BUREAU OF BUSINESS RESEARCH WORKING PAPER
NO. 14
A STUDY OF THE SOURCES AND USES OF INFORMATION IN
THE DEVELOPMENT OF MINORITY ENTERPRISE

A Proposal for Research on Entrepreneurship

by
Patricia L. Braden
Research Associate
Bureau of Business Research

Dr. H. Paul Root
Associate Director
University of Michigan

Copyright © 1970
by
The University of Michigan

Printed in the United States of America
All rights reserved
BACKGROUND OF THIS PAPER

Beginning more than twenty years ago with the work of William H. Hoad (who has written various texts and case books on small business administration), the Bureau of Business Research has shown a continuing interest in the relation between economic growth and small business development. In 1969, two studies were completed, each emphasizing the role of fundamental business functions in successfully launching a new business enterprise. Sidney L. Jones (Legislating for Economic Expansion, Part II) examined the unique problems of small business financing and the specific programs and institutions in Michigan which provide assistance to small businesses seeking financial support. At the same time, Lawrence M. Lamont (Technology Transfer, Innovation, and Marketing in Science-Oriented Spin-Off Firms: A Conceptual Model) analyzed the use of marketing in the small, young, technologically-oriented spin-off firm and was able to identify two types of new enterprises: those which are commercially oriented and committed to growth, and alternatively, those which are research and production oriented and which either reject growth or lack the managerial talent required for growth.

Currently, an effort is being made to extend the work of Lamont by developing a predictive measure capable of discriminating successful and unsuccessful new enterprises on the basis of both objective financial criteria and the subjective criteria supplied by the entrepreneur.

A second program of research will be undertaken in the near future, extending the previous research on financial assistance to small business. In addition to examining requirements of loan officers and decision criteria used to allocate investment funds, the study will attempt to define problems unique to minority enterprises and generate solutions for them.

(Continued)
The study proposed here is a part of the third research program designed to describe the communication channels used by entrepreneurs in decision making. This study will monitor information sources, uses, and effectiveness within minority enterprises, while a second study will monitor the same process within technology-based firms. The results of the current effort are expected to provide a basis for critically examining the existing managerial assistance programs and agencies and to supply guidelines for needed revisions. This program is being jointly sponsored by the Bureau of Business Research of the Graduate School of Business Administration and the Industrial Development Division of the Institute of Science and Technology. The initial study on minority enterprises is scheduled for completion in September, 1971.
CONTENTS

Research Needs

Introduction ........................................... 1

New enterprise and economic
development ........................................... 3

Minority enterprise and
community development ...................... 5

The research problem ......................... 8

Research Plan

Methodology and hypotheses ............... 10

Sample selection and survey
design ............................................. 19

Bibliography ..................................... 21
Research Needs

Introduction

There are many social and economic reasons that entrepreneurship, especially minority entrepreneurship, should be encouraged and assisted. Though minority entrepreneurship is not proposed as a panacea for social ills, it is a realistic means of generating local capital and manpower for future economic development. In an attempt to provide assistance in development, federal, state, and local governments, universities, and private groups have organized many educational and financial programs and are proposing new ones.\(^1\) The basic assumption underlying these programs is that they will provide the assistance necessary to catalyze the economic growth of minority enterprises.

Because of their social impact, it is legitimate to question whether or not these programs do in fact meet any of the important needs of minority entrepreneurs. Historically, many such agencies and programs

have been overpublicized by society as a whole and underemployed by the minorities. For example, in the fiscal year 1969 not all federal assistance monies allocated to such programs were used. The fact that many technical enterprises founded by persons with a higher education do not use these formal channels for aid\textsuperscript{2/} seems to be sufficient evidence to suggest that the existing programs may not meet the needs of the minority entrepreneur. If these programs are not fully used because they do not meet existing needs, then the vast collection of human skills and economic resources being channelled into them is largely wasted. More significantly, these programs thus hold forth only empty promises to those who enlist their aid, and their inadequacies may perpetrate further social injustices.

Because of the importance of the basic assumption that these programs communicate vital information to minority businessmen, we propose the research set forth in this report to test empirically this assumption. Formal and informal communication channels will be examined separately to determine both long-run (educational development) and short-run (problem-solving) informational needs, but in each case an attempt will be made to identify the channel of communication used to reach the information source and to evaluate the effectiveness of the information received. The results of the research will provide

direct implications for determining the best structure of long- and short-run formal assistance programs. The research will also furnish a means of assessing the importance of informal communication channels in minority development and suggest possible structures which could be used to employ this alternative communication channel to full advantage.

