

HOW SMALL BUSINESSES LEARN

EXECUTIVE SUMMARY

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INTRODUCTION

The well-being of the American economy requires that small businesses have the help and the information they need to thrive and grow. The source of more than half of our nation's jobs, and a focal point for innovation, small businesses are important catalysts in the continuing economic recovery. The small business community is an important market for those who sell business services, and an important constituency for policymakers.

Management experts are making ever-increasing efforts to understand and promote successful small business management methods. And many of those efforts involve providing needed information to small business owners and managers. Decisions made on the basis of no information or faulty information can be costly and damaging to small business interests. And it is difficult for many small firms to get access to timely, reliable information.

Much of the information small businesses need is or can be provided by government sources. Government agencies have opportunities to offer small businesses help in the form of loan and management assistance programs, as well as being the nation's largest single purchaser of small business goods and services. Federal agencies need to inform small businesses about changes in laws and regulations that affect them, offer them technical assistance, or purchase goods or services from them through small business set-aside programs.

Government agencies with responsibility for disseminating information cite small businesses as their most challenging audience to reach effectively. The difficulties of spreading information to the small business community are notable; small businesses are widely scattered, diverse, and only sporadically organized into cohesive groups. They are the least likely to have the time to attend conferences, read in-depth government reports or news analyses.

The U. S. Small Business Administration's Office of Advocacy has recognized the need for government agencies and others to be more efficient and effective conveyors of information to small business, as well as the need to facilitate more effective gathering and use of information by small business owners and managers. Therefore they sponsored a study about how small business owners and managers acquire the information they need to make strategic

decisions for their businesses and plan for the future. Berkeley Planning Associates (BPA) was the contractor carrying out the study.

The study was designed to:

- ! Help those who provide information -- including government agencies and publicly-sponsored information sources -- to become more efficient and effective in their communications with small business audiences;
- ! Increase understanding of small business owners' and managers' practices and preferences related to receiving information from outside sources, and thus help them become more efficient in acquiring and processing information; and
- ! Reveal differences among sectors of the small business community (defined by industry, size group, age of firm, extent of growth or change) in their response to existing communication efforts.

The principal source of data for this study was a telephone survey of 1247 owners and managers of companies with fewer than 100 employees, conducted during February and March of 1994. This survey was the first of its kind to cover this specific topic: it was nationwide in scope and included companies across several industry groups. About 60% of the individuals contacted completed the survey; data on responding and non-responding firms indicated no response bias. Reported barriers to response were lack of time, lack of interest, and general distrust of government inquiries.

The remainder of this summary describes the study's major findings and points out lessons for improving the effectiveness of Federal agencies' communications with small business.

FREQUENCY OF RECEIVING INFORMATION FROM DIFFERENT SOURCES

The survey asked small business respondents how frequently they used each of nineteen sources of business information. The sources most frequently used were informal business contacts such as customers (91%), suppliers (87%), and competitors (72%). Other important sources were newsletters/magazines published by trade and professional associations (91%) and meetings of those groups (79%). Respondents reported that they read the direct mail advertisements they receive (82%), that they get more business-related information from newspapers and magazines (81%) than from television and radio (67%). Respondents had attended workshops for which they had paid a registration fee (64%) far more often than they had attended government-sponsored workshops (25%). Over 60% of them reported that they rarely or never receive business-related information from family members, as compared to 44% for friends. Among the least frequently-cited sources of business information were government officials (40%) and government reports (56%). All of these findings are consistent

with the general observation often expressed that one of the scarcest commodities in a small company is the time of top management.

Variation in small business owners' use of information sources corresponded to differences in their companies' characteristics. Much of the variation appeared to be related to the out-of-pocket cost of using information. "Expensive" information sources -- such as accountants, consultants, attorneys, trade association meetings, paid workshops, and even trade association newsletters -- were most frequently used by larger, more mature companies, those experiencing substantial growth and change.

Differences associated with industry group had an entirely different logic, one linked more directly to the nature of the products and services being sold. Finance, insurance and real estate companies tended to be the heaviest users of government information and information from finance-related sources. Construction and retail firms had the strongest informational links to their suppliers, while manufacturing firms were the most heavily dependent on customers.

