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ABSTRACT

This manual is designed to assist management consultants in working with small-scale entrepreneurs in developing countries. Addressed in an overview of the small-scale enterprise (SSE) are: the role of the SSE in third world development, problems of SSEs, and target firms. The second chapter deals with various forms of management assistance to SSEs, including general considerations in management consulting and program approaches to SSE management assistance. Examined in a discussion of management assistance to target firms are the implementation experience of the Tulua Management Consulting Program in Colombia, guidelines for seminars for SSE managers and employees, suggestions for providing consulting assistance to target firms, and work related to management consulting. Appendixes to the manual include sample seminar and teaching aids, aids for conducting a management consultancy, and resources for management consulting to SSEs. (MN)

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Peace Corps

GUIDELINES FOR MANAGEMENT
CONSULTING PROGRAMS FOR
SMALL-SCALE ENTERPRISE

Written by
Gary L. Vaughan

Peace Corps
Information Collection and Exchange
Manual M-14

December, 1981
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GUIDELINES FOR MANAGEMENT CONSULTING PROGRAMS
FOR SMALL-SCALE ENTERPRISE
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P R E F A C E

This manual is designed to assist management consultants working with small-scale entrepreneurs in developing countries. It also contains material of interest to Peace Corps or developing country programmers who plan development projects for the small-scale enterprise (SSE) sector. The bulk of the manual deals with management assistance to one type of SSE in developing countries: owner-operated small industrial firms. Much of this emphasis flows from my past field experience as a Peace Corps Volunteer in Colombia. Nonetheless, many of the tools and techniques explained in this handbook may have applicability to other types of SSEs or even to other forms of business organization throughout the Third World.

In writing this, I have synthesized a growing body of reference material in small-scale enterprise development--some of which is presently available to Peace Corps Volunteers and staff through Peace Corps' office of Information Collection and Exchange (ICE) in Washington. This manual provides the reader with insights into answering the following questions:

- (1) Why are SSEs important in Third World development?
- (2) What problems are commonly faced by the small-scale entrepreneur?
- (3) What role can management consultants play in helping small-scale entrepreneurs solve such problems, thereby boosting SSEs' productivity and profitability?
- (4) What kinds of development programs or delivery systems are effective in planning for, training, and supporting SSE management consultants?
How can such programs' effectiveness be evaluated?
- (5) Finally, how does a management consultant go about assisting a small business in the Third World, and what techniques (in human relations and in various areas of business administration) will help the consultant improve both the quality and acceptability of his advice to the small entrepreneur?

This manual offers answers to all of these questions in a practical, handbook format. Chapter One deals with questions (1) through (3), and provides the reader with background information on how SSEs, with the aid of management consultants, may play an important role in developing Third world economies. In addressing question (4), Chapter Two briefly examines a variety of programs which have attempted to boost SSE productivity and profitability through management consulting assistance. It also sets forth my own recommendation for SSE assistance in the form of a host country Economic Development Intern Program. This program would train local high school or university graduates to assist "target firms" (i.e. those firms carefully selected for production potential) using the tools and techniques outlined in this book.

From the background information on SSEs provided in the first two chapters, we move on to a discussion of applied techniques in Chapter Three, and additional sources of practical guidance in the Appendices and Selected Bibliography. In addressing question (5) above, these sections provide the management consultant with a variety of tools to help him or her in consulting work--regardless of the program methodology chosen. For example, Chapter Three discusses how to organize and teach a seminar to SSE managers and employees. It examines the use of human relations skills in building an effective consultant-client relationship. This chapter also offers appropriate advice for consulting on specific problems in finance and accounting, marketing, personnel management, planning, and other areas. Appendices to the manual provide additional practical guidance to the consultant, such as seminar audiovisual materials, classroom handouts, and case studies, as well as forms useful in planning and executing a consultancy. The Directories of Selected Small-Scale Enterprise Development Organizations and Information Sources in Appendix III, Exhibit B, indicate further sources of information for the SSE consultant. Finally, the Selected Bibliography directs the consultant to a wide array of reference materials on the subject of SSE promotion.

There are a number of well-written books on small business administration in industrialized countries and a growing body of work concerning the promotion of SSEs in the Third World. In writing this manual, I hope to make further contributions to the field by:

- translating a number of appropriate concepts and principles from modern small business administration in the United States into a methodology for assisting SSEs in developing countries;
- reviewing a variety of recent foreign assistance programs which have attempted to promote SSEs through the use of management consulting services;
- proposing that the "target firm" approach, when compared to other SSE programs, is a lean and cost-effective means of helping the urban and rural poor; and,
- providing guidance to the prospective user of this manual without hampering creativity or initiative.

As the manual's title implies, this handbook offers programmatic and technical guidelines so that the reader may develop his or her own program, specifically tailored to the needs and realities of a given developing country. Consequently, this reference work is not a self-contained prescription for consulting success. Success will largely depend on the initiative and ingenuity of the user, as well as on his or her willingness to consult other appropriate information sources.

A number of people assisted me with the general concept and content of this manual. Gary Petersen, now a regional director for the United States Small Business Administration, and Michael J. McGuire, a former Peace Corps colleague in Colombia, gave me valuable advice in designing the "target firm" program outlined in this book. José Manuel Arenas, Financial Manager of the Colombina Candy Company, Jean Francois Christin, consultant for the United Nations Industrial Development Organization (UNIDO), and Howard Lewis, Peace Corps Volunteer in Ecuador were also helpful in advising me during the early stages of preparing this manual. I wish to thank the Fundación para el Desarrollo Industrial and my supervisors in Peace Corps/Colombia, Peter Fraser and William Phelps, for encouraging my work with SSEs, as well as the small entrepreneurs of Tuluá, Colombia, who provided me with the experience necessary to research this book. I also gratefully acknowledge the editorial assistance of Pirie Gall and Susan Hewes of Peace Corps' Office of Programming and Training Coordination (OPTC), William Phelps, formerly of Peace Corps' Latin America Regional Office,

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This document does not bear the approval (nor imply such) of the United States Agency for International Development, or any of its Officers.

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CHAPTER 1

THE SMALL-SCALE ENTERPRISE

A. Some Definitions

1. What is a "Business"?

Businesses assume a variety of organizational forms throughout the world: from cooperatives to corporations, from capitalistic to state-run enterprises, from small scale to huge. However, all types of businesses share the goal of maximizing output per unit of input, regardless of whether that return is measured by higher dividends, more valuable member shares, or by a surpassed production quota set by the state economic plan. Moreover, in achieving greater output per unit of input, all enterprises must bring together three key ingredients: resources (land, labor, and capital), technology, and their organization or management.

This manual focuses on one particular form of business organization: the owner-operated, small-scale enterprise, especially the small manufacturing firm. It discusses the importance of efficiently running a business; that is, sound management of the small entrepreneur's time, technology, and resources. Specifically, the guidelines in this manual help explain both the art and the science of efficient business administration to the prospective management consultant. The tools and concepts set forth herein should be of general usefulness regardless of the country or kinds of small businesses which the consultant encounters.

2. What is a "Small-Scale Enterprise"?

A television repair shop in New York is one example of a small-scale enterprise. A metal-working firm in Liberia is another example. And an artisan leather-worker in Ecuador is a third. All these firms have traits in common which distinguish them from large enterprises. Yet small businesses in developing countries often have special characteristics which set them apart from their counterparts in the industrialized world.

Each country appears to have a different official definition of small-scale enterprise or small business. The United States Small Business Administration, for example, defines as "small" those manufacturers with up to 1,500 employees and all retail firms with sales up to US\$7.5 million per year. The World Bank, on the other hand,

characterizes small-scale enterprises (or SSEs) as firms possessing less than US\$250,000 (1976 prices) in fixed assets, excluding land. And a contracted study for the United States Agency for International Development (A.I.D.) by Practical Concepts Incorporated (PCI) recommends yet another definition: SSEs are those firms with a maximum of 20 workers, no more than US\$50,000 in total assets, and maximum capital costs per workplace provided of US\$5,000. The PCI definition provides a rough quantitative idea of the size of "target firm" SSEs, a concept discussed later in this manual.

Yet even this numerical measure is a very relative one. For example, in some impoverished countries, a firm with US\$50,000 in assets and 20 workers may well be managerially advanced and relatively large compared with most other businesses in the country. By contrast, in a more highly developed country a company with double or treble that quantity of assets and workers may be relatively small, given the greater wealth of the economy, sophistication of the market, and number of large national and multinational enterprises operating in the country. Consequently, a qualitative description is needed to focus on what is meant by the concept of small-scale enterprise. The table on the following page provides such a qualitative indication by comparing large businesses and two types of small-scale enterprises: the micro or very small enterprise, and the transitional or "target" SSE, which is a main concern of this book.

3. How Management of Small-Scale Enterprise Differs from that of Large Enterprise.

Thousands of books have been written on business administration and organization. Many of the concepts in those volumes (such as accounting, planning and personnel administration) appear to be generally applicable to any size business organization. Why then the special concern with management assistance toward SSEs? What makes SSEs unique, requiring separately designed management systems?

Illustrating the difference between a Piper Cub and a Boeing 747 jet aircraft is one useful way to depict the contrasts between large and small-scale business management.¹ The basic processes governing the flight of both planes are the

¹This example is drawn from Cohn and Lindberg's Survival and Growth: Management Strategies for the Small Firm, pp. 80-81 (See entry #42 in the Selected Bibliography).

Table I. Contrasting Characteristics of Large, Target and Micro-Enterprises

<u>Micro-Enterprise</u>	<u>Target Firm SSE</u>	<u>Large Enterprise</u>
1. Local, neighborhood market	1. Often a regional market	1. National or international market
2. Marginal resources	2. Adequate equity base and perhaps limited access to bank and trade credit	2. Well financed by a variety of credit sources
3. Owner is often illiterate	3. Owner is often literate and has access to technically trained or experienced workforce; management is simple and centralized	3. Sophisticated managerial and technical personnel; complex organization
4. Owner-manager usually controls all equity	4. Owner-manager may share equity with partners or family members	4. Strong differentiation between managers and owners of capital or stock
5. Hand tools and some machinery (if a manufacturer)	5. Power tools and light machinery, some home-made (if an industrial firm)	5. If a manufacturing firm, has light and heavy machinery (some imported)
6. One to three employees	6. Ten to 15 employees	6. Many employees
7. Examples: a neighborhood grocery store, a tailor, a cobbler.	7. Examples: a metal-working shop making bicycle frames, a small manufacturer of children's clothing, a local agricultural supply store.	7. Examples: a manufacturer of bicycles, a textile plant, a discount department store.

same. Both aircraft take off, cruise, and land; both are controlled and directed by pilots, and both are subject to the same laws of aerodynamics. There, however, the similarities end. The Piper Cub is steered by a manual stick and rudder pedals, plus a few simple gauges. The 747, on the other hand, requires a complex set of machines and instruments to guide its flight. Moreover, the pilot of the Piper Cub, flying at ninety miles per hour with a good tail wind, must constantly view the scene at hand to watch for possible dangers. By contrast, the jet crew flying at hundreds of miles per hour must focus their attention, through instruments, on the far horizon where they will arrive in a matter of minutes; their immediate environment is of much less importance to them.

The same comparison applies to large and small firms. The sophisticated planning and organization of large enterprises (and the standard business textbooks which adopt this perspective) are often not applicable to small companies. Complex accounting systems suitable for large corporations are usually not appropriate for SSEs--especially for small firms in the Third World. Costly market research methods, mass advertising, and hierarchical approaches to personnel management and organization are also usually inappropriate. However, simplified accounting systems, marketing techniques, personnel administration, and other management skills are urgently needed by small firms and are some of the topics covered in this manual.

B. The Role of Small-Scale Enterprises in Third World Development

1. Why are Small-Scale Enterprises Important?

Small-scale enterprises often form an important part of a nation's economy and may account for up to one-half of a country's labor force and productive output. In addition, successful small businesses may spur greater economic growth in their communities through what economists call "backward and forward linkages". An example of such linkages is found in the sweater knitting enterprises of Mira, Ecuador, where Peace Corps Volunteers in the 1960s helped develop the occupation into a booming regional industry. Today, this economic sector extends from shepherds, spinners of wool, and button-makers (backward linkages) through the sweater knitters to traders with national and international market connections (forward linkages).²

SSEs play a key role in many economies because they meet a special need not often filled by larger business organizations. Such needs include:

- Providing products or services to specialized, often localized markets: for example, print shops, makers of women's and children's clothing.
- Processing dispersed, bulky, and often perishable raw materials, where small plants near such inputs are at an advantage: for example, saw-milling, cheese-making, pottery manufacture.
- Providing ease of access to dispersed consumers: for example, neighborhood general stores, taverns, street vendors.
- Making handicrafts where precise, hand craftsmanship is required: for example, basket-weavers, leatherworkers, jewelers.
- Providing necessary flexibility in meeting customers' needs: for example, job metalworking shops, electrical appliance repair, tailoring.

In addition to their economic importance, SSEs, if encouraged to grow, may also offer other socio-economic

²For further details see entry #14 in the Selected Bibliography.

benefits. They may prove an excellent source of trained managerial talent. Moreover, given their relatively lower cost per workplace as compared to larger firms, they may generate employment opportunities more efficiently. Other socio-economic attributes of SSEs include decentralizing a country's economic establishment (perhaps reducing the flow of rural-urban migration), enhancing national savings rates based on many small owner-managers' high propensity to save for investment, and preserving skills in traditional handicrafts. Indeed, it is such broad social and economic effects which help justify public assistance to private, profit-making small entrepreneurs. Countries have long offered tariff preferences, tax write-offs, and worker training to attract large-scale enterprise for some of these same reasons. It would seem equally justifiable to work through small business people for similar economic and even more attractive social ends.

2. Promoting the Development of SSEs

Once a country decides to encourage small-scale enterprise, it may implement a variety of programs to promote their development. One approach is to strengthen SSE infrastructure through the provision of plants and equipment (for example, subsidized buildings and public services in an industrial park for SSEs). Another strategy is to bolster SSEs' capital position through tax reductions, bank credit, or government procurements from small-scale businesses. Marketing is another important area where SSEs need support. Here government can help by sponsoring trade fairs, by assisting with the export of SSEs' products and services, and by compiling national trade directories for use by local and foreign consumers.

Public programs can also stimulate small firm innovation by financing prototypes and by assuring patent protection for small entrepreneurs. They can boost product demand by conducting market surveys and by organizing national quality control standards. Finally, technical assistance and training may help entrepreneurs in important areas such as vocational instruction for workers and management training for small business owner-managers.

Although all of these SSE promotion strategies are useful, different countries will find different program mixes to be appropriate depending on their own social and economic conditions.³

³ Entries #1-8 in the Selected Bibliography provide more extensive discussion of the range of SSE development program options available to developing countries.

C. Problems of Small-Scale Enterprises

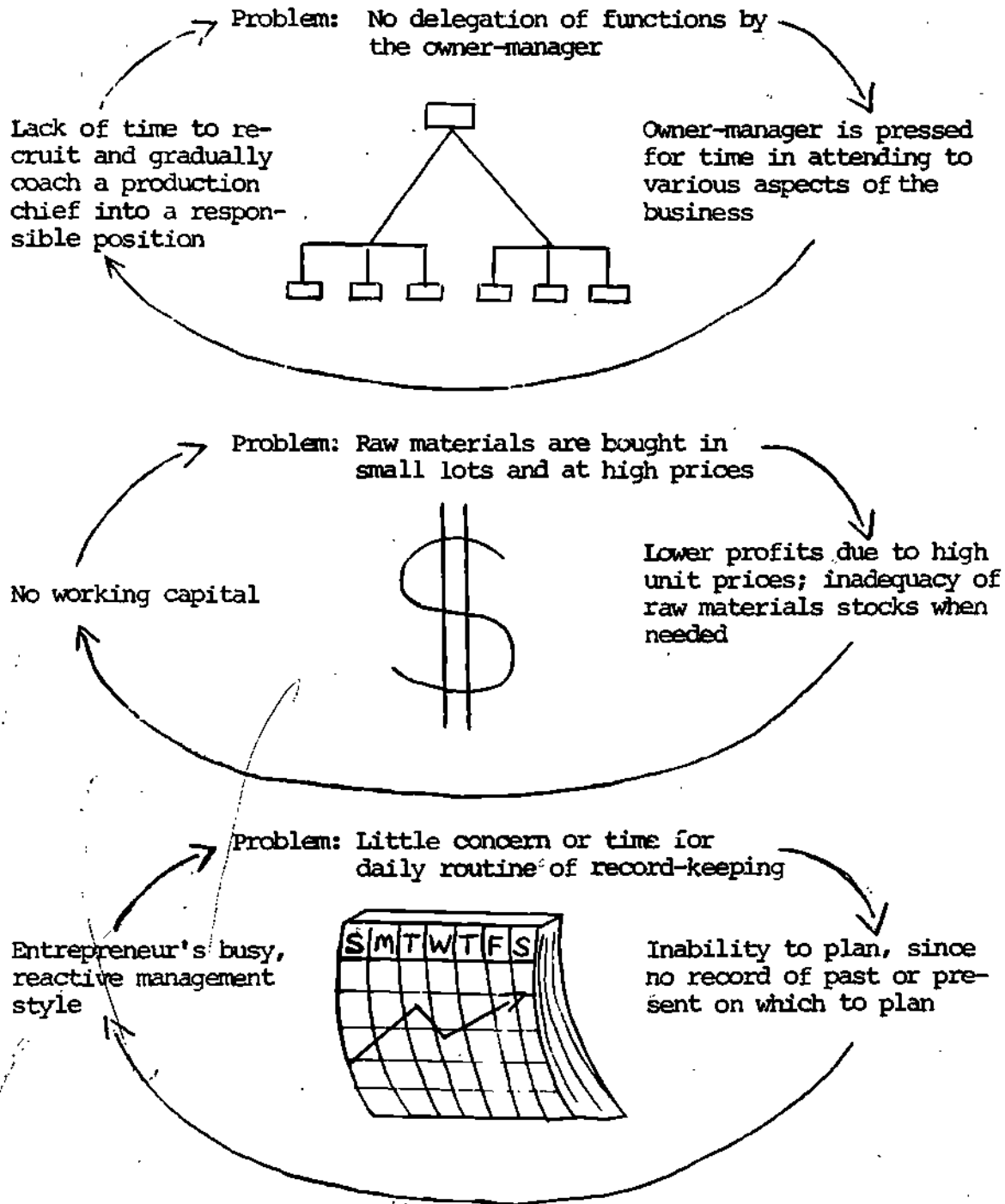
SSEs play different roles in different economies. In the United States, for example, franchise operations are commonplace and many small businesses are important subcontractors in supplying inputs (or marketing outputs) to large corporations. In Colombia, a growing economy and dynamic entrepreneurial spirit have made SSEs an important factor in manufacturing, retailing, and services. And in many other countries, small national economies and fragile sources of local entrepreneurship may mean that all entrepreneurs, regardless of size, constitute a limited and precious development resource.

Despite these differing contexts, small businesses throughout the world face challenges in six major problem areas: capital, marketing, human resources, technical or technological constraints, general business environment, and business practices. With the help of a management consultant, the small entrepreneur can take effective steps to address the first four problems. And if a number of his or her peers receive such assistance, some inhibiting general business practices may also change for the better. Section C.5 of Chapter Three of this manual offers guidelines to the consultant in advising the entrepreneur on these specific problems. However, the general business environment prevalent in any given country is usually a situation which both consultant and entrepreneur must learn to live with. Yet a recognition of such environmental limits is often helpful to both the consultant and the client in structuring the goals and expected outcomes of any consultancy.

As Figure 1 illustrates, some of these areas--delegation of management authority, lack of working capital, and an entrepreneur's reactive management style--may pose complicated and interrelated problems for which there are no easy solutions. Fortunately, however, an SSE is not assaulted by each of these woes with equal intensity. A particular problem or set of problems may predominate among small businesses in one country or region and not be found in another. Moreover, in the same region or country, different SSEs will often face different sets of difficulties. Consequently, although the following list of problems will not be faced by each and every client, it will likely sum up the entirety of problems found in the consultant's portfolio. In becoming more familiar with such typical problem areas, the consultant and client should be better able to devise prospective solutions.

FIGURE 1

EXAMPLES OF VICIOUS CIRCLES OF MANAGEMENT
PROBLEMS FOR THE SMALL-SCALE ENTREPRENEUR



1. Capital

Small entrepreneurs often cite lack of capital as their number one problem. Yet while they commonly mean lack of additional cash, poor management of existing current assets may be an equal or greater concern. Small firms do often need outside capital, and the greatest indication of this need is typically a negative working capital position (where current liabilities exceed current assets). This situation is brought about by a number of factors. First, the small business person's weak marketing position often forces him or her to sell a service or product on liberal credit terms. Meanwhile, the entrepreneur often may have to pay suppliers under more stringent credit terms, or even cash. Second, inflation in many countries escalates the cost of raw materials. In developing countries, such materials make up between 50 and 80 percent of the cost of goods sold, and any inflation consequently has a greater negative impact on working capital. Third, small entrepreneurs are often reluctant to bring in equity capital by acquiring a partner and thus, are undercapitalized. And fourth, a small business person's poor record-keeping, adverse credit history, and weak collateral position often leave him isolated from formal credit sources. As a result, the entrepreneur may resort to moneylenders, whose rates may exceed prevailing commercial rates several times over. Even if commercial lenders are available, they may not offer the entrepreneur credit under repayment and other terms suitable to his or her business.

The small business person also may suffer from poor management of existing assets. Many small firms, for example, possess no accounting or formal record-keeping systems; in New York, one small business person's only cash control system consisted of two shopping bags--one for receipts and one for payments due. In the Third World, records are often even more inadequate because of less education and training than in industrialized countries.

Poor accounting records limit controls on cash flow, inhibit a correct estimation of cost-price relationships, and may well lead to bad checks, unpaid bills, and general mismanagement of cash resources. Furthermore, weak historical record-keeping also makes any cash budgeting or forecasting difficult. Conversely, use of such planning techniques may often help to avoid temporary cash shortfalls.

Lack of cash and poor management of existing resources may affect the small enterprise in a number of ways. Such constraints compel the owner-manager to spend an inordinate amount of energy avoiding or replenishing periodic cash deficits. They can lead the owner to abuse trade credit, which in turn may prove a negative reference in a later application for commercial or public sector loans. And they may restrict the entrepreneur's ability to take quick advantage of profit opportunities. For example, without a cash reserve, the small business person is unable to exploit seasonal discounts from his supplier or put money down on an attractively priced piece of equipment. By encouraging improved financial management, the consultant can help the entrepreneur better address his or her capital constraints. Chapter Three, Section C.5., of this manual provides the consultant with specific tools in accounting and finance which he or she may use in assisting the small business person in this area.

2. Marketing

A market for his or her products or services is just as important to the small entrepreneur as capital. The marketing problem can be viewed from two perspectives: lack of timely and adequate demand, and poor marketing practices by the small business person in exploiting available demand.

