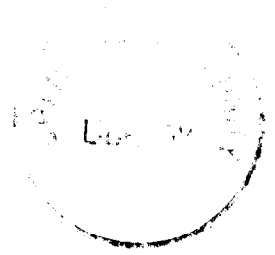




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DESIGNING A SMALL FIRM
STRATEGY FOR A SMALL TOWN

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by

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ABSTRACT

This study was conducted in St Joseph county in Northern Indiana, USA and, as is outlined in an earlier paper by the author, may be viewed as reflecting in microcosm those patterns of unemployment and population shift experienced by most of the declining mid-west states. It was in response to this general decline in business climate that in 1982 a fund was raised by South Bend (the main town in the County) to create and manage a new industrial strategy called Project Future. There were three main goals;

1. to encourage existing companies to relocate in the area, or to open new branches in the area.
2. to help existing firms to grow.
3. to encourage the start-up of new firms.

Prior to 1982 there had been no collective industrial strategy for either existing or new firms and, apart from an apparently dormant SBA office, little institutional activity. This was despite the fact that, since the close of Studebaker in 1961, all the firms in town were either small firms or small branch factories and offices. Nevertheless, it was clear that entrepreneurs were active since new firms were evident.

This paper first reports the process by which the Board of Project Future arrived at a strategy for encouraging new and small firms in the town.

The second part of the paper deals with the data collected to formulate a strategy, the results of which confirmed that firms in the area were predominantly run by local people trading in local markets. Despite this, the local networks of support, advice, assistance and information were hardly used, the entrepreneur relying almost entirely upon his own private network. Indeed, the informal system appeared to create a BARRIER to the formal system rather than acting as a CONDUIT.

The strategy which emerged from this analysis involved first creating an infrastructure of support systems. The third part of the paper discusses the problems associated with its implementation.

DESIGNING A SMALL FIRM STRATEGY FOR A SMALL TOWN

South Bend, Indiana, a small town in the American mid-west, is the home of Studebaker, one of the pioneers of the automobile industry. Situated 80 miles due east of Chicago between the steel town of Gary and Detroit - the smoke-stack belt - it has experienced the same patterns of lack of investment, increased unemployment and population shift as the rest of the declining mid-west States. It was in response to this general decline in the business climate that in 1982 a fund was raised by a volunteer group of town 'leaders' to create and manage a new industrial strategy. A full-time director was appointed to the new office of Project Future with three main goals:

1. To encourage existing companies to relocate within the area, or to open new branches within the area.
2. To help existing firms to grow.
3. To encourage the start-up of new firms.

Two fundamental points were important in formulating a strategy. First, a skill study had reinforced the view that the predominant profile was one of traditional engineering skills; and second, almost all the firms in the town and the surrounding county were small. Indeed, with a population of only 220,000 in the whole of the county and with the major employer, Bendix, in the process of closing down and moving South, a co-ordinated regeneration strategy aimed at the small firm sector was clearly needed. To this end, a working party was formed. It included selected representatives from the educational institutions, the two local banks, town government and, in equal weighting, local small firms.

The strategy which emerged was twofold - in the short term, a Small Business Council, run by owners of small firms and funded by the Chamber of Commerce, would organise a newsletter, seminars, a trade fair, visiting speakers to 'Early Bird Breakfasts', as well as encouraging informal networking. In the meanwhile, a long term strategy would be designed. Moreover, this strategy would focus initially on the new firm rather than the existing firm for one major reason. Whilst it was clear that entrepreneurs were active, since new firms were evident, if patterns experienced elsewhere were repeated, entrepreneurs would be starting firms in industries related to their previous employment, and in an area dominated by declining or failing engineering companies, this would be a recipe for disaster. Clearly, therefore, before designing a strategy to improve the environment, it was first necessary to ask three questions, viz.: what does the environment look like, does it really need changing, and, if so, in what ways? These questions formed the basis for a study which was designed in two stages

Stage 1 - Identification of population trends, by studying all new firms started between 1977 and 1982, and analysing their birth and death patterns, the industrial patterns and job generation characteristics.

