis for small business firms is inductive, with generalizations and attempts to predict small business failure or success utilizing financial and to a lesser degree, non-financial data.

Cooper (1978) classified the small business literature in the following typology:

1. **Discursive writings**—based upon wisdom, observation, and general experience, usually prescriptive in character.

2. **Case studies**—based upon intensive study of selected cases; data can be from secondary sources or field studies.

3. **Field surveys**—data gathered from many respondents through survey techniques.

4. **Field research**—includes comparative case studies, longitudinal studies, and field experiments.
Table 2-1
SINGLE MOST IMPORTANT SMALL BUSINESS PROBLEM—
1974 - 1978

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<td>Loan</td>
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<td>Quality of Loan</td>
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<tr>
<td>Shrinkage of Sales,</td>
<td>0.9%</td>
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<td>Other</td>
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<tr>
<td>TOTAL</td>
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</tr>
</tbody>
</table>

*Less than 0.5%*

This topic was first used in April 1975 survey questionnaire, data shows for previous surveys to in response to labor unions, which was delayed from the April 1975 survey questionnaire.

The bulk of the literature is discursive and prescriptive, with emphasis on operating problems without support from research studies, and without reference to internal weaknesses in a strategic disadvantage sense.

Most of the field research and surveys have been focusing on the characteristics of the entrepreneur and success or failure predicting factors associated mainly with the starting venture stage.

Case studies and, to a lesser degree field surveys, form the basis of research on strategic management. The majority of the case studies emphasize isolated elements of the strategic planning process without reference to the total concept of strategic management. The case studies also seem to lack a cross-reference framework of different industries and different stages in the firm's development.

Strategic planning and its subprocesses, appears to operate under different constraints and opportunities in smaller firms, and any inferences and assumptions from the large firm business policy literature, should be at least treated with caution, until a sound body of knowledge on strategic planning in the small firm evolves. To better illustrate this point, a comparison of a major strategic disadvantage study of a random sample of 358 Fortune articles about large firms written between 1930 and 1974 (Glueck, 1976, pp. 92-96), will be made in Table 2-2 below, with the findings from the review of the literature on problems of small
### Table 2-2
Comparison of Strategic Disadvantages Between Big and Small Business

<table>
<thead>
<tr>
<th>Small Business</th>
<th>Glueck-Fortune Study on Big Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependence on survival of principal manager</td>
<td>Ownership problems or change</td>
</tr>
<tr>
<td>Neglect of selection and supervision of personnel</td>
<td>Excess of personnel</td>
</tr>
<tr>
<td>Lack of planning and information</td>
<td>Shortage of personnel</td>
</tr>
<tr>
<td>Lack of management development</td>
<td></td>
</tr>
<tr>
<td>Lack of operating experience in product buying, pricing and handling of finances</td>
<td>---</td>
</tr>
<tr>
<td>Poor recordkeeping and control</td>
<td></td>
</tr>
<tr>
<td>Inventory mismanagement</td>
<td>Excess or shortage of production capacity</td>
</tr>
<tr>
<td>Wrong location</td>
<td></td>
</tr>
<tr>
<td>Lack of total capital</td>
<td>Shortage of cash and finances</td>
</tr>
<tr>
<td>Lack of financial planning and use of financial information and ratios</td>
<td>---</td>
</tr>
<tr>
<td>Poor credit practices and overextension of credit and bad debts</td>
<td>---</td>
</tr>
<tr>
<td>Non-aggressive selling, promotion and advertising</td>
<td>Shortage of capacity: distribution</td>
</tr>
<tr>
<td>Inadequate sales</td>
<td></td>
</tr>
<tr>
<td>Lack of concentration on result areas of products, markets and technology</td>
<td>---</td>
</tr>
<tr>
<td>Lack of research and development</td>
<td>Excess of capacity: distribution</td>
</tr>
<tr>
<td>---</td>
<td>Excess of cash and finances</td>
</tr>
<tr>
<td>---</td>
<td>Increase in employee unionization</td>
</tr>
<tr>
<td>---</td>
<td>Top management problems or change</td>
</tr>
<tr>
<td>---</td>
<td>Takeover bid or threat to ownership</td>
</tr>
</tbody>
</table>
business, as presented in more detail in a later segment of this chapter.

Aside from economic conditions, environmental externalities and the fact that certain lines of business are riskier than others, there are several basic problems that seem to account for the majority of the strategic disadvantages and internal weaknesses in each functional area.

A survey of the small business literature on the problems of small firms lists the ones that are most responsible for the shortcomings of small business (Table 2-3). The list of the sources that were used to compile Table 2-3 is presented in a separate table, namely Table 2-4.

An examination of the tabulations of Table 2-3 reveals the following ranked list of functional problems as shortcomings to the small firm, by frequency of citation by small business theorists, researchers, and practitioners:

A. GENERAL MANAGEMENT
   1. Dependence on survival of principal manager.
   2. Negro of selection and supervision of personnel.
   3. Lack of planning and information.
   4. Lack of management development.
   5. Lack of management techniques and coordination.
   6. Lack or misuse of time.

B. OPERATIONS
   1. Lack of operating experience in product buying, pricing, and handling finances.
   2. Poor recordkeeping and control.
   3. Inventory mismanagement (not the right kind or amount).
   4. Wrong location.
   5. Competitive weakness and diseconomies of scale in purchasing, operating, etc.
<table>
<thead>
<tr>
<th>Small Business Internal Problems</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td><strong>GENERAL MANAGEMENT</strong></td>
<td></td>
</tr>
<tr>
<td>Lack of management techniques, coordination</td>
<td>X</td>
</tr>
<tr>
<td>Lack of planning and information</td>
<td></td>
</tr>
<tr>
<td>Unplanned expansion</td>
<td>X</td>
</tr>
<tr>
<td>Lack of use of time</td>
<td>X</td>
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<tr>
<td>Overconcentration on few functions</td>
<td></td>
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<tr>
<td>Dependence on survival of principal manager</td>
<td>X</td>
</tr>
<tr>
<td>Lack of management development</td>
<td>X</td>
</tr>
<tr>
<td>Understaffing</td>
<td></td>
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<tr>
<td>Neglect of selection and supervision of personnel</td>
<td></td>
</tr>
<tr>
<td>Lack of a strong manager</td>
<td>X</td>
</tr>
<tr>
<td>Failure to delegate</td>
<td>X</td>
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<tr>
<td>Disagreement among partners</td>
<td>X</td>
</tr>
<tr>
<td>Family problems and pressures</td>
<td>X</td>
</tr>
</tbody>
</table>
Table 2-3 (cont.)

<p>| OPERATIONS                      |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Inventory management            |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| (not right kind or amount)      | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Too many fixed assets           |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| and equipment                   | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Heavy operating expenses and    |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| overhead                        | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Poor quality control            |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| and scheduling                  | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Poor layout                     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Lack of operating               |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| experience in product           |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| buying, pricing, and            |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| handling finances               | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Wrong attitudes                 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| toward the business             |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| operations (avoid              |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| hard work and                   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| responsibility)                 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Improper legal form             |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Shortages of key                |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| raw materials                   | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Machine breakdown               |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Reliance on few suppliers       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Poor recordkeeping              |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| and control                     | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Competitive weakness            |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| and diseconomies of scale in    | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| purchasing, operating, etc.     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Low operating margin            |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| and inability to                |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| increase prices                 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Strong location                 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |</p>
<table>
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<tr>
<td>MARKETING</td>
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<tr>
<td>Non-aggressive selling, promotion, advertising</td>
<td>X</td>
</tr>
<tr>
<td>Small customer base</td>
<td>X</td>
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<tr>
<td>Excessive advertising expenses</td>
<td>X</td>
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<tr>
<td>Inadequate sales</td>
<td>X</td>
</tr>
<tr>
<td>Poor knowledge of competition</td>
<td>X</td>
</tr>
<tr>
<td>Poor knowledge of markets</td>
<td>X</td>
</tr>
<tr>
<td>Poor knowledge of marketing techniques</td>
<td>X</td>
</tr>
<tr>
<td>Lack of concentration on result areas of products, markets, and technology</td>
<td>X X X X X X X X</td>
</tr>
<tr>
<td>Neglect of distribution</td>
<td>X</td>
</tr>
<tr>
<td>Inept merchandising</td>
<td>X</td>
</tr>
<tr>
<td>Lack of reputation, image, acceptance</td>
<td>X X</td>
</tr>
<tr>
<td>Lack of research and development and product upgrades</td>
<td>X X X X X X X X</td>
</tr>
<tr>
<td>Neglect of service</td>
<td>X</td>
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<tr>
<td><strong>FINANCE</strong></td>
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<tr>
<td>Improper application of capital</td>
<td>X</td>
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<tr>
<td>Lack of total capital</td>
<td>X</td>
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<tr>
<td>Lack of working capital</td>
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<tr>
<td>Lack of financial planning and use of financial information/ratios</td>
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<tr>
<td>Limited equity</td>
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<tr>
<td>High debt level</td>
<td>X</td>
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<tr>
<td>Poor credit practices and overextension of credit/loan debts</td>
<td>X</td>
</tr>
<tr>
<td>Slow collection of Accounts Receivable</td>
<td>X</td>
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<tr>
<td>Too many withdrawals</td>
<td>X</td>
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<tr>
<td>Inadequate loan package preparation</td>
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<tr>
<td>Inadequate insurance coverage</td>
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<td>Decline of Asset value</td>
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<tr>
<td>Lack of credit</td>
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<tr>
<td>Lack of reserves and retained earnings</td>
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</tr>
</tbody>
</table>

Table 2-3 (cont.)
Table 2-4

Sources of the Literature Survey\textsuperscript{a}

C. Hoad and Rosko (1964). [F]
E. Drucker (1977). [D]
G. Kennedy, Lontzenhiser, and Chaney (1979). [C]
H. Gross (1967). [D]
I. Thompson (1976). [D]
J. Todd (1977). [D]
L. Hazel and Reid (1973). [D]
M. Baumberg and Lawyer (1979). [D]
N. Broom and Longnecker (1979). [D]
O. Megginson (1961). [D]
P. Worthy (1971). [D]
Q. Lawyer (1971). [D]
R. Tate et al. (1978). [D]
S. Pickle and Abrahamson (1976). [D]
V. Tootelian and Gaedeke (1978). [D]
X. Deeks (1976). [S]
Y. Hailes and Hubbard (1977). [D]

\textsuperscript{a}D = Discursive Writings; C = Case Studies; S = Field Surveys; F = Field Research
6. Heavy operating expenses and overhead.
7. Wrong attitudes toward the business operation (avoid hard work and responsibility).

C. FINANCE

1. Lack of total capital.
2. Lack of financial planning and use of financial information/ratios.
3. Lack of working capital.
4. Poor credit practices and overextension of credit/bad debts.
5. Slow collection of accounts receivable.
6. High debt level.
7. Improper application of capital.

D. MARKETING

1. Non-aggressive selling, promotion, and advertising.
2. Inadequate sales.
3. Lack of concentration on result areas of products, markets, and technology.
4. Lack of research and development and product upgrading.
5. Poor knowledge of markets.
6. Poor knowledge of competition.

Exporting Problems of Small Business

The fact that foreign trade involves manifold administrative problems has often been obscured by the broader problems of international relations. Less attention has been paid to the problems of the business managers who must try to carry on their business whether political, financial, or economic conditions are entirely to their liking or not. While it is essential that for the greatest success one should know the nature of these conditions and the progress of political and trade development, the immediate problems of a business enterprise are those involved in attaining the purposes of every business enterprise; that is, making a profit.
The problems of exporting include all the problems of domestic trade complicated by the fact that every foreign transaction must comply with the laws of two jurisdictions; and secondly, by the fact that adjustment must be made to greater differences between buyer and seller than exist in domestic transactions.

Ever since President Kennedy appointed a special export coordinator in 1962, underscoring the importance of exports for the U.S. economy, a substantial body of literature has developed on the subject. Unfortunately, it is widely scattered with various purposes, concepts, and methodologies.

A standard operating procedure for processing export inquiries by the International Trade Development Center (ITDC), developed by the principal investigator of this study, identified three interrelated phases in assisting Georgia small firms with their exporting plans (See also Appendix A).

1. Firm Analysis (Strengths and Weaknesses)
2. Foreign Market Research
3. Locating Foreign Representatives

The exporting problems that may arise through these phases are listed below and classified according to their functional area:

**Management**
1. Previous export experience
2. Export contacts
3. Export personnel training

**Production**
1. Available production capacity
2. Product modification capacity
3. Product service/parts
A considerable number of studies concentrate on exporting problems or barriers, the apparent rationale being that the government could stimulate exporting by removing these barriers and replace them with institutional and infrastructural catalysts to exporting. A survey of the business literature on exporting problems lists the ones that are perceived to be most serious obstacles to exporting (Table 2-5). The list of the sources that were used to compile Table 2-5 is presented in a separate table; namely, 2-6.
### TABLE 2-5

**Literature Survey on Exporting**

<table>
<thead>
<tr>
<th>EXPORT PROBLEM</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
<th>K</th>
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<th>M</th>
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<th>O</th>
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<tbody>
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<td><strong>Management:</strong></td>
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<tr>
<td>Previous export experience/apathy</td>
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<td>X</td>
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<td>Export Personnel Training</td>
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<tr>
<td>Available Production Capacity</td>
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<td>X</td>
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<td>X</td>
<td></td>
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<tr>
<td>Product Modification Capacity</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
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<td>X</td>
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<td></td>
</tr>
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A review of Table 2-5 reveals the following ranked lists of exporting problems by frequency of citation by theorists and practitioners:

A. MANAGEMENT
1. Lack of previous export experience/apathy
2. Lack of export contacts
3. Lack of export personnel training
4. Legal problems

B. PRODUCTION
1. Lack of product modification capacity.
2. Lack of product service/parts capacity
3. Lack of adequate production capacity

C. MARKETING
1. Foreign market research
2. Pricing
3. Sale terms and documentation
4. Distribution
5. Promotion
6. Competition
7. Shipping
8. Packaging
9. Insurance

D. FINANCE
1. Lack of export capital
2. Lack of working capital
3. Payment terms problems

Having introduced the highlights of the literature on both small business problems and exporting problems, it is now appropriate to turn to the review of research pertaining to the concept of life-cycle, the stages of development of small business, and the exporting process.
Institutional Life-Cycle

Like living organisms, business organizations are subject to a life-cycle. They have a period of youth, a period of maturity and a period of decline. The life-cycle of a company is often depicted as the familiar "S" curve (Fig. 2-1). This curve, however, represents potential, not necessarily actuality, and if performance is to match this opportunity, such a result must be "made to happen." Such growth must be planned for, controlled, and managed in such a way, that the various problems do not stifle the enterprise causing premature stagnation or decline.

Figure 2-1. Organizational Life-Cycle (Source: Filley & House, 1969)
McCammon (1973) identified an institutional life-cycle consisting of four states: early growth, accelerated development, maturity, and decline. As indicated in Fig. 2-2, new institutions may generate high rates of growth and attractive profitability ratios during their initial stages of development. Illustrative of institutions that achieved extraordinary results during their formative years are the department store in the late 1800s, the supermarket in the 1930s, and the discount department store in the late 1950s and early 1960s (Stern & El-Ansary, 1977, p. 48).

![Figure 2-2. Institutional Life-cycle (Source: McCammon, 1973)]

As institutions mature, they are increasingly confronted by new forms of competition and forced to compete in saturated markets. As a result, price competition for these institutions intensifies, accompanied by declines in market share and profitability. Ultimately, mature institutions enter the decline stage of their life-cycle, wherein they invariably become disadvantaged.
participants in the marketplace (McCammon, 1973, pp. 2-3). Thus, from this perspective, department stores, variety stores, and supermarkets are already mature and/or declining institutions. That is, they represent methods of doing business that no longer regularly produce high rates of growth or rates of return on investment (ibid., p. 3).

More important, however, for theorists and managers is the knowledge that institutional life-cycles within particular industries have accelerated over the years. For example, McCammon has estimated that the time to reach maturity has declined in retailing from approximately 100 years, in the case of department stores, to approximately 10 years, in the case of catalog showrooms (see Table 2-7). Implicit in McCammon's analysis is the point that those contemporary institutions that are now in their initial stages of development will soon be faced with problems and challenges that confront department stores and supermarkets today.

Table 2-7

Illustration of the Accelerating Pace of Institutional Life-Cycles

<table>
<thead>
<tr>
<th>Retail institution</th>
<th>Early Growth</th>
<th>Maturity</th>
<th>Approximate Time Required To Reach Maturity</th>
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<tr>
<td>Department stores</td>
<td>Mid-1860's</td>
<td>Mid-1960's</td>
<td>100 years</td>
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<tr>
<td>Variety stores</td>
<td>Early 1900's</td>
<td>Early 1960's</td>
<td>60 years</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>Mid-1930's</td>
<td>Mid-1960's</td>
<td>30 years</td>
</tr>
<tr>
<td>Discount department stores</td>
<td>Mid-1950's</td>
<td>Mid-1970's</td>
<td>20 years</td>
</tr>
<tr>
<td>Fast food service outlets</td>
<td>Early 1960's</td>
<td>Mid-1970's</td>
<td>15 years</td>
</tr>
<tr>
<td>Home improvement centers</td>
<td>Mid-1960's</td>
<td>Late 1970's</td>
<td>10 years</td>
</tr>
<tr>
<td>Furniture warehouse showrooms</td>
<td>Late 1960's</td>
<td>Late 1970's</td>
<td>10 years</td>
</tr>
<tr>
<td>Catalog showrooms</td>
<td>Late 1960's</td>
<td>Late 1970's</td>
<td>10 years</td>
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</table>

Source: McCammon (1973)
Several other plausible theories have been formulated which describe the process of institutional change and the basic forces underlying institutional developments: (a) cycle theories, (b) dialectic processes, (c) vacuum theories, and (d) a crisis-change model.

**Cycle Theories**

Cycle theories of institutional change rest on the premise that:

*If a rhythm of change is evident in some phenomena and if the rhythmic nature of that change can be measured, then, (a) factors underlying the change may be identified and (b) the future direction of the cycle can be anticipated or predicted. (Gist, 1971, p. 364)*

Such cycles may be either partial or complete. The former describe the rise and fall of an institution, while the latter describe the resurgence of an institution as well as its rise and fall. Figure 2-3 illustrates both partial and full cycles.

![Figure 2-3. Partial and Full-Cycles](source: Stern & El-Ansary, 1977)
Perhaps the best-known partial-cycle theory is the wheel theory. According to this theory, a new and innovative institution will appear, generally as a low-status, low-margin, low-price operation, to take advantage of a competitive weakness in an established institution. This new institution gains acceptance and attracts emulators. Then, in order to differentiate itself from its emulators, it begins to trade up by acquiring elaborate facilities, increasing services, and thus widening its margin. Eventually, this institution matures as a high-cost, high-margin operation and thus becomes vulnerable to new types of competitive units that emerge in the institutional structure. These new types, in turn, go through the same pattern (McNair, 1958). The wheel pictures an institution as evolving from a low-price, low-margin, efficient operation to a high-price, high-margin, inefficient one.

The wheel theory provides a powerful and fascinating descriptive model to apply to institutional change. To date, it has received the widest attention and the strongest support of any of the available theories attempting to explain such change (Stern & El-Ansary, 1977, p. 243).