Small enterprises often encounter difficulties in securing a steady market for their output. This situation is partly due to SSEs' competition with large businesses and partly due to the even fiercer competition among themselves. A dependable market is also threatened by periodic swings in the business cycle in capitalistic economies. Given their weak equity base and typical concentration within a narrow range of products or services, small businesses often fare worse than larger enterprises. SSEs' markets may be further disrupted by sudden changes in government policies affecting international trade, internal price controls, or the money supply.

Geographic isolation of SSEs--especially those in small towns and rural areas--often presents another impediment to timely marketing. Poor roads, sporadic transport, and unreliable communications can impede the marketing of products and flow of market information to the small entrepreneur.

Many of these problems are beyond the control of the small business person. He or she can, however, try to better address demand constraints through improved marketing practices. Yet often the small-scale entrepreneur has no

preplanned marketing strategy. His or her products may be of uneven quality relative to customer desires or of a design undistinguishable from competing products. The entrepreneur may also display his output poorly and may make limited use of salespeople. Moreover, in meeting demand, the entrepreneur's purchasing practices are often uneconomical (frequent small purchases as opposed to planned buying in larger lots), and inventory information and control may be nonexistent.

In short, the small business person often lacks an overall marketing strategy. He or she may be well aware of the benefit of buying cheap and selling dear and may also be an expert salesperson. Yet the entrepreneur typically lacks a planned approach to the purchasing-inventory-sales cycle of the business. One cause of this may be due to the absence of any record-keeping, cash budgeting, and other accounting controls. Thus the owner-manager cannot promote the most profitable or best-selling product because he or she is often not sure just which item is most profitable or best selling. The owner could reach a better decision if he or she could improve market research, sales promotion and advertising, take advantage of volume marketing, and learn to weigh the value of customer relationships in comparison with marginal returns on various products. Moreover, although small firms are theoretically more flexible than large firms, SSEs (especially small manufacturers) must pay particular attention to meeting customers' needs for timely delivery of quality products. They must develop ways of offering follow-up service or guarantees for defects in workmanship of the items sold.

This situation may affect the way in which small businesses address their markets. First, small entrepreneurs often fail to consciously decide on a discreet line of business. A retailer of men's clothing, for example, may stock a variety of other merchandise such as bicycles or appliances. He or she may have added the different merchandise either because he got a "good buy", or because he felt that a quicker profit opportunity was more readily available in that line than his own. Likewise, a small-scale industrialist may choose to divide operations between production and a small retailing outlet. Despite the higher retail mark-up, low sales volume may indicate that the entrepreneur's time and resources would be better spent in improving production.

These examples are not to say that diversification is inappropriate to small business. On the contrary, a retail outlet well integrated with a small manufacturer may be a

sound marketing approach. In general, however, sideline activities do not reflect a conscious marketing strategy, but rather a "scatter-shot" and unfocused approach to marketing.

Small entrepreneurs may also tend to exploit high marginal returns in a narrow upper-class market rather than lower marginal returns and higher volume sales in a mass market. This may be due to limited territory and population or to the low purchasing power of the clientele. In some cases, this marketing approach may reflect a sound strategy in addressing a narrow market. In many other instances, however, this attitude may be unduly limiting and may reflect a small entrepreneur's reluctance to expand business operations (and profits) into wider markets.

Nonetheless, this situation is changing, especially in rapidly-growing, middle-income countries. Colombia, for example, offers two contrasting types of markets within the furniture-making industry. On the one hand, many small businesses hand-carve colonial wooden furniture, selling a low volume of high-priced items to an upper-class market. On the other hand, many other small entrepreneurs mass produce inexpensive, plastic-upholstered, metal-frame furniture for a larger market. Thus, changing market conditions can gradually bring about more dynamic marketing strategies by small business people. The guidelines on marketing and sales, and purchasing and inventory (see Chapter Three, Section C.5.) will also better enable the consultant to assist the small entrepreneur in meeting marketing constraints.

3. Human Resources

Given the relative labor intensiveness of small businesses, human resources are crucially important, and the owner-manager usually sets the tone for the workplace. In fact, a small-scale enterprise is largely an extension of the entrepreneur's own personality and ego. However, this personalization and informality of small businesses also pose obstacles to the management consultant, since he or she usually recommends increased organization of the small firm as a requirement to further growth.

The small entrepreneur typically maintains close control over the activities of the business. A typical small entrepreneur often has no formal education beyond primary school. Formerly a worker, the owner may have started the business with a loan from relatives or with severance pay from his or her last employment. Though hardly a simple

individual, the owner is often a pragmatist whose personal and business horizons are limited to the needs of the day. Also, as an ex-craftsman, he may find it difficult to relinquish his daily concern with the production process and devote himself to the abstractions of management. In order to survive, he or she normally has great self-reliance, aggressiveness, and a sense of initiative in dealing with clients, suppliers, and workers, as well as a healthy skepticism when dealing with outsiders.

The central role of the owner-manager within the SSE is not necessarily bad, but it does present problems once the firm begins to expand. A centralized, informal managerial style often includes poor record-keeping, little delegation of authority to subordinates, and lack of formal job descriptions. The result is usually an owner who is simultaneously technician, record-keeper, salesman, purchaser, and manager. In assuming all these tasks, he or she is probably neglecting the best possible use of the employees, who might assume some of these responsibilities. Moreover, a long-term implication of such centralized management is that if the owner dies or becomes ill, there is no trained successor or replacement to run the business. In small firms owned and managed by families, relatives brought into the business may help resolve the succession problem. However, a family-run business may also promote chaotic decision-making as various family members compete for authority in the firm.

The dominance of a family or of a single owner-manager in directing the business may also influence the overall goals of the enterprise. Although increased profits are commonly sought by most small entrepreneurs, there may be other competing objectives. For example, a prestigious family business may consider tradition and social position to be more important than added earnings; or, having reached a level of self-support, a business owner-operator may decide that the extra workload, responsibilities, and unfamiliar roles associated with expansion and greater profits are simply not worth it.

While labor is plentiful in most developing countries, skilled workers are usually at a premium. And SSE employees are often more poorly trained and educated than their counterparts in large firms. In addition, employees in SSEs normally do not receive benefits under social security, minimum wage, and health insurance laws. Such situations often lead to high employee turnover among SSEs as workers move to

larger companies which offer such benefits, or start their own small business.

Small enterprises are often unable to hire qualified managers given their competition with larger firms for employees and given the demanding work environment of SSEs. Also, the small-scale entrepreneur is typically loath to trust one of his or her own workers, let alone an outsider, with the technical and financial secrets of his business. After all, the employee might quit and start a competing enterprise in the same line (as might have been the case with the owner).

Fortunately, the entrepreneur can remedy many human resource problems by modifying personnel practices. By following the guidelines in Chapter Three, Section C.5., particularly those on Personnel, the consultant can assist the entrepreneur in making the best possible use of his or her manpower.

4. Technical Constraints

One's first acquaintance with an SSE in the Third World can be an eye-opening experience. A small tailor shop, for example, may be located in a cramped section of the owner's home, with five or six workers bent over sewing machines. A small metal-working enterprise may straggle over a half-vacant lot covered by a tin roof. It may have tools and machinery strewn about, and what passes for a stock room may be filled to overflowing with jumbled parts and equipment. If the firm is a retail enterprise, it may have merchandise scattered in no apparent order, with music blaring to attract potential customers off the street.

The problem of physical plant and business layout may warrant considerable technical assistance. For example, a cabinet-maker may request help in making the most efficient use of raw materials and labor in producing wooden furniture, perhaps through the use of time-motion studies of his or her employees' work routines.

While addressing technical weaknesses is important to the small entrepreneur, most small businesses (especially small manufacturing firms) are in greater need of management rather than technical assistance for two reasons. First, many small business people were once workers or craftsmen themselves. While having mastered a manual skill and ability to work with machinery, they are often more puzzled by the

abstractions associated with business administration. Second, small entrepreneurs must have some basic technical grasp of their business (or a foreman who does) or they would not survive. Frequently, however, they postpone dealing with records, planning, and improved personnel practices --especially while their firm is still small. Nonetheless, there are general technical areas in which the management consultant can help the client improve his or her performance. (Refer to the section on Production on pages 124-127 for tips on the kind of technical advice which a management consultant might convey to a client.)

5. The General Business Environment

Small businesses have to exist in social and economic environments which usually deal with them more harshly than with larger firms. With less capital, greater product specialization, and fewer personnel than large companies, SSEs may be ill-equipped to handle sudden changes in consumer preferences or downturns in the economy. Small firms may also find it difficult to deal with local legal requirements such as income taxes, social security for employees, and legal registration of the business with a local chamber of commerce or government agency. Often the time and paperwork associated with these regulations are more onerous than the fees or taxes paid. Finally, due to their smallness, SSEs may find themselves squeezed out by larger firms in obtaining commercial credit, in attracting skilled workers and managers, and even in acquiring adequate shares of existing public services. On the other hand, SSEs can sometimes avoid those legally mandated costs paid by larger businesses (e.g. social security taxes for workers, income taxes, duties on imported goods, minimum wages), and as a consequence, may even be able to offer certain goods and services at a more economical price than larger firms.

Business support services are often weaker for SSEs than for larger enterprises, and in many developing countries such services may be inadequate or nonexistent for any size business. Although the consultant cannot really change the general availability of such services, he or she should be familiar with the adequacy of the local business infrastructure. Such knowledge will help the consultant in structuring the scope of a consultancy and in planning for follow-up services to the client upon conclusion of the consultancy.

The sophistication of business infrastructures will vary by country. However, in many developing countries the consultant should be prepared to cope with deficiencies in support services such as the following:

- (a) Diversified capital markets: Credit may be limited to a government bank or the local money-lender; local equity markets or commercial credit services to marginal borrowers usually do not exist. In addition, existing credit sources may offer a limited range of credit packages, often unsuited to the needs of small businesses.
- (b) Certified public accountants (CPAs): CPAs provide a valuable internal control by auditing the accounts of the entrepreneur's firm. By auditing other companies, CPAs may also help assure honest practices by other enterprises with which the small business person deals. In many countries, however, tax accountants (often with only bookkeeping training) are far more common than CPAs.
- (c) Factoring services: In industrialized countries, factoring firms purchase accounts receivable at a discount and then collect from as many debtors as possible in order to make a profit. The scarcity of such services in the Third World (especially to SSEs) deprives small businesses of another credit source, as well as a check against slow-paying customers.
- (d) Civic associations: Developing countries often lack strong trade associations or the equivalent of better business bureaus.
- (e) Information concerning markets and credit histories of other businesses: In the United States, a small business person can consult a credit reporting service on potential clients and can read a variety of marketing studies concerning his or her particular product. Such information is deficient for large companies in developing countries and is almost nonexistent for SSEs.

6. Business Practices

A difficult business environment for small enterprises often affects how the businesses are run and their relationships with the outside world. The greater risk associated with small entrepreneurship often makes for greater informality, greater skepticism, and less planning than in large companies. Given the harsher terms of the environment, the small entrepreneur may often carry these qualities to extremes in the eyes of an outsider. Yet when one considers the uncertainties of the environment, particularly the lack of business checks and balances found in more industrialized economies, these business practices are more understandable. For SSEs in many developing countries, typical business practices may include the following:

- (a) Mistrust: Absence of auditors, factoring agencies, and credit reporting services often lead to poor compliance with the terms of sales in developing countries. Poor quality control procedures--particularly in small businesses--make the warning "buyer beware" especially necessary. Consequently, post-dated checks and high discounts given for cash purchases are more prevalent than in industrialized countries.
- (b) Legal informality: SSEs in developing nations often enjoy a kind of "outlaw status". They may not pay taxes, and many do not pay workers the minimum wage. These small firms also often do not officially register their businesses, and they customarily ignore public health and zoning standards. As a result, their relationship with local authorities is at best one of benign neglect. An unfortunate consequence of such illegality is that small entrepreneurs may expend more effort in escaping the notice of the tax collector than in improving the administration of their businesses. Thus, if an owner has an accounting system, he or she often will not keep accurate records, but rather an official set of books which will look good to the government and produce a nominal income for his income tax return. A micro-entrepreneur may survive very well without accurate financial statements and other such legal niceties. A growing small business person, however, in postponing a legal and administrative formalization of the firm,

may run the risk of official fines and denial of bank credit. He or she may also eventually lose real financial and administrative control of the enterprise.

- (c) Reactive management: Most small entrepreneurs are jacks-of-all-trades and consequently often appear overworked and disorganized. A variety of factors--including a lack of skilled help, lower educational levels of the entrepreneur, and little access to technological labor-saving devices such as computers--may make the small business in the Third World even greater prey to a "busy" management style. Within twenty minutes on a typical day, the small owner-manager may ring up a sale, chat with a supplier, help a worker adjust a lathe, and step out for a beer with the local moneylender. As a result, the owner may often flounder about in trying to address the dangers (or opportunities) confronting his or her enterprise.

The level of small business mistrust and legal informality will vary by country and by culture. Where such conditions prevail, the consultant must try to understand and adapt himself to them. Reactive management styles, on the other hand, can often be remedied through individual consultancies. Although some of this informality is unavoidable (and even enjoyable) to the small business person, much can be brought under control through improved management practices, especially planning. Small entrepreneurs often fail to plan properly due to a variety of reasons: ignorance about planning techniques, lack of an appropriate time and place in which to plan, or a general fear and reluctance to confront the future. Some small entrepreneurs in the Third World may also resist planning given the highly uncertain business environment in many of the countries. Such a circumstance, however, is all the more reason for trying to anticipate and decide on contingencies for the future. Often small entrepreneurs will intuitively accept the usefulness of planning, but it is usually difficult for them to change habits and acquire the necessary discipline in order to plan. (See guidelines to consulting on Planning on page 127.) Nonetheless, small business people (especially those of "target firms" described in the next section) can and will improve their planning techniques given enough patience and persistence on the part of the management consultant.

D. The Target Firm

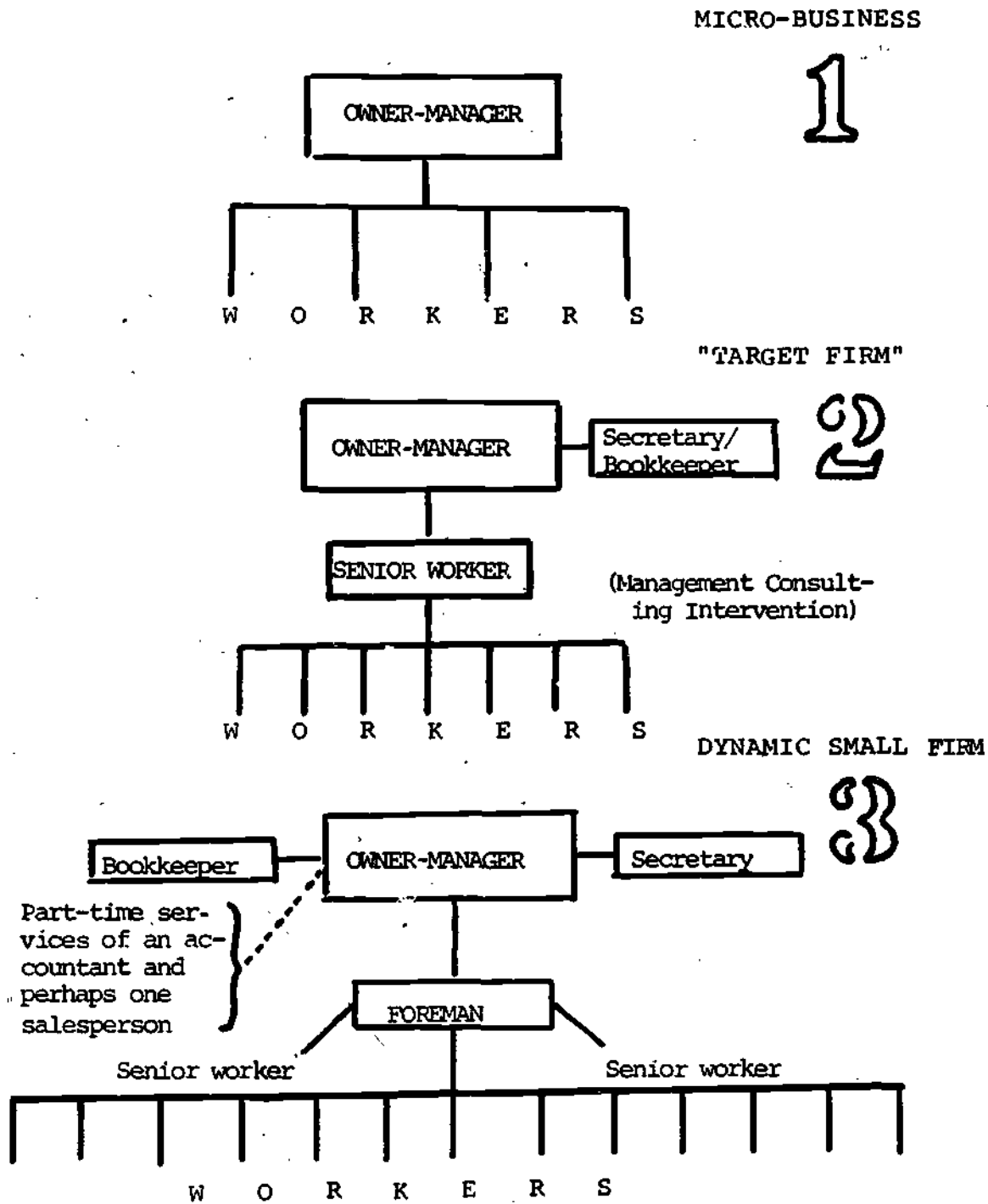
Thousands, perhaps millions, of SSEs may exist in a given developing country. An extension program cannot possibly provide individualized consulting services to all these enterprises. Consequently, one approach is to target assistance to those firms with real growth potential. Providing management consulting to such "target firms" is an important focus of this manual.

What exactly is a "target firm"? In essence, such a firm has reached a threshold size where the need for accounting, marketing, and other management controls is self-evident to the owner-entrepreneur. He or she must improve the administration of business resources in order to grow or the enterprise may stagnate or die. The target firm has reached a crossroad where improved organization (as opposed to technology, credit, or other resources) is the main barrier to future growth. The size and characteristics of target firms will vary with differing cultures and economies, just as the definition of small business differs from country to country. Figure 2 on the following page provides one illustration of the evolution of a target firm. Other features of this kind of small-scale enterprise include:

- (a) Size: The target firm maintains between five to 15 employees, with total assets ranging from US\$25,000-50,000 (1979 dollars).
- (b) Property: The entrepreneur owns some property: for example, plant equipment, a motor scooter, and perhaps his or her own home or place of business (although such items may not be acceptable as collateral by a local commercial bank for one reason or another). The entrepreneur has probably surpassed his "basic human needs" although often his workers have not.
- (c) Education: The owner can read, write, and figure, or else he or she has a trusted manager or family member in the business who can.
- (d) Finance: The target firm entrepreneur likely has a bank account though he might not reconcile it with his monthly statement. He or she has little or no commercial bank credit and makes use of moneylenders and other informal credit channels.

Figure 2

ADMINISTRATIVE EVOLUTION OF A SMALL INDUSTRIAL FIRM



Clearly, the target firm approach is only one of a variety of ways to convey management assistance to SSEs. But then why focus on the relatively prosperous target firm? Why not concentrate on micro-entrepreneurs who may be in greater need? The guidelines below may help to answer these questions:

(a) Maximize rate of return

Resources--particularly skilled human resources--are at a premium in developing countries. Consequently, management consultants would do well to focus their assistance, at least initially, for maximum impact on the local economy.

A consultant's workload does not correlate directly with firm size, but rather with the number of firms he or she deals with. Thus, the same consultant may be able to assist four target firms (with perhaps a total of 40 employees and US\$400,000 in net sales), as opposed to only five micro-enterprises, with perhaps only 15 employees and not more than US\$100,000 in net sales. In fact, the consultant might even be able to handle more target firms, since their problems are usually more focused and easily addressed than those of smaller SSEs.

In order to maximize economic impact, a consulting program should target those firms which will make best use of its advice through hiring more employees, producing or trading more output, or expanding physical plant. However, a great many SSEs in developing countries do not fit the target firm description. Most are micro-enterprises which were formed more because of a lack of better employment opportunities than because an entrepreneur decided to try to apply his or her skills in meeting a real economic need. A seller of lottery tickets, for example, is an extreme example of the former. The vendor is not exploiting a productive market niche but merely providing a redundant service in the absence of other employment possibilities. On the other hand, there are large numbers of target firm entrepreneurs throughout the Third World who could dramatically expand production and employment, given management assistance. The expansion of such firms may even provide more productive work for underemployed micro-entrepreneurs.

(b) Seek entrepreneurs who will listen and act

The target firm entrepreneur has already met most of his or her needs for food, education, and housing. This relative security may make him more open to the consultant's recommendations and advice and more capable of translating them into practice.

The micro-entrepreneur, however, often has other pressing needs on his or her mind besides new administrative practices. Moreover, many of these techniques are inappropriate to a tiny firm since a good memory may well be more reliable than unfamiliar written records in a tiny enterprise. Furthermore, the micro-business person probably lacks the financial resources needed to put the consultant's recommendations into action.

By analyzing and assisting target firms, the consultant will likely help small entrepreneurs tap the formal credit system. Micro-entrepreneurs, on the other hand, may well have to rely exclusively on costly, uniquely designed credit systems to meet their special needs.

(c) Make target firms models for other SSEs

SSEs generally have high employee turnover with many workers leaving to start their own businesses. Target firms may, therefore, prove to be informal training grounds and models for future entrepreneurs. Furthermore, once management consultants gain experience in assisting target firms, they may prove to be excellent supervisors of less skilled and more numerous consultants serving smaller business people. (Such a system is described in Malcolm Harper's book, Consultancy for Small Businesses: The Concept - Training the Consultants, which is discussed in Chapter Two and in Appendix III, Exhibit A.) Thus, a developing country might best begin any SSE development program with a focus on target firms. The early measurable benefits would help assure the survival of the program which might then go on to assist smaller businesses.

CHAPTER 2

MANAGEMENT ASSISTANCE TO SSEs

A. Management Consulting: General Considerations

1. Checklist of Guidelines for Designers of SSE Consulting Programs

Before organizing a management consulting program, designers should assess the rationale for such a program and how it might best be structured to meet the needs of their particular country. Prospective consultants should also question how consultancies could be organized at the community level. The checklist below provides a useful framework for considering such issues:

- (a) Before contemplating an SSE program, are small enterprises important enough to the economy to warrant special attention?
- (b) If the answer is yes, define the needs of SSEs in your country. Does lack of management assistance constitute a key constraint to small business development?
- (c) What local institutions (public or private) now exist which may serve SSEs better than starting a specific SSE assistance program? What public measures, such as tax deductions or subsidizing interest rates, might encourage these institutions to increase their support services for SSEs? What other policy measures might directly assist SSE expansion?
- (d) Does a government SSE extension program already exist in your country? Can it be improved? Is an additional program really necessary?
- (e) If the government decides to expand an existing SSE extension program or to launch a new one, what are its objectives? For example, on what kind of SSE will it focus its efforts (large or small; industrial, commercial, or services; or a specific economic sub-sector in a given region of the country)? Should the program work with new or established businesses, or both?

