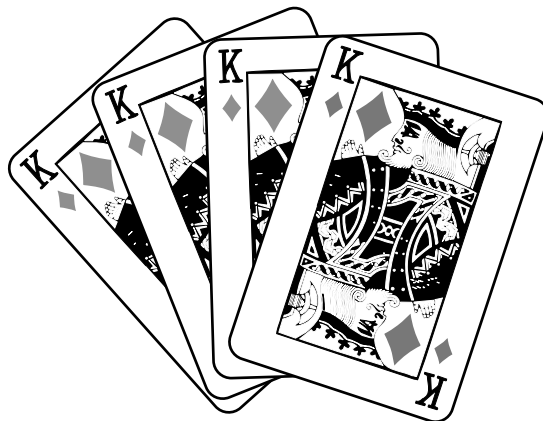


RETHINKING SELF-EMPLOYMENT PROGRAMS

We know how to help people get into business. Now how do we help them *stay* in business?



VICTOR KRAHN & MARK CABAJ

For well over a decade now, the growth of small business has been hailed as one of the most positive developments in the Canadian economy. And with good reason. Today, over 15% of Canadians make a living from self-employment in every major sector of the economy. And while it is certainly true that working for oneself is considerably more risky and stressful than being in somebody else's employ, self-employed persons have the potential to earn higher incomes.

Small business also has the potential to help re-build local economies. In the northern Italian region of Emilia-Romagna, for example, a rapid expansion in the number of small businesses is credited with improving the region's per-capita income from seventeenth to second place in the country in less than 25 years.

In the last ten years, the field of community economic development has developed an impressive capacity to promote self-employment and small business. There are now literally hundreds of CED organizations (CEDOs) providing some form of support to fledgling entrepreneurs. Some of these provide training in the hard skills of business (i.e. accounting, marketing, etc.), others offer credit facilities, and still others supply on-going consulting services. Approximately two thirds provide more than one service.¹

It is becoming increasingly clear however that these programs may not be achieving the goal to which they all aspire - helping clients start and grow businesses that generate decent profits and sufficient income to sustain families.

While the number of people participating annually in such programs continues to grow, a number of evaluations show that many businesses do not survive as long as they might, nor generate satisfactory profits. In fact, a recent national assessment of the Self-Employment Assistance program, showed that persons receiving SEA assistance generated less revenue and income than people not participating in the program, suggesting that participants would have been better off not receiving the assistance at all.²

There are probably a dozen reasons for this less-than-expected performance. In our work with the self-employed and with CEDOs, however, we have come to believe that is because most organizations do not spend sufficient time on two critical areas of small business development: entrepreneurship and getting access to markets.

THE NEED TO CREATE ENTREPRENEURS

"How does your organization add value to your clients' struggle to establish a strong business?" That's the key question we

ask managers and staff of self-employment programs. A frequent response is “by helping develop a business plan which becomes their map that guides their work”; or, “by providing access to capital that they can’t get from the banks.”

There is no doubt that both services are important. Like every business, small business requires resources to start and grow the venture and a well laid-out plan outlining what will happen. CEDOs have pioneered ways to fill these needs and, in so doing, have given thousands of small businesses a solid start.

Both capital and business plans, however, are second in importance to entrepreneurship. Entrepreneurs are driven by the need (psychological and/or financial) to achieve, and tend to possess a great deal of energy, creativity, persistence, and patience. Business plans, products, capital, and hard business skills are just tools that help the entrepreneurial woman and man make this very personal journey a successful one.

One does not have to look far for evidence in support of this argument. Henry Mintzberg, one of the world’s foremost critics of conventional strategic planning, argues that “plans” are ultimately secondary factors of business success (*The Rise & Fall of Strategic Planning*, Free Press, 1994). From a review of the poor performance of many companies in the 1970s and ‘80s, Mintzberg concluded that much of this failure had a common root: the mistaken belief that carefully laid out plans, not the vision and commitment of people partaking in the enterprise, were the key to superior enterprise performance.

So too in the field of development finance. The Kentucky Highlands Investment Corporation, an organization that stimulates the start-up of manufacturing ventures in rural Kentucky, used to make finance its primary concern. But they determined that “entrepreneurship,” not capital, was the nutrient lacking in the region’s economic soil. After changing its

focus to entrepreneurial recruitment in the late 1970s, it has enjoyed an enviable record of success. The results of a recent assessment of microenterprise finance programs in the United States suggest that the rest of the field of CED is quickly coming to the same conclusion.³

CULTIVATING ENTREPRENEURSHIP

There are several ways that CEDOs can properly integrate “entrepreneurial development” into their programs and services. They should rigorously screen

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potential program clients for a critical mass of entrepreneurial traits. And once the clients are admitted into a program or given a loan, staff should consciously cultivate a sense of confidence, risk, and commitment in reaching high goals.