An example of a full cycle theory is provided by the so-called accordion theory of institutional development, which postulates that American institutions have oscillated between extremes in terms of width of product line (Hollander, 1966). For example, as depicted in Fig. 2-4, the wide-line general store was followed, in history, by the limited-line specialty shop, which was followed, in turn, by the introduction of the
department store with its wide line of merchandise. Additional evidence for the accordion theory is supplied by the fact that the number of establishments in the apparel, furniture, and general merchandise categories of retail trade has shown a tendency to fluctuate over time, due to cyclic redistribution of patronage among these three merchandise groups (Dalrymple & Thompson, 1969).

![Diagram of the accordion theory showing the fluctuation of patronage among general stores, department stores, and shopping centers.]

Figure 2-4. Full Cycle: The Accordion Theory (Source: Hollander, 1966)

**Dialectic Processes**

It is also possible to view institutional change as a dialectic process in where there is a thesis, or established institutional form, an antithesis, or innovative institutional form, and a synthesis, or a new form drawing from the other two emerge (Gist, 1977, pp. 370-372). For example, the department store, characterized by high margins, low turnover, full service, and a downtown location, could represent a thesis. The antithesis could be represented by the discount house,
which is characterized by low margins, high turnover, low service, low service level, and a suburban location. The competition between these two institutions has resulted in the development of general merchandise retailers with average margins, average turnover, a moderate service level, and a suburban location. In wholesaling, the general-line, full-function merchant wholesaler provides a thesis; the cash-and-carry wholesaler represents the antithesis, and the limited-line full-function specialty wholesaler can be viewed as the result of the interaction between the two.

Vacuum Theories

It is likely that innovative institutions come into being when there is a void in the institutional coverage of the market (Gist, 1971, pp. 370-372). The dynamics of such movements as well as the identification of voids can be explained by a development that can be broken into three stages, which represent various levels of complexity in the product cost-service, cost mix offered by the firm. Product cost is used as an estimate of product quality, while service cost is used as an estimate of the level of service provided. The most primitive stage of development is the simplex stage. Here the firm offers one level of product quality and a corresponding level of service. Thus, a firm would offer high quality-high service, average quality-average service, or low quality-low service. In order to attract new customers, and thus increase sales and profits, firms next expand into
multiple trading by either holding the level of product quality constant while the firm offers more than one level of service, or by holding the service level constant and offer the consumer alternative levels of product quality.

The final stage of development is the omniplex stage. This stage exists when all possible quality-service combinations are offered. Like the multiplex stage, this stage is reached as the firm increases its offerings in an attempt to expand its market.

On the other hand, Alderson (1957) explains the process of void-filling in terms of thrusts made by both established and nonestablished firms. Alderson postulates in his core-fringe concept that, once a firm gains a market niche for itself, the niche provides a haven for the firm during periods of trouble. Thus, if a firm fails in an attempt to diversify its operations, it can fall back on its market niche for support while it regroups and develops a new strategy. When the firm is being attacked by competitors, its niche assumes the same sort of protective function. Such a concept is useful in predicting the market behavior of firms as they seek to move into areas unfamiliar to them, i.e., beyond their market niches.

The niche's core is, according to Alderson's theory, that part of the environment that is best suited to the operations of the firm. The fringe elements of the niche provide some resistance to attack, thus insulating the core. However, because of their basic strategic commitments to their
particular market niches, such firms become vulnerable to innovative strategic thrusts of other firms seeking to penetrate the fringe and eventually the core. The commitments on the part of established firms to specific ways of doing business permit voids to develop in the market and thus create opportunities for new firms to fill these voids.

The Crisis-Change Model

Perhaps the potentially most useful model for both describing the predicting institutional change is the crisis-change model, which isolates four distinct phases through which organizational systems pass as they adapt to crisis situations (Fink et al., 1971). According to this theory, adaptation begins with an initial period of "shock," (i.e., when any factor critical to the viability of the total system of which the organization is a part is threatened, and survival becomes the paramount objective); the "defensive retreat" phase follows (i.e., the established system mobilizes its forces by imposing controls designed to reduce the threat), succeeded by the "acknowledgment" phase (i.e., the established system comes to doubt the validity of its own traditions and begins to experiment with some new alternatives, but in a rather cautious manner, using structure to facilitate the functions it must perform, rather than attempting to fit functions into pre-established structures).

Finally, a process of "adaptation and change" reflects effective coping that represents a rebirth of an ongoing state of development. By the time the system has reached this phase,
it has, to a large degree, disposed of dysfunctional behavior in that the subsystems are working interdependently, complementing the total system. It would appear that the "adaptation and change" phase would terminate the cycle, but in reality it triggers the "shock" phase for the system that posed the original threat, for now that system is in crisis. For example, when the chain stores realized the power wielded by the cooperative associations, they were forced to evolve to an "adaptation and change" phase, which led to another shock phase for the cooperative (see Fig. 2-5). The cycle then continues on as a chain of actions and reactions, with progress and efficiency being the result as long as cost-effective technology is available.

Clearly, institutional change is the product of a vast number of forces and circumstances. All of these forces as well as the relationships and linkages among firms must be included in an analysis of institutional change and of the simultaneous alterations in organizational functions and structures that such change induces.

The Stages of Development of Small Business

Various authors have tried to describe the process of small business growth stages (Buchele, 1965; Cohn & Lindberg, 1974; Greiner, 1972, p. 37; Scott, Harvard Business School note; Strauss, 1974, p. 3), even though the literature is not as extensive as the one for big business (Ansoff & Bradenburg, 1971; Cannon, 1968; Chandler, 1961; Eisenstadt, 1959, etc.).
Figure 2-5. The Crisis-Change Model: Independent Grocer and Chain Store Example (Source: Stern & El-Ansary, 1977)
Glueck (1974) classifies the stage of development theorists in three large categories:

1. Those who describe part of the cycle: Ansoff & Bradenburg (1971), and Filley (1962).


3. Those who describe the cycle at the societal level: Eisenstadt (1959) and Delaney (1963).

The classification above is portrayed graphically in Figure 2-6 by the same author (Glueck, 1974). Of all the stage of development theorists, only Filley concentrated on the small business life-cycle. Most writers do not tie the small business life-cycle with family traditions or individual convictions of the entrepreneur. These factors are extremely important in determining the separation of stages and should be used in conjunction with the traditional criteria of employee number, asset size, organizational characteristics, and so on. One of the basic theses advanced in this research study is that only when the entrepreneur is finally convinced that his/her managerial practices are not adequate, and/or growth is absolutely necessary for the survival of the small firm, will he/she take appropriate actions to move into the next developmental stage, regardless of asset size or employee number.

The management problems, issues, techniques, approaches and style appropriate to each stage are quite different, and the manager either unaware of the necessity to change or unable to adjust and adapt will be unable
Figure 2-6

EMPHASIS OF STAGES OF DEVELOPMENT THEORISTS

<table>
<thead>
<tr>
<th>Theorist</th>
<th>Entrepreneurship</th>
<th>Development</th>
<th>Decentralization</th>
<th>Project &amp; Mature Mgt.</th>
<th>Staff Proliferates</th>
<th>Decline and Debureaucratization</th>
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<tbody>
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<td>Delaney</td>
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<td>Ansoff and Brandenburg</td>
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</table>

Source: Glueck (1974)
to exploit the venture's potential. The form of any organization is the result of the laws of growth up to that point, and the inflexible manager, not understanding these laws and what he/she must do to take advantage of them, will soon cease to be an entrepreneur, but rather will become a caretaker of the enterprise, if it continues to exist at all.

The fundamental issue is to recognize the operational and organizational implications of change. Managing change, an inevitable necessity in a growing enterprise, is the major challenge facing the entrepreneur wanting to "make it happen." The inability or lack of desire to recognize and act upon this challenge is the major cause of a business failing or not living up to its expectations.

Barnes and Hershon (1976) describe the following points that stand out in relation to the small company transitions:

1. Organizational growth tends to be nonlinear. Organizations grow in discrete stages, with varying growth rates in each stage.

2. Periods of profound organizational development often occur between periods of growth. These slower periods often are viewed with alarm, but they force managers to examine what the company has grown toward or into. These periods of development are the transition periods which appear less dramatic (i.e., there is less growth) but may be most crucial to a company's preparations for its own future. The apparent floundering can provoke useful learning once
management begins to adopt and encourage new practices and procedures.

3. A typical management response to transitional strains is a total or partial reorganization of the company. This sometimes helps shake up old habits but rarely resolves a transition crisis. What is needed is time for the social and political systems of the company to realign themselves into new norms and relationships.

Greiner (1972) maintains that growing small organizations move through five distinguishable phases of development, each of which contains a relatively calm period of growth that ends with a crisis (Fig. 2-7).

Webster (1976) describes a life-cycle model with five distinct phases: The Formative phase, the Aggressive phase, the Mature phase, the Declining phase, and finally the Drop-Out phase (Fig. 2-8).

Filley and House (1969, pp. 441-451), propose a theoretical model which contains three stages, the traditional (craft) firm, dynamic growth firm, and rational administration, with the following characteristics (Table 2-8):
Figure 2-7. The Five Phases of Growth (Source: Greiner, 1972)

Figure 2-8. Life-Cycle of the Firm (Source: Webster, 1976)
Table 2-8

Critical Factors in Stages of Growth

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<thead>
<tr>
<th>Continua of Growth</th>
<th>I</th>
<th>II</th>
<th>III</th>
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<tbody>
<tr>
<td>Objectives</td>
<td>comfort-survival</td>
<td>personal achievement</td>
<td>market adaptation</td>
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<td>Policy</td>
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<td>personal</td>
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<td>Leadership</td>
<td>craftsman</td>
<td>entrepreneur</td>
<td>professional</td>
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<td>Work-group bonds</td>
<td>fixed roles</td>
<td>interaction-expectation</td>
<td>homogeneity</td>
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<td>Functional</td>
<td>single</td>
<td>successive emphasis</td>
<td>full development</td>
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<tr>
<td>development</td>
<td>power levels</td>
<td>field of force</td>
<td>rational hierarchy</td>
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<tr>
<td>Structure</td>
<td>housekeeping</td>
<td>technical-personal</td>
<td>technical-coordinative</td>
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<td>Staff</td>
<td>no creativity</td>
<td>innovation</td>
<td>development</td>
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<td>Innovation</td>
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Source: Filley and House (1969)

Megginson (1961, p. 7) shows a simple growth pattern depicting the following stages of development (see Fig. 2-9 on page 35). Megginson further explains the problem of growth in small business:

There appears to be a built-in dilemma in small business management. First, if the owner proves to be inefficient and if his initiative or his abilities are not sufficient, the organization will founder and eventually become one of the casualties included among the statistics called "business failures." Second, if the owner-manager is mediocre, the organization will continue to be a small business and will be constantly plagued with the problems associated with smallness. Third, if the manager proves to be efficient and capable in the exercise of his initiative and is able to succeed and grow, he runs the risk of losing the very things he seeks from the business. For the very act of growing means losing some of the autonomy and the control that he is seeking. If nothing else, he now must please a larger number of people, both customers, the public, and his employees. There is then the problem of controlling other people, that is, exercising the thing that he has resented himself in others. (Megginson, 1961, p. 5).
Figure 2-9. Stages in the Development of a Small Business
(Source: Megginson, 1961)

Larke (1956, p. 41), presents the growth pattern of a small business in a slightly different way by advocating that a small company's success and growth is a chain reaction:

First, there is the growth which leads to new responsibilities, which leads to the search for executive talent to undertake the new responsibilities, which leads to successful management, which leads to better business, which leads to more profits; then the decision must be made to expand. Then the cycle is repeated. The chain reaction can be broken at any point. For instance, if the attempt to find another manager is unsuccessful, the growth will stop. Somewhere along the line, the manager ceases being the owner-manager of a small company with its unique problems and becomes the manager of a large company with all of its problems.

Steinmetz (1969), presents a four-stage model of small business growth: Direct Supervision, Supervised Supervisor, indirect Control, and Divisional Organization (Fig. 2-10):
Figure 2-10. Stages of Organizational Growth and Their Critical Phases (Steinmetz, 1969)
McGuire (1976) complains that scholars and academicians, as well as economic theorists, ignore the impact, problems, and importance of small businesses, arbitrarily defined by some magical cutoff point. This neglect results from a lack of theory on the internal organization of a small enterprise.

Thus, small enterprises in the eyes of the academic community are analogous to plain girls and acne-ridden boys at a high school dance—they are present in large numbers, but usually are unnoticed. (McGuire, 1976, p. 115)

McGuire further advocates that the crucial factor that causes the small company to grow, and that eventually limits its growth, is entrepreneurial expertise. He defines it as:

... the entrepreneur's stock of knowledge about both the operations of the firm and the present and future internal and external environments in which it exists at any moment of time. ... Although entrepreneurial expertise is defined as a stock rather than flow concept, it is evident that changes in this stock do occur over time. Thus, while knowledge is not depleted through use, it can be reduced through neglect. The stock of entrepreneurial knowledge also may be enlarged in basically three ways: (1) through formal or informal educational processes; (2) through the utilization of external advisors or consultants; and (3) through the addition of "experts" (in the form of personnel) to the population of the enterprise. (McGuire, 1976, p. 122)

The stage of development that a particular small business finds itself in, is therefore determined by how, where and to what extent the entrepreneurial knowledge was amplified.

Kroeger (1974) presents a very interesting relationship between the stages of development of the small firm and the managerial stages of development required to ensure
longevity and prosperity of the firm, because "managerial capability and skill depreciate over time." Kroeger's model presented in Figure 2-11 identifies the major managerial functions and roles that must be performed at each stage, so the life cycle will continue sequentially to the next stage:

![Figure 2-11. Managerial Roles Related to the Life Cycle of the Firm (Source: Kroeger, 1974)](image)

During the course of a descriptive survey on the British furniture industry, Deeks (1976) arrived at the following fragmentation of the development of the furniture company over a period of 13 years:

1. 1956-59: a period of initial struggle: the establishment of the new business as a financially viable concern;
2. 1959-61: a period of rapid growth in sales turnover following the purchase of new premises;

3. 1961-65: a period of consolidation with little increase in sales turnover;

4. 1965-68: a further period of rapid growth in sales turnover accompanied by additions to existing premises and purchase of further property.

Cooper (1978) presented a simple but sensible typology of the stages of development of the small firm:

1. The start-up stage, including the strategic decisions to found a firm and position it within a particular industry with a particular competitive strategy.

2. The early-growth stage, when the initial product-market strategy is being tested and when the president maintains direct contact with all major activities (many firms stabilize at this stage).

3. The later-growth stage, often characterized by multiple sites for retail and service businesses and by some diversification for manufacturing firms; organizationally the firm usually has one or more levels of middle management and some delegation of decision-making.

In a critique of Cooper's paper, Susbauer (1978) classified the small business in a "success" continuum:

1. The survival firm.
2. The attractive growth potential firm.
3. The underachieving firm.
4. The high success growth firm.
Vesper (1978) makes a valuable contribution to the small firm stage development theory by pointing out a fallacious a priori assumption of most researchers. He observes that most developmental theories seem to imply that the start-up stage is generally followed by growth. In fact, Vesper continues, very few of the Mom 'n Pop category firms are destined for growth, because either they tried to grow but found they could not, or they could grow but just did not.

With this caveat in mind, a relevant portion of the theoretical framework discussed so far and the characteristics of each stage of small business development, is summarized in Table 2-9 using Cooper's general typology of three stages.

A review of the characteristics of the Stages of Development table discloses the following ranked lists of the characteristics of each stage by frequency of citation by the small business theorists:

**Stage I**

**General Management**
1. One-man show.
2. Non-routine, informal decisions.
3. Good communication.

**Operations**
1. Reliance on unique personal skills, unique product or unique market.
2. Diseconomies of scale.

**Finance**
1. More concern with survival and break-even, than rate of return.
2. Limited resources.
### Table 2-9

#### Stages of Development Characteristics

<table>
<thead>
<tr>
<th>STAGES OF DEVELOPMENT CHARACTERS</th>
<th>Barnes &amp; Hershon</th>
<th>Cooper</th>
<th>Fillay</th>
<th>Greiner</th>
<th>Steinmetz</th>
<th>Susauer</th>
<th>Webster</th>
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**Stage I characteristics:**

- **GENERAL MANAGEMENT**
  1. No written rules
  2. One-man show
  3. Non-routine, informal decisions
  4. No ties with past
  5. Not new method innovation
  6. Conservatism
  7. Good communication

- **OPERATIONS**
  1. Reliance on personal skills, unique product, method, market
  2. No economies of scale

- **FINANCE**
  1. More concern with survival, break-even than rate of return
  2. Limited resources
  3. No cushion to absorb bad luck
  4. Historical cost emphasis

- **MARKETING**
  1. Stable market environment
  2. No reputation
  3. Risk concentrated in few products, markets, people
### Table 2-9 (Cont.)

<table>
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<tr>
<th>Stage II characteristics:</th>
<th>Barnes &amp; Hershon</th>
<th>Cooper</th>
<th>Filley</th>
<th>Greiner</th>
<th>Steinmetz</th>
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<tr>
<td>2. Attention to</td>
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<td>X</td>
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<td>X</td>
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<td>market feedback</td>
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<td>3. Quick delivery</td>
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<td>4. Extra service</td>
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<tr>
<td>5. Reputation within</td>
<td></td>
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</table>
Table 2-9 (Cont.)

Stage III characteristics:

<table>
<thead>
<tr>
<th>CHARACTERISTIC</th>
<th>Barnes &amp; Hershon</th>
<th>Cooper</th>
<th>Filley</th>
<th>Greiner</th>
<th>Steimetz</th>
<th>Surbauer</th>
<th>Webster</th>
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<tbody>
<tr>
<td>GENERAL MANAGEMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1. Loss of good &quot;lieutenants&quot;</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Staff analysts</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. More management levels, more delegation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>4. Government Regulation concern</td>
<td>X</td>
<td></td>
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<tr>
<td>5. Unionization concern</td>
<td>X</td>
<td></td>
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<tr>
<td>6. Community visibility concern</td>
<td>X</td>
<td></td>
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<td></td>
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<tr>
<td>7. Formal written policies and procedures</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>8. Increased emphasis on managing skills</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. More planning time</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>10. More strategy implementation problems</td>
<td>X</td>
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<tr>
<td>11. Management &quot;loses touch&quot;</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>12. Control through documentation and budgets</td>
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<td>X</td>
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<td>13. Formal training</td>
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<td>OPERATIONS</td>
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<td></td>
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</tr>
<tr>
<td>1. Overstaffing</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2. Economies of scale</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Supply source concern</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FINANCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Lower rate of return</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Future cost emphasis</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Emphasis on short run performance measurements</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>MARKETING</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Better equipped to fight competition</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Increased dependence on advertising</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3. Increased dependence on marketing distribution</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Heavy investment in product, market development</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Drop unprofitable products</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Multiple sites</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>7. Standardized service</td>
<td>X</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Finance (cont'd)

3. No cushion to absorb bad luck.
4. Emphasis on historical cost.

Marketing

1. Risk concentrated on few products, markets, and people.
2. No reputation outside of the immediate vicinity.
3. Stable market environment.