- (f) Where will funding come from for the program (from central or local government budgets, from the private sector, or from foreign sources)? Should special taxes be earmarked for the program's support? Better yet, can the program be made self-sufficient or almost so (perhaps by charging SSEs and larger firms for its services), thus reducing any dependence on external financing?
- (g) Where will the extensionists for the program come from? Will they need only a primary school education? Will they be high school or university graduates? Should they have had prior experience in managing small businesses themselves? If they require further training, what kind will it be (classroom, field trips, on-the-job training)?
- (h) Should the consulting program start all at once, with widespread coverage, or should some selected advisors and their consulting techniques be tested for a year or so in a pilot area?
- (i) Is the management consultant to be a Peace Corps Volunteer or an Economic Development Intern (in the model discussed later on), or will someone else carry out a similar role? The following questions provide some guidelines for designers who decide on this type of approach:
- (1) What is the interest of the local sponsoring institution in receiving the consultant? Will the entity provide him or her with office space and other support? In the case of an EDIP intern, will it eventually be able to pay fully for services rendered?
 - (2) In addition to supervision, does the local institution provide the consultant with a counterpart who will ideally replace the consultant after his or her departure? If not, would a local university or trade school be interested in recommending recent graduates for further training as extensionists by the consultant?
 - (3) Is the timing of the consultant's arrival in the community propitious? Should situations like a local political crisis or economic depression postpone the person's arrival, or otherwise modify the program approach?

- (4) Apart from the sponsoring institution, which local organizations could the consultant help mobilize to assist SSEs in looking out for their own interests? Are trade associations, chambers of commerce, or other business organizations good possibilities?
- (5) Which government entities are already represented in the community and working directly or indirectly with SSEs? How might the consultant constructively cooperate, rather than compete, with such organizations in assisting SSEs?
- (6) Is the consultant able to take a balanced approach to his or her task? The consultant may be tempted to one of two extremes: to take all program tasks upon him or herself, leaving little room for community participation, or to do nothing unless he or she receives explicit guidance from the local institution. Ideally, the consultant should stimulate local individuals and organizations to more actively pursue their own interests, supplying expert advice when appropriate. Consequently, the personal role and ego involvement of the consultant in any program should be downplayed, and the role of the local institution should be highlighted.
- (7) How will the consultant's program be evaluated? It is best to establish objective quantitative criteria which will set a goal for success and a lower limit for failure. Consultancies do fail, often either because they never should have been attempted with a given client or because the consultant was inexperienced. Therefore, evaluations are necessary to detect such failures (or successes) and thus help prevent (or assure) future replication.

2. Focus and Purpose of Management Consultancy

A management consultant ultimately seeks to boost the return on investment to the small-scale enterprise by working closely with the owner-manager. This return is normally expressed in profits although it may also take the form of sales growth or increased liquidity. In achieving this goal, the management consultant must rely on knowledge of accounting, finance, marketing, personnel administration, planning, and tax and legal questions, plus a willingness to learn

about the basics of the technical aspects of the client's business.

Management consulting, with its reliance on skills in business administration and human relations, is different from technical assistance to a small firm. Technical advice relies on a consultant's knowledge of a technical skill or trade such as engineering, construction, or metalworking; in small-scale industries such assistance would focus primarily on the production side of the business. Because of the unique and complementary skills each brings to the job, a management consultant and a technical advisor would make an ideal team in providing comprehensive assistance to a small entrepreneur.

In assisting the small firm, the consultant should follow a logical, predictable pattern which both eases the work and makes methods and recommendations understandable to the client. A typical consulting work plan should probably include the following steps:

- (a) Diagnosis of the firm.
- (b) Development of the objectives and requirements of the consultancy.
- (c) Review of present business operations.
- (d) Development of new methods to meet requirements.
- (e) Evaluation of alternatives to establish the best one for the client.
- (f) Final written recommendations.
- (g) Implementation of the recommendations.
- (h) Evaluation and follow-up.

The last two steps are normally beyond the consultant's complete control. This fact points to a basic frustration of consulting work--namely, the client is free to accept or reject the consultant's advice. Or, the client may accept the consultant's recommendations but then lack the necessary resources to put them into practice. Nonetheless, if the consultant accurately diagnoses the client's interests and resources before the start of the consultancy, at least the latter pitfall can often be avoided.

In developing a program, the consultant should decide whether to concentrate assistance on new or established businesses, or both. Generally, it is easier to work with ongoing

businesses than with new ones. New firms lack a history upon which future plans can be based, and the owner and his or her product have yet to be tested in the marketplace. Moreover, construction delays, financing shortfalls, and other logistical problems can complicate a new firm's start-up. Therefore, it is usually preferable to begin consulting with an established business which has a verifiable track record. The consultant may further decide to specialize in a given small business sector, such as retail trade or some subsector of manufacturing, where his or her talents may be most applicable.

Although it may be most effective to limit consulting efforts to target firms, this programming goal, like any other, may be modified to meet field realities. Once in the field, the sponsoring institution will probably expect the consultant to assist a variety of local businesses, many of which may not conform to programming criteria. Yet consulting with a mix of large, very small, and target firm enterprises is not necessarily something to be avoided. All size firms play a role in local or regional development. Maintaining the health of selected larger firms (so that they continue to purchase outputs from and provide inputs to SSEs) is often as important to the development of SSEs as direct assistance to them. Larger firms can often serve as role models for SSEs and the consultant will likely learn of accounting and management systems which SSE target clients may use in a modified form as they grow. And successful work with a few large companies can often serve to increase a consultant's credibility among small-scale entrepreneurs. Selected micro-entrepreneurs, on the other hand, through a sincere interest in learning how to make the best possible use of their more limited resources, may also make excellent use of consulting assistance and balance out the consultant's "portfolio".

3. Interdependence Between Consulting and Credit

The objectivity and confidentiality which a consultant develops with a client may be fruitless if resources are lacking to carry out the recommendations. Since target firms do have some equity cushion, there are generally resources available for realizing the consultancy's goals. Yet if the consultant recommends changes requiring a major influx of capital--such as the purchase of a new machine, or a doubling of sales necessitating a major increase in cash tied up in inventory or accounts receivable--substantial outside financing may be required. External financial assistance may therefore prove indispensable in helping the SSE implement the advisor's suggestions. Preferably, the management

consulting should precede the owner's request for credit. In fact, the consultant will typically perform cash projections to assist the owner in his or her request for financing.

Since access to capital is usually a critical ingredient to realizing a consultant's recommendations, credit and management consulting assistance could be provided by the same entity. For example, a development bank with a small business loan department might provide both types of assistance to small entrepreneurs. From a practical and programming standpoint, however, it is often preferable for the two services to be supplied by different institutions with a close referral relationship.

4. The Role of Management Consulting Assistance in a Small-Scale Enterprise Development Program

The focus of this manual is on how to carry out a management consulting program to train small-scale entrepreneurs in developing countries, through individualized management consulting and a complementary group instruction approach. The techniques outlined in this book possess four major advantages over providing other inputs, and are adaptable enough to be used in coordination with other approaches when necessary:

- (a) Although developing countries do require additional resources, weak management of existing resources is often a more serious problem. Thus, any program designed to improve general management skills would help to effectively address this constraint to development.
- (b) Despite small entrepreneurs' naming inadequate credit as their principal problem, poor management is probably the number one cause of business failure. Sound management advice provided in a timely fashion will likely not only diminish the high bankruptcy rate among struggling small businesses, but will also help healthy SSEs expand more rapidly, thus providing more of the general social and economic benefits discussed in Chapter One.
- (c) Management consulting offers at least a dual impact in assisting SSEs. While the consultant trains the small business person (who can in turn share this newly acquired knowledge with his or her peers), the consultant, at the same time, is gaining valuable experience which can be

applied in future consultancies. Furthermore, the consultant's advice may also serve to train other professionals--lawyers, accountants, and clerks--who render valuable support services to SSEs. Such individuals often gain valuable experience in assisting SSEs by working together with the consultant during the consultancy, and by providing SSEs with more sophisticated services once the consultancy has ended.

- (d) Individual management consulting services can be provided on a cost-effective basis. Not only does this manual's Economic Development Intern Program (focusing on the target firm) fulfill this criterion, but so do a number of other programs described briefly in this chapter, and in more depth in Appendix III, Exhibit A.

5. Cross-Cultural Considerations

Just as the consultant must be wise in business and interpersonal skills, so he or she must be aware of cultural surroundings and how these affect the management consulting task. The SSE advisor must appreciate his or her cultural environment at two levels: first, the general customs of the region or country, and second, the mix of politics, taboos and traditions peculiar to his or her own community.

Cultural values which reward (or punish) competition, acquisitiveness, or teamwork will directly influence how SSEs conduct their business in a given place. General social traditions governing the role of the family, the status of men and women, and religious practices will also affect how small entrepreneurs go about their affairs. The management consultant should be keenly aware of such cultural parameters, and strive to work within them wherever possible.

Certain cultural traditions may need to be modified in order to remove key constraints to SSE development. For example, a community's traditional acceptance of fatalism and preference for a stable social order may hinder the development of such business concepts as planning, saving, and even profit. Through patient persuasion, the consultant might at least temper a community's potential opposition to such ideas.

Many customs of a given country or region may favor SSEs and the management consultant's efforts to assist them. For example, many communities place a high value on pooling their labor to build small infrastructural projects of common interest. This same spirit might translate into support

for cooperative ventures among small business people in the area.

Cultural differences will also subtly condition how the consultant teaches and advises small entrepreneurs. As an example, the case study in Appendix I, C.1., relies in part on humor to convey its message of a needed change in Don Miguel's personal management style. Yet while the image of Enrique's flirting with his female co-workers is perceived to be humorous by Colombians, it might be considered to be in poor taste, or simply not funny, in some countries of Asia or Africa.

Thus, each consultant's cultural situation will be different, and it will be up to him or her to decipher its meaning. Such a learning process involves understanding new values, respecting taboos, and perhaps learning a different language. With time, the consultant must also acquire body language and other nuances in order to improve communication skills. Achieving such cultural assimilation is a long, frustrating process. It may take even longer for the management consultant, since his or her unique training and expertise may inadvertently threaten local tradition and power structures.

When first entering a different culture, the consultant might best play a relatively passive role--listening, observing, and asking questions of those around him or her. The advisor might also gain added insight by reading about other persons' cross-cultural experiences (see Selected Bibliography #25, 35, 36). In many societies, an outsider's external appearance will bear especially close scrutiny. Consequently, early close attention to personal grooming and neatness may often be appropriate.

As the consultant begins teaching classes and advising individual clients, he or she will get a better feel for the local society and his place in it. Social relationships outside the workplace will also help the consultant feel more comfortable and secure in the community.

In summary, the consultant should strive to adapt this manual's tools and techniques to the cultural realities of his or her work site. Likewise, program designers should take into account cultural factors as they plan SSE assistance programs.

Cultural considerations apart, the consultant should also be aware of the great difference in perspective which often separates him or her from the client. Although the

general social and economic advantages of management consultancy are evident to the consultant, they are often less so to the entrepreneur. As the table below indicates, the typical small business person reacts to goals which are more practical and immediate than those postulated by general SSE development programs. Since consultants are often part of such programs, they should also appreciate this crucial difference in perspective so that their advice will be better accepted by small business people.

Table II

Differences in Perspective Between the Government and the Small Entrepreneur

The Government ...

- 1) Wishes to promote SSEs in order to increase employment, especially of the unskilled poor.
- 2) Offers special credits to SSEs to expand production and employment.
- 3) Perceives SSE development as an important element in community and regional development

The Small Entrepreneur ...

- 1) Prefers to invest any spare resources in added machinery rather than more labor, as the former constitutes a good investment in a capital-scarce and inflationary developing economy. If labor is needed, the entrepreneur looks first for skilled workers who are scarce, not the unskilled who are abundant.
- 2) Is often unfamiliar with the required paperwork and procedures, as well as the potential benefits; may be suspicious of the government's motives.
- 3) Is often more preoccupied with day-to-day survival than community development.

B. Program Approaches to SSE Management Assistance

1. A Brief Overview

Several national governments, private voluntary organizations, and international agencies have sponsored programs to assist small-scale enterprises.¹ In the majority of these programs, management consulting assistance played an important part.

The U.S. Agency for International Development recently contracted a study by ACCION International/AITEC, entitled, PISCES: Program for Investment in the Small Enterprise Sector Phase I (Selected Bibliography, #9 and #12). This study illustrates the wide variety of work being done with SSEs around the world--not only in management consulting, but in credit, infrastructure, and other areas of assistance. The multi-volume PISCES study (only the world-wide synopsis and the Latin American volume are detailed in the Selected Bibliography) provides a range of case studies of SSE promotion programs in Africa (Kenya, Tanzania, Upper Volta, Swaziland, the Gambia, and Cameroon), Asia (India and the Philippines), and Latin America (El Salvador, Colombia, Ecuador and Honduras). The reader might refer to these studies to see how management assistance played a role in helping SSEs in the countries he or she is interested in.

A number of excellent studies besides PISCES have analyzed SSE management assistance programs throughout the world. Four of these programs are discussed here. They provide SSE programmers with a sample of the variety of models available for small business management development. These descriptions also provide the consultant in the field with a glimpse at extension methodologies used in other countries which may be relevant to his or her own situation. A summary of the programs is presented here, followed by a more detailed description of each in Appendix III, Exhibit A.

- (1) Malcolm Harper's methodology for assisting mostly rural, retail micro-enterprises in developing countries has been tested in various countries, especially in Kenya. It relies on large numbers of "schoolboy consultants" to provide numerous

¹For names and mailing addresses of some of these organizations, see Appendix III, Exhibit B, "Directories of Selected SSE Development Organizations and Information Sources."

SSEs with basic management assistance. This program model is best explained in Harper's excellent book, Consultancy for Small Businesses: The Concept - Training the Consultants (Selected Bibliography #15). In addition to its SSE assistance methodology, the book contains over 150 pages of problems, case studies, and forms useful in teaching management consultants (or small entrepreneurs) and in carrying out a consultancy.

- (2) The SSE Assistance Program of the Government of Liberia (GOL) and the Partnership for Productivity (PIP) in the mining town of Yekepa, Liberia. This is a fascinating case history of an integrated development program (SSE management consulting, credit, agricultural development, and social services) which promoted the creation of new small-scale enterprises in this community. A multinational mining company was to leave Yekepa and thus provided the program with its special urgency. The company also assisted the program with funding and equipment (Selected Bibliography #10).
- (3) The Small Enterprise Development Program of Fundación Carvajal and ACCION International/AITEC to assist micro-entrepreneurs in Cali, Colombia. Based on a methodology originally developed by AITEC in Brazil, this program links a nonprofit management consulting service with private bank credit. It provides a tightly programmed service of consulting, teaching, and loan processing to very small firms in one of Colombia's largest cities (Selected Bibliography #13). This program also poses an interesting contrast to the author's experience in assisting SSEs in the smaller city of Tuluá, Colombia, which provided the basis for the following theoretical model.
- (4) The Economic Development Intern Program. This proposed program model would train high school or university graduates to assist target firm SSEs as defined in Chapter One. Consultants would work with local sponsoring institutions such as provincial councils or chambers of commerce. They would also forge links with local bankers, accountants, and lawyers in order to provide comprehensive business support to SSEs, especially small-scale industry.

Although these four programs by no means exhaust possible approaches to SSE management extension in developing countries, they certainly present an interesting range of alternatives--any one of which may prove appropriate to the needs of a given developing nation.

2. The Economic Development Intern Program

a. Purpose and General Approach. The Economic Development Intern Program (EDIP) contains some of the same elements as the management consulting models discussed previously. It differs from them, however, in the following respects:

- (a) EDIP is a proposed program and has yet to be put into practice.²
- (b) It would focus its assistance on target firm SSEs.
- (c) Although the consultant would initially assist SSEs, he or she would eventually start training local people to provide this service. The consultant would also organize groups such as trade associations which could then lobby the government for consulting and other types of business assistance.
- (d) Consultant interns would be hired and trained by an organization in the capital city, but they would work directly with community-based institutions.
- (d) The program would probably obtain best results in a middle-income developing country where there are relatively good public services, large numbers of SSEs, well-developed (though often overlapping) institutions, political and economic development centralized around the capital or a few large cities, and a large pool of unemployed or underemployed university or advanced technical school graduates.

² However, the author's consulting experience in Tuluá, Colombia (discussed in Chapter Three), effectively pilot-tested the operation of such a program at the field level.

Under the program as envisaged, a public sector development bank, SSE assistance agency, or vocational training institution would train the interns and then assign them to local institutions based on request. Such local institutions would be chambers of commerce, trade associations, other forms of business organizations, municipal governments, or local universities. An intern's services would be completely paid for the first year by the EDIP program, with only office space, materials, and transport provided locally. However, starting the second year, the local institution should pay all or a major share of the intern's salary.

The intern would be required to live in the local community for a contract period of two years, with a maximum one-year extension. Depending on the host country, the program may wish to prohibit the intern from engaging in personal business activities during the consultancy, and may require that the intern post a bond to ensure that he or she comply with the rules and contract period of the consultancy. Existence of such a bond would also help assure local institutions and businesses of the consultant's integrity.

The program would focus on expanding target firm SSEs. However, in addition to management consultancy to small businesses, EDIP has other objectives, such as to:

- Train local consultants.
- Strengthen local institutions such as cooperatives, trade associations, and chambers of commerce, so that they may be able to provide (or obtain from elsewhere) consulting assistance, credit, and other services to constituent small businesses.
- Promote local development through such community activities as stimulation of external investment and organization of industrial or artisanal fairs.

The last two areas of action should comprise the bulk of the intern's work in his or her second or third year of service. Thus, although initially a "doer", the intern should evolve into a catalyst for local individuals and institutions to carry out SSE promotion activities.

b. Interns in the Field. Interns would be drawn from recent university graduates in economics or business administration or from high school graduates with some additional commercial school or junior college-type training in a field such as accounting. It is necessary for interns

to possess some analytical skills and a capacity for abstract thinking prior to receiving training under the program. It is important that the young consultants see their jobs as a real-life, full-time occupation and not merely as a diverting escape from academic routine.

Consultant interns should be self-starters and should require little supervision since local sponsoring institutions may often be unable to guide their work technically. Although EDIP will provide at least six weeks of specialized training, prospective interns should come to the program with basic skills in human relations, accounting, and general business administration. Consultants should also have a certain amount of dedication and patience for working with small business people, often in remote, provincial areas.

Interns begin their work in a community by assisting SSEs using the seminar/consulting methodology elaborated in the following chapter. In this first stage, the intern gains experience with local small businesses' problems and demonstrates that he or she has the capacity to solve them. The consultant then moves to strengthen local SSE institutions and to promote community-wide activities, such as trade fairs, which help local business. Working closely with the local sponsoring organization, the intern also attempts to strengthen and make the best use of existing local professionals and institutions (banks, universities, accounting firms) in meeting the SSEs' needs. A target workload might be six firms assisted in the first six months, 12 new firms in each of the next six-month periods, and six new firms in the intern's last six months. By initially working in relatively larger communities such as market towns and provincial capitals, interns should find an ample pool of SSEs from which to build such a caseload. By the end of the intern's period of service, a local capacity should be developed to meet the needs of SSEs. However, a second intern may be assigned to a community if this organizational effort takes longer than expected.

c. Training and Supporting the Interns. Interns are field promoters whether the field is the premises of a small metalworking shop or the meeting hall of a local trade association. He or she should not be a desk-bound bureaucrat, but an outside catalyst available to energize and organize local institutions. Although interns should be idealistic and highly motivated for development work, they will be attracted to the program only if it offers them skills useful in a highly competitive, urbanizing, developing society. The special training offered by the program should particularly interest prospective intern candidates. An intensive, six-week training program might cover the following topics:

TABLE III

Proposed Training Program for Economic
Development Interns

<u>Topic</u>	<u>Instructor</u>
1. Structure and goals of the intern program	Program Director
2. General national development goals	Representative from the Planning Ministry (or equivalent)
3. Existing SSE assistance programs	Representatives from various SSE promotion agencies
4. Credit for small-scale enterprise	
a. Private commercial bank view	Commercial banker
b. Development bank perspective	Development banker
5. Definition of the SSE, the entrepreneur, and their role in the country's development strategy	The remainder of the program will be taught by EDIP staff, with active participation of private business people, accountants, consultants, academics, and other public sector speakers as appropriate
6. Characteristics of SSEs in the country: environment and typical problems	" "
7. Developing a management consulting program: focus and purpose, the client-consultant relationship, interdependence with financial assistance, evaluation.	" "
8. Alternative approaches to SSE management assistance (lessons learned)	" "
a. The Malcolm Harper Model	
b. The Government of Liberia and Partnership for Productivity Model (Yekepa)	

<u>Topic</u>	<u>Instructor</u>
c. Fundación Carvajal - AITEC Program (Cali, Colombia)	(EDIP staff, with active participation of private business people, accountants, consultants, academics, and other public sector speakers as appropriate)
d. Other methodologies (perhaps an existing program sponsored by the country).	
9. Sources of local support the intern might find in his or her work site (e.g. accountants, trade associations, and universities)	" "
10. Management assistance to target firms	" "
a. Seminar instruction for SSE managers and employees (purpose of the seminar, recruitment, location, teaching techniques, and key role of sponsoring local institutions)	
b. Consulting assistance to target firms (selection criteria, building the consulting relationship, and planning, conducting, and evaluating the consultancy).	
c. Guides to consulting on specific SSE management problems (accounting, finance, marketing, personnel, technical and engineering, tax and legal, and planning).	
11. Institution-building and promotion of community-wide activities	" "
a. The key role of the intern as a catalyst	

<u>Topic</u>		<u>Instructor</u>
b. How to go about strengthening local institutions and organizing community events such as trade fairs and external investment promotion campaigns		(EDIP staff, with active participation of private business people, accountants, consultants, academics, and other public sector speakers as appropriate)
12. Case studies based on real SSE situations	"	"
13. Field trips to SSEs (linked to case studies)	"	"
14. Two week "practicum" in which the intern ideally performs a diagnosis for an SSE client of an existing SSE extension service	"	"
15. Group discussions of practicum experiences	"	"
16. Final examination	"	"
17. Visit to prospective work site	"	"
18. Orientation to SSE information sources and reference materials. Distribute consulting references to all interns graduating from the course (see Appendix III, Exhibit C.).	"	"

The training course is designed to stress human relations and analytical skills, introducing practical field exercises toward the end. It will also build upon the intern candidates' prior work experience or formal academic training in business administration. Interns should be paid a stipend during the training and must pass a final examination consisting of a written test, a verbal examination, and a one-hour interview with a local SSE accompanied by an instructor.