Stage 2 - Questionnaire survey to those firms started during the period and which had survived

RESEARCH RESULTS

To the Board of Project Future, initial results of the two studies were surprising. Contrary to expectations, the new firm sector was active. Taking the equation of births minus deaths (new firms minus firms ceased trading) over the five years 1977-1982, both the net number of firms and the number of jobs created was positive. Moreover, in almost all cases, this compensated for the decline in the large firms in the area. Further, activity was not focussed in the moribund manufacturing skills but on certain sectors of the transport and service industries. Within this, what was even more startling was that these new firms were being started by local people, many of whom had lived in the area most of their lives.

The Support Network

The second part of the study was concerned with the entrepreneur's use of networks: the extent to which he sought, and received help from the various potential sources. If these were being used currently, appropriately, and satisfactorily, the need for further systems would be brought into doubt.

Available sources of help were listed and respondents were asked to rank by the value of that source in assembling the resources of the firm. No ranking for a category indicated that, as far as the entrepreneur was concerned, no help was received. The sources listed are shown in Table 1 below as they were used in subsequent analysis. In the questionnaire not only were they mixed, but the order was changed for each question in order to prevent patterning by the respondent.

TABLE 1
POTENTIAL SOURCES OF HELP

Formal Sources	Informal Sources
Bank	Business Contacts
Accountant	Other contacts
Lawyer	Family
Local Government	Personal Friends
Chamber of Commerce	
Realtor	
Small Business Administration	

Once again the results were startling. Despite the fact that St Joseph County is relatively small with a strong and active local community, the formal sources were apparently hardly used. Table 2 lists those sources which were ranked as prime.

TABLE 2

PRIME SOURCE OF HELP: NUMBER OF FIRMS

	Formal Sources	Informal Sources Contacts	Family or Friends	Cold Contact	No Help
Group A					
Raw					
Materials/ Supplies	6	47	5	21	50
Equipment	6	75	7	27	35
Location/ Premises	7	64	35	40	14
Employees	5	57	34	39	25
Group B					
Sales	23	70	35	26	6
Group C					
Seeking Finance	79	18	27	27	9
Finance Source	53	6	79	7	15

Whilst the start-up process is clearly iterative, most entrepreneurs will tentatively assemble the fixed costs of their business (Group A) and identify potential revenue sources (Group B) before seeking finance (Group C). Dividing the data in this way highlights clear differences thus:

- Informal contacts, mainly business contacts, were seen overall to be the most helpful in assembling the elements of the business.
- Family and friends were the most useful where local issues were concerned, as with the seeking of location and employees. It is worth noting that this applied to sales also and may explain in part the concentration upon local sales in most of the companies studied.
- The formal sources came to the fore when the elements of the firm were set and the entrepreneur was seeking to raise finance. It is hardly surprising, therefore, that the institution mentioned the majority of the time was the bank.
- All other formal, declared, sources of help, including an apparently moribund SBA office, were mentioned on very few occasions.

But these were the prime sources of help, not the sole source. Therefore, the primary, secondary and tertiary ranked sources were weighted according to their rank and a score computed for each type of resource needed. The results are shown in Table 3. Using sales as an example, the most used source for help were the informal sources of business contacts, followed by family and friends. The least used were the formal sources.

TABLE 3

SOURCES OF HELP RANKED BY OVERALL USAGE

	Informal sources			
	Formal Sources	Contacts	Family or Friends	Cold Contact
<u>Group A</u>				
Raw Materials/Supplies	4	1	3	2
Equipment	3	1	3	2
Location/Premises	4	1	3	2
Employees	4	1	3	2
<u>Group B</u>				
Sales	4	1	2	3
<u>Group C</u>				
Seeking finance	1	4	2	3
Finance Sources	2	3	1	4

This data further reinforced the reliance of the entrepreneur upon his network of informal contacts as a primary source of help when assembling the elements of his firm. Moreover, the second most used source was that of the cold contact, the direct approach. This involved, for example, newspaper advertisements for employees, mail shots or letters to equipment manufacturers and raw material suppliers, and scanning the newspapers for available premises. Many of these activities could have been short-circuited had the formal network been approached earlier, or used more.

