

## SMALL BUSINESS MANAGEMENT: DO PROFESSIONAL MANAGEMENT PRINCIPLES APPLY?

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### ABSTRACT

Small business failures have been attributed to failures in management. Such failures may result from a lack of understanding of "management principles." This article explores the understanding of "management principles" among two groups of small business managers. Based on the results of this limited study, small business managers do not understand or manage their business according to traditional management principles.

### INTRODUCTION

Failures among small businesses are typically attributed to poor management. Many articles cajole the small business entrepreneur to pursue a variety of management practices to improve performance (Rocha and Khan, 1985; McEvoy, 1984). Yet there is sometimes conflicting evidence about these practices as applied in small businesses. For instance, Greene (1989) notes that published research about the need for and effectiveness of planning for small businesses yields conflicting conclusions.

Henz (1986) notes that some of the practices of managers in larger firms are not directly applicable to the small business setting. Drucker (1985) contends that entrepreneurial work and managerial work are not the same. And Castaldi (1986) noted there were differences in role perceptions among CEOs who were owners versus non-owners of their businesses. Yet a review of several books directed at small business managers suggest little or no modification of basic management principles which were derived from large business settings (e.g., Sondeno, 1985; Siropolis, 1986; Broom, Longenecker and Moore, 1983). Indeed, some empirical literature (Taylor and Banks, 1992; Smith et al, 1988) suggests that entrepreneurs are not completely unique compared with professional manager cohorts. Despite works which argue a need for different approaches for "entrepreneurial" versus "professionally managed" firms (e.g., Flamholtz, 1986; Miller and Toulouse, 1986), "professional" principles of management continue to be touted as beneficial for the small business manager (Hodgetts and Kuratko, 1986).

Nonetheless, management principles have been under attack in the academic community since the advent of the human relations movement. The idea seems to be that management principles dehumanize or make light of the human dimensions of organizations. A poll of 3,747 managers and supervisors taken

by Archer (1990) found that . . . "Less than 4 percent were able to name more than one principle," and "Less than two percent were able to explain the significance and meaning of a principle once it was identified." (p. 19) In a similar poll of 872 MBA students, "Less than six percent . . . were able to name more than one principle," and "Less than three percent were able to explain a principle once it was identified."

A review of 122 textbooks designed for "principles of management" courses revealed that "practically every text dismissed the principles of management as being inappropriate for modern day use." Yet many texts for small business management courses continue to elaborate on basic management principles.

Archer concludes that management academics have jumped from the notion that principles are not mutually exclusive and must be applied in some proportionate sense, both of which create "measurement" and other problems in research, to the idea that we should not attempt to do the research required to apply management principles in any organization, large or small. This may be an intellectually satisfying, but lazy, conclusion.

The authors think that the appropriate approach would be to explore the application of management principles to business situations through research which may lead to a far more tenable conclusion for management academics. Without principles, management theory may be overly situational and idiosyncratic.

Consultants and providers of training programs for small business managers could also perhaps benefit from a closer examination of the applicability of "professional management" principles as applied in small businesses. This research is a start in that direction.

The principles which managers are urged to follow deal with planning organizing, staffing, directing and controlling. There is no dispute that these activities must be performed. What is questionable is whether various prescriptions about how these activities should take place are applicable for all circumstances -- hence taking the form of principles. Our research examined this by exploring responses to a selected set of principles among small business owners.

## METHOD

The design used for this research was a comparison of the management "knowledge" between two groups, Dun and Bradstreet (D&B) clients and Louisiana Small Business Development Center (SBDC) clients. An attempt was made to discover whether or not potential and existing small business people

were better prepared in management "knowledge" than a group of small business people who had evidenced survival capacity by existing long enough to merit a Dun and Bradstreet rating.

To provide a basis for comparison, a questionnaire was drawn up using a series of assertions regarding planning, organizing, staffing, leading, and controlling "principles" for small business. Hodgetts (1982) presents a formal listing of 32 such principles across these five areas. From these, we narrow the list to four statements for each of the five areas. Two in each area were stated consistent with the principle, and two were stated in a way which was inconsistent with the principle. All statements, however, were worded affirmatively in the form of an action a manager might choose in operating the business. [Full questionnaire is available from the authors.] Respondents were asked to indicate whether they concerned themselves with these assertions using a Likert scale ranging from Always to Never.