The purpose of the examination is to both encourage candidate interns to study during the course and to assure an adequate level of analytical skill and personal commitment to SSE promotion prior to assignment to the field.

Once interns begin their work in a local community, they will receive a modest monthly stipend from EDIP (including health and other benefits), and logistical and office support from the local sponsoring entity. Eventually, the local institution should provide full support for the interns. This practice will help the local institution establish a funding category in its budget so that it can readily hire at least one local consultant following the intern's departure. Other people trained by the intern outside the small firm could continue or start up support services to SSEs such as accountancy, legal aid, or provision of bookkeeping forms and other office supplies. On completing their period of service, the interns will also receive a lump sum severance pay and outplacement counseling, perhaps to help them set up their own businesses.

Although EDIP field supervisors will visit the interns approximately once every three months, day-to-day coordination of a local SSE promotion program will be the responsibility of the intern and the local sponsoring institution. An explanation of EDIP headquarters and field support for the intern, as well as the program's overall organization and funding is discussed below.

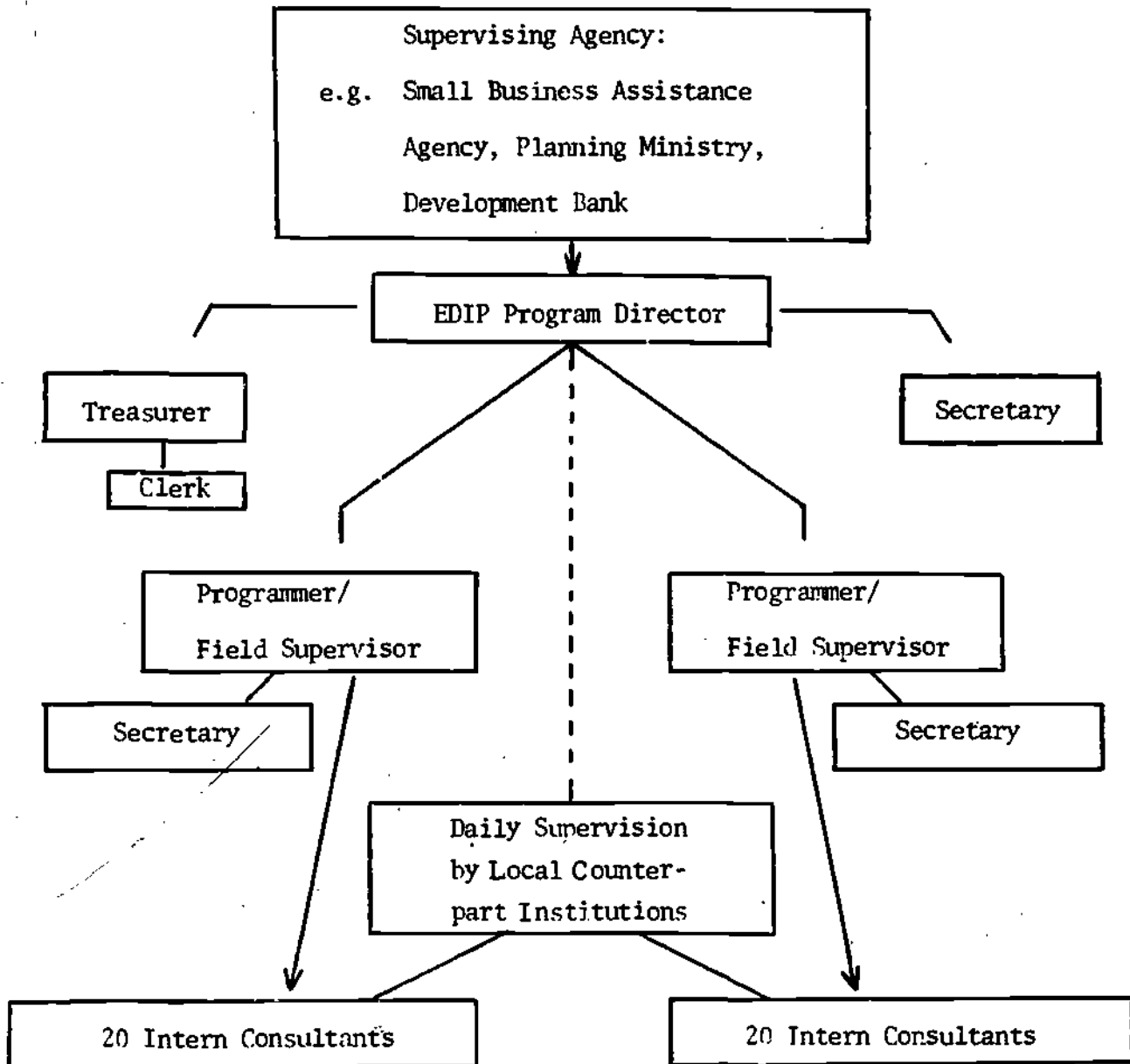
d. Program Organization and Funding. As Figure 3 on page 42 illustrates, the EDIP program would have limited capital-city-based staff, relying on field support for the interns from local institutions. Given the select qualifications of interns and the need for careful programming and logistical support, EDIP would train no more than 20 interns per class, supporting a maximum of 40 interns in the field at any one time.

Local sponsoring institutions would be chosen based on their experience and contacts with the local business community. These groups would not supervise the intern's technical work with SSEs, but assist the intern with the overall strategy of the program, help him or her select consulting clients, and offer support when crises occur in individual consultancies. In following these roles, these institutions would not need any special training from EDIP; however, a brief explanatory brochure on the program plus a copy of the intern's training manual might assist them in their work.

Figure 3

Organization Chart for the Economic Development

Intern Program (as of end Year 2)



The experience, ability, and motivation of the program's management, and especially of the program director, is crucial to the program's success. The director should have at least ten years of business experience, ideally with private enterprise or public sector development banking. He or she should also possess a sound grasp of the problems of small-scale enterprises and of regional development. The field supervisors (there may be two or more, depending on a given country's geography and program goals) should have at least five years of experience in business administration and extension work -- they may even be drawn from work with existing SSE promotion agencies. In such a case, the contacts they would have would enable them to help the interns gain the cooperation of such entities in boosting local SSE support services.

EDIP's annual headquarters expenses might be approximately US\$50,000 to 60,000, or roughly equal to the Cali DESAP program's administrative support budget. In addition to headquarters costs, program expenses would include payment of stipends, fringe benefits, and severance pay to interns. Illustrative costs might add up as follows for a typical program (competitive wage rates for interns will vary from country to country).

Stipend:	US\$4,000 per intern per year
Health, social security, and other benefits:	US\$2,000 per intern per year
Severance pay:	US\$4,000 per intern on completion of service
Total support costs in fielding one class of 20 interns (40 person-years)	US\$320,000

The first year of the program would train only 20 interns, with an additional 20 trained each year thereafter. Consequently, from the second year on, any given year might require an intern support budget in the area of US\$200,000 (stipend and fringe benefits for interns in their first year-- local entities should pay for the second year-- and severance pay for 20 graduating interns from the previous class). Consequently, the entire central program funding needs for such a program (adding funds for intern travel and training) might be around US\$300,000. Initial funding for such a project, therefore, might be ideally suited for small pilot projects

by international organizations such as A.I.D., the World Bank, or private foundations. Local, counterpart funding sources might be business registration fees and income taxes (revenues which should grow as the program takes effect) and fees which the program charges SSEs for consulting services and for entrance to EDIP-sponsored trade fairs and other business promotions.

A summary illustration of how the program would get under way is outlined in the following table:

Table IV. General Implementation Schedule for the Economic Development Intern Program

1. Name Program Director and carry out general program planning. (Organize syllabus and instructors for first training seminar, identify tentative local institutions which would receive interns, and develop program brochure to familiarize other public institutions and local sponsoring organizations with EDIP goals and services.)
2. Recruit professional and secretarial staff, rent office space and equipment, and carry out other house-keeping tasks.
3. Recruit interns (especially at local universities and commercial schools).
4. Program intern positions with prospective local sponsoring entities.
5. Carry out six-week training course at EDIP headquarters for initial group of 20 interns. Training may need to include special language instruction, depending on the country.
6. Year One: Have Group One interns begin consulting work with SSEs in coordination with local sponsoring institutions.
7. Year One: Carry out a two-week in-service training of the Group One interns.
8. Year One: Recruit for Group Two class of interns.
9. Year Two: Encourage Group One consultants to move to institution-building phase in site communities,

with sponsoring entity assuming all salary and support costs for the intern.

10. Year Two: Train Group Two interns and place them at work sites.
11. Year Two: Hold a four-day job conference for Group One (in which Group Two trainees will also participate as part of their training).
12. Provide outplacement services for Group One interns and hold a graduation for them. (Some interns may extend for a third year.) Select and train Group Three.

e. Conclusion. The EDIP program is but one of several SSE assistance methodologies which might be applied in any given developing country. It also poses some challenges in that it may compete with existing SSE agencies; it may "go against the grain" of purely centralized government programs in many developing countries; and it may prove difficult to attract sufficiently qualified individuals who would be willing to devote two or three years away from family and friends in a strange city or provincial town.

However, the program also offers a number of compelling advantages:

- The professional status of consultants and the quality of training should attract qualified intern candidates.
- The program requires small amounts of annual central funding compared to the benefits to the central government of placing interns in local areas, and compared with the costs of alternative programs. It also entails a minimal permanent bureaucracy.
- In five years, the program could produce a cadre of approximately 100 trained intern managers, ideally suited for important positions in local business or the public sector. It would also train a far-greater number of small entrepreneurs, local consultants, and accountants in communities assisted by individual interns.
- Interns are expected to make efficient use of existing institutions which may assist SSEs.

- The impact of the program over time should be significant and quantifiable (e.g. increased earnings for SSEs). This makes excellent economic and political sense.
- Finally, the program will strengthen local institutions and enhance their ability to deliver services to SSEs.

This section has presented a general outline of the Economic Development Intern Program. The reader should modify this outline in applying it to the realities of his or her own development environment. For example, the size of an intern class, the population of the communities in which interns work, and the content of their assistance and relationship with local institutions will vary from country to country. Furthermore, the amount of the program's budget will also differ based on a given area's prevailing wage rates, and on the program's ability to obtain office space and other support from existing government agencies. By detailing the content of a management assistance program to target firms, the following chapter will better enable the reader to judge how such an SSE development program might be applied in his or her own country.

CHAPTER 3

MANAGEMENT ASSISTANCE TO TARGET FIRMS

A. The Tuluá Experience: A Case Study

1. Colombia and its Small Business Assistance Programs

Colombia is a country of some 25 million people, covering an area of approximately 440,000 square miles. It has coastlines on both the Pacific and the Caribbean, and three spur ranges of the Andes Mountains divide it into various climatic and cultural regions. The country's population is divided roughly equally between urban and rural areas, and some 70 percent of the adult population is literate. Its rugged topography has promoted the development of key urban areas other than the capital city of Bogotá.

In the past 50 years, the nation has reached a middle-income developing country status. Industrialization and agricultural diversification have greatly reduced the country's sole dependence on coffee production. Manufacturing accounts for over 20 percent of GDP. Important industries include metalworking, textiles, and the processing of agricultural products.

Small business plays an important role in the Colombian economy, and the government has responded with an array of programs to meet the sector's needs. Of the more than 12,000 firms surveyed in the manufacturing census of 1976, approximately 91 percent employed between five to 99 people each, with the remaining nine percent employing 100 or more. Artisan work (especially handicrafts for tourists and for export) is also an important element of the SSE sector. A number of factors have favored the growth of small businesses in Colombia: a governmental policy since the 1930s of import-substitution-industrialization, the regionalization of markets, and the entrepreneurial tradition of Colombians.

The country has a number of public and private institutions which provide services to small and medium-size enterprises. The most important entities are SENA (the National Apprenticeship Service) and the "Grupo Popular" banking group. SENA has two programs which assist SSEs: it trains workers in various skills in centers located throughout the country, and it offers management and technical consulting services to SSEs throughout Colombia by means of consultants based in major cities. SENA is one of the oldest and largest public institutions of vocational training in

Latin America. It is also relatively self-sufficient, with a large share of its expenses financed by a two percent payroll tax collected from all businesses.

The "Grupo Popular" consists of the "Corporación Financiera Popular" (CFP) and the "Banco Popular". CFP is a quasi-governmental development finance company organized to offer credit and management assistance to small and medium-size enterprises. These services are provided through regional offices located in the country's major cities. CFP was first organized and financed by the United States Agency for International Development in the late 1960s, and it has subsequently received loans from the World Bank.

The "Banco Popular", the other member of the group, is a commercial bank designed to reach poor segments of the population not served by conventional commercial banks. In 1977-1978, the Bank attempted a program to develop new small-scale industries in intermediate-size cities throughout Colombia. This program was eventually dismantled due to its unprofitability and the problems of inexperienced college graduates working with largely untested entrepreneurs and enterprises.

A number of other organizations offer assistance to small and medium-size businesses in Colombia:

- The Institute for Technological Investigations (ITT), a government scientific research organization which conducts laboratory tests, technical analyses, and feasibility studies of various large and small industry technologies.
- The Coffee Growers Federation, which promotes the diversification of agro-industry away from coffee.
- The Colombian Institute of Administration (INCOLDA), which administers private management development schools supported by donations from local corporations. Organized on a regional basis, it provides clerical and managerial training for employees of local companies; classes are usually held at night or on weekends.
- The Foundation for the Promotion of Scientific and Technological Investigation (FICITEC), which is a quasi-public management consulting firm for small and medium-size industry based in Bogotá.

- A variety of trade associations, such as the Colombian Association for Small Industry (ACOPI), and associations of firms (regardless of size) in various sectors, such as retailing and metalworking.
- Regional development foundations, such as the Foundation for Industrial Development (FDI) in Cali, which perform regional economic studies, promote outside investment, and invest seed capital in large industrial ventures in their respective regions.

Clearly, Colombia possesses an extensive institutional network with the potential to serve small and medium-size businesses. Yet these organizations generally overlap in function and fail to coordinate their activities. They also tend to focus their efforts on larger firms rather than on SSEs, and on businesses in large metropolitan areas rather than on those in provincial towns or the countryside.

2. Tuluá and its Business Environment. The author, serving as a Peace Corps Volunteer, worked with small businesses in the small Colombian city of Tuluá from 1977 to 1979. Tuluá lies in the fertile Cauca Valley, little more than an hour's bus trip away from Cali, Colombia's third largest city. In the 1950s and early 1960s, Tuluá was plagued by the country's long civil war and lost much of its population to Cali and other cities. It is now one of the so-called "intermediate" urban areas which receives the focus of the government's decentralized development programs. This designation is appropriate for Tuluá since it really is intermediate in its development: too large to be considered a town (it has approximately 100,000 inhabitants), and yet lacking the variety of social, commercial, and industrial activities which characterize a city.

Tuluá possesses both problems and prospects for small businesses. First, it is an active marketing and transportation center for the surrounding region. This situation has encouraged a number of private and public banks to set up branches in Tuluá. However, apart from a small SENA office, no entities in Tuluá provide specialized credit, technical, or management assistance to SSEs through local offices. Consequently, small businesses normally use moneylenders and the services of local tax accountants in running their businesses.

During the author's period of service in Tuluá, the whole country was experiencing a coffee boom. This situation,

combined with Tuluá's strategic geographical location, provided ample demand for the products of local SSEs. The problems for the SSEs, however, were usually lack of credit and inadequate marketing strategy in meeting such demand.

Like small firms in many developing countries, SSEs in Tuluá lacked skilled workers in such areas as metalworking, bookkeeping, and plant management. SSEs also frequently lost good workers who started their own businesses, went to work for larger firms, or abandoned Tuluá for the brighter lights of Cali. Worker mobility was also enhanced by the possibility of working as casual labor in the nearby sugar cane fields.

The small industrial entrepreneurs of Tuluá often fit the ex-craftsmen image presented in Chapter One. Many were metalworkers or other types of skilled workers who knew something about the manufacturing process, but were uncomfortable with the abstractions associated with accounting and management. The businesses usually faced problems of improper operation and maintenance of machinery, poor plant organization, and the inefficient use of raw materials.

The general business environment also affected SSEs. Few businesses were registered at the local Chamber of Commerce, and all had to deal with rising input prices, limited telephone service, unpaved streets, and interruptions or absence of power and water. Complex Colombian social legislation (minimum wage, social security, the SENA tax) increased small entrepreneurs' labor bill and also complicated their bookkeeping chores. Post-dated checks were also commonly used in business transactions.

A few trade associations existed in Tuluá, but most were social groups appended to powerful, national political lobbies providing few business services to their local members. The Tuluá SENA office offered a very limited number of courses, mainly because the community did not press for expanded or more varied training programs. SENA's apprenticeship program never gained wide acceptance, since small firms had to pay a worker's salary while he or she studied part-time; at the end of the worker's year or more of internship, he or she often left to seek better employment.

The Chamber of Commerce of Tuluá, however, had an active executive secretary with an interest in helping local SSEs address their problems. In October, 1977, the author began working with the Chamber in organizing a management assistance program for small-scale enterprise in Tuluá.

This activity was also partially sponsored by the Cali-based Foundation for Industrial Development, which saw an opportunity to extend its programs to include SSE promotion in one of the Valley's intermediate cities.

3. The Tuluá Management Consulting Program

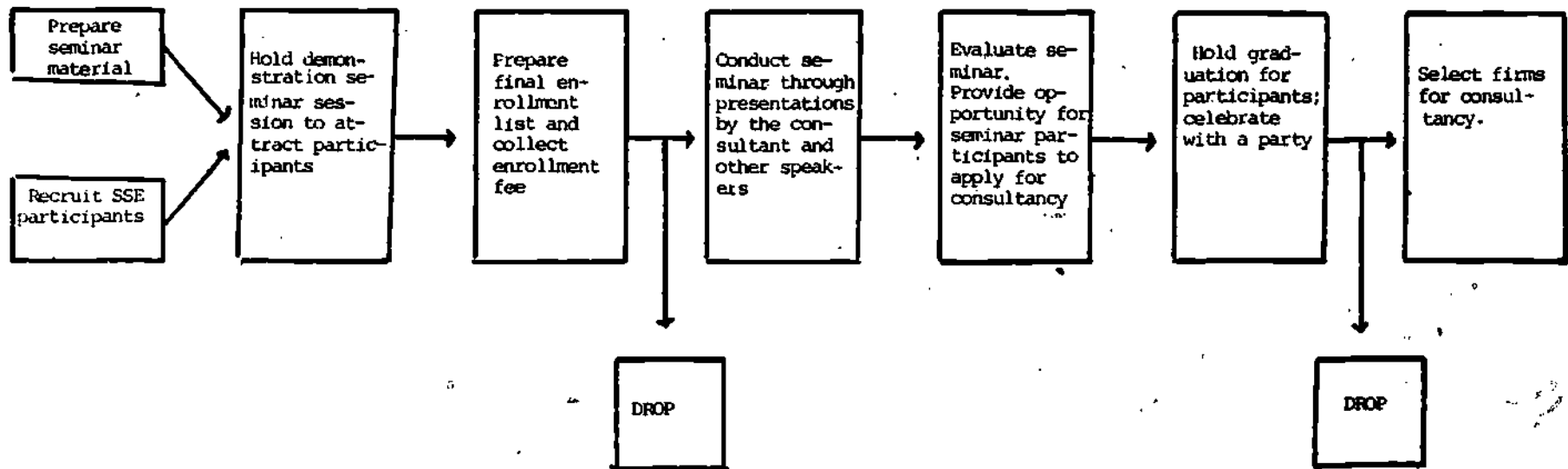
a. Program Purpose and Methodology

The goal of the program, entitled "How to Develop Your Enterprise", was to provide management consulting assistance to small businesses in the Tuluá area. The Chamber of Commerce of Tuluá and the author decided to organize a selective, structured, and financially-independent program which would guide the work of the management consultant and command the interest of potential client firms. The program chose to focus on small industrial firms rather than on retail or service firms, given their greater relative need for cost accounting, plant management, and other administrative skills. Businesses assisted under the program tended to be target firms, although some were larger and others smaller. SSEs selected for consulting assistance were expected to eventually become eligible for bank credit.

The Chamber of Commerce and the author organized group seminars to teach basic concepts in accounting and small business management to owner-managers and key employees from a number of firms. Three or four firms were then selected from those attending the seminar to receive individual, intensive consulting for three to four months. A month or so after this consulting was completed, a second seminar began with a new group of firms, again with the idea of attracting candidates for additional consultancies. A fee was charged for the seminars sufficient to cover the cost of all teaching materials. Another nominal fee was charged those firms receiving the consultant's individual attention. This charge covered the consultant's transportation, materials, and a minimal salary. Figures 4 and 5 illustrate the steps in this seminar/consulting methodology; Sections B and C in this chapter discuss techniques for teaching seminars and providing consulting to individual firms; and, Appendices I and II provide sample teaching and consulting aids useful in implementing this approach.