THE STRATEGY

Three main conclusions arose from the studies described above -

1. The specific needs of those active sectors identified were for a different type of space than that traditionally available - high quality small office units for the service sector, and warehouse and ancillary services for the transport sector.
2. Despite the closeness of the community, the informal networks appeared to form a barrier to the formal networks rather than a conduit. As a consequence, entrepreneurs were experiencing unnecessary difficulties in assembling the necessary resources.
3. Whilst there were many sources of finance available which were external both to the banking community and the town, the entrepreneur was not aware of them.

From this analysis, and after both wide discussion in the town and a number of visits to other towns facing similar problems, a three pronged strategy was adopted. See Figure 1.

1. Business and Technology Centre (BIC)

During this time negotiations had been taking place between Project Future and Control Data to set up a Control Data Business and Technology Centre in the town. In other towns Control Data had purchased and converted industrial properties into a complex of small units with central administrative services, which were then made available to local small firms. During this time, however, the company had concluded that the concept was not commercially viable and that in future, they would merely offer a franchise which could capitalise upon their experience. The town would purchase the property, and appoint a manager: Control Data would set up the systems and train the manager. South Bend was chosen as the location for the first franchise. Figure 2 lists the services offered.

Moreover, it was proposed that the programmes offered in the BIC would be made available 'on some appropriate basis' to other businesses located in the community.

2. Business Development Corporation (BDC)

A venture capital fund of \$10 m was raised locally, to be managed within the Development Office of local government. Its functions would be both to invest directly in new and existing firms, and to raise funds from other sources, and coordinate syndicated deals. Thus, for example, in the first year of operation, it organised a management buy-out of a local firm about to be closed down by its large and distant owners, provided the majority of the funds for the Business and Technology Centre: and syndicated funds which persuaded a major office furniture manufacturer to set up a new plant in the town. See Figure 3 for a full list of its' functions.

3. The Enterprise Office

A new 'Enterprise Office' would be set up, located in the BIC offering information, advice and assistance to all entrepreneurs in the area. It would operate as the hub of the network of resources available in that area, and so would rely on all the local community organisations for help when necessary. The new manager would require strong local contacts and an aggressive personality. Figure 4 outlines the structure of the envisaged office.

CONCLUSIONS

By April 1985, the BDC had been running for some 18 months, the BIC had been open for 6 months and was actively recruiting customers, and the manager for the Enterprise Office had been hired 6 months previously. The strategy has therefore been launched successfully. We do not yet know whether it has the elements of survival. Nevertheless, throughout this process, the author was involved not only as a member of faculty of the major academic institution in the town - the University of Notre Dame - but also as a member of the Planning Board. From this direct experience, and from observation of other similar situations in the USA, a number of preliminary conclusions have been drawn.

1. Ascertain the Characteristics of the Community

: Build from a base of knowledge.

- Too many times, communities have sought to lure the high profile, 'high tech' new companies away from their natural incubators in the hope of instant solutions. Yet even the much acclaimed Silicon Valley or Route 128 took many years to reach even the first rung of the growth ladder.

It is clear from this study that, even in such a small community, little was known about the basic situation and any future strategy should follow the model illustrated in figure 5 - first concentrate upon areas of knowledge [Boxes 1 and 2] before attempting to attract new firms into the area. [Boxes 3 and 4].

2. The Community Must be Involved

The success of Project Future lies not only in the entrepreneurial skills of its director, but also in the willingness of all members of the community - individuals and organisations - freely to offer their services. Whilst to date, this has been very evident both in the running of the Small Business Club, and in the planning of the long-term strategy, it remains to be seen whether it can be sustained.

3. Individuals, not Organisations, make things happen.

This was particularly true in the case of the academic institutions. For example, many of the higher echelons in University had no understanding of the range of help which they could offer. Moreover, whilst they were happy to sit on planning committees, help of a more practical nature was often viewed with disdain. 'Small Business is Small Beer' is an attitude encountered by colleagues throughout the USA who are attempting to build links with their local community.