Stage II

General Management

1. Delegation of operating decisions to "lieutenants" or "assistant to."
2. Formal consideration of growth.
3. Direct control and direction.

Operations

1. Improvement of skill, method or market niche.
2. Production problems.
3. Technical specialization.

Finance

1. Attention to industry standards.

Marketing

1. Attention to competition.
2. Attention to market feedback.

Stage III

General Management

1. More management levels and more delegation.
2. Utilization of staff analysts.
3. Increased emphasis on management skills and techniques.
4. Formal written policies and procedures.
5. More planning time.

Operations

1. Economies of scale.

Finance

1. Lower rate of return.
2. Emphasis on future costs.
Marketing

1. Heavy investment in product and market development.
2. Drop unprofitable products.
3. Increased dependence on marketing distribution.
4. Better equipped to fight competition.

The Stages of the Exporting Process

A basic theoretical question is whether a firm's export behavior should be considered a multi-activity development process keyed to the firm's position and perspective in this learning process, or should be considered in terms of a single activity model at any given point of time. Most empirical studies illuminated this question by analyzing export data without consideration for possible differences in the firm's export stages. Consequently, cross-sectional studies focusing on perceived serious obstacles (or barriers) to exporting found seemingly contradictory results: Alexandrides (1971), de la Torre (1972), Simpson (1973), Rao and Weinrauch (1974), State of Minnesota (1975), Tesar (1975), and Bilkey and Tesar (1975) found that nonexporting firms perceived significantly more serious obstacles to exporting than did exporting firms. Others found either no relation (Doyle and Schommer, 1976), or an inverse relation—meaning that nonexporters perceived fewer obstacles to exporting than did exporters, since the former having not explored the feasibility of exporting, have no basis for knowing their obstacles to exporting, and therefore would list fewer than do exporting firms (Bilkey, 1970).

Export models have generally concentrated on three issues: identifying the major variables involved, specifying the relationship among these variables at any given time, and specifying the
dynamics of the relationship (Bilkey, 1970).

The dynamic of the relationship among the export variables is the focus of this section, a subject that has been inferenced but not empirically tested by the export literature, even though some studies implied that exporting is a development process.

Etgar and McConnel (1976) formulated a static cause-and-effect model in the form of an equation, with independent variables on the right:

\[
B = (E, I, C)
\]

where \( B \) represents a vector of export related behavioral decisions; \( E \) represents a group of internal and external factors (location of markets, technological factors, institutional factors, behavioral forces, economic forces, and legal-political influences); \( I \) represents a group of information stimuli (from mass media, personal contacts, and previous experience); and \( C \) represents the information processing complex (including learning and choice constructs). The relationship among the variables on the right side of the equation was not indicated empirically or otherwise.

Cavusgil (1976) proposed a static path model composed of both "background" and "intervening" variables, as shown in Fig. 2-12. The bivariate correlation coefficients for each relationship are the numbers beside the arrows.

Welch and Wiederscheim-Paul (1977) formulated a model of the pre-export behavior of a firm as shown in Fig. 2-13. It differs from Cavusgil's model because it is dynamic in that it incorporates feedback loops and interactions and brings into account a substantial number of basic variables.
It tries to interrelate those variables in a flow or sequence sense, but does not explain how they relate functionally, and was not tested empirically.

Source: Cavusgil (1976)

Factors Affecting the Pre-export Behavior of a Firm

Source: Welch and Wiedersheim-Paul (1977)
Carlson (1975) suggested that the internationalization process of firms follows a learning curve, similar to what Johanson and Vahlne (1975) called a "series of incremental decisions." These propositions are consistent with the concept of the process of export developmental stages: stimuli induce a firm to move to a higher export stage because the experience (learning) gained from that stage alters the firm's perceptions, expectations, managerial capacity, profitability, etc.; new stimuli induce a firm to move to a higher stage, and so on.

The Uppsala School (Olson, 1975; Johanson and Wiedersheim-Paul, 1975) conceptualized the export stages as: no permanent export, export via agent, export via sales subsidiary, and, in some cases, production in a foreign subsidiary. This model was supported by empirical evidence.

The Small Business Administration (1979) proposed the following levels of exporting:

Level 1: Export of surplus
The firm is interested only in overseas sales of surplus products, or is without resources to fill overseas orders for most products on an ongoing basis.

Level 2: Export Marketing
The firm actively solicits overseas sales of existing products and is willing to make limited modifications in its products and marketing procedures to accommodate the requirements of overseas buyers.

Level 3: Overseas Market Development
The firm makes major modifications in products for export and in marketing practices in order to be better able to reach buyers in other countries.
Level 4: Technology Development

The firms develop new products for existing or new overseas markets.

Root (1977) describes the evolution of the exporting process as follows:

"The export stage ordinarily starts with an unsolicited inquiry about a company's products from a domestic export intermediary or direct from a prospective foreign buyer. When the inquiry results in a profitable sale, the manufacturer follows up subsequent inquiries and makes sales to other foreign buyers, probably through domestic export中间men. At some point, however, the manufacturer decides that his or her export business should be actively developed, and to that end he or she appoints an export manager with a small staff. If the manufacturer experiences a continuing growth of export sales, the inadequacy of a small, built-in export department becomes evident. The next step, then, is to establish a full-service export department at the same level as the domestic sales department. Further growth of export sales may justify the establishment of sales branches overseas to replace foreign agents and distributors and even assembly operations to obtain lower transportation and/or tariff costs." (ibid., p.11)

Bilkey and Tesar (1975) formulated a "stages" model to which the following generalized multiple regression equation was applied:

\[ A = a + bE - cI + dF + eM \]

where: \( A \) is the firm's export behavior for the stage in question; 
\( E \) is management's expectations regarding the benefits of exporting after it has been developed; \( I \) is the inhibitors (mainly serious infrastructural and institutional obstacles) that management perceives to initiating exporting; \( F \) is the facilitators (unsolicited orders, information, subsidies, infrastructural and
institutional aids, etc.) management perceives to initiating exporting; and M is the quality and dynamism of the firm's management plus the firm's organizational characteristics that affect exporting. Small case letters are coefficients, and differ at each stage because of the experience gained from the preceding stages.

The model involved the following export stages, derived from Roger's (1962, pp. 81-86) stages of the adoption process:

One  The firm is unwilling to export, it would not even fill an unsolicited export order—because of apathy, dislike of foreign activities, busy doing other things, etc.

Two  The firm fills unsolicited export orders, but does not explore the feasibility of exporting.

Three The firm explores the feasibility of exporting (This stage may be omitted by the receipt of unsolicited export orders).

Four The firm exports experimentally to one or a few markets.

Five The firm is an experienced exporter to those markets.

Six The firm explores possibilities of exporting to additional markets.

And so on.

Questionnaires from 423 Wisconsin manufacturing firms were classified according to the above stages, and step wise multiple regressions of the type shown in Equation ii were calculated for each of three stages. The results differed greatly. Movement from Stages One and Two to Stage Three was only partly explained (R²=241). The major correlates were directly with whether management planned for exporting, and directly with management's impression of the firm's competitive advantages. No relation was found with management's expectations as to what exporting would contribute to the firm's profits, growth, etc., nor with management's perception of inhibitors (serious obstacles) to exporting. Movement from earlier stages to Stage
Four correlated \((R^2=69)\) directly with whether the firm received an unsolicited initial export order, directly with the quality of the firm's management and to a small extent, directly with the firm's size. Again there was no correlation with management's expectations as to what exporting would contribute to its firm nor with management's perception of export inhibitors. The percent of sales exported by Stage Five firms correlated \((R^2=70)\) directly with management's perceptions of the gains from exporting, inversely with the number of perceived inhibitors to exporting, and inversely with the quality of the firm's management.

(Bilkey and Tesar, 1975)

A serious problem in the above models is the great number of dependent and independent variables the interaction of which influences the export behavior of firms. Another important problem is to dynamize a model adequately avoiding thus the limitations of static models. Both the Uppsala School and Bilkey and Tesar formulated dynamic models by employing stages of development, conceived as sequential alternations in the direction of cause-and-effect equations.

The research findings outlined in this section lead to major conclusions regarding the export behavior of firms: One is that exporting is essentially a developmental process. This may be conceptualized either as a learning sequence involving feedback loops or as export stages. Second, equation coefficients tend to differ from one stage of the export process to another, suggesting that export profiles can be formulated for each stage of exporting development, with potentially great usefulness both theoretical and practical. For example, export stimulation government programs could be tailored to the export development state of the firms to be stimulated, (i.e., experienced exporters vs. non-exporters, etc.). Export management should also be keyed to the
firm's position in the export development process, which from the firm's perspective is a learning process. A firm that has never exported, logically should, at first, concentrate on gaining basic export experience, and so on.

A theoretical implication is that profiles of successful or unsuccessful exporters can serve as a guide to determine the export behavior of nonexporters, by providing insights far beyond those provided by the classical-neoclassical economic models.
Thus far in this chapter, the basis for the present research has been established through identification of the constituents of the major variables of this study. It is now appropriate that the orientation of this chapter moves to dealing with the literature as it pertains more specifically to the strategic disadvantage (advantage) profile as a tool of the diagnostic process of strategic disadvantages (advantages).

The Strategic Disadvantage Profile

The strategic disadvantage profile, as it will be used in this study, is a visual representation of what type of problems a small firm in a particular line of business might expect to experience, as it proceeds through the evolutionary process of the stages of development, each with a unique set of critical organizational issues and characteristics (Schöllhammer & Kuriloff, 1979, p. 234).

Glueck (1976, p. 88) defines the strategic advantage (disadvantage) profile as a systematic evaluation of the enterprise's strategic advantage (disadvantage) factors weighted by the significance of each factor for the company in its environment. He adds:
What the profile does is give a visual representation of what the company is as it developed from past strategic decisions and interaction with its environment. (Glueck, ibid.)

The strategic advantage (SAP) or strategic disadvantage profile (SDP) can be developed at the analysis and diagnosis stage of the strategic management process and should be matched with an environmental threat and opportunity profile (ETOP) to create optimal conditions for adjusting or changing strategies or policies (Glueck, 1980, chapter 4).

The diagnosis or evaluation strategy can take a number of forms. A typology of evaluation strategies in a continuum scheme developed by Paine and Naumes (1978, p. 159) illustrates some of the possibilities as shown in Table 2-10:

Table 2-10
A Continuum of Evaluation Strategies

<table>
<thead>
<tr>
<th>Evaluator-Centered</th>
<th>Client-Centered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comorbidity Model</td>
<td>Doctor-Patient Model</td>
</tr>
<tr>
<td>PI SI</td>
<td>P S</td>
</tr>
</tbody>
</table>

Evaluator identifies problem and solution: tells client to company

Managers ask evaluator what is wrong with organizational unit and what should be done

Managers identify problem and request information or service

Evaluator’s activities help client to perceive, understand and act upon events in his environment; evaluations provide challenging alternatives; client decides

Possible difficulties:
- Resistance: unwilling to solve effectively unless organization solves own problems
- Acknowledgment: unwilling to receive diagnosis
- Explanations: unwilling to learn enough about organizational culture to suggest reliable courses of action

Organizational unit hesitant to reveal information; systematic distortion of information; lack of common diagnostic frame of reference; organizational unit unwilling to receive diagnosis; evaluations without extensive study unable to learn enough about organizational culture to suggest reliable courses of action

Managers do not correct errors and/or communicate their own needs; build dependence on evaluator

Assumption may be made that organizational change comes through transmission of information (e.g., a report)

Evaluators may advance solutions prematurely; client may be unwilling or unable to see the problems; to share in diagnosis or to be fully involved in generating solutions; evaluators may not pass on diagnostic skills to client; client may not request services; evaluator may need help to come in

Source: Paine and Naumes (1978)
In order to get satisfactory results, the management of a small concern must treat each internal problem or weakness, as a difficult sickness—the symptoms are clearly identifiable, the causes are not, and the standard remedies used so far do not work. In short, as Frankenhuis (1977) asserts, a problem becomes a pitfall when the small organization finds itself beyond the stage of "two aspirins and rest" for a headache that refuses to go away.

The comparison of a small business internal problem to an illness has gone even further. The Management Advisory Services Committee of the Colorado Society of CPAs recommends that an annual review of clients' business health be made. The committee has developed a simple questionnaire for giving each of the smaller clients an annual but limited review of its business health, which they call an annual business physical.

Five very basic questions should be answered for each small business client: 1. What makes the business profitable or potentially profitable; 2. What are the business's major areas of weakness; 3. What are the business's major areas of strength; 4. What is the long-range potential for the business; 5. What services can be offered to this client to solve his problem and to achieve his goals (Stark, 1976).

Paine and Naumes (1978, p. 61) also identified the important diagnostic information that may be useful for the strategic advantage (disadvantage) analysis process:

1. The potential cause(s) of a threat or opportunity.
2. The usefulness of the unit's own capacity for dealing with a threat or opportunity.
3. The external environment (e.g., understanding the market, potential competition and future product potential).
4. The internal flexibility or degree of specialisation of resources and facilities.
5. The external flexibility or degree to which the organizational unit is dependent on the maintenance of the current situation and is therefore threatened by a prospective change.

Even though the subject of strategic advantage analysis and development of SAPs or SDPs in theory and practice are at an infant stage, the use of diagnostic tools for strategic planning is gaining prominence in the business policy literature. Hofer and Schendel (1978, p. 149) introduced a comprehensive functional area resource profile which is given in Table 2-11. When financial developments are computed, the profile indicates, in a graphic and dramatic fashion, the areas in which the business has tried to develop major skills and has or has not succeeded.

Glueck (1976, p. 88) presented a strategic advantage profile (Table 2-12), the effective development of which requires two steps:

1. Give weight to the factor. Does the company possess a strong advantage, some advantage; is it a weakness or a strong weakness?

2. Determine whether the strength or weakness is of strategic importance. It is obvious that not all factors are
equally significant in all industries at all times. Thus, effective lobbying is a much more significant factor in regulated industries like insurance and airlines than in less-regulated industries like hardware, lumber, furniture, and writing instruments. This step indicates whether the strength or weakness will have a major impact for the local enterprise.

Table 2-11
A Functional Area Resource Profile

<table>
<thead>
<tr>
<th>RED ENGINEERING</th>
<th>MANUFACTURING</th>
<th>MARKETING</th>
<th>FINANCE</th>
<th>MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Resources</td>
<td>Financial Impact of Basic</td>
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<tr>
<td>Human Resources</td>
<td>Management of Marketing</td>
<td>Management of Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Systems</td>
<td>Management of Marketing</td>
<td>Management of Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological Capabilities</td>
<td>Management of Manufacturing</td>
<td>Management of Marketing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Finally, Smith (1977, p. 42) introduced a very interesting SAP and SDP model (Fig. 2-14) that blends life-cycle patterns with strategic advantage (disadvantage) analysis. The model assures that management patterns, modes, and strategies are appropriate to both strengths/weaknesses and the phase of the business life-cycle if optimum results are to be secured.
Table 2-12

Strategic Advantage Profile for Reiter Co.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weighting of factor</th>
<th>Significance to Reiter</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Strong ++</td>
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<tr>
<td>Marketing</td>
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<tr>
<td>Total market share</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Strength in submarkets</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Product-service line and service</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Channels of distribution</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Pricing</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Operations</td>
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</tr>
<tr>
<td>Raw materials</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Facilities</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>MIS</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Costs of operation</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Inventory control</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting systems</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Stockholder relations</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Tax conditions</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial strength</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial management</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Personnel and management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-quality employees</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Personnel relations</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Company size relative to competitor</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Record of reaching objectives</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Top management amicability</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Top management training and depth</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Profitability: consistent</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Weighting indicates the degree to which the factor evaluated is an advantage or disadvantage.

*Significance is coded as follows: 0 = neutral; -- = negative, and the more minuses the more negative; + = positive, and the more pluses the more positive. Significance indicates degree to which the weighted factor has or will have strategic impact for the firm.

Source: Glueck (1976).
Figure 2-14. Maturity-Phase Qualities of a Single-Product Business (Source: Smith, 1977)

The Strategic Disadvantage Profile that will be used in this study is a graphical representation of the importance of overall problems, and of each functional problem area for a particular small business industry type and/or stage of development.

The importance of the problem is indicated by the size of the aggregate area that it occupies in the graph (i.e., the larger the area, the more important the problem is). Significant problem differences among stages are denoted by the shaded areas (Fig. 2-15).

The theoretical implication of such a profile is that it can serve as a guide to determine the behavior of small business firms by providing insights far beyond those provided
by the classical economic theory of the firm or the stages of
development theories which concentrated mostly on big business.

Figure 2-15. Strategic Disadvantage Profile of Small Businesses in Stages I, II, and IIIa

The Strategic Disadvantage Profile can serve as a means for identifying potential strategic weaknesses of a small firm belonging to a particular industry type and stage of development, ex ante and not ex post facto (i.e., before the firm fails.

On the practical side, a Strategic Disadvantage Profile of this type can help keying managerial actions and strategies to the small firm's particular position in the developmental process, by avoiding expected pitfalls, and by making plans and policies conform to the specific requirements of the current stage of development. Normative judgment from a strategic disadvantage profile would reflect the gap between the small firm's current state in a particular functional area and the level where the manager wishes the firm should be.
Before closing this section some cautions should be outlined for the policy analyst to observe in the diagnostic process (Paine & Naumes, 1978, p. 62).

1. There may be incomplete data on the problem, opportunity or threat. It may be possible (perhaps costly, though) to gather the appropriate data or, on the other hand, to make certain assumptions and proceed. As indicated before, however, managers have to make choices with respect to a limited simplified "model" of the real situation. They may have to respond to weak signals.

2. There may be a failure to thoroughly evaluate the symptoms and signs. Premature judgment, acceptance of the opinions of a few as general facts, failure to test tentative causes, and failure to search for exceptions which can be found for the explanations of the problem are elements of this error.

3. There may be a tendency to express the diagnosis in terms consistent with self-interests, such as market researchers indicating a need for more market research or trainers diagnosing the situation as requiring more training. Attempts should be made to have an open-minded and a systematic approach.

4. The knowledge and skill for diagnosis of a complex situation may be missing. The resultant diagnosis may include false "causes," and much time and effort may be wasted in
trying to correct them. Advice and assistance from expert or experienced sources may be needed. The case analyst may ask his colleague or his instructor. The manager may call in a staff specialist or a consultant.

Summary

This chapter dealt with issues germane to the development of the context for this study. First small business problems were discussed, primarily from an internal point of view, as they relate to small firms in general, and to small exporters in particular, identifying thus the scope of the present research. Next, a review of the stages of development research was undertaken, as it relates to small business and small exporters. Both sections were synthesized by a summary of the findings for each section, from which the research design questions for the collection of the data were established. Finally, this chapter closed with a discussion of the strategic disadvantage (advantage) profile and its role in the strategic disadvantage (advantage) analysis and diagnosis process for small firms and small exporters.
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CHAPTER III

METHODOLOGY

The purpose of this chapter is to describe: (1) the hypotheses to be tested in this research; (2) the sample, the sampling procedure, the variable frequencies, the sample characteristics, and the representativeness properties of the sample; (3) the procedures employed in the coding of small business functional problems and stages of development; (4) the results of inter- and intra-rater reliability tests on the coding; and (5) the statistical tests employed in this study to analyze the statistical significance of differences among the sample populations.