The research proposed here is part of a larger framework for research in entrepreneurship within which the information flow among entrepreneurs, the social and psychological characteristics of entrepreneurs, and the characteristics of potential entrepreneurs have been identified as relevant factors requiring definitive empirical research. Additional research will allow comparisons between technical and minority entrepreneurs in an effort to determine whether fundamental differences in background, skills, or operating procedures are associated with varying levels of success.

New enterprise and economic development

While the concept of small business is a familiar one, the role of small business in economic development has been largely ignored. While the limits of the role of the small businessman are difficult to circumscribe, three immediate functions can be identified: first, the small businessman provides a sound base for community growth; second, the managerial experience of small businessmen develops civic leaders; and third, a second generation of responsible managers is attracted by successful small business. It is known that small businesses provide over 66 million jobs in today's labor market, but it is not so well
known that successful small businesses add over $300 billion in assets to the economic base of the nation. This capital accumulation in local communities is the springboard used by aspiring entrepreneurs to finance new enterprises, which in turn bring new opportunities for employment and capital formation to the locale. By thus stimulating activity in the local economy, small business becomes an impetus for community growth which cannot be ignored when plans are made for a healthy community.

Community planning is a second function which could not be performed adequately without the active participation of small businessmen. The small businessman has an investment in the future of the community which cannot be equalled by larger corporations. No large corporation stakes its entire fortune on the fate of a single community. Though it shares in the future of each community in which it is located, its managers do not feel the same level of commitment as the local businessman to the cultural and civic development of the community. Since the small businessman cannot be removed from his location by transfer, he must strive to improve the quality of his family's everyday life by actively participating in the operation and improvement of the civic and cultural environment.

A healthy community, in turn, attracts and holds qualified junior managers who promote new business ventures and assure continued success to existing businesses. It has already been noted that

3/ Ibid., p. 76.
successful enterprise promotes new enterprise by making venture capital available to aspiring entrepreneurs through the community's existing financial institutions. Small business is indeed an integral part of a prospering community, but is small business a required element of an economically healthy community? If the reader doubts that small business is necessary for community growth, he need only reflect on the fate of Cairo, Illinois, and many other cities in which small business failed to prosper in the shadow of a larger corporation. The promising youth of the community, having no investment in its future, left for more promising environs, draining the local economy of both human and financial resources. As the city became less economically active, the larger corporations began looking for a more hospitable location, leaving only the old and unskilled behind.

Minority enterprises and community development

This phenomenon has a striking parallel in the problems of community development experienced by minority groups today. "To have a viable economy, it is essential to have a production and a distribution sector, the development of which requires both capital and expertise." With no community investment in the factors promoting

the growth of small business, the technically qualified minority youth leaves his community to find more promising business opportunities elsewhere. However, the community he leaves behind is not unchanged by his leaving. The decline in the general community welfare reflects the very real loss of human resources as well as potential income and capital accumulation. Once the youth of the community leave, the replenishment of the capital base of the economy ceases and venture capital for sponsoring new entrepreneurial efforts is withdrawn, all of which merely accelerates the rate of decline in the general community welfare.

After World War II, a substantial body of research sponsored by the Small Business Administration of the U.S. Department of Commerce was devoted to identifying the effects of the presence of venture capital and managerial assistance in promoting the development of small business enterprise. The direct results of the research suggested that "knowledge pools" of experts and "profit pools" of venture capital should be made available to the small business community to spur economic growth. In 1958, the Small Business Administration began making venture capital available to disadvantaged groups. Yet nearly a decade later, little improvement was found in the rate of economic development of these disadvantaged groups. It was readily apparent that, although capital was available, relatively few members of disadvantaged groups used these resources, and virtually all such groups developed business problems as the result of a lack of managerial training and expertise.
In 1964, efforts were initiated to develop managerial assistance programs to benefit small businessmen. The Small Business Administration encouraged independent groups to join the effort, and after six years over 300 organizations had initiated local managerial assistance programs. Yet, few programs have achieved general recognition in the business community for their success in aiding and developing healthy business enterprise. Though minority entrepreneurs have historically had difficulty aggregating venture capital and have few acknowledged pools of expertise within their own community, many efforts have been made to assist business development by making the resources of the general business community available to them.

Ali S.M. Fatemi reports:

The value of the multiplier in the ghetto doesn't seem to exceed one by very much. Any income injected into the ghetto quickly dissipates into outlying suburbs and outside investment. Instead of remaining in the ghetto to generate production of goods or services, whatever is brought into the ghetto in the form of either wages or welfare checks very often gets spent in a white-owned store and, by evening, leaves the neighborhood. It is obvious that such a short income cycle prevents accumulation of any savings as a prerequisite to investment.