The "correct" responses represented a consensus of colleague responses. Specifically, local colleagues and five Small Business Institute Directors agreed to review the assertions, make recommendations for wording, and assist in achieving the consensus "right" answers. The "correct" response was the consensus that the firm should "always" or "frequently" do those things when the assertion agreed with the principle, and "seldom" or "never" do those things when the assertion disagreed with the principle.

### Sampling

The Dun and Bradstreet client group tested was a sequentially selected probability sample of "non-professional" small businesses (fewer than 100 employees) located throughout the contiguous 48 states. The sample was drawn from a mailing list obtained from Dun and Bradstreet. The second group of potential respondents was chosen from a list of Louisiana Small Business Development Center clients who attended one or more workshops where basic management would have been covered. A sequentially selected probability sample of 300 was drawn from that list.

Five hundred questionnaires were mailed to the Dun and Bradstreet sample. A three week cut off was established for response. Because of a low response rate, an additional 500 questionnaires were mailed ten weeks later. A total of 111 questionnaires were returned from these two mailings for a return of 11 percent.

Three hundred questionnaires were mailed to the Louisiana Small Business Development Center list at the time of the initial Dun and Bradstreet mailing. A total of 31 questionnaires were returned for a return rate of 10 percent. No follow up was attempted.

The returned questionnaires were edited, electronically entered, and analyzed using an SPSSX program.

## FINDINGS

Table 1 presents results in the form of adherence to management principles. Recall that one half of the statements on the questionnaire were phrased in the affirmative and the other half in the negative, relative to the principle. Adherence (Pro) to the principle means the respondents indicated they "always" or "frequently" concerned themselves with the management issue when the questionnaire statement of principle was phrased in the affirmative, or "seldom" or "never" followed the questionnaire statement when the principle was phrased in the negative. Conversely, non-adherence (Con) to principle means respondents "occasionally," "seldom," or "never" followed the positive statement of principle, or "always" or "usually" or "occasionally" followed the negative statement of principle.

### Planning

It is ironic that a small majority of these managers believe they can achieve their objectives without an explicit plan, despite a strong belief that when workers understand a plan they will help implement it. The hard work of putting together an explicit plan gets mixed reviews -- an almost equal split of adherence and non-adherence was found. And the SBDC group was somewhat more skeptical about the value of planning. Perhaps the issue of "formality" is at play here, a pattern found in some other results explained subsequently.

### Organizing

The majority of both groups see the benefit of clear job specifications and "unity of command." But both groups disagree with principles about "span of control" and delegation. These managers think they can manage more employees than their "big business" counterparts, and are loathe to delegate decision-making tasks. As will be seen, this is consistent with a pattern of maintaining personal control which emerges in other "violations" of management principles.

### Staffing

There is general agreement with the principles of staffing by the majority of both groups. But a small majority of the SBDC group prefers to rely on recruiting friends or uses knowledgeable referrals, rather than using an open job search for the best available employees. This might be a function of managerial experience. The managers of the SBDC group have fewer years of

management experience than those in the D&B group. The D&B-group may have exhausted their sources of friends and acquaintances, or the SBDC group may have less confidence in hiring "unknowns" in the early years of their business when survival is at risk.

#### Directing

The major exception to adherence to management principles in this area deals with methods of communication. In spite of growth, which usually leads to more formal means of communication, these managers prefer to use informal methods and direct contact with employees.

#### Controlling

This area exhibited the largest amount of divergence from management principles. The majority of managers in both groups handle the large and small problems personally. (Recall that the majority prefers not to delegate.) And the majority responds to problems as they arise rather than prespecifying specific performance standards measured on a regular basis. If controls cost too much, a small majority finds control techniques to be less useful.

#### Group Differences

For the most part, the SBDC group was quite similar to the D&B group in their responses. The only statistically significant difference was for questionnaire item P. While both groups agreed with the principle, a larger majority of the SBDC group wants to clearly spell out each person's job so employees know exactly what to do. Again, this may be related to managerial experience -- those with less experience (the SBDC group) may feel more confident if they can provide specific direction to their employees.

We thought that there might be differences between managers who characterized their business as very successful (versus less successful) in their degree of adherence to management principles. Statistical (chi-square) tests revealed this is not the case. We also tested for differences in experience. Again, there were no statistically significant differences in response patterns based on years of experience, except the two mentioned earlier.