Two seminars were organized for small entrepreneurs in Tuluá, each lasting roughly 20 hours and covering a period of three weeks (classes were held every other week night). The classes dealt with general business administration, concentrating on accounting and elementary financial analysis (see Syllabus in Appendix I, Exhibit A). A total

FIGURE 4 : SEMINAR METHODOLOGY

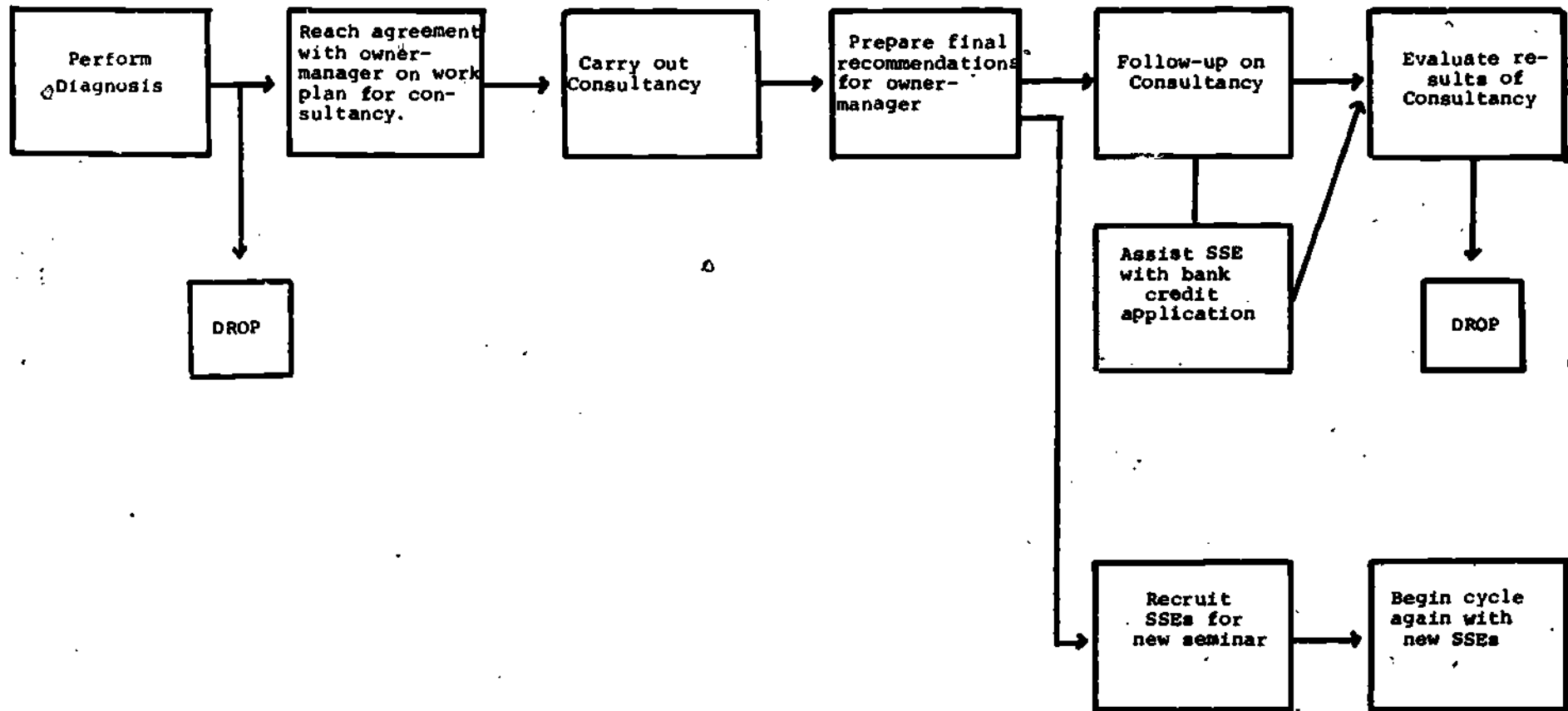


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FIGURE 5 : CONSULTING METHODOLOGY



of 30 people attended the two seminars. Most were owner-managers of small enterprises (primary audience), although plant foremen, accounting clerks, and other employees also attended. Firms represented at the seminars included a variety of businesses from manufacture and repair of agricultural equipment to retailing of construction materials; most firms, however, were engaged in metal-working. The majority of companies had fewer than 20 employees, but a few firms with between 50 and 150 employees were also represented.

Seven firms received consulting assistance under the program--three selected from the first seminar and four from the second. The firms ranged in size from four employees to over 100. A typical-size firm had net sales of US\$100,000 to 150,000 a year and equity of around US\$40,000 (1979 dollars). The companies' businesses included the manufacture of metal products (such as metal furniture, bicycle frames, and strong boxes), dairy farming, manufacture of children's clothing, and design, manufacture and repair of agricultural and industrial equipment. The content of the consultancies varied with the particular firm. In one large company, the author performed a complete financial analysis of the enterprise based on existing accounting records. In other firms, he installed simple accounting systems and methods of inventory control. With all clients, he worked with the owners to improve marketing strategy, personnel administration (especially delegation of authority), and general planning techniques. Toward the end of one consultancy, the author assisted the firm with financial analyses so that it could apply for a bank loan.

A year and a half after the program's consulting had ended, one firm had completely reorganized its accounting system as a result of the consultancy; another, however, had moved out of the community and a third had gone bankrupt. Although only one client could be termed a complete success, almost all clients made partial improvements. Such changes included the following: One firm began issuing its workers wages in precounted envelopes instead of from stacks of uncounted cash. Another company sold off many years' accumulation of scrap and old machinery to clear greater work space. Yet another reorganized its product display cases for greater customer appeal. And several firms began reconciling daily cash flows, balancing checkbooks, and keeping records of production costs.

In a separate but related venture, the Chamber of Commerce and the author organized an informational brochure on Tuluá in order to attract outside investment.

Although the brochure was finally published and distributed (thanks to local businesses underwriting the publication costs), it was not part of a general investment promotion campaign. Therefore, at least to date, it has failed to attract much new investment to Tuluá.

Toward the end of the author's period of service in Tuluá, the Chamber of Commerce also organized a seminar specifically aimed at local accountants. This seminar addressed relatively sophisticated topics such as funds flow analysis, simplified accounting systems, and capital budgeting. Roughly a dozen accountants attended. Representatives from CFP, SENA, FDI, commercial banks, and a Cali accounting firm taught the course. Given the greater length of the seminar (almost 30 hours) and the use of outside speakers, a higher fee was charged to cover the cost of materials and travel of the speakers. The purpose of this seminar was not to lead to consultancies, but rather to encourage accountants to assist SSEs as part of their regular business. Although attendance was good at the classes, the seminar did not seem to significantly change the way in which accountants conducted their business.

b. Lessons Learned

The Chamber of Commerce's program in Tuluá was popular with small businesses and local sponsoring institutions. In early 1979, however, the death of the executive secretary of the Chamber and the departure of the author brought an abrupt end to the program. Some of the lessons learned from the Tuluá experience include the following:

(1) Do not attempt to do too much with a single client. It is better to successfully do less with a greater number of SSEs than to accomplish all consulting objectives with only one out of five or six.

(2) Ensure the continuance of an institutionalized program beyond the departure of the Volunteer. The Volunteer should downplay his or her personal role in any program and emphasize the role of the local institutions.

(3) Keep it simple. Whether teaching a group or providing consulting services to an entrepreneur, keep explanations simple and to the point. Although elaborate charts and illustrations may be perfectly understandable to the consultant, they may not always be so to small business people.

(4) Do not undertake an activity unless the community demonstrates a real need and interest in performing

most of the work and providing follow-through. A Peace Corps Volunteer is usually better off diverting excess energies to perhaps unrelated secondary activities than in pushing business-related projects which may interest the Volunteer more than the community.

B. Seminars for SSE Managers and Employees

1. Sponsoring and Cooperating Institutions

A key requirement for the success of any seminar is a local sponsoring institution which will effectively support the consultant. Such an institution, as with the author's experience in Tuluá, Colombia, should provide the consultant with office space, supplies, and local transport. It should also help the advisor locate and select clients, organize appropriate seminar presentations, and identify counterparts to be trained as local management consultants. A local institution's inside knowledge of a community might help the consultant steer clear of divisive interest groups and avoid working with businesses which, for one reason or another, would not likely benefit from the assistance. Local institutions, of course, have their own political interests, some of which may diverge from those of the community at large. The intern's program manager should attune the consultant to such special interests prior to his or her assignment in the community.

Before placing a consultant in an area, the program director should carefully identify and make arrangements with such a counterpart institution, as well as pinpoint other key individuals in the community who could help the consultant. These individuals, who may be leaders in local government, trade, or civic associations, should be slightly (but not too far) advanced of the rest of the local people in their management practices in order to give an SSE program its necessary impetus. Once in the community, the consultant should take care that these contacts with counterparts and community leaders are translated into systems and institutions which will continue to assist SSEs beyond the consultant's departure.

One way to perpetuate a consulting service is for the consultant to obtain local financing for the training and salaries of four or five local consultants. Ideally, the consultant trainees would be selected from among the community's university or commercial school graduates and would have competencies in different areas (e.g. accounting, marketing). After a month or so of classroom training, the trainees would accompany the consultant on visits to client firms, gradually taking over the consultancies. At the end of the process, the trainees should be ready to take the consultant's place. Note, however, that resources are an essential prerequisite to training and then supporting the new consultants. Therefore, the original consultant must direct a major share of his efforts toward building local institutions' interest and channeling local financial resources into carrying on the work. Indeed, it is often difficult for the consultant to resist assisting all businesses personally, instead of strengthening local institutions' capacities to do it themselves.

A variety of institutions already exist in many communities which could support the consultant's work with SSEs. Other organizations might be created or strengthened given a propitious local environment, as well as patience and persistence on the part of the consultant. These institutions and organizations might include the following:

(a) Trade Associations: Trade associations, chambers of commerce, and similar local organizations may prove attractive ways of organizing and assisting SSEs. By organizing small firms in a given trade or industrial sector, an association can acquire power in obtaining services such as credit and management assistance from other institutions for its membership. Such an organization may also establish its own training and consulting services for member firms. Furthermore, it may establish a fund to provide its members with guarantees in obtaining commercial bank credit.

Trade organizations are usually attractive vehicles through which the management consultant can work, especially in light of their broad membership. The goal of strengthening such institutions might prove an appropriate scope of work for the beginning consultant.

(b) Universities and Nonprofit Foundations. Universities may also sponsor small business advisory services. The concentration of potential consulting personnel among students and faculty and universities' ties to local communities may offer excellent possibilities for extension work. Such programs are fairly popular in the United States. Many schools make small business consultancy part of their MBA programs; the Georgia Institute of Technology, for example, employs its faculty in a state-wide technical assistance program aimed at small firms.

Developing countries, however, may find such programs of limited value. First, universities may be few in number and are often confined to large cities. Second, their faculties may not have the time for such work. Nonetheless, universities do comprise a reserve of trained manpower, and they should be drawn on to help SSEs as appropriate. Graduates of such universities, of course, may prove excellent candidates for management consultants under programs such as EDIP.

Another approach to small business consulting is the organization of local, nonprofit development foundations with either private or government funds. Such entities may be purely technical in nature, or they may offer funding or guarantee access to funding for small enterprise clients. Examples of such institutions include regional development foundations, the AITEC/Fundación Carvajal program in Colombia, and PFP's development program in Yekepa, Liberia. Such

organizations offer advantages of low cost, flexibility and limited bureaucracy in addressing SSE problems. Often, however, they are specialized and unique entities, whose existence is dependent on uncertain foreign or local public assistance.

(c) Local Government: Local governments may provide another institutional base for a consultant. He or she might link up with a municipal planning board, a public utility, or work directly out of the local mayor's office. Given the political nature of this support, however, the consultant should try to avoid being drawn into partisan conflicts with other important individuals and institutions in the community.

Apart from personal resources and those of the sponsoring institution, the consultant should identify and draw upon other organizations and individuals who can assist with the consultancy. These include other businesses, banks, local accountants and consultants, and special advisory panels.

(a) Inter-Business Cooperation. A common form of assistance to small firms is cooperation with other businesses. One obvious form of cooperation is the trade credit which a small firm may obtain from a similar-sized or larger company. Other types of cooperation may include subcontracting relationships. The industrial sectors in the U.S. and Japan, for example, maintain extensive subcontracting links between large companies and small businesses. A large factory may offer design help or credit assistance to a subcontractor which manufactures its components. Likewise, a large manufacturer may offer training in sales and maintenance to its independent small distributors.

Large and small businesses also cooperate in developing countries, but much remains to be done. Given the greater uncertainties in a Third World economy, many large entrepreneurs prefer a vertically integrated organization. They may have little respect for SSEs or may be reluctant to depend on the quality and timely delivery of products and services by small entrepreneurs. Nonetheless, the mutual interests of large and small businesses in certain situations may provide strong incentives for them to cooperate. A large manufacturer of automobile parts, for example, may be willing to provide sales training to small distributors in order to expand its market. Distributors, in turn, benefit from training by applying the newly-gained knowledge to increase sales. An SSE consultant in a developing country might thus profitably seek to uncover such possible relationships for his or her SSE clients.

(b) Banks. The extensive branch network and lending experience of commercial banks suggests them as prime vehicles for SSE assistance activities. However, the higher risk and lower profitability associated with small business lending may make them reluctant candidates for this role. Banks usually prefer large industrial or commercial customers which represent lower risk loans while generating larger volume, and which bring in such profitable ancillary business as letters of credit and foreign exchange transactions.

In developing countries, most SSEs generate the bulk of their capital needs internally, while relying on moneylenders or trade credit for additional requirements. Small enterprises' isolation from the private banking system is partly due to the banks' heavy collateral requirements. By loosening collateral criteria and by sharpening their analyses of small firms' future profit potential, banks could promote more lending and deposits by SSEs. Banks might also test small businesses' repayment capacity with small, short-term loans; and they might offer limited managerial aid to customers once a loan is disbursed. Such managerial assistance would help assure SSEs' prompt repayment of loans, as well as increase their bank deposits due to increased sales and profitability.

Public sector development banks may present yet another means of helping SSEs. Indeed, given the social objectives of many SSE programs, some form of government involvement may often be desirable. Public sector banks may assist SSEs in a number of ways: through specialized credit programs, through subsidized vocational training, or by means of management and technical consulting. These services may well exist (but be little used) in developing countries. Thus, it may fall on the outside management consultant to enlist community support in getting more and better services for local SSEs from existing government institutions.

(c) Local Accountants and Consultants. CPAs and private consultants play a large role in industrialized countries in providing management consulting services to small businesses. Accountants in the Third World, however, are often more concerned with tax accounting and simple bookkeeping than with the overall management concerns of a business client. They may also possess less professional training than their industrialized-country counterparts and may fail to see any profit opportunity in working with SSEs. Although private management consultants do exist in developing countries, especially in the large cities, most advisors' high fees and general economics training make their assistance unsuitable for small businesses. Other individuals in

local communities who might provide needed services to small businesses include lawyers, insurance representatives, and collection agents.

An extensionist working with SSEs should attempt to enlist the aid of these professionals in assisting small businesses. In many situations, the large numbers of SSEs and their common problems may well offer a unique source of profit to the local accountant or consultant, providing he or she is willing to market simple accounting and managerial systems on a volume basis.

(d) Advisory Panels.¹ Advisory panels are used by many small businesses to bring outside observers into the firm on a continuing basis to advise the owner. Panel members, usually from different firms than the owner's, receive a fee to meet with the small entrepreneur and other company management in order to discuss the business's problems. Such advisors may provide the owner with a fresh perspective on his or her business situation. Since they are not a legally constituted body (like a board of directors), they can afford to be frank, spurring a productive give-and-take with the owner. And because the entrepreneur pays for the panel's services, he or she is likely to give close attention to their recommendations.

In many countries, advisory panels work because leading business people in a community are flattered when a small firm requests their advice. Moreover, the small business person in such situations is usually willing to share confidential information about the firm with members of the panel. Obviously, if trust is lacking, the concept may prove impractical. Nonetheless, SSEs in the Third World may avail themselves of this type of assistance providing that: (1) the owner implicitly trusts all panel members, (2) the advisors are in businesses very different from the one they are advising, and (3) the firm is large enough (target firm or above in size) to be able to pay the fees and benefit from the advice of such a multi-faceted team of counselors.

Thus, a consultant may draw upon a number of individuals and organizations in carrying out a consultancy. Relationships between a client and a local accountant or bank are especially valuable since they should last beyond the end of the consultancy, perhaps strengthening some of the consultant's recommendations in the process.

¹ For further details, see Cohn's and Lindberg's Survival and Growth: Management Strategies for the Small Firm (Selected Bibliography #42).

The consultant may also work with cooperatives, organize trade fairs or spur investment promotion campaigns in order to marshal other resources to assist SSEs. These activities are discussed in greater detail in Section D at the end of this chapter.

2. Role of the Seminar in a Management Consulting Program.

A seminar can play a key role with respect to the total consulting program, performing an introductory, groundbreaking function for those companies ultimately selected for the consulting. Explanatory handouts distributed during the seminar should prove useful in orienting the entrepreneur and employees to key management concepts to be covered in more depth during the consultancy. The seminar also demonstrates the professional capability of the consultant-instructor, helps to establish his or her credibility (confidence) with the small business participants, and encourages firms to eventually request individualized consulting. The classes also help familiarize the consultant and participants with the problems facing SSEs in the community and give the instructor a chance to assess students as potential clients. Finally, the seminar trains SSE entrepreneurs and employees in the basic concepts of small business administration which will prove useful to them regardless of whether or not they later receive consulting assistance.

The seminar's content should meet the practical needs of the participants. As a general rule, it should be short and to the point. A total of ten classes of two hours each (plus a little homework) might be a useful maximum amount of time for a seminar. The classes should also be directed at as homogeneous an audience as possible. Differences in education, occupation, or social standing could impair a common understanding of the material and inhibit class discussion. On the other hand, some differences among class participants could enrich discussions, and perhaps build bridges of understanding among students where previously none existed.

The consultant may choose from a wide variety of topics or formats in organizing a seminar for SSEs. He or she may create instructional materials, use existing teaching plans, or mix the two together. Possible seminar formats include the following:

- (a) A general seminar on small business administration: Such a format is useful in sparking class discussion (given the variety of material covered), yet is disadvantageous given its generality.

An actual example of this type of seminar is one presented in the Tuluá program (see Appendix I, Exhibit A.). Another format can be developed using Malcolm Harper's manual (see Selected Bibliography #15), which contains almost 100 pages of teaching materials divided into 51 separate units. The Harper seminar may also be broken down into shorter seminars discussing specific topics.

- (b) A seminar on a specific topic such as break-even analysis or how to effectively delegate authority: While sacrificing broad coverage, such a course can convey specific knowledge in a more rapid and intensive fashion than a longer seminar.
- (c) A simulation exercise: One example is the SIMPRO exercise which teaches entrepreneurs about quality control and basic recordkeeping through building paper airplanes. (See Selected Bibliography #24.) SIMPRO, though, may need to be simplified or otherwise modified before using it with most Third World SSEs.
- (d) An accounting course: It may be useful to train entrepreneurs in a simplified accounting system, thus saving repeated explanations in individual consultancies. (MICRON: Accounting for the Micro Business presents one such system in an instructional format requiring about 33 classroom hours. See Selected Bibliography #31.) The consultant would be advised to have installed such a system in a small business at least once before teaching it to a group.
- (e) A course using a programmed learning text: Two examples are the U.S. Small Business Administration's Ten Keys to Small Business Success and Burley's An Introduction to Basic Supervision of People (Selected Bibliography #19).
- (f) An advanced seminar addressing a more sophisticated topic and audience: Such a course might teach intermediate accounting techniques to local accountants or familiarize trade association officers with organization and leadership skills.

Seminars offer an economical means of exchanging ideas between the consultant and small entrepreneurs. Yet they are also limited in duration and rarely change students' business practices in and of themselves. Follow-up consulting with individual firms has a better chance of effecting such changes. Nonetheless, seminars are a useful first step in launching a small business assistance program.

3. Recruitment for the Seminar

Regardless of how well designed a seminar may be, some entrepreneurs will be wary of participating. They may mistrust the real purpose of the seminar, feel they do not have enough time to attend classes, or feel uncomfortable as students in a classroom.

If a consultant is to attract small entrepreneurs and their employees to a seminar, he or she must actively recruit them. Some elements which typically are attractive to potential attendees are a prominent guest speaker (perhaps the local banker), the backing of an important local institution (probably the one which is sponsoring the consultant in the community), and a topic which the entrepreneurs believe addresses their needs.

The first step for the consultant is to identify a pool of SSEs which might be interested in participating in the seminar. This pool of firms might be gathered from a variety of sources:

- (a) Referral by the sponsoring institution: It is often wise to actively recruit SSEs recommended by the consultant's sponsoring institution, since they are usually on good terms with the institution and can be counted on to form an enthusiastic core of attendees.
- (b) Referrals by banks, trade associations, and other organizations: These entities have excellent business contracts and should be able to suggest a number of candidate firms for the seminar. Judicious acceptance of firms sponsored by these organizations may also help the consultant later in institution-building tasks.
- (c) Trade directories and other printed sources: If a trade association or chamber of commerce exists in the community, the consultant should scan their membership lists for potential seminar participants. Firms' advertisements in the local

newspaper or in a telephone directory constitute another source of candidates.

- (d) A small business census: This technique is an excellent way for the advisor to become acquainted with SSEs and their problems. It will also familiarize the consultant with the general culture and economy of the community. To allay small entrepreneur's suspicions, the consultant should ask only a brief list of questions which relate specifically to the planning of the seminar. Support by a prestigious local institution in carrying out the census should help ensure SSE cooperation. In fact, a local person might accompany the consultant during the census to help explain its purpose. If successful, an SSE census should provide the consultant and his counterparts with an inventory of prospective seminar and consulting clients for many months to come. (See Selected Bibliography #13.)

Once the pool of candidate firms has been identified, the consultant can begin an active campaign to recruit participants for the first seminar. If the seminar is a general-purpose series of classes (similar to the syllabus in Appendix I, Exhibit A.), 12 to 15 participants is probably appropriate. More would render class participation and control difficult, and less would diminish the potential diversity of class discussions and would reduce the pool of candidate firms for the consultancy to too low a number. The consultant should recognize that some absenteeism will be inevitable and should probably over-recruit participants by perhaps one fifth to one third to compensate. Entrance requirements for the seminar should not be overly restrictive. The main selection criteria should be the firms' interest in participating and their ability to pay a nominal inscription fee.

There are several methods the consultant might use, typically in combination, to transform a pool of potentially interested firms into a select group of active seminar participants:

- (a) Invite small entrepreneurs to a free demonstration seminar session. This session will enable the consultant to explain the purpose of the seminar and will allow the small entrepreneur to see which colleagues are also attending. A local banker and the consultant's local supervisor should keynote the presentation to heighten local interest. The banker's appearance would not

guarantee credit to participants in the program, but rather establish a linkage and implied incentive between improved business administration and qualification for bank credit. The meeting should distribute a course description, offer refreshments and perhaps even entertainment as an added attraction.

- (b) Advertise the program. The consultant should take advantage of the local media to advertise the seminar. Ads could be placed with local newspapers and radio stations, and brochures could be distributed. Such publicity should briefly state the purpose, content and sponsors of the seminar, which firms are eligible to participate, and where and when the first free session will be held.
- (c) Personally canvass potential participants. People do not just appear at training sessions; they have to be actively encouraged and recruited. While general publicity helps, personal canvassing is crucial to ensure attendance. If the community has telephone service, this means of communication can help the consultant do follow-up contacts after initial personal visits. The telephone is also valuable in reminding those confirmed participants to attend each class once the seminar begins. The consultant's personal visits and follow-up calls are the critical ingredient in the seminar recruitment campaign. In general, people will not break out of routine and participate in an activity unless someone takes a personal and persistent interest in their participation.

4. Preparation for the Seminar: Location and Teaching Materials

In advance of recruiting seminar participants, the consultant should make the necessary physical arrangements. A first concern is location. Should the seminar be held in someone's home, in an official government building, or in a community meeting hall? Or would it be more appropriate (and comfortable) to hold it outdoors? The consultant should exercise judgment in selecting a location which would be comfortable and would promote a positive atmosphere for the program. If the seminar is to take place indoors, it should have adequate lighting, ventilation and bathroom facilities. It also should have enough room to accommodate different

seating arrangements. Kitchen facilities might also come in handy in providing refreshments for class breaks.