Critics of this approach will argue that it excludes a large number of people who may not be true entrepreneurs, but find starting a business their only option for a livelihood. This is only partly true. A recent statistics Canada survey showed that an overwhelming majority of the self-employed (88%) choose to become self-employed because they enjoy the flexibility and freedom of working for themselves. Only 12% felt “pushed” into self-employ-

ment for financial and other reasons. And contrary to what many might think, studies done in the United States show that low-income people are more keen on running their own business than people in higher income brackets.

The vast majority of folks in the field, therefore, possess the required spark of an entrepreneur; CEDOs simply need to recognize and continually fuel it.

HELPING SMALL BUSINESSES GAIN ACCESS TO MARKETS

Many years ago, if a company made a quality product at a low price, chances were good that it would sell like mad and the company would prosper. Not anymore. In today’s hyper-competitive economy, quality, price, and service are only the prerequisites to compete. And those that attempt to compete on these alone soon find themselves out of business.

Long-term prosperity in today’s markets rests with distribution. Whether it is a mass market, such as the one for white T-shirts, or one serving highly specialized niches, such as organic food for senior citizens, businesses must get their product noticed by enough consumers before the conventional features of quality, price, and service even come into play. If not, the long-term viability of the business is in question.

The challenge of gaining market access is considerable for small business. Few have the clout, capital, or even the experience required to secure a solid distribution network. Smaller still is the number of programs that invest sufficient time and effort to help them build this critical part of their business. It is instead the secondary issues of capital, efficient operations, and quality products or services that receive emphasis. The net result is that a large percentage never grow beyond their initial market of friends, neighbors, and former colleagues. Sooner rather than later, these businesses are obliged to close their doors.

KINGS, QUEENS, & JACKS

There are, however, CEDOs that stretch themselves to dramatically expand the ability of their assisted businesses to gain access to the market.

The Appalachian Center for Economic Networks in Ohio, for example, designs self-employment programs solely with this in mind. Rather than simply train good entrepreneurs, ACENet organizes them around specific market niches, such as specialty kitchen equipment for senior citizens, and works with local distributors (such as construction companies) to design and package the product. Not only do the microentrepreneurs have a product that is made to “fit” the market, they have effectively secured buyers by having them invest so heavily in the product development process.

The results speak for themselves. Food Ventures, ACENet’s first major venture, has spun off dozens of successful microenterprises in a variety of sectors.

The efforts do not always have to be so elaborate. Some years ago, the Enterprise Excellence Corporation began working with an exceptional native artist that makes beautiful crafts out of wood. While the artist had spent three years developing a large range of very attractive products, he never generated enough income to result in more than a subsistence living.

After spending a modest amount of time reviewing the business, we assessed the opportunity and made a number of calls to some international art and specialty products distributors and linked them to the artist. The business now has more orders that it can fill and the owner is well off.

A colleague of ours, a very talented engineer, is fond of exclaiming that “Product is still King” in his business training seminars. He may be right. People buy the native artist’s crafts because they are of high quality and surprisingly affordable.

But if product is king, then “market access through distribution” is both

Queen and Jack. Business trainers must be sure to equip their clients with a Royal Flush if businesses to succeed.

THE CHALLENGE TO THE FIELD

The field of CED and small business development is at a crossroads. We have spent the last decade building up significant capacity to assist fledgling entrepreneurs start up their business. In the process we’ve developed a vast array of supports to help make this happen. The results show, however, that these supports alone will not result in the healthy businesses and stronger local economies we all want to see.

We are confident that an emphasis on entrepreneurship and a renewed focus on assisting small business to access markets will take many CEDOs’ small business development programs to the next level. We have seen it first hand in our own work and observed similar results across North America and Europe.

Incorporating these features into programs and services, however, will pose a significant challenge to many CEDOs. We have invested a lot in the current methodologies and are comfortable in our ways.

In short, we are reluctant to change. Yet it is clear that we have very little choice except to roll up our sleeves and get down to work. The health of our clients’ businesses, the livelihood of their families, and the health of local economies all depend on it.✎

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