#### DISCUSSION

Given the nature of these firms, perhaps the findings are not too surprising. These managers can be characterized as informal reactive controllers. The patterns of non-adherence to principles show divergence in areas of formality and control.

As a group the majority of these managers tend to operate with an informal approach to managing their businesses. They believe they can achieve objectives without explicit plans. They rely on direct and informal channels to communicate with employees, rather than formal methods. Employee recruiting is based on friends or acquaintances making referrals rather than formal hiring mechanisms. They do not use specific standards to measure performance on a regular basis. This ad hoc style is used by successful and less-successful managers alike.

Similarly, these managers exhibit a tendency to maintain direct control and involvement. They believe they can manage more employees. They are less willing to delegate decision authority and they prefer to deal with all problems personally. Also, there is a strong desire to provide specific direction to employees by spelling out clear job descriptions, especially among the less experienced SBCIC group.

Clearly, there is a difference between what these managers do and what principles of professional management specify. As stated by Flamholtz (1986): There is a qualitative difference between an entrepreneurship and a professionally managed organization. The former tends to be characterized by informality, lack of systems, and a free-spirited nature. The latter tends to be more formal, to have well-developed systems, and to be proud of its disciplined, profit-oriented approach.

What is quite interesting is that those who have been exposed to some management training respond in the same way as non-trained managers. Moreover, there are no reported differences in performance. Daily and Dalton (1992) found no financial performance differences between firms headed by founders rather than professional managers. But they agreed with Whisler (1988) that the founder may need to yield control and share power once a firm reaches a threshold of size and complexity requiring more professional management. Miller and Toulouse (1986) also found that delegation and use of professional managers was associated with better performance. We cannot address this issue directly, since we have no data from larger firms. But our results call into question whether some of these principles are valid.

We might conclude that these managers are failing to abide by some of the basic management principles, and might do better to adhere to the theoretical prescriptions. Nonetheless, there is no evidence in this sample that adherence to principle would yield greater success, at least by self-definition. Moreover, the results seem to call in question whether the principles themselves are valid. Indeed, some management theorists argue that the application of these principles varies with contingencies, such as size. By definition, these are smaller organizations. Contingency theory

posits that less formality is appropriate for smaller size firms. Perhaps these managers would not define themselves as successful if they did not believe they were in direct control of all aspects of the business.

While these principles were drawn from a book written for small business management, they appear to be derived from basic management principles which were developed within larger, more complex organizations. Yet small firms are not just little versions of big firms. Size and complexity are variables of significance which influence how management tasks can be accomplished. As such, the principles themselves may be less than valid for small businesses. This is especially true of startup ventures, or micro businesses. Here, the entrepreneur typically is directly and personally involved in all the critical tasks of not only marketing, finance and operations, but all the management activities (Henz, 1986). While the tasks of planning, organizing, directing and so on remain the same, the nature of how the tasks are performed might change as the organization develops. Flamholtz (1986) stated this well:

Above all, entrepreneurs possess a strong desire to be independent of others' ability to control their behavior. They like to feel "in control." . . . Fledgling enterprises need strong direction and open-ended commitment to make everything work properly. At this time, a compulsive CEO who knows about everything that is going on and pays attention to the smallest detail will have a tremendous positive impact on operations. Many consequences of an entrepreneurial CEO's desire for control, however, are less favorable during the later stages of a company's development. . . . Even though the firm has grown in size and added many managers and professional specialists, the CEO may remain the most skilled person in the company in most, if not all, areas. This means that the CEO has not been able to increase the company's capabilities beyond his or her own admittedly considerable personal skills. Such a situation puts limits on the organization's capacity to grow and develop.

In other words, these principles may apply for organizations which have developed a need for "professional management" as opposed to entrepreneurial management.

Hence, while the results are not surprising, those who consult with or provide training and education for small business managers may want to consider whether some of the basic management principles really apply for this population of managers. Prescribing the use of theoretical management practices which work for large bureaucratic organizations may be a disservice if they fail to provide guidance out of context.

We should hasten to add that this exploratory study leaves many questions

unanswered. While management educators seem to have dropped "management principles" from teaching and research in the last two decades, there seems to be enough observational evidence to support the notion that such principles may exist and may serve useful purposes. To confirm their suspicion that management principles are no longer useful to the management profession, management educators need to conduct sufficient research. Such research should be relevant to both large and small organizations.