Hypotheses

The primary purpose of this research is to investigate the relationships among internal, functional problems in Management, Operations, Finance, and Marketing that small businesses experience as they relate to their export stage and to their stage of development.

The findings will lead to the development of stage-by-stage strategic disadvantage profiles.
The following hypotheses were tested in order to fulfill the objectives of the study:

**Hypothesis 1:** There will be significant differences in the overall problems small businesses have, depending on their stage of development (Filley & House, 1969, p. 462).

**Hypothesis 1a:** Small businesses with characteristics of Stage I will have significantly more Operations problems than small businesses with either Stage II or Stage III characteristics (Thain, 1969, p. 35).

**Hypothesis 1b:** Small businesses with characteristics of Stage II will have significantly more Marketing problems than small businesses with either Stage I or Stage III characteristics (Filley & House, 1969, p. 462).

**Hypothesis 1c:** Small businesses with characteristics of Stage III will have significantly more Management Problems than small businesses with either Stage I or Stage II characteristics (ibid.).

**Hypothesis 1d:** There will be no significant differences in the number of Finance problems small businesses have, regardless of their stage of development (Baumback & Mancuso, 1975, pp. 108-109).
Hypothesis 2: There will be significant differences in the overall export problems small exporters have, depending on their stage of export development.

Hypothesis 2a: Small exporters with characteristics of export Stage I will have significantly more export Operations problems than small exporters with either export Stage II or export Stage III characteristics.

Hypothesis 2b: Small exporters with characteristics of export Stage II will have significantly more export Marketing problems than small exporters with either export Stage I or export Stage III characteristics.

Hypothesis 2c: Small exporters with characteristics of export Stage III will have significantly more Management problems than small exporters with either export Stage I or export Stage II characteristics.

Hypothesis 2d: There will be no significant differences in the number of Finance problems small exporters have, regardless of their stage of export development.
Sample

The population of exporting small businesses used in the study was drawn from the files of the University of Georgia's Small Business Development Center (see Appendix B for a detailed policy statement of UGA-SBDC). These Georgia firms received in-depth consulting services from the SBDC between May 1977 and October 1979. The consulting process is presented in Appendix C.

Stages of Development

The categorization of the small exporting firms that were included in this research study in three stages of development resulted in the frequency distribution that Table 3-1 portrays:

Table 3-1

<table>
<thead>
<tr>
<th>Stage</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>5</td>
<td>15.6</td>
</tr>
<tr>
<td>II</td>
<td>9</td>
<td>28.1</td>
</tr>
<tr>
<td>III</td>
<td>18</td>
<td>56.3</td>
</tr>
</tbody>
</table>

| Total | 32        | 100.0   |
Stages of Export Development

This research also focused upon the stages of development of the exporting process. Export Stage I firms comprised the majority of the sample (see Table 3-2).

Table 3-2

FREQUENCIES OF SURVEYED FIRMS BY STAGES OF EXPORT DEVELOPMENT

<table>
<thead>
<tr>
<th>Stages</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>17</td>
<td>53.1</td>
</tr>
<tr>
<td>II</td>
<td>11</td>
<td>34.4</td>
</tr>
<tr>
<td>III</td>
<td>4</td>
<td>12.5</td>
</tr>
<tr>
<td></td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Overall Small Business Problems

There were 156 total affirmative answers to the 16 problems or 30.5% of the total answers distributed among the 32 firms that were surveyed. Inversely, there were 356 negative answers to the 16 problems or 69.5% of the total. The most frequently encountered problem that small businesses experienced was "lack of management techniques and coordination," (a management problem) with 19 firms or 59.4% of the 32 surveyed firms reporting difficulties with this aspect.

The least frequently mentioned problem was "poor credit practices and overextension of credit and bad debts," (a finance problem) with only 2 firms or 6.3% of the 32 firms experiencing
this type of problem.

Frequencies of problems that were not included in the original problem coding sheet, but appeared under the provided "other" category, were not sufficient to justify their inclusion in the final results.

The frequencies of the overall small business problems regardless of function or stage of development are presented in Table 3-3.
Table 3-3
Overall Frequencies of Small Business Problems for 32 Small Firms

<table>
<thead>
<tr>
<th>Problems</th>
<th>Frequency</th>
<th>Percent*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Neglect of selection and supervision of personnel.</td>
<td>6</td>
<td>18.7%</td>
</tr>
<tr>
<td>2. Lack of operating experience in product buying, pricing, and handling finances.</td>
<td>6</td>
<td>18.7%</td>
</tr>
<tr>
<td>3. Lack of total capital.</td>
<td>8</td>
<td>25.0%</td>
</tr>
<tr>
<td>4. Non-aggressive selling, promotion, and advertising.</td>
<td>11</td>
<td>34.4%</td>
</tr>
<tr>
<td>5. Lack of planning and information.</td>
<td>18</td>
<td>56.2%</td>
</tr>
<tr>
<td>6. Poor recordkeeping and control.</td>
<td>8</td>
<td>25.0%</td>
</tr>
<tr>
<td>7. Lack of financial planning and use of financial information and ratios.</td>
<td>11</td>
<td>34.4%</td>
</tr>
<tr>
<td>8. Lack of concentration on result areas of products, markets, and technology.</td>
<td>7</td>
<td>21.9%</td>
</tr>
<tr>
<td>9. Lack of management development.</td>
<td>17</td>
<td>53.1%</td>
</tr>
<tr>
<td>10. Inventory mismanagement in terms of type and amount.</td>
<td>5</td>
<td>15.6%</td>
</tr>
<tr>
<td>11. Lack of working capital.</td>
<td>10</td>
<td>31.2%</td>
</tr>
<tr>
<td>12. Lack of research and development and product or service upgrading.</td>
<td>11</td>
<td>34.4%</td>
</tr>
<tr>
<td>13. Lack of management techniques and coordination.</td>
<td>19</td>
<td>59.4%</td>
</tr>
<tr>
<td>14. Wrong location.</td>
<td>6</td>
<td>18.8%</td>
</tr>
<tr>
<td>15. Poor credit practices, overextension of credit, and bad debts.</td>
<td>2</td>
<td>6.2%</td>
</tr>
<tr>
<td>16. Inadequate sales.</td>
<td>11</td>
<td>34.4%</td>
</tr>
</tbody>
</table>

TOTAL

*32 firms represent 100%
There were 311 total affirmative answers to the 19 problems or 51.2% of the total answers distributed among the 32 firms that were surveyed. Inversely, there were 297 negative answers to the 19 problems or 48.8% of the total.

The most frequently encountered problem that small exporters experienced regardless of function or stage of development is that of "foreign market research," a marketing problem, with 31 firms or 96.9% of the 32 surveyed firms reporting difficulties with this aspect. A close second was "lack of export contacts," a management problem (30 firms or 93.7%).

The least frequently mentioned exporting problems overall were: "lack of product modification capacity," an operations problem; "lack of product service/parts capacity," an operations problem; and "insurance," a marketing problem, all with only 6 firms or 18.7% of the 32 firms experiencing each of these three aforementioned exporting problems.

Frequencies of problems that were not included in the original exporting problem coding sheet, but appeared under the provided "other" category, were not sufficient to justify their inclusion in the final results.

The frequencies of the overall small business exporting problems regardless of function or stage of export development are presented in Table 3-4.
Table 3-4
Overall Frequencies of Exporting Problems for 32 Small Firms

<table>
<thead>
<tr>
<th>Exporting Problems</th>
<th>Frequency</th>
<th>Percent*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of previous export experience/apathy.</td>
<td>24</td>
<td>75.0%</td>
</tr>
<tr>
<td>2. Lack of product modification capacity.</td>
<td>6</td>
<td>18.7%</td>
</tr>
<tr>
<td>3. Foreign Market Research.</td>
<td>31</td>
<td>96.9%</td>
</tr>
<tr>
<td>4. Lack of export capital.</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>5. Lack of export contacts.</td>
<td>30</td>
<td>93.8%</td>
</tr>
<tr>
<td>6. Lack of product service/parts capacity.</td>
<td>6</td>
<td>18.7%</td>
</tr>
<tr>
<td>7. Pricing</td>
<td>10</td>
<td>31.2%</td>
</tr>
<tr>
<td>8. Lack of working capital.</td>
<td>11</td>
<td>34.4%</td>
</tr>
<tr>
<td>9. Lack of export personnel training.</td>
<td>27</td>
<td>84.4%</td>
</tr>
<tr>
<td>10. Lack of adequate production capacity.</td>
<td>10</td>
<td>31.2%</td>
</tr>
<tr>
<td>11. Sale terms and documentation.</td>
<td>18</td>
<td>56.2%</td>
</tr>
<tr>
<td>12. Payment terms problems.</td>
<td>17</td>
<td>53.1%</td>
</tr>
<tr>
<td>13. Legal problems.</td>
<td>7</td>
<td>21.9%</td>
</tr>
<tr>
<td>14. Distribution.</td>
<td>24</td>
<td>75.0%</td>
</tr>
<tr>
<td>15. Promotion.</td>
<td>26</td>
<td>81.2%</td>
</tr>
<tr>
<td>16. Competition.</td>
<td>27</td>
<td>84.4%</td>
</tr>
<tr>
<td>17. Shipping.</td>
<td>12</td>
<td>37.5%</td>
</tr>
<tr>
<td>18. Packaging.</td>
<td>7</td>
<td>21.9%</td>
</tr>
<tr>
<td>19. Insurance.</td>
<td>6</td>
<td>18.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>311</strong></td>
<td></td>
</tr>
</tbody>
</table>

*32 firms represent 100%
Overall Small-Business Problems by Business Function

One of the major variables in this study is the business function. The categories are Management, Operations, Finance, and Marketing. The frequency distributions of the 16 small business problems grouped by business function is given in Table 3-5.

Table 3-5
Small Business Problem Frequencies by Business Function for 32 Small Firms

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>60</td>
<td>38.5%</td>
</tr>
<tr>
<td>Operations</td>
<td>25</td>
<td>16.0%</td>
</tr>
<tr>
<td>Finance</td>
<td>31</td>
<td>19.9%</td>
</tr>
<tr>
<td>Marketing</td>
<td>40</td>
<td>25.6%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>156</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Exporting Problems by Business Function

The frequency distributions of the 19 exporting problems grouped by business function is given in Table 3-6.
Table 3-6

Small Business Export Problem Frequencies by Business Function for 32 Small Firms

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>88</td>
<td>28.3%</td>
</tr>
<tr>
<td>Operations</td>
<td>22</td>
<td>7.1%</td>
</tr>
<tr>
<td>Finance</td>
<td>40</td>
<td>12.9%</td>
</tr>
<tr>
<td>Marketing</td>
<td>161</td>
<td>51.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>311</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Characteristics of the Sample

Table 3-7 depicts the percent of client firms having been served by the SBDC from May 1977 to June 1979, by type of business. Descriptive statistics for this study's sample of 32 small firms are given in Table 3-8, classified by SIC code, along with statistics for the SBDC total population of 542 small businesses (Table 3-9).
### Table 3-7
SBDC Total Population of Small Business Client Firms by Type of Business

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Percent of Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1977</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.0</td>
</tr>
<tr>
<td>Mining</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>5.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15.0</td>
</tr>
<tr>
<td>Transportation/Utilities</td>
<td>4.0</td>
</tr>
<tr>
<td>Wholesale</td>
<td>10.0</td>
</tr>
<tr>
<td>Retail</td>
<td>31.0</td>
</tr>
<tr>
<td>Finance/Insurance</td>
<td>2.0</td>
</tr>
<tr>
<td>Services</td>
<td>28.0</td>
</tr>
<tr>
<td>Unclassifiable</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
</tr>
<tr>
<td>SIC Code</td>
<td>Frequency</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Undetermined</td>
<td>3</td>
</tr>
<tr>
<td>2211</td>
<td>1</td>
</tr>
<tr>
<td>2221</td>
<td>1</td>
</tr>
<tr>
<td>2282</td>
<td>1</td>
</tr>
<tr>
<td>2298</td>
<td>1</td>
</tr>
<tr>
<td>2327</td>
<td>2</td>
</tr>
<tr>
<td>2328</td>
<td>1</td>
</tr>
<tr>
<td>2339</td>
<td>1</td>
</tr>
<tr>
<td>2392</td>
<td>2</td>
</tr>
<tr>
<td>2431</td>
<td>1</td>
</tr>
<tr>
<td>2452</td>
<td>1</td>
</tr>
<tr>
<td>2491</td>
<td>1</td>
</tr>
<tr>
<td>2500</td>
<td>1</td>
</tr>
<tr>
<td>2510</td>
<td>1</td>
</tr>
<tr>
<td>2834</td>
<td>1</td>
</tr>
<tr>
<td>2851</td>
<td>1</td>
</tr>
<tr>
<td>2890</td>
<td>1</td>
</tr>
<tr>
<td>3449</td>
<td>1</td>
</tr>
<tr>
<td>3522</td>
<td>2</td>
</tr>
<tr>
<td>3537</td>
<td>1</td>
</tr>
<tr>
<td>3541</td>
<td>1</td>
</tr>
<tr>
<td>3561</td>
<td>2</td>
</tr>
<tr>
<td>3589</td>
<td>1</td>
</tr>
<tr>
<td>3629</td>
<td>1</td>
</tr>
<tr>
<td>3714</td>
<td>1</td>
</tr>
<tr>
<td>6575</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32</td>
</tr>
</tbody>
</table>
Table 3-9

Means of SBDC Total Population of Small Firms by Selected Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales ($000)</td>
<td>451.3</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>7.4</td>
</tr>
<tr>
<td>Part-time employees</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Sample Representativeness

A good sample should represent the differences that exist in the population. In the present context, representativeness refers to the similarity between the sample and the population in the proportion of cases falling into each of the different strata (Warwick & Lininger, 1975, p. 96). The sample was not a random sample, but it was drawn from the SBDC population of small businesses. Therefore, whatever inherent limitations the SBDC population had, as far as representativeness of the Georgia, South Atlantic, and U.S.A. small business populations are concerned, they were passed on to the sample that was used in this study. This constitutes a constraint beyond the scope of this thesis.

Another major caveat for the reader should be the fact that the U.S. Census statistics for business firms include data for both big and small business, thus distorting the total picture. The separation of big from small businesses through the use of an arbitrary criterion (e.g., number of employees, etc.) does not guarantee a more accurate representation.
The Research Procedure

To identify the internal problems that the retail and service firms experience as well as their respective stage of development, a panel of four judges with similar skills and experience reviewed each individual case.

These judges had been associated with the SBDC as staff consultants, had a minimum of one year experience and had participated in the consulting process of a number of cases as major or secondary consultants. Their comparable education level rendered their skills and business backgrounds almost identical.

This research procedure was favored over the administration of a questionnaire to the small businessmen, because as Klatt observed:

If you ask any owner of a failing (or in this case) small business for his explanation, you rarely will get an admission of poor management. The owner is typically defensive. (Klatt, 1973, p. 9)

Kelley et al. (1968, p. 20) further note:

What might be described by the person who fails as "excessive competition" might instead by ineffectual sales effort. . . "bad debts" may in reality have been careless extension of credit.

The data collection consisted of two phases--problem coding and stage coding:

**Phase I: Coding of Problems** (see Appendix D)

The judges used a standardized pattern of 17 yes-no type questions. Appropriately mixed, relating to the four functional
areas of Management, Operations, Finance, and Marketing, and derived from a survey of the literature on small business (see Chapter II). The problems that were included in the coding sheet were the ones that were most frequently mentioned as small business problems by small business theorists, practitioners and researchers for each of the functional areas.

The only functional problem that was not included in the coding sheet even though it ranked at the top of the Management problems, was "dependence on survival of principal manager" because of the difficulties in operationalizing and defining it.

The last question is a provision for an "other" problem category, in case a problem not included in the list kept appearing as a serious small business difficulty during the coding of the problems. The judges were informed about the purpose of this study during a pre-coding meeting. The coding sheets were introduced and the judges were oriented in terms of definitions and clarifications of the functional problem questions, as well as the stages of development characteristics. At this point, a sample case was introduced as a pretest. After complete understanding and familiarization with the coding sheets was assured, a second seminar was scheduled during which more cases were successively coded by the judges. The initial inter-rater reliability tests on these cases were not acceptable (i.e., they were below the 85% level), and thus, two more pretests became necessary to reach acceptable reliability scores.

A similar coding sheet containing 20 yes-no mixed questions derived from the exporting literature was used for the
identification of exporting problems among the surveyed firms.

Phase II: Coding of the Stages of Development (see Appendix E)

A set of 22 statements that represent about 8 characteristics from each of the stages of development of small business, and a set of 6 statements that represent 2 characteristics from each of the stages of development of the exporting process served to classify each individual firm into a particular stage of development and a particular exporting stage. Both sets were derived from cross-references of the theory on the stages of development as it relates specifically to small business and the exporting literature (see Chapter II).

The same procedure was followed as in Phase I above, regarding the orientation of the coders, and the pretest with sample cases.

The problem coding preceded the stage coding in order to avoid subliminal bias on behalf of the coders, by accommodating stages of development with problems falling within the hypotheses lines. A representative sample case is presented in Appendix F.
Reliability

The concept of measurement reliability is one of stability and consistency. Reliability reflects the degree to which the results of measurements of any attribute are free of error. To the extent that scores yielded by some measure are error-free, to that extent the measure is reliable. Some synonyms for reliability are dependability, stability, consistency, predictability, and accuracy (Stone, 1978, p. 44). In survey research, the objective of research design is an instrument which is reliable and the testing of that instrument's reliability. This research has attempted to design a reliable instrument through careful, precise instructions and through tests of instrument reliability.

Inter-rater Reliability

An inter-rater reliability test was conducted to discover the extent to which the coding reliability exceeded chance. Since the coding dimensions used in this research study are composed of nominal scales, where the categories are not ordered along a dimension of "more-or-less" of some attribute, an index of inter-coder agreement was used (Scott, 1955).

$$\Pi = \frac{P_0 - P_e}{1 - P_e}$$
where $P_o$ (observed percent agreement) represents the percentage of judgments on which the analysts agree when coding the same data independently, and $P_e$ is the percent agreement to be expected on the basis of chance (the sum of the squared proportions over all categories $\sum_{i=1}^{k} p_i^2$ where $k$ is the total number of categories and $p_i$ is the proportion of the entire sample which falls in the $i^{th}$ category). $k$ is the ratio of the actual difference between obtained and chance agreement to the maximum difference between obtained and chance agreement.

The coding of the problems and the stages of development by the four judges was divided into five batches for the application of the inter-rater reliability test. The test results were acceptable for the most part (beyond the 85% mark), and are presented in Table 3-10.