4. Enterprise Offices need Entrepreneurial Managers

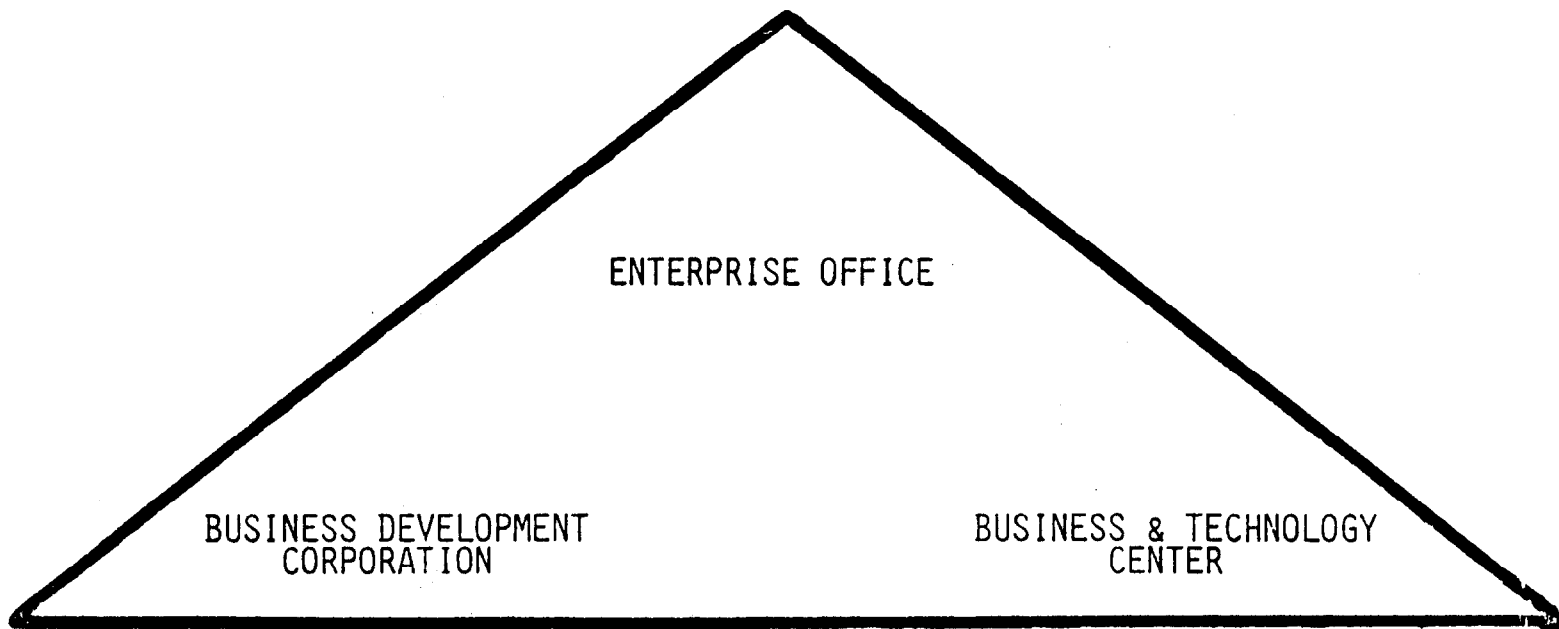
Despite the enormous amount of goodwill and genuine willingness to help, the network has to be organised and cajoled in order to work. The first manager appointed had many of the financial diagnostic skills needed, but totally lacked an understanding of the market place. This, along with a personality that too often saw the flaws in the entrepreneur rather than their strengths, was clearly a major deterrent to the entrepreneur.

5. Bureaucracy Kills

In October 1984, the State Office of the Small Business Administration (SBA) was looking to spend their allocation of funds for Small Business Development Centres (SBDCs). Hearing about plans for the Enterprise Office, they offered \$40,000 as a one-third contributor to the project. However, there were conditions - the plan to charge for certain types of consultancy must be abandoned; to continue to qualify for the funding a certain quota of 'firms' must be processed each month; comprehensive records must be kept and returns completed; all applicants must provide financial details, and sign a counselling disclaimer form; the name must be changed to SBDC. After much debate and dissention, the money was accepted.