The following is a checklist of useful materials and support services for a seminar (several of these items would not be available in many situations; e.g. photocopier, typewriter, secretary, etc.):

- ___ Access to a typewriter.
- ___ Secretarial services to type handouts.
- ___ Access to a photocopier or mimeograph for duplicating handouts.
- ___ A looseleaf notebook for the instructor's notes.
- ___ A podium or table to support the instructor's class notes.
- ___ A blackboard, chalk, and eraser.
- ___ An easel and poster paper.
- ___ Felt tip markers.
- ___ Chairs, preferably with attached writing surfaces. If not available, perhaps provide sheets of cardboard so that participants will have something stiff to write on.
- ___ Folders for participants to keep handouts.
- ___ Pads or notebooks for participants to take notes.
- ___ Pens and pencils.
- ___ Coffee cups and saucers, glasses, spoons, plates, a bottleopener, and napkins.
- ___ Refreshments, such as coffee, tea, soft drinks, and cookies.
- ___ Diplomas or certificates of attendance.

Although this list will vary depending on the type of seminar and available resources, it might serve as a guide for compiling a list of materials needed to effectively organize a seminar. The successful presentation of a seminar rests in large part on careful and detailed planning.

5. Teaching Techniques

While the consultant is making physical arrangements for the seminar, he or she should also be planning the content of the course itself. As a starting point, knowledge of some basic principles about how people learn might be useful for the consultant who plans to design and teach a seminar:

- People learn by doing.
- People develop new impressions through their senses.
- People learn when they are ready to learn.
- People tie their learning to what they already know.
- People learn one thing at a time.
- People learn more rapidly when the results are satisfying to them.
- People need to understand what they learn.
- People develop skill through practice.
- People differ from one another in skills and background.²

Perhaps the effort and number of steps involved in preparing a seminar appear to be excessive. Yet the same basic process is as necessary to teaching fruit and vegetable sellers how to sell more produce as it is to teaching a more sophisticated topic to specialists. In fact, it is often more difficult for a consultant to present basic ideas simply and persuasively to relatively unsophisticated audiences.

Having absorbed these teaching principles, the consultant and sponsoring institution should then determine the number, length, timing, and content of the classes. The organizers of the seminar must also decide on the mix of teaching styles which will best get their message across. If the message is compact and time must be economized, a lecture format might be appropriate. However, to foster class

² Taken from Buell's and Heyel's A Handbook of Modern Marketing, pp. 3-44. (Selected Bibliography #41.)

discussion, a seminar approach is more useful. A role play--for example, to depict consultant-client or banker-credit applicant situations--is a particularly useful training tool. Case studies, examinations, and the audio-visual techniques discussed below could also be used by the instructor. Finally, guest speakers (local accountants, bankers, or successful entrepreneurs) may be used, or the participants encouraged to give presentations before the class.³

Once the consultant has a basic idea of the topic, scope, and general instructional approach to be used in the seminar, it should be outlined on paper. The first step is to sketch a general lesson plan. Such a plan should help clarify the flow of the seminar from one topic to the next, the fit between course topics and class time, and the interrelationship between the instructor's class notes, handouts, audio-visual aids, and participants' activities. A sample first page of a lesson plan is given in Table V. When completed, such a plan would serve dual purposes: it would act as a blueprint for the instructor to complete detailed notes for class presentations, and it would constitute a draft syllabus which could be distributed to the students.

The next step is the preparation of the instructor's class notes. A looseleaf notebook is usually most appropriate for this task so that the instructor may add or delete notes as the seminar progresses. For example, at the end of each class, the instructor will probably wish to modify the notes for the next class based on discussions and questions remaining from the class just ended, so as to provide a bridge between the classes. Class notes should be prepared in as legible a form as possible, so that another consultant may teach another group with the same materials. References are especially important to any consultant beginning work in a new community. He or she should have the names of all potential references ready (whether personal experience, individual authorities, or published text books) in case he is challenged on a point by a participant.

The notes should indicate when the instructor should deviate from a lecture and refer to a poster, make a sketch on the blackboard, or start a role play or case study exercise with the class. Audio-visual techniques play a key role in making the instructor's verbal presentation come alive and can dramatically increase interest on the part of the participants. Selected Bibliography entries #23, 32

³ For further ideas on class formats; see Selected Bibliography #17.

TABLE V: FIRST PAGE OF SAMPLE LESSON PLAN

<u>TOPIC</u>	<u>HANDOUTS</u>	<u>AUDIO-VISUAL</u>
I. <u>Introduction</u>		
A. Local sponsor presents the instructor; seminar participants present themselves.	H#1: Distribute seminar syllabus to the class. (See Appendix I, Exhibit A.)	
B. Outline of the content of seminar.		AV#1: Poster showing name of the program, sponsors, objectives, and program cycle: seminar → selection → consulting.
C. Purpose and content of the seminar and the consulting program in the community.		
D. Leading question to open seminar: What qualities does the model small entrepreneur possess?		
II. <u>Accounting and Finance</u>		
A. What is "accounting" and why is it useful?	H#2: Handout listing specific SSE problems which improved accounting can help the entrepreneur address. (Should be handed out after the discussion under II.A.)	
B. Description of the balance sheet and income statement and how they differ.	H#3: Have students fill in a simple balance sheet.	AV#2: Blackboard drawing showing different impact of debt and profits on balance sheet. (See Appendix I, Exhibit B.1.)

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and 33 provide extensive guidance on the use of audio-visual materials; a few useful techniques are summarized below:

- (a) Handouts. Handouts can be used as a basis for explanation and can serve to ensure that the students have a written record of key points covered in the seminar. Note that such handouts are usually presented only in outline form to help encourage the student to take notes and to refer to them outside of class (see examples in Appendix I, Exhibits C.1 - C.4.).
- (b) Props. The instructor can profitably use simple materials to vary his or her presentation and to gain participants' attention. Props may vary from holding up a lottery ticket to illustrate the chance element in business, to pulling out one's (empty) pockets to exemplify the problem of liquidity.
- (c) Blackboards and posters. Blackboard and poster presentations can be prepared either prior to or during a class. In either case, they should be simply and carefully prepared. If the diagram or illustration is too complex, it will obscure rather than clarify the message. (See Figures 8 and 17 in the text and Appendix I., Exhibit B.1., for samples of poster designs used in the Tuluá, Colombia program).
- (d) Other audio-visual aids. Movies, filmstrips, and slides can make for welcome breaks in a lecture presentation. They can also stimulate class discussion.

This listing hardly exhausts the range of audio-visual aids which might be profitably used by the consultant. Cassette tape recorders, video-tapes, and do-it-yourself techniques such as the flannelgraph are some other aids which the consultant-instructor may find useful. It is up to the consultant, however, to combine these mechanical aids with instructive class notes in an overall lesson plan which will generate maximum student interest, and present the topic most effectively. Such a combination is not always easy to achieve. Some consultants are endowed with a confident presence before a group and may need to rely only minimally on their notes. Most, however, are more dependent on advance planning and notes to pull a class presentation together. Some additional tips which might prove helpful in structuring an effective seminar are:

(a) Encouraging class participation. An interchange of ideas between class and instructor is essential. It enhances student interest, enriches the course content, and helps the consultant better assess participants as future candidates for consultancies. Class participation can be elicited in a number of ways:

- discussion of case studies.
- reaction to a poster, a slide, or a movie.
- response to a question placed before the group by the instructor.
- response to a question raised by one of the participants (i.e. the group must wrestle to resolve its own question).
- role-playing.

Although the instructor should encourage participation, he or she should not force it by posing difficult questions to individual participants. This only causes embarrassment. Conversely, the teacher should try to restrain individuals who tend to dominate discussion. Informal conversations during coffee breaks can also be carried over into formal class discussion.

(b) Fielding questions. An instructor may have succeeded so well in generating class participation that he or she will receive many questions. Since it is important that the instructor maintain his credibility before the class, difficult questions might be handled in the following ways:

- If the instructor can think on his feet, he or she could answer the question step-by-step before the class. Such a thoughtful answer may prove a better explanation than an immediate response.
- If the question may be answered on the basis of local experience or custom, the instructor might ask if one of the other participants could answer. If an answer is forthcoming, both the questioner and the instructor will be educated.

- If the question concerns material which is covered in a later class, the instructor should defer an answer until that time. The instructor must then make sure that the answer will be provided for in the future class.
 - If the query should be answered at the time but the instructor believes he cannot respond effectively, he or she should congratulate the questioner on his incisive observation and promise a response at the beginning of the next class. This allows the instructor time to think and consult references in finding an answer.
- (c) Varying the teaching style. A good classroom presentation should contain variety if it is to be effective. Intermittent use of audio-visual aids is one way to vary the presentation. The instructor may also interject illustrative metaphors or anecdotes. For example, comparing a balance sheet to a photograph and an income statement to a movie makes much more impact on the class than a more traditional explanation. Departing from his prepared notes, moving around the classroom, or taking a seat instead of standing all the time will also vary the instructor's style of presentation. Or the teacher may opt for a complete change of scene by taking the class on a field trip to a small business in another town.
- (d) Proposing new ideas gradually. The instructor should introduce new ideas gradually during the seminar, due to participants' lack of knowledge, their strangeness to a classroom situation, and their resistance to certain concepts. In many seminars, the consultant might avoid certain topics all together, or wait until he or she is sure there will be acceptance. For example, the concept of depreciation and the need to save now for future replacement of equipment is accepted only with difficulty by many small entrepreneurs, given the rising nominal value of their current equipment through inflation.

6. Evaluation of the Seminar and Selection of Clients for the Consultancy

Learning about new concepts in small business administration is, of course, the main purpose of the seminar. Participants' evaluation of the course and their submission of

formal applications for the consultancy will be among the indicators of whether the classes have achieved this objective.

One way to evaluate a course's educational impact on the participants is to distribute a brief questionnaire to them on the last day of the seminar. Or if literacy is low, the instructor might pose questions verbally. Their answers to questions like the following will help improve the content of the next seminar: Which topics did they find the most or least useful? How would they improve the way the course was taught? How did they feel about the length, size, and timing of the classes? Which elements do they want to apply in their own businesses?

Another way to evaluate a seminar is to hold discussion sessions with the participants a month or so after the conclusion of the seminar. These sessions would examine how much material the small business people had accepted, retained and applied. A class reunion, including a visit to an SSE influenced by the seminar (perhaps followed by discussion over lunch or dinner), might be an ideal conclusion to the evaluation.

One significant measure of seminar success is serious applications for the consultancy from participating firms. Applications often are verbal, a more face-saving means than a written request if the small business is ultimately rejected. On the other hand, a written application (either a letter from the small business person, or a completed application form) represents a more committed expression of interest. Whichever means of application is appropriate, the consultant's goal at the end of the seminar is to generate more requests for the consultancy than can be met.

How the consultant deals with those applicant entrepreneurs whom he or she rejects is a delicate issue. If the rejection is irrevocable--for example, the owner is a serious alcoholic, or persists in manufacturing for a dying market--the consultant should be firm but diplomatic in his or her rejection. However, if the firm is rejected due to circumstances or attitudes which may change, then the entrepreneur should be given a second chance to receive the consulting. One way might be for him or her to receive assistance after having attended the brief feedback session a month or so after the seminar. Another would be for the SSE to enroll in the second seminar and be considered for the consultancy along with another group of candidate firms. Yet regardless of the difficulty of saying "no", the principle of selectivity should remain.

The consultant can soften the blow to frustrated applicants by enhancing the status of the seminar itself. Nonetheless, the question arises as to why shouldn't the seminar end with all interested participants receiving consulting assistance. Why is there a need for selectivity? The discussion of the "target firm" in Chapter One mentioned a number of social and economic factors which warrant using this approach. Selectivity leads SSEs to compete for the privilege of getting the assistance; thus they are likely to value it more highly when they receive it. Since the nominal pricing of the consulting does not really limit demand, competitive selection of firms is an effective rationing device.

Chapter One described the "target firm", which is well suited to receive management consulting assistance. While the general characteristics of such firms--a threshold size, the entrepreneur's possessing some property, a basic education, and a few financial resources--are important criteria for selecting clients, they are not sufficient. Additional necessary questions which must be answered are:

- (a) Is the consultant assured of the firm's integrity and stability? Before entering into a consulting relationship with an SSE, the consultant should form an accurate appraisal of the character of the small entrepreneur. Is he or she honest and open to new ideas? Does he have health or personal problems which interfere with the business? What kind of people are the firm's employees? Do key positions, such as plant manager or bookkeeper, turn over frequently?

The consultant's observations and those of counterpart(s) are important in forming accurate impressions concerning the integrity and stability of small business people as prospective clients.

- (b) Does the business have a future? The consultant should feel assured that a firm's long-term prospects will enable it to make productive use of the consulting. Similarly, be sure that the SSE's marketing and other problems are solvable. For example, a firm's poor accounting may constitute the main barrier to its future growth. However, if the owner's husband or wife refuses to modify or relinquish his inexpert handling of the books, then short of divorce this key constraint to growth resists solution. Not all SSE problems are susceptible to improvement by the

consultant. In fact some may be aggravated by his or her intervention.

- (c) Why does the firm want the services of the consultant? The entrepreneur could be interested in the expertise, concentration and objectivity which a consultant would bring to bear on a problem. Yet, despite an entrepreneur's claimed interest in improving the management of the firm, the real reasons for requesting assistance may be quite different. The business could be looking for a loan, with no intention of making any changes. Or maybe the manager is merely searching for an outside opinion to back up throwing a malingering brother-in-law off the payroll. There may be any number of other situations which demonstrate a lack of commitment or capability to implement needed changes. The advisor should clarify the real reasons behind an SSE's request for consulting and then ask him or herself whether they provide the basis for a healthy consultant-client relationship.

There are several kinds of firms which, by their very nature, do not fit well with the intended goals of the consultancy program and therefore should not be offered a consultancy. They may, however, attend the seminars. These are:

- National franchise or chain stores
- Firms controlled by foreign investors
- Small businesses which are hobbies of rich or absentee owners
- Large, profitable businesses which can pay for their own consultants
- Companies on the verge of bankruptcy.

Concerning the final point, the consultant should not automatically avoid a challenging client; but he or she should steer clear of imminent financial disasters, especially while still struggling to establish creditability and a reputation for success. In general, the consultant should select only stable SSEs early on in his or her period of service and postpone more difficult clients until he or she has gained more experience in management consulting.

C. Consulting Assistance to Target Firms

1. Building the Consulting Relationship

Select SSEs deserve management assistance from select consultants--individuals who know small business administration and who can effectively communicate those skills to the small entrepreneur. Such consultants should possess knowledge in a number of business management areas (see Section 5, "Guides to Consulting on Specific Problems"). They should have the ability to solve problems analytically and pragmatically, since the solutions to many SSE problems are not found in any textbook. And just as importantly, they should possess strong human relations skills; they should be able to demonstrate empathy and understanding and should be able to persuade the entrepreneur to adopt new ideas. Such skills will help the consultant bridge any educational, cultural and age gaps with the small business people and achieve a relationship of mutual respect.

The consultant will usually have relationships with others besides the small business owner-manager. These may include accountants, lawyers, bankers, government officials, as well as the apprentice counterpart consultant. Within the business, the consultant interacts with the employees in addition to the owner-manager.

The variety of clients and other actors with whom the consultant must work makes the role a complex one. He or she must act as teacher, problem-solver, and referral agent for a variety of individuals. All three of these roles are necessary, just as it is necessary for the consulting to take place in an atmosphere of both professionalism and confidentiality.

Apart from the qualities needed by both consultant and client, four other ingredients (discussed at greater length throughout Sections 3 and 4) help to ensure a successful consulting relationship:

- (a) The consultant should live in the community where he or she works. Small entrepreneurs usually take part in their community's civic and social life. Thus, to know his clients better and to fully understand their businesses, the consultant must also come to understand the local culture. Such knowledge cannot come solely from surveys or discussions with local notables, but must come from living as well as working in the community.

A consultant's living outside a community (perhaps based out of a nearby city) means a sacrifice of significant opportunities to interact with clients. A locally based consultant can afford to have a beer or tea with a client after working hours, and in a relaxed atmosphere discuss new approaches to solving a particular problem.

- (b) A certain amount of professional distance between consultant and client is also necessary for achieving the goals of the consultancy. A logical consulting work plan, such as the one discussed earlier, is one way of conveying such professionalism. Another way is to charge for the consultant's services to help defray the cost of the consulting program. Such a relationship helps place the firm's problems, as well as the consultant's proposed solutions, in an objective light; it also puts the consultant and client in a structured situation where tangible payoffs are expected within a given time frame. Yet while the consultant should preserve a certain amount of professional distance from the client, he or she should also assume some degree of familiarity so that the small business person will talk openly about business problems. In this role, the consultant is less an "expert" than a sympathetic listener.
- (c) Confidence is essential in any consulting relationship and must be established early on between consultant and client. The client should have confidence in the consultant's ability to help solve his business's problems; he or she should also trust that the consultant will not betray confidential information concerning the enterprise. The consultant, on the other hand, should be sure he is able to gather reliable information from the client in order to do his job. He or she also requires that the client react candidly to his or her ideas and contribute solutions of his own without a sense of inferiority before the consultant. Such a relationship is not achieved overnight. It requires time and patience by both parties. A working relationship will often begin with the client telling less than the whole truth about his business, and the consultant being indirect and undeservedly complimentary to the client in an attempt to win favor. This stage, while a necessary one, should soon evolve into one of

greater honesty and directness between client and consultant.

- (d) The consultant should take a "medium-term" approach. The small entrepreneur often faces a wide range of management problems, most of which he or she feels must be taken care of at once. Bills come due, machines break down, and workers quit; these and other such problems may tempt the consultant to spend all of his or her time helping the client solve them. Early in the consultancy, the consultant might well tackle some of these problems--both to enhance his credibility with the client, and to relieve some immediate pressures on the firm so that the owner can better focus on the broader issues. However, while the owner will continue to be immersed in the daily detail of running the business, the consultant should focus on more medium-term, systematic solutions to the firm's problems. The consultant's main focus, for example, should not be on how to acquire the missing widget to get order "X" out on time, but on how to design purchasing and inventory control systems which will prevent such problems from recurring in the future.

2. Planning the Consultancy

Small business consultancy must be well planned in order to be effective. Once SSE clients are selected, certain procedures can assure that the consultant spends his or her time with clients in the most productive fashion. These include preparing a diagnosis of the firm, testing a firm's interest and capacity in implementing consulting recommendations, and planning the consultant's visits to clients.

(a) Preparing the Diagnosis

Most consultancies begin with an early period during which the consultant and client feel one another out. The consultant may wish to formalize this first stage as a consulting diagnosis; such a period would span one or two weeks and would require no fees or commitment from the small business person. The consultant's report at the end of the diagnosis would provide both parties with an opportunity to terminate the relationship early on if it appeared to be unproductive. From the consultant's viewpoint, this approach presents another opportunity to limit availability of his or her services to only those SSEs which are sincerely interested in the consultancy and able to implement its recommendations.

During the diagnosis the consultant should accomplish the following key tasks:

- Get to know the owner and his or her business, mainly by asking questions.
- Meet and talk briefly with other important employees of the firm (e.g. bookkeeper, plant foreman, chief sales clerk) and determine who are full-time or part-time workers and who are members of the owner's family.
- Inspect the firm's physical premises; if an industrial enterprise, get a basic idea of how the product is manufactured.
- Identify and prioritize the firm's problems (especially the status of its accounting, banking, and credit relationships).
- Collect key baseline data such as estimated monthly sales. This will also assist in later evaluations of the consultancy.

Effective completion of these tasks should reveal whether the firm's problems can be solved with the aid of the consultant. An effective diagnosis should define the focus of the consultancy and eventually contribute to a jointly agreed-upon work plan. It should also provide a blueprint for consulting success based on appreciation of the client's priority problem(s) and on his or her human and capital resources for dealing with them.

Initially, the entrepreneur is likely to view the consultant as an outsider whose motivation in assisting him or her may be questionable and whose presence in the community may be brief. Thus, the small business person will often try to take advantage of the consultant by urging him or her to tackle a large number of the firm's problems as soon as possible. One purpose of the diagnosis is precisely to narrow down a workable list of problems for the consultancy and to begin to build a sense of confidence between client and consultant.

The consultant will spend different amounts of time diagnosing clients depending on the situation of each firm. On the average, however, the diagnosis should not exceed six one-hour interviews over a two-week period. During this period the consultant should informally pose a number of questions concerning the business; Table VI provides some sample questions. Such interviews could take place in

TABLE VI

Sample Questions to Ask the Small Business Person
at the Start of the Consultancy

PRODUCTS/SERVICES (P-S)

- What are the P-S for which customers come to you?
- What are the most distinctive P-S you offer?
- What are the new P-S? the fading P-S?
- What are your plans for developing new P-S?
- How do your P-S compare with competitors'?
- What economic (value added) factor do you provide?
- What are the most profitable P-S you offer? The least profitable?

CUSTOMERS

- What business do you do with which customers at what profitability and investment?
- What markets do you now serve?
- What new markets could you serve?
- How do your customers see you?
- What do they think you do well or poorly?

PRICES

- How are your prices set?
- When were they last reviewed?
- How do they compare competitively?

PROFITABILITY

- How do you compare with the industry? With your own best period?
- What action do you take with the information you have?
- What action would you take with additional information?

DECISION-MAKING

- What decisions are critical to your business?
- Who makes what decisions on what bases? (a key question)
- Are your decisions based on adequate information?
- How can your decision making be improved?

PEOPLE

- What do you know about your present management and technical staff in terms of age, skills, potential, turnover, and retirement?
- How does your fringe-benefit program compare with that of other firms?
- What are the expectations of your staff?
- How do your people feel about the company? About its prospects? About their own future?

DANGERS

- What would you do if substantial changes took place in your products-services; customers; competitors; key staff; location-environment; sources of supply?

ADAPTED WITH PERMISSION FROM: Cohn, Theodore, and Lindberg, Roy A.
Survival and Growth:
Management Strategies for the Small Firm
(New York: AMACOM, a division of American
Management Associations, 1974), pp. 52-53.

the owner's office or over drinks or coffee at a local tavern or restaurant, but definitely not at the consultant's offices. The latter location would tend to make the client uncomfortable and restrict the flow of information between client and consultant.

At the end of the diagnosis, the consultant should discuss his or her findings with the client. If this discussion indicates a continued willingness by both sides to continue with the consultancy, the diagnosis should then provide the basis for a written work plan. Once signed or otherwise agreed to by the client and the consultant, this plan provides goals and steps for successfully implementing and eventually evaluating the consultancy. Similarly, it may also be useful for the consultant to present a contract or letter of intent to the client before starting the consultancy. Such a document should detail the roles and responsibilities of both parties during the consultancy, as well as the goals, cost and duration of the relationship. It could be a legal-like contract signed by both parties. Or should a contract format be intimidating to the small entrepreneur, the same purposes can be met by a letter of intent, signed by the consultant and presented to the client. Regardless of the format used, it is important to clarify the "rules of the game" before the consulting starts (see Appendix II, Exhibit C. for a sample letter of intent).