The lack of significant ownership by the indigenous population thus accounts for part of the leakage of capital from the ghetto. What is required is the development of

---

black-owned distribution centers in the form of wholesale and retail outlets, but more important is the development of a black-owned-and-operated production sector, capable of developing and manufacturing goods for sale both internally and export, which would enhance the value of the multiplier.\(^6\)

The failure to bring about improvement in the general community welfare 5 to 10 years after these programs were begun indicates that a problem exists beyond that of providing outside capital and expertise.

The research problem

The availability of a "knowledge pool" and a "profit pool" does not ensure that they will be tapped correctly, or that they will be tapped at all. Efficient communication of opportunities to potential entrepreneurs and of assistance to operating businesses is a prerequisite for utilization of these resources. Communication of ideas and opportunities is an implicit factor in the efficient use of resources in the community at large. Yet the communication network which carries this information through the larger business society bypasses stagnant communities which show little promise of using the information.\(^7\) The successful businessman approaches a decision or problem with a background of information inputs from business and economic literature, professional friends, consultants, and educators. He feels free to tap any of these resources for informal assistance or to engage in professional activities which provide formal exposure to ideas and opportunities.

\(^6\) Fatemi, "Black Capitalism as a Strategy," p. 47.

\(^7\) Cooper, "Entrepreneurial Environment," p. 76.
The minority businessman in the disadvantaged community may not have had exposure to the formal institutions which are charged with the task of disseminating information to the larger community, and little is known about his exposure to or use of informal channels of communication within the minority business community. The research proposed here is intended to explore the use of formal and informal channels of communication available to the minority businessman and to assess the effect of information use on the financial success of the enterprise.

When planning for the future growth of the community, people outside the minority community have assumed that the minority community, though undeveloped, uses the same sources of information as the white community. Yet, if evidence exists at all, it exists to the contrary. The channels of communication used by the white community are sophisticated networks which have been refined from use over two centuries.**8/** Formal organizations seed contacts which are later drawn on for assistance in specific problem situations. James Rovelstad*9/* suggests that the appropriate role

---


of formal channels of communication is to reach those with whom the businessman is not normally in contact. Informal channels, alternatively, permit direct exchange of technical ideas under conditions where concepts that are often difficult to describe can be explored until understanding is obtained. Minority groups, however, have no heritage of business enterprise, and, therefore, no well-documented procedure for receiving information on the entrepreneurial opportunities recently made available to them. Nor are the informal contacts available to explain the advantages of the various programs and provide personal assistance in implementing them.

Research Plan

Methodology and hypotheses

The assumption that the channels of communication existing in the white community are the appropriate vehicles of communication for a minority community may not be warranted. To determine the validity of such an assumption, the research plan will investigate not only the use of various types of information in business applications, but also managerial characteristics commonly associated with the propensity to engage in information-seeking behavior and measures of the economic wealth of each firm. By developing comparisons between managerial characteristics, information-seeking behavior, and economic wealth it becomes possible to assess the efficiency of present patterns of communication channel use in providing information critical to the growth of minority enterprises. Though modification of the channels
currently being used may be in order, the nature of any such change
cannot be determined until the patterns of channel use are known. At
least three items of information are required before decisive action
can be taken to alter the flow of information.

First, the sources of information currently used by minority
businessmen must be identified. It has already been acknowledged that
alternative structures are available to gain access to information sources.
On the basis of the rudimentary theory of the area, it seems justified
to make the following hypothesis:

Hypothesis 1

Informal contacts are used at a greater rate
than formally structured channels of commun-
ication.

The research plan proposes to monitor the frequency with which both
formal and informal channels are utilized in problem solving and the
criteria used to select the channel. In addition, the number of formal
sources of information known to the businessman will be used to develop
the set of formal channels perceived to be open to the minority business-
man, while the usage rate will be developed as a measure of the total
number of known sources used to contribute information to the solution
of any one problem. Usage rates will be developed for both formal
and informal contacts, and a comparison will be made of the mean and
modal usage rates of formally structured sources and informal contacts,
as well as the dispersion of the usage rate for the two alternative
channel structures. Despite the outcome of the test of the hypothesis,
the criteria for choosing each alternative channel must be investigated to determine whether certain channels are chosen as sources of information for structurally dependent reasons, e.g., whether informal contacts are chosen because of personal attention. It is possible that the method of presenting information rather than the information itself determines the channel used.