Table 3-10
Inter-rater Reliability Test

<table>
<thead>
<tr>
<th>Coded Batches</th>
<th>Number of Firms</th>
<th>Percent Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Overall Problems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Export Problems</td>
</tr>
<tr>
<td>1</td>
<td>6</td>
<td>85.67</td>
</tr>
<tr>
<td>2</td>
<td>6</td>
<td>87.41</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
<td>82.20</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
<td>76.07</td>
</tr>
<tr>
<td>5</td>
<td>7</td>
<td>88.41</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>
FINAL EXPORT POTENTIAL REPORT OF FIRM X

I. Firm Analysis (strengths - weaknesses)

A. Finance
   1. Availability of capital
   2. Cash flow

B. Production
   1. Product uses
   2. Available production capacity
   3. Product modification capacity
   4. Product training/maintenance

C. Marketing
   1. Pricing
   2. Packaging
   3. Transportation
   4. Risk insurance
   5. Quotation
   6. Terms of sale (c.i.f. - f.o.b., etc.)
   7. Method of payment (letter of credit, etc.)
   8. Preferred distribution channels

D. Previous Export Experience
   1. Export contacts from abroad
   2. Trade organizations
   3. Export agencies
   4. Export publications
II. **Foreign Market Research** (threats and opportunities)

<table>
<thead>
<tr>
<th>Comments</th>
<th>Source/Date</th>
</tr>
</thead>
</table>

A. **Country A**

1. Target Market Segment
   (age, sex, income level, lifestyle)

2. Estimated Market Segment size

3. Other Market Segment characteristics

4. GNP/capital; Economy characteristics
   (volume and growth in dollars, historical trends)

5. Sources of competition
   a. local
   b. foreign

6. Tariffs

7. Documentation requirements

8. Other trade regulations

9. Channels of distributions

10. Promotion - Advertising

B. **Country B, etc.**
The range of the inter-rater reliability scores was 12.34 and 7.75 percentage points and the mean was 83.95% and 84.18% respectively.

Intra-rater Reliability Test

When inter-rater coding agreement was achieved within the acceptable reliability limits among the judges, an intra-rater reliability test was administered by requesting from all four raters to recode the same randomly chosen 4 cases (approximately 12% of the sample), after a three-week interval. The same 85% coding agreement was considered acceptable.

The index of reliability that was used was the same that was used for the inter-rater reliability test (Scott, 1955). The intra-rater reliability test produced the following results (Table 3-11):

Table 3-11
Intra-rater Reliability Test

<table>
<thead>
<tr>
<th>Judge</th>
<th>Number of Firms</th>
<th>Percent Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Overall Problems</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>88.84</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>87.21</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>90.01</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>89.54</td>
</tr>
</tbody>
</table>

The intra-rater reliability test results were for the most part within the acceptable reliability limits, and the
instrument of the research design of this study was deemed reliable, stable, and consistent.

Statistical Analysis

The data gathered in this research study are not in the form of measurements along some continuous scale, but rather an expression of "yes" or "no" in response to a question, with no attempt made to ascertain the relative intensity of the positive or negative answer. What was obtained is a tallying of frequencies of functional problems of small businesses categorized according to how many there are in one stage of development or exporting stage, as compared to another.

The problem with this type of categorized data is deciding whether or not the different functional problem frequencies in the three stages represent a statistically significant trend (i.e., whether the pattern of results can be taken as expressing a meaningful tendency rather than being a chance difference) (Hardyck & Petrinovich, 1975, p. 139).

A different but similar statement of the problem is that of determining whether the observed independent sample problem differences signify differences among stage populations, or whether they are merely the chance variations that are to be expected among random sample problems from the same stage population.

The most commonly used statistic with data that are in the form of frequencies is the chi-square statistic. It was used in this study to test the null hypothesis that k independent sample functional problems have been drawn from the same k identical population stages (i.e., that there are no
significant differences in functional problems among the three stages of development of small business).

The data gathered in this study satisfy both the requirements of the chi-square statistic:

1. The data are in the form of frequency counts.
2. All the event-problems in the table are independent, i.e., no two frequencies can be based on the same individual event-problem.

The equation for calculating the $X^2$ of a contingency table of $r$ rows and $c$ columns, is as follows:

$$X^2 = \sum_{i=1}^{r} \sum_{j=1}^{c} \frac{(O_{ij} - E_{ij})^2}{E_{ij}} = \sum_{i=1}^{r} \sum_{j=1}^{c} \frac{(O_{ij})^2}{E_{ij}} - N \quad \text{d.f.} = (r-1)(c-1)$$

where $r =$ number of rows in the contingency table
$c =$ number of columns in the contingency table
$O_{ij} =$ observed number of frequencies categorized in $i$th row of $j$th column
$E_{ij} =$ number of frequencies expected under $H_0$ to be categorized in $i$th row of $j$th column
$N =$ total number of observations

**Exact Partitioning of $X^2$ Contingency Tables**

Since the contingency tables that were developed in this study involve more than one degree of freedom (more than a $2 \times 2$ table), the $X^2$ test fails to provide unambiguous results if the null hypothesis that there are no significant differences among the three stages of development of small
business, is rejected. Rejection of the null hypothesis can only provide information that somewhere in the table, the observed frequencies do not match the expected or theoretical frequencies. The question arises as to just where in a contingency table the important discrepancies occur (Castellan, 1965, p. 333).

By partitioning the overall contingency table and its total $X^2$ it is possible to make additional comparisons of cells within the whole table. In this manner the researcher can test the hypothesis that one or several of the cells accounted for the majority of the overall $X^2$ statistic. As the cells may be ordered in many different ways, the researcher is able to lay out his or her table a priori in any way which is desirable and in a manner amenable to the testing of the relevant hypotheses (Castellan, 1965, p. 338).

There are many partitioning schemes. A $r \times c$ table for example, can be partitioned into $(r-1)(c-1) 2 \times 2$ tables for each partitioning scheme (i.e., for each partitioning scheme the researcher may obtain a number of partitions equal to the degrees of freedom of the overall contingency table).

Three general rules determine the legitimacy of the partitioning scheme:

1. Each element appears by itself once and only once.
2. The same combination of elements do not appear more than once.
3. The dividing lines of the partitions are invariant in that once used, no elements may be combined across them in future partitions.
By following these three rules it is possible to create new partitioning schemes, thus further increasing the number of possible sets of partitions and comparisons for any given contingency table (Bresnahan & Shapiro, 1966, p. 253).

The sum of the $X^2$'s of the partitions for each partitioning scheme yield the overall $X^2$ of the whole contingency table. For example, in a $2 \times 4$ contingency table there are 3 degrees of freedom and we may obtain three partitions for each partitioning scheme. Then, $X^2 = X^2_1 + X^2_2 + X^2_3$.

The equation for calculating the contribution of a partition to the overall $X^2$ is as follows:

$$X^2 = \sum_{i=1}^{l} \sum_{j=1}^{m} \frac{n_{ij} - \frac{m}{r_1} \sum_{i=1}^{l} \frac{n_i}{r_i} - \frac{m}{c} \sum_{j=1}^{c} \frac{n_j}{c_j}}{E}$$

where $l = \text{number of rows in the partitioned table}$

$m = \text{number of columns in the partitioned table}$

$r = \text{number of rows in the overall table}$

$c = \text{number of columns in the overall table}$

$n_{ij} = \text{observed frequency in cell } ij \ (i = 1 \text{ to } r, \ j = 1 \text{ to } m)$

$$n_i = \sum_{j=1}^{m} n_{ij}$$

$$n_j = \sum_{i=1}^{l} n_{ij}$$

$$e_i = \sum_{j=1}^{m} e_{ij}$$

$$e_{ij} = \frac{n_{ij}}{n_{ii} + n_{ij}}$$
\[ e_{ij} = \sum_{i=1}^{k} e_{ij} \]

*e_{ij} = expected frequency for cell \( ij \) calculated from the margins of the original overall whole table.*

*\( o_{i.} \) and \( o_{.j} \) = observed margin totals in partitioned table*

*\( O \) = Total observed frequency in partitioned table*

*\( E \) = Total expected frequency in partitioned table*

The equation above should be considered as a test of independence involving:

a. The squared deviations of observation from expectation, for each cell.

b. A correction or subtraction out of the squared deviations of observation from expectation divided by expectation, for each margin total (columns and rows), and

c. A further correction for having counted the total observed deviation from expectation twice. In other words, the equation above provides a test of independence for lack of goodness of fit in the margins (Bresnahan & Shapiro, 1966, p. 259).

The application of the partitioning technique of the \( X^2 \) statistic on this study is appropriate for the testing of the research hypotheses, since the method of partitioning allows generalization back to the entire population and not just to the population contained in the partition. Thus, it is feasible to test research Hypothesis 1b for example, by rejecting the null hypothesis that there are no significant differences in Marketing problems between Stage I and Stages II and III pooled together, and by partitioning the overall contingency table of Hypothesis 1 accordingly.
Cramer's Statistic ($\phi'$)

The sample coefficient $\phi'$ gives a way to discuss the apparent strength of statistical association in any contingency table, and there is a direct connection with $X^2$ tests making it possible to test the significance of any obtained value from a sufficiently large sample (Hays, 1973, p. 745).

This convenient way to describe the apparent strength in a sample is called Cramer's statistic, and is given by the following equation:

$$\phi' = \sqrt{\frac{\phi^2}{L - 1}} = \sqrt{\frac{X^2}{N(L - 1)}}$$

where $\phi^2 = \frac{X^2}{N}$ (index of mean square contingency)

$N =$ total number of observations, and

$L =$ the smaller of $R$, the number of rows, or $C$, the number of columns.

The index $\phi'$ (Cramer's statistic) must lie between 0, reflecting complete independence, and 1, showing complete dependence of the attributes. The application of the Cramer's statistic on the findings of this study will complement the conclusions derived by the $X^2$ tests (whether they are significant differences in small business problems among the stages of development) and the exact partitioning schemes (where these differences are), by showing how strong these differences are.
Summary

This chapter described the methodology of the investigation: Client firms of the Small Business Development Center of the University of Georgia were sampled and their problems, exporting problems as well as their stage of development and stage of exporting process were identified by a panel of independent judges. Inter- and intra-rater reliability tests assured the validity of the research instrument. The data were analyzed through chi-square tests, exact partitioning of the overall contingency tables of the chi-square tests, and the Cramer's statistic $\phi$ to identify whether there are significant differences in small business problems among the stages of development, where these differences are, and how strong these differences are.
CHAPTER IV

ANALYSIS AND RESULTS

The purpose of this chapter is to report the results of the tests of the hypotheses and their respective secondary hypotheses introduced in Chapter III of this thesis. In addition, theoretical and practical implications of the test results will be presented. Each section will conclude with the construction of a strategic disadvantage profile based on the observed relationships among functional problems, exporting problems, stages of development, and stages of the exporting process.

Hypothesis 1: Differences of Functional Problems Among the Three Stages of Development

The primary purpose of this research was to investigate the relationships among internal, functional problems and exporting problems that small businesses experience, as they relate to their stage of development and to their stage of exporting process.

The first hypothesis examines the relationships between overall functional problems and the three stages of development of the firm (i.e., start-up, early growth, and later growth
Hypothesis 1: There will be significant differences in the overall problems small businesses have, depending on their stage of development.

Hypothesis 1a: Small businesses with characteristics of Stage I will have significantly more Operations problems than small businesses with either Stage II or Stage III characteristics.

Hypothesis 1b: Small businesses with characteristics of Stage II will have significantly more Marketing problems than small businesses with either Stage I or Stage III characteristics.

Hypothesis 1c: Small businesses with characteristics of Stage III will have significantly more General Management problems than small businesses with either Stage I or Stage II characteristics.

Hypothesis 1d: There will be no significant differences in the number of Finance problems small businesses have, regardless of their stage of development.

The sample of small businesses that were included in this study was segmented into three categories of stages of
development according to the firm's life-cycle characteristics. A test for significance of differences in overall small business problems among the three stages of development, regardless of business function, was made.

Stage I firms reported 6.25% of affirmative responses to overall problems, Stage II firms reported 30.56% and finally, Stage III firms reported 20.49% of affirmative responses to overall small business problems.

A chi-square test was used to test for significance of the differences in overall small business problems among Stages I, II, and III. Furthermore, three sets of exact partitioning of the overall contingency table were conducted in order to ascertain exactly which stages accounted for how much of the significance of the differences in overall small business problems. Finally, the $\phi$ index (Cramer's statistic) was calculated for both the overall contingency table and the partitioning sets in order to show how strong these differences are.

The same procedure was followed for each of the secondary hypotheses that pertain to the four functional areas of business. Table 4-1 presents the hypothesis test, the secondary hypotheses tests, the exact partitioning of Hypothesis 1 and the secondary hypotheses overall contingency tables, and finally the $\phi$ Cramer's statistic for each test.

The statistical test of the null/alternative hypothesis pair reveals significant differences among the different stages of development. The hypothesis that small businesses
in different stages of development tend to have different overall problems is therefore accepted. The level of significance exhibited by overall problem differences in the sample data from 32 firms reached \( p = .0001 \).

A further analysis of the statistical test data through exact partitioning of the overall contingency table of Hypothesis I reveals statistically significant differences in overall small business problems exist between Stage I and Stage II and III pooled together, and between Stage III and Stages I and II pooled together. Insignificant differences were observed in the sample data between Stage II and Stages I and III pooled together.

The Cramer's \( \gamma \) index revealed weak differences among the stages in the overall contingency table and even weaker differences among the stages in the partitioned tables.

The statistical tests for the secondary hypotheses reveal significant differences among the different stages of development for Operations problems for Stage I firms, as predicted, and for Finance problems for Stages I and III, contrary to the original hypothesis. Insignificant differences were observed for Marketing problems for Stage II firms, and for Management problems for Stage III firms contrary to the initial assumptions.

The Cramer's \( \gamma \) index revealed distinctly strong differences for the Operations problems overall, and for Stage I in particular, and for the Finance and Marketing problems overall. The rest should be considered weak differences.
These findings have great theoretical significance. In the past, very few researchers and theorists probed the beginning end of the continuum of the theory of the stages of development, with the possible exception of Filley (1962). The results of this study are a response to Glueck's call to "take the best from the (stages of development) theories and develop one consistent theory" (Glueck, 1974, p. 26).

For the first time, this empirical investigation confirmed the existence of a diverse small business microcosm at the beginning end of the stages of development theory, which does not conform to the crude generalizations of the broad theory. It has rather its own identity and it passes through its own transitional stages, before it reaches the functional development stage, the Stage II for most of the popular stages of development theories.

In a practical sense, the findings of Hypothesis 1 should encourage small business people to attempt to determine the stage of development to which their firm ascribes. Once this has been determined, lists of critical areas for examination could be developed into a strategic disadvantage (advantage) profile derived from the normative criteria generated from this study and from attributes tailored to the character and potential of the particular firm.

Figure 4-1 presents a graphical representation of Table 4-1 as a strategic disadvantage profile that portrays the relationships between functional problems and the three stages of development of small business, regardless of
Figure 4-1
Strategic Disadvantage Profile of Small Businesses in Stages I, II, and III

OVERALL
Operations
Marketing
Management
Finance

Shaded areas indicate significant problem differences
Table 4-1

Results of Chi-square Analyses for Differences of Problems of Small Businesses in Stages I, II, and III

<table>
<thead>
<tr>
<th>Problem Area</th>
<th>% Problems Stage I</th>
<th>% Problems Stage II</th>
<th>% Problems Stage III</th>
<th>Stages</th>
<th>$\chi^2$</th>
<th>d.f.</th>
<th>p</th>
<th>$\gamma^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>66.25%</td>
<td>30.56%</td>
<td>20.49%</td>
<td>I x II x III</td>
<td>61.89</td>
<td>2</td>
<td>.001</td>
<td>.368</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>57.11</td>
<td>1</td>
<td>.001</td>
<td>.334</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (I+III)</td>
<td>0.01</td>
<td>1</td>
<td>.950</td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>30.81</td>
<td>1</td>
<td>.001</td>
<td>.245</td>
</tr>
<tr>
<td>Operations</td>
<td>42.39</td>
<td>41.67</td>
<td>36.67</td>
<td>I x II x III</td>
<td>26.58</td>
<td>2</td>
<td>.001</td>
<td>.456</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>24.76</td>
<td>1</td>
<td>.001</td>
<td>.440</td>
</tr>
<tr>
<td>Marketing</td>
<td>80.00</td>
<td>30.56</td>
<td>18.06</td>
<td>I x II x III</td>
<td>27.97</td>
<td>2</td>
<td>.001</td>
<td>.467</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (II+III)</td>
<td>.23</td>
<td>1</td>
<td>.700</td>
<td>.001</td>
</tr>
<tr>
<td>Management</td>
<td>65.00</td>
<td>38.89</td>
<td>45.83</td>
<td>I x II x III</td>
<td>3.59</td>
<td>2</td>
<td>.166</td>
<td>.168</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>.09</td>
<td>1</td>
<td>.800</td>
<td>.001</td>
</tr>
<tr>
<td>Finance</td>
<td>60.00</td>
<td>33.33</td>
<td>9.72</td>
<td>I x II x III</td>
<td>23.82</td>
<td>2</td>
<td>.001</td>
<td>.431</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>16.76</td>
<td>1</td>
<td>.001</td>
<td>.362</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (I+III)</td>
<td>2.26</td>
<td>1</td>
<td>.200</td>
<td>.133</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>18.96</td>
<td>1</td>
<td>.001</td>
<td>.385</td>
</tr>
</tbody>
</table>

*a"overall" represents the aggregate of small business problems in all four functional areas of Operations, Marketing, Management, and Finance.*
industry type. The shaded areas indicate significant differences. The importance of each functional problem category is signified by the aggregate area it occupies in the graph.

Hypothesis 2: Differences of Functional Exporting of Small Firms Among the Three Stages of the Export Development Process

The second hypothesis pertains to the relationship between functional exporting problems that small businesses experience and the three stages of export development of the firm. The secondary hypotheses that accompany Hypothesis 2, relate to each of the specific four functional areas of Operations, Marketing, Management, and Finance:

Hypothesis 2: There will be significant differences in the overall export problems small exporters have, depending on their stage of export development.

Hypothesis 2a: Small exporters with characteristics of export Stage I will have significantly more export Operations problems than small exporters with either export Stage II or export Stage III characteristics.

Hypothesis 2b: Small exporters with characteristics of export Stage II will have significantly more export Marketing problems than small exporters with either export Stage I or export Stage III characteristics.

Hypothesis 2c: Small exporters with characteristics of export Stage III will have significantly more export Management problems than small exporters with either export Stage I or export Stage II characteristics.
Hypothesis 2d: There will be no significant differences in
the number of export finance problems small exporters
have, regardless of their stage of export development.

The sample of small retail firms that were included in
this study was segmented into three categories of stages of
export development according to the firms' export process
development characteristics. A test for significance of dif-
ferences in overall problems that small firms experience among
the three stages of export development, regardless of business
function, was made.

Export Stage I firms reported 56.04% of affirmative
responses to overall problems. Export Stage II retailers re-
ported 50.24% and finally, export Stage III firms reported 32.89%
of affirmative responses to overall exporting problems.

A chi-square test was used to test for significance of
the differences in overall exporting problems of small exporters
among export Stages I, II, and III. Furthermore, three sets of
exact partitioning of the overall contingency table were con-
ducted in order to ascertain exactly which export stages accounted
for how much of the significance of the differences in overall
problems. Finally, the $\chi^2$ index was calculated for both the
overall contingency table and the partitioning sets in order to
show how strong these differences are.