(b) Testing the Firm's Performance

An SSE's interest and ability in implementing changes is not measured only by the entrepreneur's satisfactory answers to a consultant's questions during the diagnosis. Actions speak louder than words. The consultant should therefore challenge the entrepreneur to make small changes in his or her business, either as part of the diagnosis or as part of the incremental implementation of the consultancy itself. The consultant should focus first on a relatively simple problem of the enterprise--one already identified by the owner. The consultant would then outline a small managerial change needed to correct the problem. After adequately instructing the owner in the necessary procedure to carry out the change, the consultant would defer any further visits to the firm until the change had been successfully implemented.

This approach is useful in helping the client gradually work through the steps of implementing any complex change, such as establishing an accounting system. For example, if the owner cannot reconcile his daily cash entries and monthly bank statements, it is useless to proceed with implementation of accounting records. Likewise, it might be

advisable for the client to perform an inventory prior to opening a beginning balance sheet. Of course, the consultant should carefully explain each new procedure to the owner in order for it to be a valid test of the client's interest in making changes.

These performance tests are not meant to be annoying hurdles for the small entrepreneur. Nor should they unduly interrupt the flow of a consultant's work with a client. Rather, they should stimulate the small business person to tackle and implement changes one at a time. Gradual fulfillment of these tests will also allow the consultant to manage his time productively and allow him or her to carry a case load of six to 12 clients at once.

(c) Planning the Consultant's Visits

Once a consultancy is underway, the consultant should carefully plan his or her expenditure of time with clients. Though most cultures expect the consultant to engage in small talk before or during a business session, the consultant should not waste time in aimless brainstorming with the owner. He or she should research problems, think of possible solutions, and outline new questions in advance of each consulting visit. And visits to any one firm should be limited to two or three hours per week. These suggestions will help keep the consultant from missing the forest (e.g. the client's need for a general business strategy) for the trees (e.g. the daily detail of running the firm). The following section provides other planning techniques which the consultant may profitably use in his or her day-to-day conduct of SSE consultancies.

3. Conduct of the Consultancy

(a) Getting Started

The suggested list of materials below should assist the consultant in actually carrying out a consultancy:

- a ruled notebook for taking notes
- accounting sheets to use in showing the client sample formats for proposed accounting systems
- file folders for confidential files on each client
- a desk to store records and perform written work

- a portfolio to protect papers and notebooks while carrying them on client visits
- pens, pencils (black and red), an eraser
- a large ruler, as an aid in reading or noting entries on long accounting sheets
- ready business references, such as this manual and the MICRON accounting manual
- business cards (depending on the situation)
- a four function calculator.

With these materials, a consultant is ready to begin work with his or her clients. Although the consultant should not be tied to a desk, a file folder for each client should be maintained to monitor progress. Each client's folder should contain key documents from the consultancy (e.g. work plans, letter of intent, samples of the client's recordkeeping forms, and copies of the consultant's written recommendations). The consultant should also add to the file copies of handouts or illustrative materials which he or she has used with the client to convey various points. It is best that all such papers be initialed by the owner to indicate that he or she has reviewed them with the consultant. If a client later claims that no advice or explanation was given on a problem when needed, such countersigned documents provide a useful record of the course of the consultancy and of the advice conveyed to the entrepreneur.

The consultant should also keep a record of visits to client firms. In separate notebook sections for different firms, he or she can write down points to cover in advance of each consulting visit and record pertinent dialogue during the visits. Some entrepreneurs may feel uncomfortable if notes are taken in their presence; in such situations, the consultant should write down observations only after the interview.

Finally, the consultant should maintain a careful record (preferably with supervision by the counterpart institution) of fees collected for consulting services and of expenditures for seminar materials and other program expenses. A daily log should also be kept showing how the consultant has spent his or her time. Such records help attest to the consultant's honesty on the job. The advisor should also be careful about accepting gifts or merchandise discounts from a client. Though well intentioned, such favors could damage a consultant's reputation for dealing impartially with a client.

(b) Persuasion Techniques

The first step in persuading a client is to win his or her confidence. The consultant will not achieve such confidence by confronting the client with a superior attitude. Nor will the advisor win respect by rushing to placate a client's every desire or by consuming a lot of time in excessive socializing. Rather, the consultant should try to build a relationship of mutual respect with the client. As discussed earlier, this relationship takes time to develop--time for the consultant to become accustomed to his or her role and to the personality of the owner, and time for the owner to overcome his or her fears that the consultant is either a covert tax collector or a rival entrepreneur bent on stealing trade secrets.

The consultant should spend the majority of any consultancy time in observing and listening to the client. The small business person will often press the consultant for advice, saying, "You're the expert, tell me what to do." Nonetheless, recommendations will have a far better chance of realization if they appear to be ideas of the client. Listening to the client's version of the firm's problems and observing the production process, the firm's employees and customers, all help the consultant form a clear picture of the business's problems and prospects. The consultant may be tempted to deliver immediate advice to the firm to economize the use of time. This, however, is usually false economy. Often the owner does not need expert advice so much as help with problem identification and then encouragement in solving them. The consultant may also play a useful role by urging the entrepreneur to draw more fully on employees' suggestions for dealing with the firm's problems. For more tips on becoming a better listener, refer to Appendix II, Exhibit D.

While the consultant should strive to become a good listener, he or she should also speak out as appropriate. He or she should help the client draw conclusions when points are raised, instead of leaving issues open ended and subject to inference. The advisor should also use his or her own natural style to best advantage in persuading a client. You cannot adopt a false persuasive style, but you should try to perform to the best of your ability.

Consulting recommendations should be made sparingly. A few pieces of useful advice will gain a consultant more success with a client than a large number of ideas and schemes, some of which fail. When proposing new ideas, the consultant should, as far as possible, graft the changes onto existing ways of doing things, or onto new ideas

proposed by the owner or his employees. Such an approach helps ensure client acceptance of the change, since the new idea is based on the status quo. Also, if the change proves a failure, the old system still remains for the owner to fall back on.

A number of other techniques can help the consultant orient the client to a given course of action. He or she can use written case examples, drawings, and props to illustrate points to the entrepreneur. The consultant can also refer to other firms he or she is advising as examples in a given area of business administration. At the same time, however, the consultant should be careful not to break his or her confidentiality with one client by passing inside information on to another. The advisor should also take care not to play favorites among clients, but to deal with all SSEs equally, devoting a reasonable amount of consulting time to each. Finally, when a consultant is making recommendations to an entrepreneur, he or she should do so in private so that the client is not embarrassed before customers or employees. And in larger SSEs, the consultant must balance a certain confidentiality in listening to employees' problems with the basic responsibility to the owner-manager. Further, in dealing with the firm's employees, the consultant should take care in underlining the advisory role in the firm--any managerial decisions should come strictly from the owner or a senior employee.

In summary, the following guidelines should help the consultant in persuading a client:

- Know the value of your services to the client, and when appropriate, refer to your expert knowledge.
- Know whom you are persuading. Is the client suspicious, gullible, cantankerous? By having an acute appreciation of the entrepreneur's character, you can know best when and how to persuade him or her.
- Establish a receptive atmosphere. Different clients will be more or less receptive in different surroundings. One owner may feel comfortable discussing ideas in the workshop, another may prefer home or office, while a third may prefer a local club. Proper timing of your interview will also enhance the client's receptivity. If the client is in a rush to process an order, he or she will hardly be in a mood to pay attention to your advice.

- Let the client do most of the talking; let him sell himself on a new idea.
- Close the sale. Use of the above techniques should prepare the client for acceptance of a new idea. Clinching his or her acceptance is a question of proper timing and finesse on your part.

(c) Problem-solving

The way the consultant and client tackle a given problem is helpful in generating a solution. The cartoons in Figure 6 illustrate one method a consultant might usefully employ in attacking problems. The first two precepts suggest looking for patterns in the elements of a problem and avoiding quick judgments. The second two concepts counsel considering a problem in its proper context, and producing not just one, but two possible solutions. The fifth concept, which says that a consultant should critically evaluate his or her own ideas while constructively assessing those of others, is often difficult. The consultant's status may dangerously deafen him or her to other's suggestions or to building on traditional practices, which may be the best ones after all.

Precept six advises the consultant to shift between concrete and abstract concepts in communicating to the client. For example, a firm's liquidity problem could be depicted abstractly in terms of a low current ratio and poor turnover of current assets. More concretely, the problem is one of an impaired physical flow of cash through the body of the enterprise. Though different, both types of explanations may be helpful in communicating this concept to the small business person.

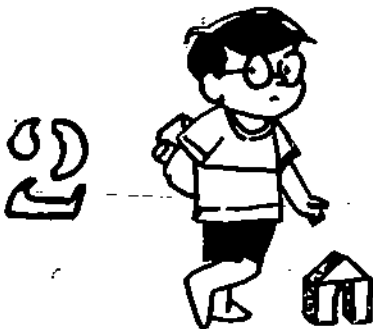
The seventh precept counsels one to take a break when stuck. Getting stuck frequently occurs in SSE consulting. While a complete change of scene (taking a vacation or embarking on an unrelated project) might help, a consultant may also take a less drastic break by shifting his or her concentration to a smaller, more readily-solvable problem during the consultancy. Such a break will maintain momentum and the client's confidence in the consultancy. It also allows the consultant to break away from the original problem and return to it later with a fresher perspective.

Talking one's problems over with someone else (precept number eight) is another helpful way for the consultant to address a problem when stymied. A consultant's local supervisor, program coordinator, or close personal friend may help in talking out a problem and giving useful

Figure 6: The Problem-Solving Process



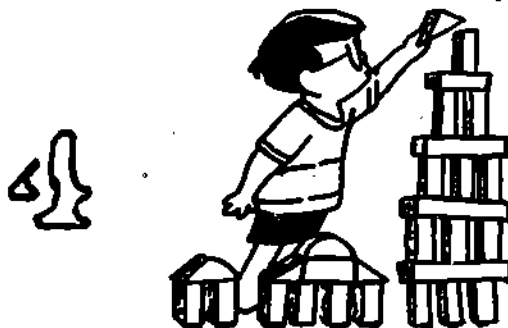
Precept I: Run over the elements of the problem in rapid succession several times, until a pattern emerges which encompasses all these elements simultaneously.



Precept II: Suspend judgment. Don't jump to conclusions.



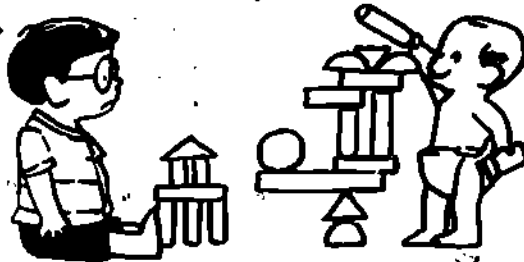
Precept III: Explore the environment. Vary the temporal and spatial arrangement of the materials.



Precept IV: Produce a second solution after the first.

Figure 6 (cont'd)

5



Precept V: Critically evaluate your own ideas. Constructively evaluate those of others.

6

Precept VI: When stuck, change your representational system. If a concrete representation isn't working, try an abstract one, and vice versa.

7

Precept VII: Take a break when you are stuck.



Precept VIII: Talk about your problem with someone.

Source: "Solving Problems" by Ray Hyman and Barry Anderson, pp. 52-62, Organizational Psychology: A Book of Readings, edited by David A. Kolb, Irwin A. Rubin and James M. McIntyre (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1974). Reprinted with permission of the author.

advice. In certain special problem areas, the consultant should call on local professionals to assist with a solution, such as lawyers, accountants, and bankers--again, with care to avoid violating client confidentiality.

4. Final Recommendations, Follow-up, and Evaluation

At the end of the consultancy, the consultant should leave a written record of recommendations to the client, in addition to making a detailed verbal report. This action makes the consultant's final suggestions clear to the client; it also assists later evaluation of the consulting. The written report should be brief, usually no more than six double-spaced pages. It should also focus clearly on the client-reader's interests, without repeating information which he or she already knows. If the consultant or program director desires a background report on individual consultancies, such a report might usefully be filed separately.

The consultant can provide further detail during his or her verbal presentation to the client. The report should consist of three basic sections: background and goals, results so far of the consultancy, and most importantly, those measures which the owner should follow-up on in order to preserve progress attained during the consultancy. Follow-up visits by the consultant (perhaps once or twice a month) can then check on the former client's success in implementing any further changes on his own. If the client still requires additional assistance after the formal end of the consultancy, the consultant might try to enlist the aid of local accountants or government management consultants in continuing to assist the firm.

Evaluation is the final chapter in closing out a consultancy. But what is the measure of a successful consultancy or consulting program? How can it be evaluated? Although the heart of a consultant's job is ultimately to increase the SSE's profits, this result, especially on an interim basis, may prove elusive to achieve or quantify. Moreover, profits are not the only indicator of success. Improved liquidity, better debt-equity position, greater stability of earnings, and improved worker productivity are all results which are crucial to the survival and development of the firm, even if they do not immediately affect earnings. How do we evaluate these impacts? The task of evaluation becomes even more complex when we consider the social and economic effects of SSE growth stimulated by management consulting assistance. Backward and forward linkages, numbers of workers hired and trained are all relevant indicators.

Regardless of the evaluation methodology chosen, it is often difficult to acquire adequate data from SSEs. For example, it is often difficult to determine just how much sales, profits, or equity have increased during the consultancy if these quantities were not recorded adequately in the base period. Consequently, one must often rely on indirect means of evaluating management consulting successes and failures such as the number of accounting systems successfully installed, or the number of entrepreneurs or employees trained. Furthermore, evaluation of SSE consultancies is often inaccurate even when reliable accounting is available, since management assistance is only one small variable affecting client firms. General economic conditions, the health of the owner, and a variety of other factors can also have an impact on a firm's growth.

Despite the challenges involved, every SSE management consulting program should be evaluated. Basically, three areas should be measured in evaluating an SSE consultancy: effectiveness, efficiency, and significance. Effectiveness indicates whether the main objectives of the consultancy were achieved. Efficiency measures whether the benefits to the firm were sufficient to justify the costs incurred by the consulting program. Finally, significance relates to the impact of the consulting program as a whole, vis-a-vis broader economic development goals in the community. For example, did growth of the assisted firms encourage the expansion or establishment of other businesses or increased employment of previously un- or underemployed people?

The sample evaluation form in the Appendices (Appendix III, Exhibit E.) is one possible format; the AITEC and Harper programs, for example, propose others. An evaluation form should be simple enough for a busy consultant to fill out, yet detailed enough to provide useful evaluation information for those planning or managing the overall consulting program. The appended format tries to achieve both these objectives. Its one-page length compels the consultant to prioritize observations and make them brief. The consultant may add to the form other information he or she believes will be useful to program managers.

Much of the quantifiable progress achieved as a result of the consultancy should be available at the end of the consulting period. However, the third block of the consulting form should be completed six to 12 months later. Someone other than the consultant (perhaps the counterpart) should conduct this later evaluation.

At the end of a consultant's two or three-year service in a community, all the evaluation forms should be

collected by the national program staff to assist with the overall evaluation of the program. Evaluating the consulting program as a whole is best performed by a team composed of national program personnel and outside technicians, perhaps from similar programs. However, if outsiders are involved in this process, the consultant should take steps to see that the confidentiality of client relationships is not violated. This might be achieved by requesting firms' permission to use evaluation data, or by leaving business's names off the evaluation forms.

Such an evaluation should take place two or three years after the program has begun. In addition to reviewing the nation-wide consulting program, it would examine the following indicators:

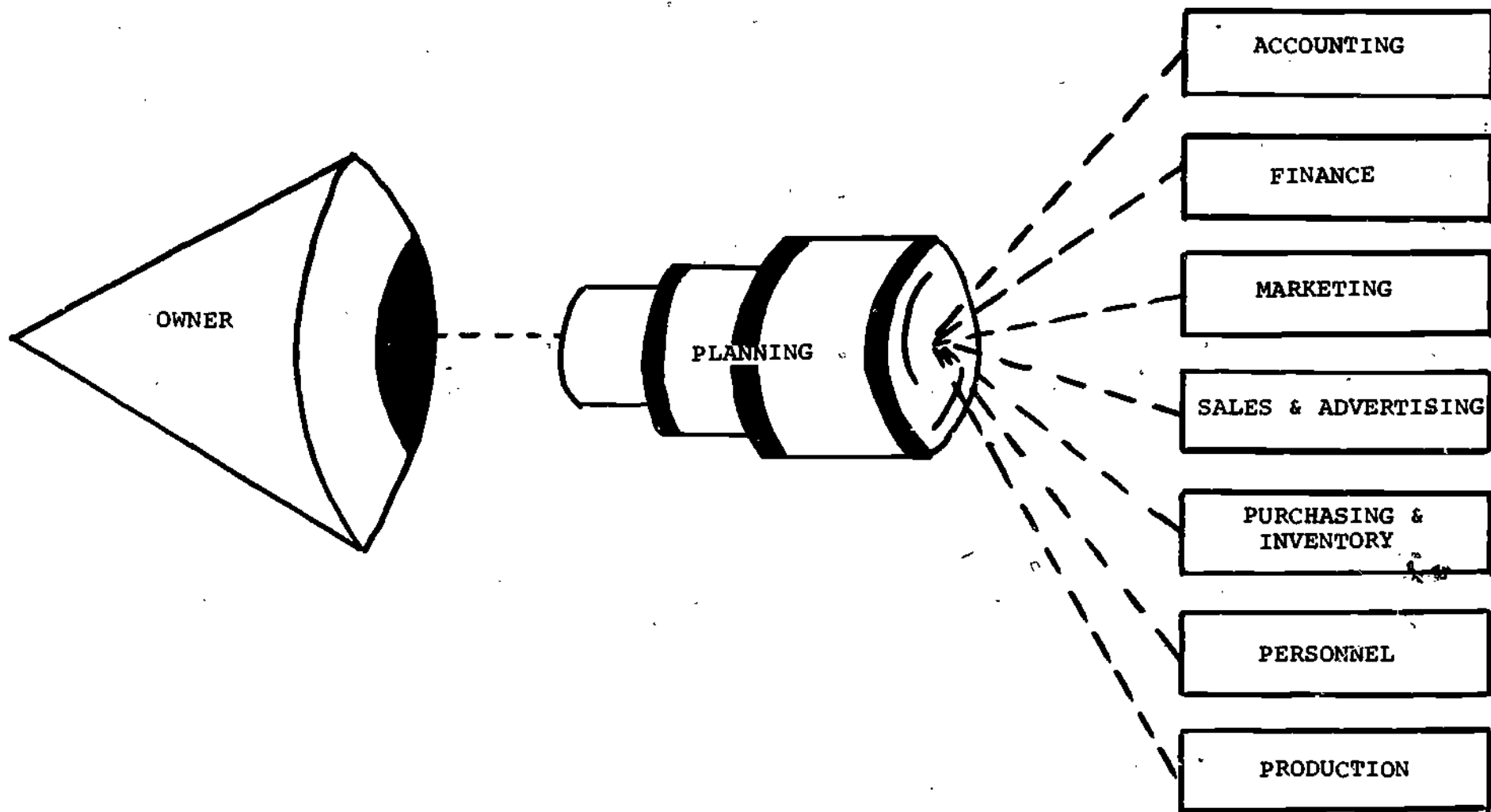
- Did the consulting expand the local economy in communities receiving consulting assistance?
- Were investment promotion campaigns, trade fairs, and SSE associations successfully organized or strengthened as a result of the consultancy?
- Did the consultant leave behind a new or strengthened local institution to carry on his or her work with SSEs?
- How financially self-sufficient did the national consultancy program become?

5. Guidelines to Consulting on Specific Problems

Small entrepreneurs face a wide range of interrelated tasks in running their businesses. These tasks include accounting, finance, marketing and sales, purchasing and inventory, personnel, and production. And as the figure on the following page illustrates, good planning and a balanced perspective can help the small entrepreneur focus better on all of these areas.

The many facets of small business management can also present problems to the small entrepreneur--problems which he or she may be unable to classify. The distinctions between finance and accounting, for example, are analytical abstractions more familiar to the consultant than to the client. Yet it is precisely such analytical concepts, if not their names, which the client should learn from the consultancy.

Figure 7: FOCUS ON VARIOUS AREAS OF SMALL BUSINESS MANAGEMENT



- 93 -

A small business person will not have problems in all the areas depicted in Figure 7. And those management areas which do need attention should be ranked in order of priority by the client and consultant, and thus provide a focus for the consultancy. The following sections distill key concepts in accounting, finance, marketing, and other areas which are particularly relevant to the situation of the small business person. In addition to reviewing these sections, the reader should refer to Appendix III, Exhibit C., "How to Assemble a Management Consultant's Reference Kit", and appropriate publications annotated in the Selected Bibliography, especially entries #37-52.

a. Accounting

Accounting is the consistent quantitative recording of where a business has been, where it is now, and where it will be in the future. Sound decisions on marketing, production, and other areas are dependent upon a good historical accounting system. An excellent step-by-step explanation of how accounting entries help reflect real business activities is given in the Selected Bibliography #51, pages 12-21. Appendix II, Exhibits B, C, and D also provide additional explanations of key accounting concepts such as cost of goods sold, inventory, and internal controls.

(1) General Guidelines on Installing Accounting Systems for SSEs

An accounting system suitable for a small entrepreneur in a developing country may not always conform to generally accepted accounting principles as understood in the United States. It may deviate from such concepts as matching revenue and expired costs by eschewing accrual accounting in favor of easier, more direct cash accounting. It may even avoid double-entry bookkeeping in favor of a simpler single-entry approach. However, any business record-keeping system will require organization, consistency, and discipline by the entrepreneur in keeping entries up to date.

An accounting system's success depends on three key factors: 1) the design of a simple, practical system; 2) the presence of a good part- or full-time bookkeeper within the firm to maintain and check daily entries; and 3) the owner's appreciation of the importance of accounting as well as his or her direct participation in the design and maintenance of the system.

Ideally, consultant and client should agree on an accounting system which will provide accurate information on the following: the daily position of the firm's assets, liabilities, and capital; and a record of its flow of income and expenses through time. Bookkeeping should also furnish data for loan applications and tax returns. Daily entries in the books should be done in as precise a manner as possible, and the bookkeeper should use a fountain pen which prevents easy erasure of errors. Any such errors should be crossed out in red and corrected, thereby leaving a record of the original error.

A complete, traditional double-entry accounting system may be beyond the capabilities of many small firms. One solution for such SSEs is a partial system of records: a daily cash reconciliation, checkbook reconciliation (if the firm possesses a checking account), and a journal of debtors and creditors. If there are few debtors and many creditors, the system may be simplified further by recording only creditors and leaving debtors to the owner's memory. Such partial accounting is more easily maintained by the small entrepreneur. Although it fails to generate complete financial statements, it provides a useful aid to the owner's memory in managing the business.