The second item required to determine the nature of decisive action that is necessary to modify existing channels of information is the type of information the minority businessman requests from each source. Though the information available from each alternative source may be either general or specific, it is hypothesized that:

Hypothesis 2

The problems discussed, information desired, and information received from formally structured channels of communication will be perceived as general to the businessman's problem, but will be perceived as specific to the businessman's problem when received from informal contacts.

To assess the content of the information passed through the various channels of communication, the respondent will be requested to select a recent business problem which he faced and identify the general nature of that problem. He will be asked to list separately the sources he contacted for information on his problem and to list for each source: (1) the information requested, (2) the information received, (3) whether or not the information was used in decision making, and (4) the effectiveness of the information. (A sample of this set of questions is illustrated in Figure 1.) A mention of a
Figure 1

INSTRUMENT DESIGNED TO MEASURE INFORMATION CONTENT FLOW

I. Nature of your most recent business problem:

1) Problems financing a new business
2) Difficulty getting business insurance
3) Problems finding and keeping qualified personnel
4) Suppliers and wholesalers slow
5) Difficulty getting short-term business loans
6) Problems finding outlets and selling products or services
7) Having trouble collecting from customers
8) Other problems: ________________________________

________________________________________________

II. List each source of information you contacted, and underneath it relate the information you wanted, the information you received, whether the information was used to solve the problem, and how effective it was.

1. Information source: ________________________________
2. How did you find out about the information source? ________________________________
3. Did you know the individual you contacted before seeking assistance? _____1) Yes _____2) No
4. Information requested: ________________________________

5. Information received: ________________________________

________________________________________________

(Continued)
Figure 1--Continued

6. Did you use information to solve your problem?
   1) Yes   2) No

7. If you used the information, please rate its effectiveness from -5 to +5 using the following scale:

   +5 Most helpful information received
   +4
   +3 Information helped make right decision
   +2
   +1
   0 Didn't help, didn't hurt, or didn't use information
   -1
   -2
   -3 Information led to wrong decision
   -4
   -5 Most harmful information received
problem constraint will identify the request for or receipt of specific information, while no mention of a constraint will be interpreted as a request for or receipt of general information. For example, a request such as, "How can I get a short-term business loan?" will be interpreted as general, while "How does a firm with a net loss package a loan request?" will be interpreted as specific.

Likewise, the information source will be coded according to whether it was contacted as a formally structured organization or through an individual—that is, informally. The chi-square test of association will then be applied to determine whether a significant degree of association exists between the type of source contacted and level of information requested or the level of information received.

The third type of information required for an informed modification of communication channels is the degree of effectiveness of the information received. Effectiveness may be either perceived or objective. Objective effectiveness is measured according to whether or not the information was applied in decision making. Perceived effectiveness—or the effectiveness of the information as it is perceived by the user—is measured by a scale which ranges from most detrimental to most helpful information received. (See Figure 1.) The scale is designed to elicit a measure of effectiveness for information used in problem solving. Where the information was not used to make a decision, it will receive a value of zero. It is hypothesized that:
Hypothesis 3

Information from formally structured sources will be used less often and rated less effective when used than information from informal contacts.

Hypothesis 3 will be tested by averaging both the number of respondents who used the information sources and the effectiveness ratings for the information sources over all formal and informal sources and by performing a test of means to determine whether the average number of applications of information from the source varies significantly by type of source. Measures of dispersion must also be tested to determine whether variations from the average application differ by type of information source.

In addition to requesting information concerning the use of the various types of information in problem solving, the study instrument will be designed to include measures of managerial and firm characteristics commonly associated with both growth potential and the propensity to engage in information-seeking behavior. Nine primary characteristics will be investigated:

1. The product or service offered by the company
2. How the business was initially financed
3. The annual gross sales of the business
4. Whether or not the firm is a sole proprietorship, partnership, or corporation
5. Whether the respondent is the owner, owner-manager, or manager of the business
6. The length of time the respondent has worked with that business
7. The respondent's age

8. The level of formal education attained by the respondent

9. The number of years of business experience the respondent gained working for others and in business for himself

If relative growth is measured on the basis of the net profit of the firm, it is hypothesized that:

Hypothesis 4

The length of employment with the business, age, educational level, and years of business experience of the respondent will be positively associated with net profit

It is also hypothesized that:

Hypothesis 5

Incorporated firms, manufacturing firms, and firms which were financed by formal financial institutions will show higher net profits than any other group.

Hypotheses 4 and 5 will be tested by applying the chi-square test of association to determine whether a significant association exists.

For the variables included in hypothesis 4, if such an association exists and appears to be linear, a simple correlation will be applied to expose the exact extent and direction of the association. If more than one dependent variable appears to be significantly associated with net profits, a multiple linear regression will be performed to examine the extent of the contribution of each dependent variable to explaining the total variation in net profits.
The measures of managerial and firm characteristics are also expected to be related to the amount of information-seeking activity recalled and reported by the respondent.