Little attention seems to have been given to the application of traditional management principles to small organizations. Small business management professionals need to determine if and to what extent such principles can reduce the failure rate among small enterprises. Too, some attention may need to be given to the transition from small entrepreneur managed organizations to small business managed organizations. The authors' experience in small business consulting suggests that there comes a time in small entrepreneur managed companies when formal organization is imperative.

The body of research from other disciplines, in particular small and large group social sciences, needs to be thoroughly examined to determine if, in the development of groups, scalar organizations evolve and, if such organizations do evolve, why they do. It is possible, for example, that technological changes in communications have rendered the need for scalar organizations and the accompanying "management principles" obsolete. The collapse of middle management seems to indicate that the old communications roles of middle management no longer exist.

Questions remain which must be answered. Can upper management, with available technology, deal with more people now than in the past? Have organizations gotten larger than it is possible to manage? Does this mean that the accompanying collapse in middle management affirms the idea that smaller organizations are more efficient? If so, why? Is the collapse of middle management an advanced economy phenomenon? Are management principles still applicable to developing economies-with lower levels of technology? Given the globalization of business and business development strategies, the imposition of modern management teaching on less developed countries may be a disservice.

In conclusion, we are calling for more, not less, research to verify the usefulness of management principles, both at home and abroad. Perhaps the field has prematurely dismissed the basics in its quest for more elaborate theories. Perhaps it is time to return to our roots to reexamine these principles and their global implication.

Additional research

The authors think that the appropriate approach would be to explore the application of management principles to business situations through research which may lead to a far more tenable conclusion for management academics. Without principles, management theory becomes purely situational behavior. This position makes the teaching and learning of management a one life at a time proposition. Each new generation of managers is forced to learn by experience in that generation.

While management educators seem to have dropped "management principles" from our teaching and research in the last two decades, there seems to be enough "observational" evidence to support the notion that such principles may exist and may serve useful purposes. To insure that "management principles" are no longer useful to the management profession, management educators need to conduct sufficient research into the lack of applicability of management principles" to modern management practice in organizations, large and small.

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Can upper management, with available technology, deal with more people now than in the past.

Have organizations gotten larger than it is possible to manage and the accompanying collapse in middle management is the result of a realization that smaller organizations are more efficient? Why?

Is the collapse of middle management an advanced economy phenomenon? Are

"management principles" applicable to developing economies with lower levels, of technology? Given the globalization of business and business development strategies, the imposition of modern management teaching on less developed countries may be a disservice.

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TABLE I  
ADHERENCE TO MANAGEMENT PRINCIPLES

PRINCIPLE			D&B(1)		SBDC(2)			
	Pro	Con	Pro	Con				
A. Planning is a useful exercise		70	30	60	40			
B. Plans should be flexible		66	34	61	39			
C. Explicit plans enhance goal achievement			46	54	48	52		
D. Worker understanding of plans aids implementation		84	16	84	16			
E. Span of control should not be too large			23	77	30	70		
F. Job specifications should be clear			*	81	19	94	6	
G. Employees should only report to one boss				62	38	67	33	
H. Some decisions can be delegated				37	63	26	74	
I. Recruit the best available employees				57	43	47	53	
J. On-the-job training and workshops help employees				57	43	61	39	
K. Clear job descriptions yield higher motivation				65	35	71	29	
L. Clear job descriptions and training improve employee competence					70	30	68	32

M. Personal goals of employees will be achieved if business goals are achieved	61	39	68	32
N. Growth requires use of more formal communications	32	68	33	67
O. Direct employee contact generates better results	95	5	84	16
P. Managers need to understand what motivates employees	82	18	71	29
Q. Top managers cannot deal with all problems personally	16	84	26	74
R. Control is aided y specific performance standards	29	71	41	59
S. Understanding control techniques leads to better control	74	26	84	16
T. Control techniques should detect the nature and causes of problems	46	54	48	52

(1) Percent of D&B respondents (N=110) who indicated adherence (Pro) or non-adherence (Con) to the principle.

(2) Percent of SBDC respondents (N=31) who indicated adherence (Pro) or non-adherence (Con) to the principle.

\* Significant difference between D&B and SBDC respondents ( $p < .05$ )