FIGURE 1

KEY ORGANIZATIONS
in support of the
EMERGING BUSINESS



PROJECT FUTURE
ECONOMIC DEVELOPMENT
FOR ST. JOSEPH COUNTY

FIGURE 2 : BUSINESS AND TECHNOLOGY CENTRE

I. PROVISIONS OF COST-EFFECTIVE SPACE AND BASIC OFFICE SERVICES

- A. LAYOUT AND SPACE DESIGN
- B. UTILITIES, CUSTODIAL, GENERAL MAINTENANCE, AND FURNITURE RENTAL, EQUIPMENT LEASING
- C. TELEPHONE, POSTAGE, SHIPPING AND RECEIVING SERVICES
- D. RECEPTIONIST, WORD-PROCESSING, CLERICAL, DUPLICATING AND SECURITY SERVICES

II. TRAINING, EDUCATION, AND PLANNING

- A. COMPUTER-BASED BUSINESS EDUCATION SYSTEM
- B. BUSINESS CONSULTATION SERVICES
- C. GROUP SEMINAR AND DEVELOPMENT PROGRAMS
- D. MANAGEMENT SKILLS TRAINING

III. BASIC BUSINESS SERVICES PROGRAMS

- A. ADMINISTRATIVE
- B. FINANCIAL
- C. PERSONNEL
- D. PROFESSIONAL SUPPORT

IV. ACCESS TO SPECIALIZED SYSTEMS

- A. TECHNOTECH (TECHNOLOGY TRANSFER)
- B. CYBERNET (COMPUTING NETWORK)

FIGURE 3 : BUSINESS DEVELOPMENT CORPORATION

1. PRIMARY FUNCTIONS

- A. ADMINISTRATION OF TARGETED/SPECIAL PURPOSE FUNDS
- B. ALLOCATION OF REVOLVING AND DISCRETIONARY FUNDS
- C. LOAN REVIEW AND APPROVAL
- D. TRUSTEESHIP AND COLLECTION
- E. LICENSEE FOR B.I.C.

2. PROGRAMS SERVED

- A. SBA-503 PROGRAM
- B. ST JOSEPH COUNTY TARGETED DEVELOPMENT FUNDS
- C. SEED CAPITAL FUND
- D. STATE AND FEDERAL FUNDING
- E. REVOLVING FUNDS

FIGURE 4 : ENTERPRISE OFFICE

I. PRIMARY FUNCTIONS

- A. START-UP SCREENING AND CONSULTATION
- B. BUSINESS PLAN DEVELOPMENT
- C. LOAN PACKAGING (FOR BUSINESS DEVELOPMENT CORPORATION, INDUSTRIAL REVOLVING FUND, SBA AND OTHER STATE AND LOCAL PROGRAMS) IN CONJUNCTION WITH MUNICIPALITIES
- D. CAPITAL FORMATION ASSISTANCE
- E. GENERAL BUSINESS CONSULTATION AND TECHNICAL ASSISTANCE

II. ADVISORY / REVIEW BOARDS

- A. ENTREPRENEUR REVIEW BOARD
- B. QUEST SCREENING AND IMPLEMENTATION BOARD
- C. CONSULTATION OVERSIGHT BOARD

III. LOCAL COMMUNITY RESOURCES

- A. THE BUSINESS COLLEGES OF LOCAL EDUCATIONAL INSTITUTIONS
- B. THE TECHNICAL BASE OF LOCAL EDUCATIONAL INSTITUTIONS
- C. THE SMALL BUSINESS COUNCIL
- D. SCORE
- E. SBA - SOUTH BEND OFFICE
- F. FINANCE AND ACCOUNTING COMMUNITIES
- G. PERSONNEL AND MANAGEMENT CONSULTANTS
- H. BUSINESS AND ENTREPRENEUR BASE

FIGURE 5 : THE PROJECT FUTURE STRATEGY MATRIX

	FIRMS	
	EXISTING	NEW
LOCAL	1	2
EXTERNAL	3	4