Hypothesis 6

The length of employment with the business, age, educational level, and years of business experience of the respondent will be positively associated with the usage rate and effectiveness rating of informal information sources and negatively associated with the usage rate and effectiveness rating of formal sources.

Hypothesis 7

Respondents from incorporated firms, manufacturing firms, and firms which were financed by formal financial institutions are expected to issue higher usage rates and effectiveness ratings for informal information sources than for formal information sources.

The informational hypotheses will be tested by applying the same techniques used on their corresponding financial growth hypotheses (hypotheses 4 and 5 respectively). If hypotheses 4 through 7 are verified by investigation, it is clear that the following relationship might be deduced:

Hypothesis 8

The usage rates and effectiveness ratings given for informal sources will be positively and directly related to the firm's net profits, while those given for formal sources will be unrelated or negatively related to the firm's net profits.

Hypothesis 8 will be tested by performing a simple correlation for each type of information source. The verification of hypothesis 8
would indicate that the present channels of communication are performing well but are underemployed in decision-making situations. However, the rejection of hypothesis 8 would indicate that the present communication channels are ineffectual in decision making which is critical to growth, and, therefore, they must be modified. The direction for modification will be provided by the respondents who will subsequently be asked for suggestions to improve information flow or the value of information content. These suggestions will be subjectively categorized and reported to clarify the measured results.

Sample selection and survey design

The sample will be selected from the population of black-owned or -managed businesses listed in the recently compiled Directory of Black Businesses in Michigan and supplemented by additions from the directories of black businesses published by the Booker T. Washington Businessman's Association and other concerned organizations. Businesses to be included in the sample will be determined by type of business and number of jobs provided. Because of the large concentration of black enterprise in the service industry and the need to expand the production capability of the minority sector, all owners or managers of manufacturing and heavy construction firms will be included in the sample. To eliminate the family businesses with no intentions to grow (commonly called "Mom and Pop" operations) which are largely responsible for the heavy emphasis on service industries, businesses offering services but employing less than five persons will be excluded from the sample.
It is expected that a total sample between 150 and 250 minority businesses will be obtained from this selection procedure.

The sample members will receive a cover letter and survey questionnaire by mail. Since a high response rate will be required, a follow-up letter and duplicate questionnaire will be sent at the end of two weeks to those who have not yet responded. The questionnaire will be oriented to a single problem. This will allow the development of usage rates and effectiveness scales for information sources individually and by type. If such a restriction were not included, the usage rates and effectiveness scales supplied by one respondent would not be comparable to those of a second respondent. Therefore, to supply a consistent unit of measurement, the respondent will be asked to report his short-term information-seeking activities for only his most recent major business decision. An explanation of the procedures to be used when filling out the questionnaire will be attached to avoid errors in interpretation.

As a follow-up procedure, a small sample of respondents will be selected for personal interviews to validate the responses received in the mailed questionnaire and to provide additional insight into information-gathering difficulties experienced by the minority entrepreneur.
Bibliography

Beard, Winston C. An Experiment in Advising Small Manufacturers. Report prepared by the University of Arkansas, College of Business Administration, under the Small Business Administration management research grant program. Little Rock, Ark.: Industrial Research and Extension Center, College of Business Administration, University of Arkansas, 1964.


### OTHER WORKING PAPERS

<table>
<thead>
<tr>
<th>Working Paper Number</th>
<th>Title</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&quot;Reflections on Evolving Competitive Aspects in Major Industries,&quot; by Sidney C. Sufrin</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>&quot;A Scoring System to Aid in Evaluating a Large Number of Proposed Public Works Projects by a Federal Agency,&quot; by M. Lynn Spruill</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Out of print (to be published in a forthcoming issue of the <em>Journal of Retailing</em>)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>&quot;Management Experience with Applications of Multidimensional Scaling Methods,&quot; by James R. Taylor</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>&quot;Profitability and Industry Concentration,&quot; by Daryl Winn</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Out of print (to be published in a forthcoming issue of the <em>Journal of Marketing Research</em>)</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>&quot;The Contribution of the Professional Buyer to the Success or Failure of a Store,&quot; by Claude R. Martin, Jr.</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>&quot;A Marketing Rationale for the Distribution of Automobiles,&quot; by H. O. Helmers</td>
<td></td>
</tr>
</tbody>
</table>
OTHER WORKING PAPERS

Working Paper Number

12 "Global Capital Markets," by Merwin H. Waterman