The same procedure was followed for each of the
secondary hypotheses that pertain to the four functional areas
of exporting. Table 4-2 presents the hypothesis test, the
secondary hypotheses tests, the exact partitioning of Hypothesis
2 and the secondary hypotheses overall contingency tables, and
Table 4-2

Results of Chi-square Analyses for Differences of Problems of Small Exporting Firms in Stages I, II, and III

<table>
<thead>
<tr>
<th>Export Problem Area</th>
<th>Export Problems Stage I</th>
<th>Export Problems Stage II</th>
<th>Export Problems Stage III</th>
<th>Exporting Stages</th>
<th>$\chi^2$</th>
<th>d.f.</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall$^a$</td>
<td>56.04%</td>
<td>50.24%</td>
<td>32.89%</td>
<td>I x II x III</td>
<td>13.29</td>
<td>2</td>
<td>&lt;.010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>6.59</td>
<td>1</td>
<td>&lt;.010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (I+III)</td>
<td>.10</td>
<td>1</td>
<td>&lt;.800</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>11.63</td>
<td>1</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>Operations</td>
<td>27.45</td>
<td>21.21</td>
<td>8.33</td>
<td>I x II x III</td>
<td>2.09</td>
<td>2</td>
<td>.351</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>1.19</td>
<td>1</td>
<td>&lt;.300</td>
</tr>
<tr>
<td>Marketing</td>
<td>61.44</td>
<td>55.56</td>
<td>33.33</td>
<td>I x II x III</td>
<td>9.34</td>
<td>2</td>
<td>&lt;.009</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (I+III)</td>
<td>.01</td>
<td>1</td>
<td>&lt;.950</td>
</tr>
<tr>
<td>Management</td>
<td>69.12</td>
<td>70.45</td>
<td>62.50</td>
<td>I x II x III</td>
<td>.36</td>
<td>2</td>
<td>.837</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>.14</td>
<td>1</td>
<td>&lt;.800</td>
</tr>
<tr>
<td>Finance</td>
<td>50.98</td>
<td>36.36</td>
<td>16.67</td>
<td>I x II x III</td>
<td>5.29</td>
<td>2</td>
<td>.071</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>I x (II+III)</td>
<td>3.68</td>
<td>1</td>
<td>&lt;.100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II x (I+III)</td>
<td>.38</td>
<td>1</td>
<td>&lt;.700</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>III x (I+II)</td>
<td>3.32</td>
<td>1</td>
<td>&lt;.100</td>
</tr>
</tbody>
</table>

$^a$"overall" represents the aggregate of small business problems in all four functional areas of Operations, Marketing, Management, and Finance.
finally the $\chi^2$ Cramer's statistic for each test.

The statistical test of the null/alternative hypothesis pair reveals significant differences among the different stages of export development tend to have different overall problems is therefore accepted. The level of significance exhibited by overall export problem differences in the sample data from 32 exporting firms reached $p < .010$.

A further analysis of the statistical test data through exact partitioning of the overall contingency table of Hypothesis 2 reveals statistically significant differences in overall export problems exist between export Stage I and export Stages II and III pooled together, and between export Stage III and export Stages I and II pooled together. Insignificant differences were observed in the sample data between export Stage II and export Stage I and III pooled together.

The Cramer's $\chi^2$ index revealed weak differences among the stages in the overall contingency table and even weaker differences among the export stages in the partitioned tables.

The statistical tests for the secondary hypotheses reveal insignificant differences among the different stages of export development for Marketing export problems for export Stage II firms, for Operations export problems for export Stage I firms, and for Management export problems for export Stage III firms also, contrary to the original hypotheses. Insignificant differences were also observed for Finance export problems among all export stages, as initially predicted.

The Cramer's $\chi^2$ index did not reveal any strong differences for any export problem category.
Hypothesis 2 states that there will be significant differences in the overall export problems small exporters have, depending on their stage of export development. Small exporters did indeed exhibit significant differences overall among all three stages and particularly for Stages I and III.

The discussion under Hypothesis 1 concerning the lack of a comprehensive theoretical body in the beginning end of the stages of development theoretical continuum, is equally applicable here. The finding of significant differences of problems of small export firms in the various stages of development, makes the literature gap conspicuous and calls for a conscious effort to fill it with more empirical studies. Small exporters exemplify the underlying assumption of this research study, that before a small business reaches a functional development stage, it has to pass through a whole series of transformations and stages of development, each with its own problems and attributes.

The practical importance of this finding is that small business managers should recognize the value of a diagnostic tool such as the strategic disadvantage (advantage) profile for their firm. By identifying the firm's stage of development and its subsequent weaknesses that most likely will inhibit its ability to fulfill its purposes at that particular stage, the firm's effectiveness will greatly be enhanced.

Figure 4-2 presents a strategic disadvantage profile of small exporting firms among the three stages of export development. The shaded areas indicate significant differences. The importance of each functional problem category is signified by the aggregate area it occupies in the graph.
Figure 4-2
Strategic Disadvantage Profile of Small Exporting Firms in Export Stages I, II, and III

Stage I
OVERALL
Stage II
Operations
Marketing
Management
Finance

Stage III

a Shaded areas indicate significant problem differences
Relationship Between This Research and Previous Research

As a result of accepting or rejecting the hypotheses there is support from some previous work as well as some conflicting nonsupportive theorizations. Filley and House (1969, p. 462) state:

As an organization passes through the stages of growth, it adds new functional emphases in a predictable fashion: in traditional business organizations, the firm emphasizes a single function; following takeoff, it tends to emphasize either sales or production followed by the alternative; then finance; and finally separation of administration from operation.

This original assumption is also held by Hutchins (1959, p. 117) who observed during the period from the Civil War to the beginning of the 20th century in this country:

... a noticeable tendency within firms for different functional areas to be special problems, in order of time, and for successive executive officers to represent these areas. The characteristic and natural progression, which shows the order in which difficulties arose, was from production, to marketing, to finance, and finally to general administration.

Thain (1969) also states that the major emphasis in the functional areas of the Stage I company must be in operating (Operations), even though this statement should be discounted since Thain's Stage I is much broader than the Stage I of this thesis.
The rest of the literature on the stages of development of small business exhibits an abundance of inconsistent statements to the kind of problems most likely to be experienced by a small firm at each specific stage. The reader will recall the vague references to the requirement among the different stages of development of small business of different "managerial roles" (Kroeger, 1974), different "stocks of knowledge" (McGuire, 1976), different "types of control" (Steinmetz, 1969), different "crises" (Greiner, 1972), different "sales turnover" (Deeks, 1976), and different "product market strategies" (Cooper, 1978). The literature gap on this aspect is extremely conspicuous and further accentuates the inconsistencies between stages of development theorists, especially as far as the implementation of normative guidelines is concerned.

The findings of the present empirical research confirmed Glueck's suspicion of the existence of a separate stages of development theory on the small business level (Glueck, 1974, p. 26). The acceptance of Hypothesis 1 endorsed this, as well as that each small business stage of development has its own set of problems, a notion also advanced by Filley and House (1969).

The theoretical implications of this study need not be emphasized again. Apart from being a significant empirical investigation (perhaps the first) that concentrated on the beginning end of the continuum of the theory of the stages of
development, it also confirmed the inadequacy of the generalizations of the broad theory. This study also constitutes an original attempt to link theory and practice by portraying the relationships between functional problems and the stages of development in a strategic disadvantage profile. Once normative criteria are generated from follow-up studies by theorists and practitioners, better guidelines for how long a stage is expected to last, what specific problems within each functional area should be expected at each stage, how big a firm is likely to be in each stage, etc., can be developed that will increase the potential of the stages theory for helping managers to implement their strategic choices (Glueck, 1976, p. 239).

Summary

This chapter has reported the results of implementing the survey of strategic disadvantages of Georgia small exporters, and of evaluating the hypothesized relationships among functional problems, stages of development, and exporting stages. The survey was successfully administered and sample data provided mixed results for the hypothesized relationships.

Two specific research hypotheses were evaluated by testing sets of underlying statistical hypotheses. Tests of differences in functional problems were made by using the chi-square statistical test and sets of exact partitioning of the resulting overall contingency tables. All tests were one-tailed tests with a significance level of \( a = .05 \) for the probability of rejecting a true null hypothesis.
Table 4-3 presents a summary of test results for each research hypothesis:

Table 4-3
Summary of Test Results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Test Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Differences of small business problems among the stages of development</td>
<td>Accepted</td>
</tr>
<tr>
<td>2</td>
<td>Differences of small business exporting problems among the stages of development of the exporting process</td>
<td>Accepted</td>
</tr>
</tbody>
</table>
CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This study has been an empirical investigation of internal small business problems at different stages of overall development, as well as exporting problems at different stages of the exporting development process.

Its primary purpose has been to amplify the empirically-based body of descriptive knowledge about small business problems for use by students of management theory, normative theorists, and small business consultants and practitioners. This investigation was initiated in response to the lack of empirically-based normative or descriptive studies of strategic disadvantages or internal problems of small business, since most empirical research has dealt ex post with causes of small business failure or success.

This final chapter contains four segments. Initially, a summary of the research method will be provided. Second, a discussion of the hypotheses will follow, along with a synthesis of the principal findings as related to previous research concerning the different functional problems at different stages of development of the small firm. Third, the limitations of this study will be established. Finally, implications for future research will be elucidated.
Summary of the Research Method

The limitations of the existing field research regarding strategic disadvantages of small business at different stages of development required that this research be approached as an exploratory investigation. Accordingly, a three-phased study was designed and implemented.

The first phase consisted of literature research to identify and define the small business strategic weaknesses and to construct a framework for analysis of empirical data. The second phase consisted of the identification by a panel of independent judges of strategic weaknesses and the stage of development of small firms, clients of the University of Georgia's Small Business Development Center. Inter- and intra-rater reliability tests assured the validity of the research design. The third phase consisted of hypotheses testing and statistical analysis through chi-square tests (to identify whether there are significant differences in small business problems among the stages of development), exact partitioning of the overall contingency tables of the chi-square tests (to discover where these differences are), and the Cramer's $\phi$ statistic (to ascertain how strong these differences are).

Synthesis of Major Findings

This study set out to investigate two relationships. First, the broad relationship between functional problems of small businesses and their respective stage of development. Second, the relationship between functional exporting problems of small
firms and their stage of export development. The investigation of these kinds of relationships took the form of two hypotheses tests, the findings of which are summarized below:

**Hypothesis 1 Accepted**

*Hypothesis 1:* There will be significant differences in the overall problems small businesses have, depending on their stage of development.

Very few theorists and researchers acknowledged the diversity of the beginning end of the continuum of the theory of the stages of development. Filley and House (1969) proposed a theoretical model for the initial stages of the theory, but they extended their paradigm too far by including the functional development (Stage II), and part of the decentralization stage (Stage III).

The first hypothesis is a direct response to Glueck's call for development of a consistent theory (Glueck, 1974, p. 26). Do small firms at Stage I of the traditional stages of development theory have different characteristics and problems? Can Stage I be broken down to smaller components? The answer to both questions should be affirmative. The results indicate that small firms within the traditional Stage I do indeed experience different problems depending on their (sub)stage of development. The p value associated with this finding was < .001.

The findings of Hypothesis 1 constitute a significant (and perhaps the first) empirical investigation that confirmed the existence of different stages of development within the traditional Stage I. Therefore, they represent a significant contribution to
both small business and stages of development theories.

On the practical side, the findings of Hypothesis 1 should encourage small firm managers to attempt to determine the stage of development to which their firm belongs. Once this determination has been made, a strategic disadvantage profile of critical weakness areas could be generated from the normative criteria developed from this study, especially in the Operations area for Stage I firms, and in the Finance area for Stage III or I firms, where differences are significant.

**Hypothesis 2 Accepted**

Hypothesis 2: There will be significant differences in the overall export problems small exporters have, depending on their stage of export development.

The discussion under Hypothesis 1 concerning the lack of a theoretical body in the beginning end of the stages of development theory is carried here to a narrower concept and is equally applicable. The acceptance of Hypothesis 2 produced significant results (at the $p < .010$ level) which endorsed the notion that exporters have indeed different sets of problems at different stages of export development. The transformation that a small exporting firm experiences before it reaches the functional development Stage II of the broad theory of stages of development, cause significant differences in overall export problems among all three export stages, and in the areas of export Marketing for Stage I and Stage III firms respectively.
Diagnostic tools such as the strategic disadvantage profile constructed from the results of Hypothesis 2 could assist small firm export managers and practitioners in improving their firm's effectiveness by exercising normative judgment in the evaluation of the specific strategic weaknesses of the firm in question.

These empirical findings are an answer to the calls for more research toward the development of a consistent theory of the stages of development (Glueck, 1974, p. 26). By analytically examining each stage separately this study represents an attempt to fill the gaps and the discrepancies created by the various stages of development theorists who concentrated only on big business, with the possible exception of Filley and House (1969).

On the other hand, the normative criteria reflected in the strategic disadvantage profile constructed from the findings of Hypotheses 1 and 2 could serve as an aid for small business managers and practitioners in establishing criteria for judging the weaknesses of their own firm in their complex logical procedure for strategy formulation. In lieu of adding yet another logical procedural model, this study's strategic disadvantage profile provides a limited number of recommendations which it is believed will add an appropriate amount of needed structure to the diagnostic processes of the small business strategy formulation.

Limitations of the Present Research

The source of the data that were gathered in this study was the perceptual judgments of small business problems, as
expressed by the SBDC consultants in their final report. Furthermore, perceptual evaluation of these reports was used by the judges, who finally established for the purposes of this study, the type of problems and the stage of development of the particular firms which were selected for inclusion in the final sample. This research procedure with its inherent perceptual biases constitutes a major limitation of this study, and restricts its generalizability.

Another limitation was the fact that the reports were not randomly selected. Two criteria were used for selecting the cases to be included in this study: one was the assignment to the case of at least two consultants to avoid "tunnel vision," and second the "conclusiveness" of the report, as far as a comprehensive, all-function evaluation of the firm in question is concerned. Even though these two criteria were considered adequate in ensuring the quality of the cases that were included in the sample, there may be some alternative measures that could have been preferable.

The small sample size is a third limitation of this study. Only 32 exporting firms met the criteria for inclusion in the final sample. This imbalance might have produced some distortion in the final results with unknown direction.

A final limitation was the possible imperfection of the sample, as far as representativeness of the small business exporting population is concerned, something that was inherited from whatever representativeness deficiencies the SBDC population (from which the sample was drawn) presented in the first place.
Extensions of the Study

This study has demonstrated a successful methodology for investigating the relationships between overall problems, stages of development of small firms, and between exporting problems and stages of export development. However, as in most research, there are many questions left unanswered.

The most important recommendation that can be made is the absolute need for a longitudinal study to underwrite the validity of the findings of this study. The length of time between the transitions between stages was not determined. There is also the possibility that some firms may revert to their original stage after unsuccessful experimentation with a higher-level stage. The length of such studies could provide a fuller range of information on these subjects.

Another suggestion for an extension of this study is to include in a similar type of research, a possible Stage IV that would constitute the link between small business and big or medium-sized business. By doing so, the researcher could investigate the validity of Susbauer's (1978) arguments that growth is not always a logical, expected evolution for the small firm. The examination of the factors that influence the decision for transition to a higher-level stage, or the settling for the status quo of the present stage, may provide an understanding of the unknown explicitly or less explicitly recognized assumptions about the behavior of small business in regard to growth.
A third suggestion is to probe into the subjective, perceptual processes of the evaluation of strategic weaknesses, by comparing the owner-manager's perception of his/her firm's problems before and after he/she receives consultation by the SBDC, with the consultant's perception of the problems of the same firm. A discriminant analysis using perception as the discriminating variable may hopefully arrive at more reliable results.

A final suggestion concerns the need for increased understanding of the process of evaluating strategic disadvantages or weaknesses. Little is yet known about the subjective processes of anticipating and measuring the outcomes of future action, of associating multidimensional criteria to basic goals, or of defining the kinds of decisive normative rules which accept or reject the possibility of the severity of a particular weakness. If this is accomplished, a better understanding of the complex activities and processes of the diagnosis of strategic weaknesses for the small firm will be achieved.
Export Inquiry Processing by the SBDC

Developed By:
George S. Vozikis
Staff Consultant
February, 1979
Purpose:

The purpose of this document is to provide some guidelines which are to be followed when processing a client's inquiry.

There are three interrelated parts in this document. The first part is an analysis of the client's ability to produce, finance, and deliver the product. The second part deals with identifying the market opportunities for the client. Finally, part three is concerned with locating foreign representatives.

The market opportunities for the client will be mainly, though not inclusively, the responsibility of Mr. Motameni. The firm's ability analysis will be the responsibility of Mr. Vozikis. The responsibility of locating foreign representatives will be given to Ms. Palmour. Ms. Palmour, along with the Director, Professor Kefalas, will be responsible for the final package.
III. Locating Foreign Representatives
   (Look in Export Information Services)

A. Country X
   1. 
   2. 
   3. 

B. Country Y
   1. 
   2. 
   3. 

C. Country Z
   1. 
   2. 
   3.
IV. Implementation

**What To Do With An Inquiry**

Suppose you receive an inquiry from a foreign firm about your product. What actions should you take? Follow this checklist:

1. When inquiry is received:
   a. Check for the correct address of the foreign firm. Don't discard the envelope until you are sure the complete address appears on the firm's letterhead.
   b. Check nature of inquiry.
   c. Check type of quotation and term of sale desired (see Appendix II).

2. Acknowledge inquiry if quotation cannot be sent immediately.

3. Compute price according to the terms of quotation. Check credit and reputation of customer.

4. When order is received:
   a. Check order to verify your ability to comply with the terms of the order.
   b. Acknowledge order and stipulate any deviations or corrections.
   c. Make sure all personnel involved with processing order fully understand their part.
   d. If payment is by Letter of Credit, check carefully as soon as it is received and, if you cannot comply, request change immediately (see Appendix III).

5. Prepare the order for shipment.

6. When date that order is to be ready for shipment is known:
   a. Contact freight forwarder and arrange shipping schedule (see Appendix I).
   b. Make sure necessary shipping instructions and documents are completed correctly and distributed on time (see Appendix IV).

7. Prepare and submit collection documents to receive payment.
10. Send your letters by airmail and request responses the same way. Make sure you use the correct postage. Many firms fail to check this simple, yet important point. Also consider using stamps, instead of a postage meter to command more attention.

Checklist for Telephones

If your business needs dictate the use of international telephone calls, you should use the following checklist:

1. Check the number and name of the party you are calling and be aware of time differences and time your call appropriately.

2. Determine if direct dial is available and feasible and be aware of differences of dial tones and other telephone audio indicators.

3. Speak clearly and identify yourself and your company.

4. Avoid annoying expressions. Remember your party may not be familiar with our expressions.

5. Be courteous, polite, and helpful. This will demonstrate that doing business with you is a pleasant experience. Remember also that your voice conveys a mental image of your personality, so be tactful and tasteful.

6. Maintain clear detailed notes before you for a well-organized delivery that will enable maximum usage of conversation time. The manner in which you express yourself conveys an indication of your skill and intelligence. Your story may be the prospect's only clue to your company and your product.