ACTIVELY SEEKING DIFFERENT TYPES OF INFORMATION

The survey also found that a high percentage of small business owners and managers actively seek information to *help them manage* their companies. The types of information most frequently sought were related to technology (72%), computers (78%), management skills (65%), and information to be used in making purchasing decisions (73%). Nearly three-fourths of respondents reported actively seeking information about regulations that affected their business operations, such as employment and safety laws.

In analyzing how different patterns of information-seeking behaviour relate to company characteristics, we found that many of the same types of companies noted above as heavy users of information are also active seekers of information. Two overlapping groups were the most active: (1) the largest companies, and those with high revenues; and (2) companies that were growing and experiencing moderate or extensive change. Those two groups appeared to have, respectively, the resources to enable them to absorb information, and the greatest need for information.

USEFULNESS OF INFORMATION FROM SELECTED SOURCES

Respondents were asked whether they found information from selected sources easy to obtain, easy to understand, timely, accurate, and relevant to their business needs. About 62% of respondents said they relied on accountants for information, and found that information timely (91%), accurate (89%), and relevant to their business needs (96%). The next most useful information sources were trade and professional associations (used by 54%). Sources such as these have a real need to satisfy their "customers," and therefore a strong incentive to

provide up-to-date, individually-tailored information, on time and in an accessible and easy-to-understand form.

By contrast, fewer respondents had direct experience with government sources of information. However, those who had used them gave positive ratings to government sources such as the SBA, small business development centers.

EFFECTIVENESS OF DISSEMINATION METHODS

Many small business owners and managers reported that direct mail notices were the most effective means of disseminating information to them. While the sheer volume of direct mail notices sent to small businesses may make it difficult to ensure that any particular notice stands out, this pattern was consistent with the respondents' tendency to rely heavily on printed media. Printed sources of information may have the advantage of being flexible as to when and where they are used.

Similarly, respondents cited both the front page and business sections of newspapers as relatively effective ways to attract their attention. Newspapers are extremely common and widely-read, and are quite cost effective for both the reader and those, such as public agencies, that may wish to use them to communicate with broad national audiences.

Organizational sources (meetings and newsletters of trade associations) were, overall, important media for communicating with small business owners and managers. proved to be the most effective, followed closely by print media, and then more distantly by broadcast media. "Trade media" (meetings and newsletters) were also individually rated quite highly. We recommend that the SBA strongly consider working through trade groups and their various communications mechanisms to disseminate information. We also note that respondents rated broadcast media (news reports and public service ads on both television and radio) as relatively poor strategies for disseminating information.

SUMMARY

The overall pattern of survey responses is neither unexpected nor difficult to explain, based on reviewing related literature and on prior contacts with small business owners and managers. Small business owners and managers confirmed that they most frequently use -- and respond best to -- information provided by sources they already know and trust. The most important, prevalent, and useful information sources, overall, were:

- ! Sources that already know a great deal about the "consumers" of the information, the business conditions they face, and their immediate local context, and thus can tailor information to meet specific needs; and
- ! Sources with the strongest built-in incentives to be responsive to the needs of individual "consumers" of information -- that is:
 - those that, like suppliers or accountants, have a business interest in strengthening their relationships, and
 - those with constituencies that require them to be responsive, such as trade and professional associations

Particularly important for federal dissemination efforts were the following conclusions:

- ! Working with trade and professional associations, and taking advantage of their existing routes of communications with small business owners and managers, is likely to yield significant results.
- ! Respondents' overall reactions to information provided by federal government agencies were negative; respondents were much more aware of the federal government as a factor constraining their operations through regulation than as a provider of opportunities such as purchasing, benefits, subsidies, or loan guarantees.

Governments, particularly the Federal government, are seen as remote from the day-in-and-day-out circumstances of individual small business owners and managers. The information government agencies provide is of necessity generic, rarely industry-specific, usually unable to take into account local circumstances, and seldom tailored to the need and situation of the individual companies receiving it. In comparison with other sources, the federal government is impersonal and far removed from the reality that seems most immediate and most important to these respondents.

Several respondents -- along with other small business owners and managers who declined to participate in the survey -- offered comments making it clear they see government as acting in ways detrimental to small business interests. Communicating effectively with small business will require changing such perceptions, taking care that communications are sensitive to entrepreneurs' points of view. This study pointed to the possibility that the federal government, while having a great deal to offer small business, will have difficulty communicating that fact. But, given the importance of communication for improved understanding, these findings actually underline the need for continued attention to government communication with small business.