7. Always confirm what you understand the agreement to be. Clarify matters during the telephone conversation rather than run the risk of an embarrassing and costly misunderstanding later.
Checklist for Letters

Use this checklist as a guide for international business letter writing:

1. Answer overseas inquiries promptly and in the language of the letter of inquiry, when requested.

2. If you are actively doing business overseas, your letterhead should reflect this by including U.S.A. in the address, cable information, and the name of your bank to enable overseas customers to make credit checks with little difficulty.

3. Do not ask for credit information in your first sales letter. This information can best be obtained from such other sources as the international banking department of your own bank or the U.S. Department of Commerce.

4. Make sure your letter adequately introduces your firm and establishes you as a reliable source of supply.

5. Be polite, courteous, and friendly, but without undue familiarity and slang. Some overseas firms, particularly those in Latin America, feel the usual brief U.S. business letter is lacking in courtesy.

6. Make sure your letter contains full information about your product, including price and other pertinent data, so the customer will not have to ask further details before ordering.

7. Give adequate information for the buyer to calculate the cost of your product delivered to arrival point in his country by contacting freight forwarder and determining shipping costs (see Appendix I).

8. Better results can be obtained if you use your customer's system of measurement. For example, centimeters instead of inches. You may wish to insert the metric figure or other measurements in parentheses following the U.S. measurement.

9. Personally sign your letter. Form letters are not satisfactory.
Checklist for Cables

A similar checklist also can be applied in using international business cable messages. Particular emphasis should be placed, however, on ensuring that:

1. Your cable address is included on all correspondence and that you recheck your prospect's cable address to verify that it is correct.

2. Your cable contains complete information to satisfy the intended purpose of the communication.

3. Where possible, you use the customer's system of measurement and money values.

APPENDIX I

Shipping Your Products

One of the first things you may want to do before shipping your products is arrange for the services of a foreign freight forwarder.

Foreign Freight Forwarder

The foreign freight forwarder acts as an agent for the exporter in moving the cargo to the overseas destination. With few exceptions (air shipments, overland shipments to Canada, or shipments to Hawaii and Puerto Rico) it is recommended that a freight forwarder, licensed by the Federal Maritime Administration, move this cargo from the U.S. port of export. These agents are familiar with the import rules and regulations of foreign countries, methods of shipping, U.S. Government export regulations, and with the documents connected with foreign trade.

Freight forwarders can assist with an order from the start by advising the exporter of the freight costs, port charges, consular fees, cost of any special documentation, and insurance costs, as well as their handling fees which will enable him to prepare his quotation. They also can recommend the degree of packing that should be considered to ensure the arrival of the merchandise at the destination in good condition. If desired, they can even arrange to have the merchandise packed at the port of export or to have it containerized. The cost for their services is a legitimate export cost, and as such may be figured into the contract price charged to the customer.

After the order is ready to ship, they will review the letter of credit, packing list, etc., to ensure that everything is in order. If desired, they can reserve the necessary space abroad an ocean vessel.

When the cargo arrives at the port of export, the forwarders make the necessary arrangements to clear it through Customs and have it delivered to the pier in time for loading aboard the selected vessel. They may also prepare the ocean bill of lading and any special consular documentation which may be required. After shipment, they forward all the documents direct to the customer, or to the paying bank with instructions to credit the exporter's account accordingly.

Freight forwarders also may represent shippers on air freight shipments and perform many of the same services as on an ocean shipment because the procedures and documents involved in both methods of shipment are quite similar.

(NOTE: Although most forwarders' rates and services will be competitive, some even regulated by Federal law, it is recommended that several different bids be obtained as there may be some variations in price. For a fair rate comparison, make certain that all of the services being compared are equal.)
Export Packing Lists

An export packing list is considerably more detailed and informative than a standard domestic packing list. It itemizes the material in each individual package, and indicates the type of package - box, crate, drum, bag, etc. It shows the individual net, legal, tare, and gross weights and measurements for each package. In the event shipment is to a country using a different weight and measurement system, the packing list should indicate the packaged dimensions and weights in that system. Package markings should be shown along with the shipper’s and buyer’s references. If the packing list requires more than one page, the additional pages should be serially numbered and contain a recapitulation on the last page.

A packing list should be either included in or attached to the outside of one package in a waterproof envelope marked "packing list enclosed."

The completed export packing list is used by the shipper, or his forwarding agent, to ascertain the total shipping weight and volume so that shipping space may be reserved. It is also used at the port of export as a checkoff list to determine that the correct cargo has been received.

The export packing list is used by Customs officials at both the U.S. port of export and the foreign port of import to check the cargo. Finally, it is used by the buyer to inventory the merchandise received.

Domestic Shipments to Port of Export

The inland transportation of an export order is handled in much the same way as a domestic one. The export marks should be added to the standard information shown on a domestic bill of lading and, in the case of an ocean shipment, it is also helpful to show the name of the exporting carrier and the latest allowed arrival date at the port of export. Instructions for the inland carrier to notify the exporter’s foreign freight forwarder by telephone upon arrival, should also be included so that final delivery arrangements can be made.

For the purpose of export control, a special anti-diversion of destination control statement must also appear on the inland bill of lading. There are three different statements which may be used. They will be discussed in Chapter XI, Documenting Your Shipments.

It should be noted that it is possible to obtain a special export rate, which can result in an appreciable saving in freight charges, when shipping via rail to certain ports. Your freight forwarder can advise on this matter.

On rail carload shipments to certain countries in the Far East originating east of the Rocky Mountains, it is possible to arrange for a "through bill of lading" from the
U.S. point of origin all the way to the destination. There are several advantages to this type of shipment, the most notable being a reduction in the ocean freight rate and the fact that the carriers will absorb the U.S. West Coast wharfage and handling costs levied by the ports.

Another point to keep in mind when making LTL (less than truckload) or LCL (less than carload) shipments: Due to ICC rulings, the export cargo must be loaded last so it is the first cargo unloaded. When loading combination shipments of export orders, the vessel sailing dates and loading times must be taken into consideration in order to save time and cost at the port of export.

Arrangements for cargo space on an ocean vessel may be made by the exporter or by his foreign freight forwarder. After the order requirements regarding shipping dates, destination, and possible routing instructions have been reviewed and the total shipping weight and volume has been determined, an appropriate ocean carrier must be located.

All ocean carriers publish sailing schedules and it is a simple matter to be included on their mailing lists. There are several publications that contain consolidated sailing schedules for all carriers from which it is possible to locate potential carriers which can then be contacted for available space.

Ocean Carriers

Three basic types of ocean service are available to exporters: Conference lines, independent lines, and tramp vessels.

An ocean freight conference is an association of ocean carriers who have joined together in order to establish common freight rates and shipping conditions. They often operate under a dual rate system in which an exporter willing to enter into a dual rate contract is able to ship his cargo at a lower rate than an exporter who is not a contract shipper. For his consideration, the exporter promises to ship all or a large percentage of his cargo on vessels of member lines. However, if there is no conference service within a reasonable time to the destination in question, it is possible to ship on an independent's vessel after first obtaining permission from the conference.

Independent lines operate and quote rates individually. They do not require the signing of a dual rate contract and will accept bookings from all shippers contingent upon the availability of space. When they are in competition with a conference line, the independent line will usually quote rates approximately 10 percent lower than the conference rates for noncontract shippers.

Both types of carriers operate on regular/established schedules for most trade routes. On the other hand, tramp vessels, which usually carry only bulk cargoes, are not on an established schedule.
The Booking Contract

The selected carrier will issue what is known as a "booking contract" which reserves space for the cargo on a specified vessel. The carrier reserves the right to charge the exporter for this reserved space in the event he fails to use it, or to cancel the booking far enough in advance of sailing so the carrier can rebook the space and avoid a revenue loss.

The booking contract may be made by either the exporter or his foreign freight forwarder.

Air Carriers

Air freight traffic continues to grow, as more exporters discover the advantages of shipping by air. By utilizing air freight, shippers are able to speed delivery, effect the quick replacement of broken down equipment, deliver perishables in prime condition, respond to unpredictable product demand, achieve greater flexibility of delivery schedules, and achieve less costly inventory control.

Cargo Insurance

Export shipments usually are insured against loss or damage in transit by what is known as ocean marine cargo insurance. While similar to domestic cargo insurance, ocean marine cargo insurance coverage is much broader and applies to shipments by mail or air as well as by ship.

Ocean marine cargo insurance may be arranged by either the buyer or seller, depending on the terms of sale. It is available in two basic forms:

A special (one-time) cargo policy that insures a single specific shipment

An open (or blanket) cargo policy which is in continuous effect and automatically insures all cargo moving at the seller's risk.

The one-time cargo policy is of course more expensive since the risk cannot be spread over a number of different shipments. However, if the seller's export business is infrequent, it may be more feasible to utilize the one-time coverage.
APPENDIX II
Definitions of Terms of Sale

Quotation

A quotation basically describes the product, states a price for that product at a specified delivery point, sets the time of shipment, and specifies the terms of payment.

Since the foreign buyer may not be familiar with the product, its description in an overseas quotation must be more detailed than in a domestic one. The description should include the total gross and net shipping weight and total cubic volume packed for export, as well as individual outer-to-out dimensions, if possible. This information is necessary so the buyer may determine if any special loading or handling equipment will be required; it also will enable him to compute transportation charges. In some countries, the import duties and/or taxes are assessed on the weight of the shipment rather than on the dollar valuation and the buyer must be able to calculate this in advance.

Many times, a seller is requested to submit a pro forma invoice with his quotation. These invoices are not for payment purposes. They are models only, which the buyer will use when applying for an import license or in arranging for funds.

The time of shipment or shipping schedule can be important to a prospective buyer. It should always be specified whether the time quoted for shipment is from the factory or the port of export. The estimated shipping date from the U.S. port of export is always preferable since the overseas buyer has no way of estimating inland transit time in the United States.

Terms of Sale

c.i.f. (cost, insurance, freight) to named overseas port of import. Under this term, the seller quotes a price including the goods, insurance, and all transportation and miscellaneous charges to the point of debarkation from vessel or aircraft.

c. & f. (cost and freight) to named overseas port of import. Under this term, the seller quotes a price including the cost of transportation to the named point of debarkation.

f.a.s (free along side) at named U.S. port of export. Under this term, the seller quotes a price, including service charges and delivery of the goods along side the vessel.

f.o.b. (free on board). There are a number of classes of f.o.b. Here are three:

f.o.b. (named inland point of origin)

f.o.b. (named port of exportation)

f.o.b. vessel (named port of export)

Ex (named point of origin) e.g., ex factory, ex warehouse, etc. Under this term, the price quoted applies only at the point of origin and seller agrees to place the goods at the disposal of the buyer at the agreed place on the date of sale.
Always quote c.i.f. whenever possible, this means something abroad. It shows the foreign buyer what it costs to get your product into a port in his country or into a nearby port.

If you need assistance in figuring the c.i.f. price, a freight forwarder will be glad to help you. Furnish him with a description of your product and the weight and cubic measurement when packed. He can then compute the c.i.f. price and usually will not charge you for this service.
APPENDIX III

Receiving Payment For Your Exports

There are six basic methods of receiving payment for products sold overseas. In many respects, some of them are quite similar to domestic payment terms.

Cash in Advance

Cash in advance is, of course, the most desirable method of all since the shipper is relieved of collection problems and has immediate use of the money.

On the other hand, unless it is a very small order, the foreign buyer may object to these terms because it ties up his capital until he receives the merchandise and resells it. He may also have reservations as to whether or not he will actually receive his merchandise.

Open Account

Unless the buyer is of unquestionable integrity (which has been determined through a thorough credit investigation or by prior experience), an open account can be somewhat risky for the seller.

In addition, the exporter's capital is tied up until payment is received. It is standard practice, in many countries, to wait until the merchandise is received, thus delaying payment even longer.

Consignment Sales

In consignment sales, the same basic procedure is followed as in the United States. The material is furnished to a foreign concern on a deferred payment basis until they have sold the products and are able to reimburse the seller.

This method is limited to products that lend themselves to an operation of this type.

The countries in which sales of this nature are contemplated should be examined closely for economic and political stability.
It may be wise to consider some form of political risk insurance. In addition, the contractual agreement should establish who will be responsible for property risk insurance covering the merchandise until it is sold and payment is received.

Sight Draft

A sight draft is used when the seller wishes to retain control of the shipment, either for credit reasons or for the purpose of title retention. Shipment is made on a negotiable order bill of lading consigned to either the order of the shipper or to a third party. The original order bill of lading must be properly endorsed by the bearer and surrendered to the carrier before the cargo can be released.

In actual practice, the original order bill of lading is endorsed by the shipper and sent to the buyer's bank along with a sight draft, invoices, and other necessary supporting documents specified either by the buyer or his country, e.g., packing lists, consular invoices, insurance certificates, and inspection certificates. The bank notifies the buyer that they have received these documents, and as soon as he pays the amount of the draft he may have the bill of lading enabling him to obtain his shipment.

A certain degree of risk remains with this manner of shipment because the buyer's financial position may change between the time the goods are shipped and the time the drafts are presented for payment. Also, the political policies of the importing country may change.

Time Draft

With the time draft, the buyer can obtain possession of the goods when he accepts the draft and defer payments for 30, 60, or 90 days, or even longer.

Delivery Orders

Some countries do not recognize or permit sight draft shipments involving negotiable bills of lading. In those instances, in order to protect themselves, shippers may consign the merchandise to a third party, such as an import broker, in the foreign country on a straight bill of lading. The shipper then will write a letter called a "delivery order" to the third party authorizing him to release the shipment to the bearer on the original delivery order. The original delivery order is sent to the buyer's bank with a draft and other supporting documents required by that country. Included are instructions to the effect that the original delivery order addressed to the broker be released to the buyer only after they have honored or accepted the draft, whichever the case may be.
Since there are no negotiable air bills of lading, a similar arrangement can be used to protect air shipments. This also applies to parcel post shipments. In these instances, the third party is usually the buyer's bank. Approval must be obtained from the bank prior to shipment to ensure that it is acceptable and to prevent later difficulties.

Letters of Credit

A frequently used form of collection is payment against a letter of credit. This is a document, issued by a bank at the buyer's request in favor of the seller, promising to pay the agreed amount of money upon receipt by the bank of certain documents within a specified time. These documents usually are the same as those furnished for a sight draft collection.

Letters of credit may be revocable or irrevocable, but preferably are irrevocable. This means that once the credit has been accepted by the seller, it cannot be altered in any way by the buyer without the permission of the seller.

It is also most desirable to have the buyer confirm the letter of credit through a U.S. bank. By doing this, the U.S. bank is accepting the responsibility to pay, regardless of the financial situation of the buyer or foreign bank. This is a definite advantage because the seller can receive payment as soon as the documents are presented to the bank.

Normally, on all transactions handled through banks, the collection charges (fees collected by both the foreign and U.S. banks for their services) are charged to the account of the drawee (buyer) and should be so stated in all quotations and on all drafts.

These are the basic methods of obtaining payment but there are several variations to each that can apply, such as acceptance drafts, documentary payment orders, or authority to pay. Additional information may be obtained from banks with international departments, or from any Commerce Department District Office.
APPENDIX IV

Documenting Your Shipments

Documentation is very important in processing an export order. Special care should be taken in the preparation of the documents to avoid difficulties at time of shipment or collection which could result in delayed payment. Export documentation is divided into two categories—shipping and collection.

Shipping Documents

These are documents prepared by the shipper or his forwarder to move the shipment through Customs, allow it to be loaded aboard a carrier, and to be shipped to the foreign destination. Included in the shipping document category are packing lists and domestic bills of lading which have already been discussed in Chapter X. The remaining shipping documents of major concern to shippers are as follows:

Export Licenses - Except for U.S. territories and possessions and, in most cases, Canada, all items exported are subject to an export license. This is a permit to allow particular merchandise to be exported. There are two general groups of licenses—Validated Licenses and General Licenses.

Validated Export Licenses - For reasons of strategic significance, short supply, or foreign policy, the United States controls the export movement of certain commodities, and it is necessary to obtain a Validated Export License for each order from the Office of Export Administration in Washington. This requirement can apply on shipments of certain commodities to all countries.

Examples of items that fall into this category are certain chemicals, special types of plastics, sophisticated electronic and communication equipment, and scarce materials such as petroleum. Articles of war, i.e., arms, ammunition, and combat conveyances, fall under the licensing jurisdiction of the Department of State.

General Licenses - General Licenses, and there are several types, are published authorizations that are used to cover the export of commodities not subject to validated license. The majority of items shipped overseas fall into one of these general classifications. It is not necessary to submit a formal application or receive written authorizations to ship these products; they can be shipped by merely inserting the correct General License symbol on the export control document known as the Shipper's Export Declaration.
Before an order is quoted, it is wise to check with a Department of Commerce District Office to determine which type of export license is appropriate for the country of destination. If a validated license is required, there are special forms that must generally be supplied by the purchaser of the government of that country to support the request for an export license, and it is well to request these forms in advance to avoid delays. Before applying for an export license, however, it is generally necessary to have received an order.

After the required forms are received, an Application for Export License, Form DIB 622-P, dated March, 1975 or later, is prepared along with an Application Processing Card, Form DIB-623-P, and submitted to the Office of Export Administration with the forms obtained from the customer. If everything is in order, a Validated Export License generally will be issued.

If an item is not under control, no formal application is necessary and the Department of Commerce District Office can advise as to the correct General License to use in the export documents. Check with the nearest Commerce District Office for assistance on export regulation problems.

If an item is not under control, no formal application is necessary and the Department of Commerce District Office can advise as to the correct General License to use in the export documents. Check with the nearest Commerce District Office for assistance on export regulation problems.

A destination control statement or antidiversion clause must be shown on the ocean and airway bills of lading and the invoice. There are three different clauses that may be used, but the one suitable for most general license shipments is: "United States law prohibits disposition of these commodities to Southern Rhodesia, North Korea, North and South Vietnam, Cambodia or Cuba." For certain commodities, additional destinations must be added. This statement permits distribution and resale to all destinations of the world other than those specifically excepted. Additional information on the three statements may be obtained from any Department of Commerce District Office.

Shipper's Export Declaration, Form 7525-V - This document has a dual purpose. First, it is the export administration document used to indicate the proper authorization to export. Second, it is the source of statistical information which appears in FT-410, the Bureau of the Census Monthly Foreign Trade Report - U.S. Exports - Commodity by Country.

This form, in addition to relative shipping information, contains a description of the merchandise being shipped in a certain nomenclature, both written and by a specific commodity identifying number known as a Schedule "B" number.
It is on this document that reference to a specific validated or general export license must appear. This identifying nomenclature and reference to the export license are used in a post shipment computerized accountability system to assure that licenses are being used properly.

Collection Documents

These are the documents which are submitted to the customer or his bank in order to receive payment. Collection documents may vary from country to country in method of receiving payment and mode of shipping. Documents may even vary from customer to customer.

Commercial Invoices - As in a domestic shipment, good-business practice dictates that a commercial invoice include the full address of the shipper, seller, and consignee, if different; the respective reference numbers; date of the order; shipping date; mode of shipment; delivery and payment terms; a complete description of the merchandise; prices, discounts, and quantities.

In addition, on an export order, it is customary to indicate the origin of the goods, and the export marks. As stated previously, the antidiversion clause must be shown. If payment is to be against a letter of credit, reference to the bank and the corresponding credit or advice numbers must be given.

Some countries require that a special certification, sometimes in the language of the country, be incorporated in the invoice. Information about these statements may be obtained from any Department of Commerce District Office.

In some instances, it is necessary for the seller to sign his invoices and even have them notarized or countersigned by his Chamber of Commerce, or both. Many times it is also necessary to have them visaed by the resident consul of the country of destination. Again, this information may be obtained from Department of Commerce District Offices.

Consular Invoices - A few foreign countries, notably Latin American, require a special form of invoice in addition to the commercial invoice. These documents must be prepared in the language of their country and on official forms sold by the respective Consulates. They are then visaed by the resident consul, thereby certifying to their authenticity and correctness. It is recommended that the shipper's forwarder prepare these documents at time of shipment.

Certificates of Origin - Even though the commercial invoice may contain a statement of origin of the merchandise, a few countries require a separate certificate, sometimes countersigned by a Chamber of Commerce and possibly even visaed by their resident consul at the port of export. These may be on a special form of the foreign government, while in other cases, a certificate on the shipper's own letterhead will suffice.
Statements of origin are required to establish possible preferential rates of import duties under a most-favored-nation arrangement.

Inspection Certificates - In order to protect themselves, many foreign firms request a certificate of inspection. This may be either an affidavit by the shipper or by an independent inspection firm, as dictated by the buyer, certifying to the quality, quantity, and conformity of goods in relation to the order.

Bills of Lading - These may be ocean or overland (truck or rail) bills of lading or air waybills, depending on the mode of transportation or terms of sale. As in domestic shipment, there are two basic types - "straight" or nonnegotiable or "shipper's order" bills of lading. The latter is used for sight draft or letter of credit shipments. The shipper must endorse the original copy of the "Order" bill of lading before it is presented to the bank for collection. The endorsement may either be "in blank" or "in the order of" a third party such as the negotiating bank. The letter of credit will stipulate which endorsement to use. With the exception of ocean shipments, only one original bill of lading is issued by the carrier. Any number of original ocean bills of lading may be issued depending upon the requirements of the buyer. Normally, all original copies are endorsed and submitted to the bank. Efforts are currently underway to eliminate or at least substantially reduce the use of multiple bills of lading. This undertaking, led by the National Committee on International Trade Documentation (NCITD), is seeking to encourage the adoption by all parties of a "sole original" bill of lading for ocean shipping.

According to the rules set forth by the International Chambers of Commerce governing foreign trade terms, documents, etc., on draft or letter of credit shipments, the only bill of lading that is acceptable is one that is marked "Clean on Board," which means that the carrier has not taken any exception to the condition of the cargo or packing and that the merchandise has actually been loaded aboard the carrying vessel.

Dock Receipts, Warehouse Receipts - Where the shipper is not responsible for moving the merchandise to the foreign destination, but to the U.S. port of export instead, dock or warehouse receipts may be requested. They are exactly as their name implies - a receipt to the effect that the stipulated merchandise has been received at the pier or a warehouse for further disposition.

Certificates of Manufacture - A certificate of manufacture is used when a buyer intends to pay for the goods prior to shipment, but the lead time for the manufacture of the goods is lengthy and the buyer does not want to allocate the money so far in advance. If the seller feels that the buyer is a good credit risk, he will proceed with the manufacture of the goods with perhaps only a down payment. After the merchandising is ready, the seller prepares a certificate stating that the ordered goods have been produced in accordance with the contract and have been set aside for the account of
the buyer. Commercial invoices and packing lists are sent as supporting documents. As soon as payment and shipping instructions have been received, the merchandise is shipped.

Insurance Certificates - Where the seller provides ocean marine insurance, it is necessary to furnish insurance certificates, usually in duplicate, indicating the type and amount of coverage involved. Here again, these are negotiable documents and must be endorsed before submitting them to the bank.

These are the basic documents involved in foreign shipments, however a country or individual buyer may require additional ones and they will be specified either in the order or letter of credit. Special care should be taken when reviewing the order or letter of credit to assure that all of the documents required are furnished in the manner prescribed to avoid rejection or other difficulty.

As mentioned previously, freight forwarders as well as other traffic management firms, are capable and willing to prepare these documents for the shipper at moderate cost.

Another word of caution - shipping documents must be presented for collection within certain time limits after shipment or they will be considered "stale" and the bank will reject them. It will then be necessary to contact the buyer for permission to honor these late documents before the bank will release payment. It is equally important to make sure the shipment is made within the specified time indicated in the letter of credit, otherwise the credit will expire and it may not be possible to receive payment. In most cases, it will be possible to arrange for the buyer to pay for the shipment, but serious delays may be experienced.

Information regarding the documents required and assistance in their preparation may be obtained from any Department of Commerce District Office.

There is some relief in sight for American businessmen burdened by international documentation. In order to reduce the volume of paperwork, the U.S. Government has been cooperating with the National Committee on International Trade Documentation (NCITD) and other private organizations. A number of documents have been eliminated entirely or their contents incorporated in other required documents.

A new system called the "U.S. Standard Master for International Trade" has standardized international shipping and collection forms so that all necessary documents required to process a specific shipment can be reproduced from a single master. This has resulted in considerable savings.

Furthermore, efforts are underway to eliminate documents requiring preparation in the language of the destination country.
Also, many firms are taking advantage of a reporting procedure whereby information regarding all export orders over a 30-day period is filed with the government only once a month instead of on a separate Shipper's Export Declaration each time a shipment is made.

Finally, to simplify and speed the preparation and processing of all documents and facilitate use of ADP or data transmission systems and equipment, standard universal transportation and commodity descriptions and code systems are being developed.

Information regarding the documents required and assistance in their preparation may be obtained from any Department of Commerce District Office.
APPENDIX B

POLICY STATEMENT OF
THE SMALL BUSINESS DEVELOPMENT CENTER, THE UNIVERSITY OF GEORGIA

The goals of the Small Business Development Center, The University of Georgia are:

1. To aid in enhancing the development of the free enterprise system in the United States.

2. To foster the efficient growth of small business in Georgia and the United States.

The general objectives of the Small Business Development Center are:

1. Increasing jobs in the private sector through programs of assistance for the small business community.

2. Improving productivity in the private sector; thereby reducing inflation in America.

3. Enhancing the development of minority businesses and encouraging minority business ownership.

4. Increasing American small business international expertise; thereby improving the balance of payments deficit.

The goals and objectives are to be met through programs of continuing education, counseling/technical assistance, applied and basic research and advocacy activities. In conjunction with the traditional instructional programs, the Small Business Development Center also strives to enhance the process of training future owners and managers of small firms.

The primary target audience of the SBDC consist of all small firms in the state of Georgia. There are over 100,000 of these organizations. The definition of a small business is a firm that is privately owned and operated and the ownership consist of a few principles. In addition, the definitions set forth by the Small Business Administration are to be applied when SBA dollars are used to finance the delivery of services. Note, there will be cases where organizations that seek SBDC services can afford to pay for these services. In such instances, the SBDC Director or a designated staff person shall make the determination on what action is appropriate. Even though the SBDC shall not develop a for-fee consulting program, there may be unusual circumstances that require a departure from this policy. All departures shall be cleared with the Director and will only be approved in cases where the general welfare is enhanced.
Richard Robinson has worked with the UGA-SBDC since it started in June, 1977. He served as a Staff Consultant until taking an Account Executive position (supervising 11 Staff Consultants) in June, 1978. Mr. Robinson is currently completing requirements for his Ph.D. (Business Administration) at The University of Georgia. Prior to returning to UGA, he worked for three years with a Holiday Inn franchise group.
The purpose of this presentation is to explain the manner in which the University of Georgia SBDC provides business information and consulting services (BICS) to its small business clientele. This presentation will attempt to do this by tracing a hypothetical client through the BICS system. We will look at the process that has developed at the University of Georgia SBDC to serve these clients, what is involved at each stage in this process, and mention some issues/problems that each stage presents.

The overall process to be explained looks as follows:

1. **CLIENT**
2. **HEARS ABOUT SBDC**
3. **CONTACTS SBDC**
4. **ACCOUNT EXECUTIVE ROLE**
   - Business Info
   - Consulting Service
5. **ASSIGN CASE**
   - Acct Exec. #1
     - Mkt‘g
     - Aqc’t Law
     - (Grad. Students)
   - Acct. Exec. #2
     - Finance
     - Mgmt. Ins.
     - (Grad. Students)
6. **SCORE FACULTY**
7. **CONSULTING PROCESS**
8. **CLOSE OUT**
Obviously, the above diagram is a skeletal representation of the UGA-SBDC process. The remainder of this presentation will elaborate on this model.

I

CLIENT

The clients served by the UGA-SBDC are located in virtually every part of the State of Georgia. They cover virtually every type of business and range from people wanting an idea for a business to some that have existed over 80 years. Sales range from $0 to $7.2 million annually.

II

HEARS ABOUT SBDC

People that contact the UGA-SBDC usually hear about the SBDC through the following means:

1. **Personal** - speeches at civic clubs, friends, banks, Chambers of Commerce
2. **Advertising** - direct mailing, TV spots, mailings to business, trade and government organizations
3. **Publicity** - newspaper and magazine articles
4. **Referral** - SBDC District Centers, government agencies, Continuing Ed. Programs

III

CONTACT SBDC

This is done by use of an incoming, toll-free phone line and tear-off requests from direct mail pamphlets. Generally, the client wants to know more about the SBDC, what can be done for him/her, and how much it will cost.
IV
ACCOUNT EXECUTIVE'S ROLE

All incoming requests for assistance are handled by "Account Executives" at the UGA-SBDC. There are two Account Executives at the UGA-SBDC who are responsible for the consultant personnel. With regard to receiving incoming requests, the Account Executive attempts to do the following at this stage:

1. identify the client's general need
2. get basic information
3. if possible, render assistance/information at this point
4. ensure a timely response

V
CATEGORIZE CASE
BUSINESS INFORMATION & CONSULTING SERVICE

At this point the client's request is categorized as either a "Request for Information" or "Consulting" case by the Account Executive. While this is an informal, judgemental action, it has proven a useful guideline for assigning cases, selecting particular consultants, planning, and hopefully standardizing future responses to certain basic requests.

V a.
BUSINESS INFORMATION

This type of situation/case involves a basic transfer of information, broken down into two types: Type #1 involves information of an explicit nature, readily available in pamphlets, articles or other publications. Usual time: 15 minutes to 2 hours.
Type #2 involves information that will require research, computation, and generally more effort to uncover.
Usual time: 2 - 10 days.

V b.
CONSULTING SERVICE

This type of situation/case involves the rendering of opinion and advice to an SBDC client. It typically requires indepth, original effort by the consultant and involves repeated contact with the client. This contact allows the consultant to become knowledgeable about the business and encourages a synergistic relationship between client and consultant.
Usual time: varies greatly, 3 days to 9 months.
Consultant Assignments: Type #1 and #2 cases are useful for consultants that are new, lack work experience, and consulting experience. Advantage: Over time, to develop a library of readily available responses to specific information requests.

Consultant Assignments: Team approach; graduate students consultants with work experience and consulting experience; SCORE members.

VI

ASSIGN CASE/ORGANIZATION

Assigning a case involves categorizing the case, interaction between the Account Executives, identifying the area(s) of specialization needed, identifying the background needed, and controlling the performance. This process was accommodated at the UGA-SBDC by the following basic organization:

- Account Executive #1: Marketing, Accounting Adv., (5) Graduate Students
- Account Executive #2: Finance, Management, Insurance, (8) SCORE Faculty, (5) Graduate Students
The Account Executives purposely overlap and interact regarding assignment of cases. This improves accuracy of initially identifying the problem, facilitates equitable distribution of work, encourages efficient use of developing (specialized) expertise among consultants, and allows a matrix approach. With regard to business information vs. consulting cases, Account Executive dual interaction facilitates training of new consultants, efficiency in information cases, and synergistic uses of the matrix approach.

The semi-functional organization of graduate student consultants facilitates monitoring of total client needs in these areas for future staff planning. It hopefully achieves efficiencies through specialization. It adds continuity when a consultant or team needs assistance in another area of expertise by channeling them through the appropriate Account Executive. Specific awareness of individual workloads by the Account Executive is facilitated here. Of significant concern, this approach integrates meeting the major demands for continuing education seminars (which staff consultant's teach corresponding to their area of specialization) and small business clients in a manner that minimizes coordination difficulties.

The MATRIX APPROACH has been mentioned on two occasions above. What does this mean and how does it work? Essentially it involves a team of graduate consultants across areas of functional expertise (as well as possibly a SCORE member or faculty member) working with a specific client. Very often a UGA-SBDC client has a problem that involves several dimensions, i.e., cash flow, marketing, insurance, and personnel. Generally, a single consultant is assigned major responsibility for the case and other consultants are assigned to work on the case providing needed additional expertise. Besides improving the quality and completeness of service, some other benefits accrue such as:

1. "breaking in" and training new, inexperienced consultants
2. using SCORE members as experienced generalists to be a senior team member
3. broadening graduate consultant's understanding of different functional areas
4. potentially creative synergy
5. developing "expert teams" in overlapping, repetitive requests such as feasibility studies and business plans
6. checks and balances on advice given
Critical issues such as youthful, student consultants, SCORE - student relations, and coordination has been successfully addressed in this UGA-SBDC organizational approach. Overall, acceptable effectiveness in response time, scheduling, control, and travel overlap has been achieved.

VII
CONSULTING PROCESS

The response to business information requests (types 1 and 2) is rather obvious. Whether involved research or simply getting an SBA pamphlet is required, it involves uncovering and transferring accurate, useful, specific information to the client.

The consulting process, where an ongoing interaction with a client is required, involves advice, opinions, evaluation and recommendations over time. This is a major activity of UGA-SBDC consultants. The process can be described in terms of four basic steps.

1. Initial Contact
   --to get basic background information
   --to get financial, organizational and performance data
   --to develop a rapport with and the confidence of a client
   --to get to know the business and "real" nature of the problem
   --sign release form

2. Follow-Through Work/Contact
   --usually several meetings with client
   --concentrated effort on problem, ideas, solutions, results
   --call in different consultants as needed
   --"give-and-take" with client

3. Finalize/Recommendations
   --usually ready with ideas, suggestions, "products or outputs"
   --transmit and work through with client
   --revise, follow-up

4. Close-Out
   --follow-up completed
   --objectives reached; or means set into motion
   --satisfied client
   --summary report
   --checked through Account Executive before officially closed
This process is typical of most consulting cases. For government report requirements, as well as administrative control, the consultant usually makes short "status" reports at each stage and a final report (copy of recommendations) that are kept in a client's file. To parallel this, weekly reports of time spent on individual cases supply Account Executives with a computerized update on the hours spent, date of visit, target date, and progress on a case. In addition, the financial, organizational, performance and background data gained at the initial stage contribute to the development of a research data-base that should help the small business community in the long term.
**APPENDIX D**

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<th>Judge 1</th>
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<th>Judge 3</th>
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<tr>
<td>SIC Code</td>
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</tbody>
</table>

Please circle whether the company does or does not have the particular problems listed below:

1. Lack of previous export experience/apathy.  
   - YES  
   - NO

2. Lack of product modification capacity.  
   - YES  
   - NO

   - YES  
   - NO

4. Lack of export capital.  
   - YES  
   - NO

5. Lack of export contacts.  
   - YES  
   - NO

   - YES  
   - NO

7. Pricing.  
   - YES  
   - NO

8. Lack of working capital.  
   - YES  
   - NO

9. Lack of export personnel training.  
   - YES  
   - NO

10. Lack of adequate production capacity.  
    - YES  
    - NO

11. Sale terms and documentation.  
    - YES  
    - NO

12. Payment terms problems.  
    - YES  
    - NO

13. Legal problems.  
    - YES  
    - NO

    - YES  
    - NO

15. Promotion.  
    - YES  
    - NO

    - YES  
    - NO

17. Shipping.  
    - YES  
    - NO

18. Packaging.  
    - YES  
    - NO

19. Insurance.  
    - YES  
    - NO

20. Other (Please specify)
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<thead>
<tr>
<th>Problem</th>
<th>Judge 1</th>
<th>Judge 2</th>
<th>Judge 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Neglect of selection and supervision of personnel.</td>
<td></td>
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<tr>
<td>2. Lack of operating experience in product buying, pricing, and handling finances.</td>
<td>YES</td>
<td>NO</td>
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<tr>
<td>3. Lack of total capital.</td>
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<td>4. Non-aggressive selling, promotion, and advertising.</td>
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<td>5. Lack of planning and information.</td>
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<td>6. Poor recordkeeping and control.</td>
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<tr>
<td>7. Lack of financial planning and use of financial information and ratios.</td>
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<td>8. Lack of concentration on result areas of products, markets, and technology.</td>
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<td>9. Lack of management development.</td>
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<tr>
<td>10. Inventory mismanagement in terms of type and amount.</td>
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<tr>
<td>11. Lack of working capital.</td>
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<tr>
<td>12. Lack of research and development and product or service upgrading.</td>
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<td>13. Lack of management techniques and coordination.</td>
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<td>14. Wrong location.</td>
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<tr>
<td>15. Poor credit practices and overextension of credit and bad debts.</td>
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<td>16. Inadequate sales.</td>
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<td>17. Other (please specify)</td>
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</tbody>
</table>
APPENDIX E

<table>
<thead>
<tr>
<th>Company Number</th>
<th>Judge 1</th>
<th>Judge 2</th>
<th>Judge 3</th>
<th>Stage I</th>
<th>Stage II</th>
<th>Stage III</th>
</tr>
</thead>
</table>

By taking into consideration the following characteristics of the stages of development of small business, in what stage would you classify this company?

**Characteristics of the stages of development of small business.**

**STAGE I**

**GENERAL MANAGEMENT**
1. One-man show.
2. Non-routine, informal decisions.

**OPERATIONS**
1. Reliance on unique personal skills, unique product or unique market.
2. Diseconomies of scale.

**FINANCE**
1. More concern with survival and break-even, than the rate or return.
2. Limited resources.

**MARKETING**
1. Risk concentrated on few products, markets, and customers.
2. No reputation outside of the immediate vicinity.

**STAGE II**

**GENERAL MANAGEMENT**
1. Delegation of operating decisions to "lieutenants" or "assistant to".
2. Formal consideration of growth.

**OPERATIONS**
1. Improvement of skill, method, or market niche.
2. Production problems.

**FINANCE**
1. Attention to industry standards.

**MARKETING**
1. Attention to competition.
2. Attention to market feedback.

**STAGE III**

**GENERAL MANAGEMENT**
1. More management levels and more delegation.
2. Utilization of staff analysts.

**OPERATIONS**
1. Economies of scale.

**FINANCE**
1. Lower rate of return.
2. Emphasis on future costs.

**MARKETING**
1. Heavy investment in product and market development.
2. Drop unprofitable products.
By taking into consideration the following characteristics of the stages of exporting process of small exporters, in what stage would you classify this company?

__ STAGE I:

1. The firm does not explore the feasibility of regular exporting.
2. The firm fills unsolicited export orders (if any).

__ STAGE II:

1. The firm explores the feasibility of regular exporting.
2. The firm fills exports experimentally to one or few markets.

__ STAGE III:

1. The firm is an experienced exporter to some markets.
2. The firm explores possibilities of exporting to additional markets.