The consultant must carefully plan the implementation or revision of any accounting records, and assess from the start of the consultancy whether resources and personnel exist within the firm for such recordkeeping. Designing and installing accounting systems is a gradual process. Given a client with no formal accounting system, a list of steps for the consultant in such a situation would include the following:

- (1) Review existing formal and informal records; discuss their retention, modification, or elimination with the owner-manager (be conservative).
- (2) Explain to the entrepreneur and the secretary-bookkeeper the content, scope, and purpose of accounting in general, and the relative advantages of alternative systems.
- (3) In consultation with the owner-manager, design an accounting system to meet the needs of the firm; show the owner sample sheets with the proposed account distribution.

- (4) Have the owner purchase accounting books.
- (5) Design or purchase the additional forms necessary to evidence transactions--sales invoices, receipts, vouchers, etc.
- (6) Train the owner and secretary in the recordkeeping mechanics of the system.
- (7) Start the bookkeeper on daily cash reconciliations and monthly bank reconciliations (make sure they balance).
- (8) Supervise practice entries by the secretary (trial period of one or two weeks).
- (9) Urge the owner to collect the information necessary to compile the initial balance sheet. (See Accounting Interview Questionnaire in Appendix II, Exhibit A.) The firm's capital is calculated by deducting liabilities from assets. Caution: this information-gathering normally takes time--especially if past recordkeeping by the firm has been inadequate.
- (10) Take physical inventory at the end of the month. The counting should be done by the owner and his employees with a spot-check by the consultant.
- (11) The secretary or bookkeeper starts the formal noting of entries in the books, with an occasional spot-check by the consultant.
- (12) Teach the secretary how to prepare the First Monthly Trial Balance.
- (13) Check over the Second Monthly Trial Balance.
- (14) The firm takes physical inventory at the end of the reporting period--again with a spot-check by the consultant.
- (15) Work with the secretary compiling financial statements and discuss the results with the owner-manager. If necessary, explain once again the recordkeeping mechanics of arriving at those statements.

- (16) Counsel the owner on finding a local accountant (if affordable) to replace the consultant and to serve as a continuing external check on the accuracy of the bookkeeper's recordkeeping.
- (17) Advise the owner to formalize the firm's tax status, legally register the books, and comply with other legal requirements. In practice this means retaining an essentially real reporting system, but with room to "adjust" certain accounts for tax purposes.
- (18) Propose an effective system of internal controls for the business. For example, require the owner to sign all checks, and if possible, divide accounting functions among various employees as a check and balance on their actions.

A number of points should be kept in mind when following the above guidelines. First, the consultant should not proceed with implementation of the accounting system until cash and bank statements begin to be reconciled regularly by the firm. Second, he or she must resist the great temptation to do the bookkeeper's work. If the bookkeeper works out his or her own bookkeeping problems, the accounting process certainly slows down; however, the educational value of learning-by-doing greatly outweighs the problems caused by delays in moving the system along. The consultant and owner-manager should make clear the bookkeeper's accounting responsibilities, and broaden them as the employee learns more about the job. The danger is when accounting functions fall "between the cracks". The bookkeeper may not perform certain tasks (e.g. trial balances) either because he or she does not know how, or because he or she thinks it is the consultant's job. Conversely, the consultant may not perform such tasks through lack of time or through assuming that they are the bookkeeper's responsibility. The end result is that no one assumes the functions, and the accounting falls behind. This situation often requires starting over from scratch--a remedy which is, needless to say, not too popular with the client.

Third, the owner will not trouble with monthly inventories just for the sake of putting together monthly financial statements. The consultant and owner are equally eager to see the first financial statements out of the system as soon as possible. However, it is best to postpone the second inventory and consequent compiling of financial

results two or even three months after start-up of the system. Meanwhile, more time and effort can be expended in checking the correct functioning of the system. A key check is monthly trial balances, which themselves provide timely, though partial, financial information.

Fourth, the consultant should address the issue of taxation only toward the end of the consulting period and after the accounting system is functioning well along real reporting lines. The consultant, owner, and accountant must reach a compromise on the tax issue in such a way that the real reporting value of the system is not confused or damaged.

Apart from seeing that the accounting system fulfills the client's tax needs, the consultant should also be familiar with other legal requirements governing the business such as labor legislation, zoning regulations, and company registration with the government. A consultant's knowledge of these areas will apprise him or her of the need for certain charge or reserve accounts in designing the firm's accounting system. An awareness of their cost implications will also prove useful in performing financial analyses for the business.

(2) The MICRON System: One Accounting Approach for SSEs

In Tuluá, the consulting program relied on the Peace Corps' MICRON accounting system (Selected Bibliography #31). This simplified system consists of three main components: a multicolumnar journal for movement of cash and checks, with corresponding debit and credit entries; a looseleaf credit journal (accounts receivable, accounts payable, employee loans, and bank loans); and a general ledger. MICRON entries may be recorded in inexpensive notebooks; it also is simple enough that the bookkeeper needs no special knowledge of accounting to maintain the books. The accounts recorded in its daily journals provide enough information for compilation of periodic balance sheets and income statements. The frequency of such statements depends on the owner's available time for inventories.

MICRON is perhaps most appropriate for the target firm-sized SSE. Smaller SSEs may find the discipline of daily entries and monthly reconciliations taxing. Larger firms, on the other hand, may find the spread of accounts in the system to be inadequate for detailed tax purposes. The system's cash vs accrual bias may also distort the firm's financial reporting. Nonetheless, the MICRON approach is a

useful one, and the basic steps involved in this system are depicted in Figure 8 on the following page.

The author's experience in Tuluá suggests two possible additions to the MICRON system. One would be the daily reconciliation of all debit and credit transactions on a sheet of paper or in a separate notebook. This record provides the secretary or accountant/consultant with a check on the secretary's work. It also furnishes a handy summary of accounts prior to their individual posting to the journals.

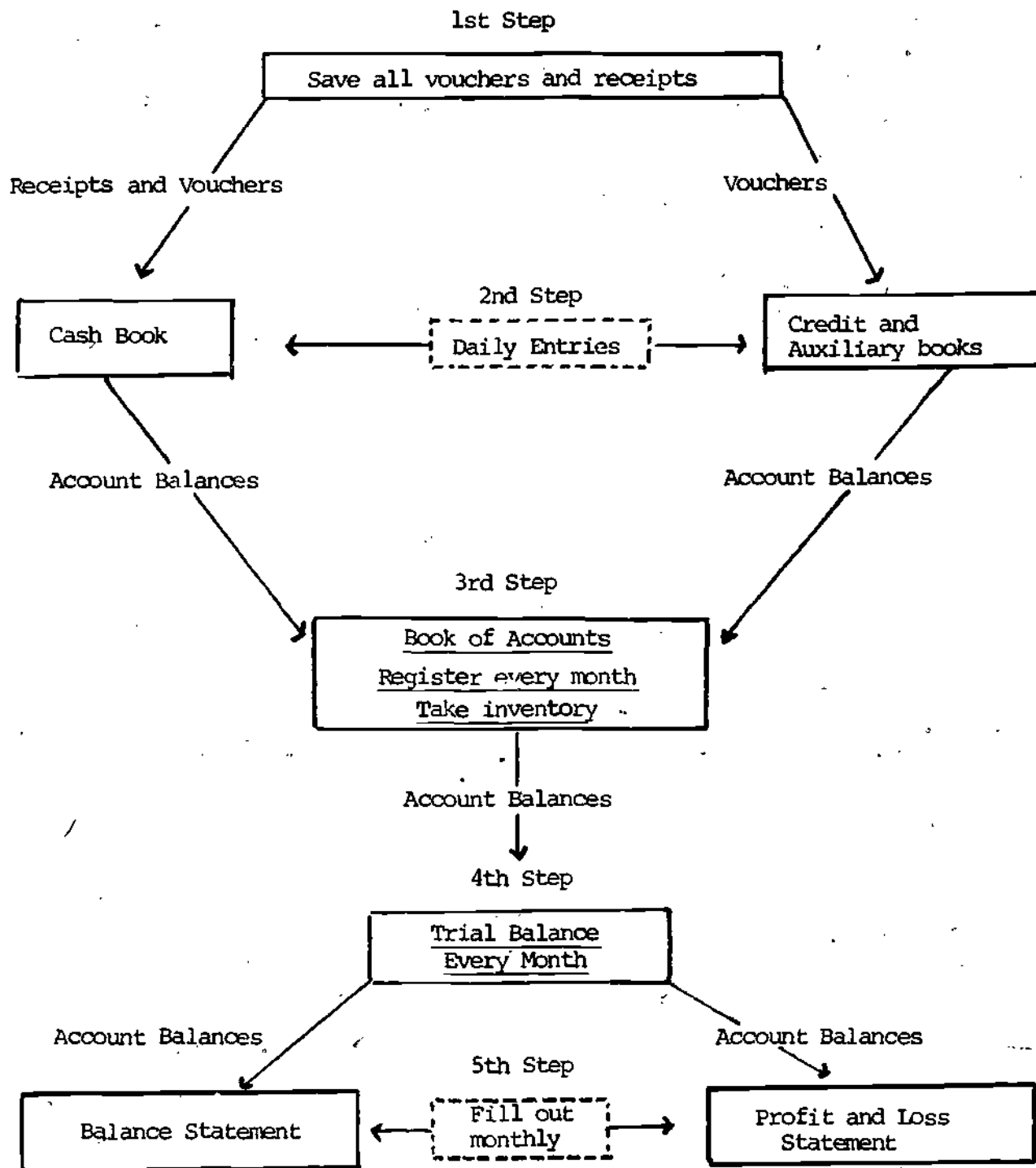
The other suggested contribution to the MICRON system deals with the complex issue of post-dated checks. Though a common phenomenon in many Latin American countries, post-dated checks may not be so common in other parts of the world. Nonetheless, such checks exemplify one of the practices by small businesses which complicates the consultant's task in installing an accounting system. The discussion below examines how the consultant might incorporate post-dated checks into a firm's accounting should he or she encounter them.

The small business person may record post-dated checks in one of two ways. First, he or she may treat them no differently from current dated checks. By this method, the owner deducts his or her own post-dated checks from his bank balance, and notes the corresponding debit to accounts payable if such is the case. Post-dated checks received from third parties, however, are recorded initially as debits to cash (and noted as credits to accounts receivable if such is the case). They are then debited to the bank balance on deposit of the check at maturity. This method of accounting for post-dated checks is the easier of the two, and is the best approach when the firm has little such movement. A business with a large number of post-dated checks, however, will show a misleading credit or red bank balance under this method of accounting.

The second approach is to treat post-dated checks not as true checks, but as notes. Consequently, when such a check is given or received it is not registered initially in the cash or bank accounts. Instead, it is recorded apart in special maturities journals (one for third party checks flowing in, and one for the firm's own checks flowing out). These journals are organized with one page for each month of maturities. A post-dated check is subsequently recorded in the formal books as a credit sale or purchase. It is only added (or subtracted) to the bank or cash balance (and consequently debited or credited to accounts payable or receivable) on maturity of the check. Success of such a

Figure 8

DIAGRAM OF THE MICRON ACCOUNTING SYSTEM



Source: Peace Corps' MICRON, Accounting for the Micro-Business: A Teaching Manual, Aid #16.

method of handling post-dated checks requires two elements: first, a tradition of complying with the maturity dates on such checks by all the parties involved, and second, the timely transfer of entries between the formal journals and the special maturities journals. The advantages of such recordkeeping are also twofold. It gives a realistic bank balance in accordance with cash actually in the bank, and the maturities journal provides an excellent means for preparing cash budgets. This system was being used by one firm prior to any consulting under the Tuluá program. Eventual consulting successfully integrated its post-dated check recording into a comprehensive accounting system. The firm's bookkeeper encountered no problem in completing bank reconciliations (in fact they are simpler under this method), nor in assuring the accuracy of debtor or creditor balances.

In addition to MICRON, other simplified accounting systems are available in the United States on a commercial basis. Many are complete with pre-printed journal forms and account headings tailored to fit various businesses. Further alternative accounting systems for SSEs are detailed in publications by Malcolm Harper, Fundación Carvajal/AITEC, PC, and VITA (see Selected Bibliography #13, 15, 21, 29 and 31).

b. Finance

Financial analysis interprets accounting data in addressing a wide variety of problems in small business management. The utility of financial analysis in reviewing a business's operations, profitability, financing, and investment strategies is illustrated in Figure 9 on the next page. The financial analytical techniques listed below may be particularly helpful in consulting to small businesses. Note, however, that most of these techniques require information from a consistent accounting system.

(1) Break-even Analysis

This technique, also called cost-volume-profit analysis, allows the consultant to evaluate the profitability or unprofitability of various levels of sales. The break-even point can be easily calculated by using a graph or by projecting income statements at various levels of sales. This concept is especially useful in preparing financial projections for a client to show him or her if new sales generated by additional credit will produce added revenues. Further treatment of break-even analysis is given on pages 127-128 and page 229 in Malcolm Harper's consultancy manual (Selected Bibliography #15), or on page 218 of Johnson's Financial Management textbook (Selected Bibliography #47). An illustrative break-even chart is given on page 103.

Figure 9

THE BUSINESS SYSTEM: AN OVERVIEW ⁴

Key Yardsticks:

Rate of Return

Operating Ratios

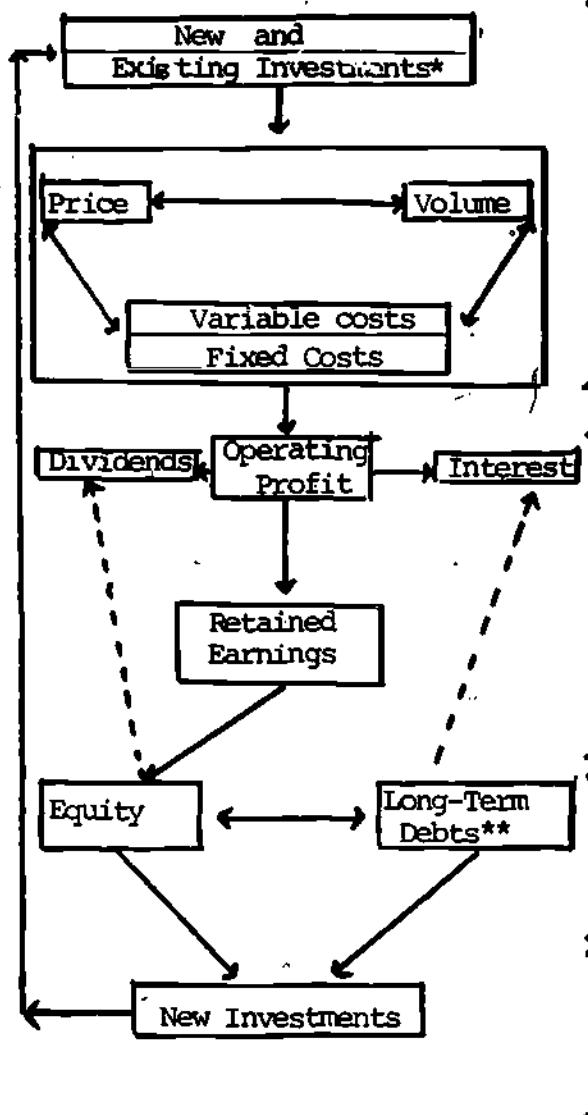
Payout Ratios

Interest Coverage

Debt-Equity Ratios

Debt Service

Present Value



Key Strategies:

Conduct of Operations

- *Development of assets
- *Market selection
- *Pricing strategy
- *Cost effectiveness
- *Operating leverage

Disposition of Profits

- *Dividends to owners
- *Interest to lenders
- *Reinvestment of profits

Financing Strategy

- *Types of equity
- *Types of debt
- *Financial leverage

Investment Strategy

- *Types of investments
- *Emphasis and development

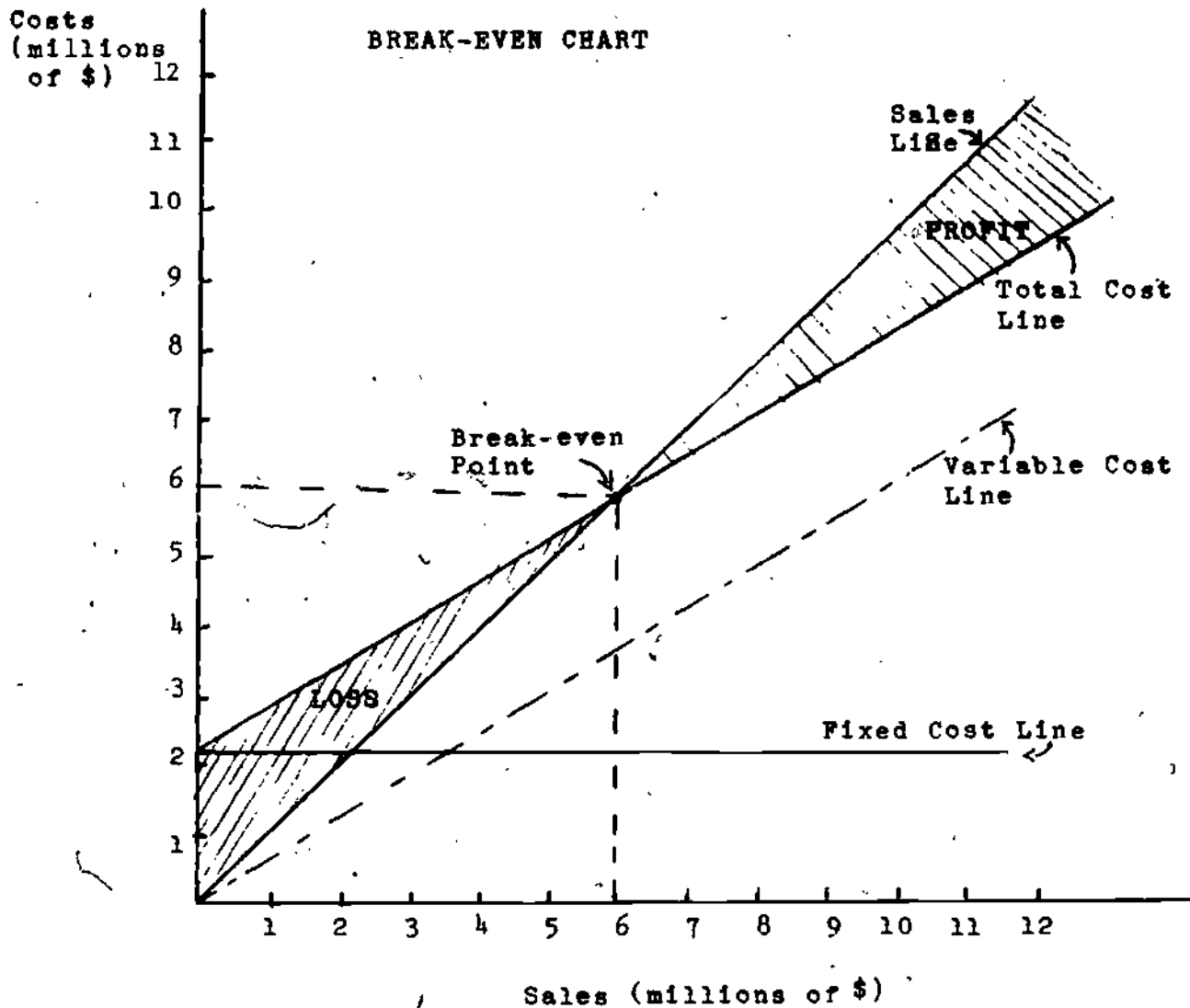
* Assumes an amount equal to depreciation reinvested here.

** Assumes continuous rollover, with no reduction through repayments.

⁴ Although Figure 9 is a helpful illustration for the prospective consultant, it is a good example of the kind of abstract illustration which should not be used with small entrepreneurs in explaining a financial problem.

Source: Taken from Helfert's Techniques of Financial Analysis, page 191. (Selected Bibliography #45.) Reprinted with permission.

Figure 10



(2) Financial Statement Analysis

If the firm has financial statements, the consultant should analyze movement in key accounts over time (horizontal analysis). For example, are the firm's sales and profits increasing at a rate faster than that of inflation? Likewise, he or she should examine the ratio and percentage relationships within a given balance sheet or income statement: e.g. What proportion of debt to equity the firm have? If possible, the consultant should attempt to compare any percentages or ratios with those available from similarly sized businesses, in the same field (see Selected Bibliography #34). If these statistics are not

available (as is the case in many developing countries), he or she may compare a company's profit increases or returns on equity to generally available figures such as consumer price indexes, or commercial interest rates.

(3) Aging of Accounts

This simple technique helps the consultant to evaluate the composition of either accounts receivable or accounts payable. By highlighting the source and amount of overdue accounts, it helps the consultant and client to pinpoint slow-paying customers or to identify overdue suppliers. It also may encourage the entrepreneur to explore credit policies to collect accounts receivable more rapidly and to pay suppliers more promptly.

An illustrative aging analysis is given in Table VII below:

Table VII

Illustrative Aging of Accounts Receivable

Days	Days Overdue				
	Current	0-30	31-60	61-90	Over 90
Month	December	November	October	September	August
Accounts Receivable					
-Customer X	\$150	\$150	-	-	-
-Customer Y	250	-	-	-	-
-Customer Z	-	150	\$200	\$ 50	\$ 50
	\$400	\$300	\$200	\$ 50	\$50
Percentage of Total	40%	30%	20%	5%	5%

The above analysis indicates that (1) most of the firm's accounts are overdue, (2) customer Y is the most punctual client in paying his bills, and (3) customer Z is the least punctual in making payments. Other things being equal, the business person should reduce his or her business with customer Z and acquire more buyers like customers X and Y. The clear quantitative picture presented in an aging analysis of accounts receivable is often helpful in showing

the business person the financial penalties inherent in some long-standing customer relationships.

(4) Budgeting

Daily cash reconciliation is a prerequisite for accounting and cash budgeting by a small firm. Table VIII below illustrates one useful format in completing a daily cash reconciliation.

Table VIII

Sample Cash Budget

<u>Date</u>	<u>Description</u>	<u>Deposit</u>	<u>Withdrawals</u>
June 16	Initial Balance	\$ 100	
	Cash Sale	80	
	Collection of Accounts Receivable	55	
	Purchase supplies		\$ 20
	Loan to employee		10
	Owner withdrawal		35
	Bank deposit		100
	End balance		70
		<hr/>	<hr/>
Total		\$ 235 =====	\$ 235 =====

Reconciliations sum up all the receipts evidencing transactions for the day. Such a cash reconciliation must balance, and it is thus a good check on a firm's documentation of all transactions. Ideally, someone other than the sales clerk should make the reconciliation as a check on that employee's honesty and ability to correctly make change.

Consistently balanced daily cash reconciliations serve two additional purposes: they can provide a convenient means of summarizing transactions prior to posting them to a firm's accounting books, and they provide a good format for short-term cash budgeting.

Simple cash budgeting is perhaps the greatest unmet planning need by the small business person. The

consultant should begin to plan tomorrow's cash needs with the client, then expand the budget to one and eventually two weeks. The consultant may also employ more sophisticated budgetary and planning techniques, such as projection of proforma financial statements and sources and uses of funds. However, such reports are complicated and time consuming and are perhaps most appropriate when required to support requests for bank or other financing.

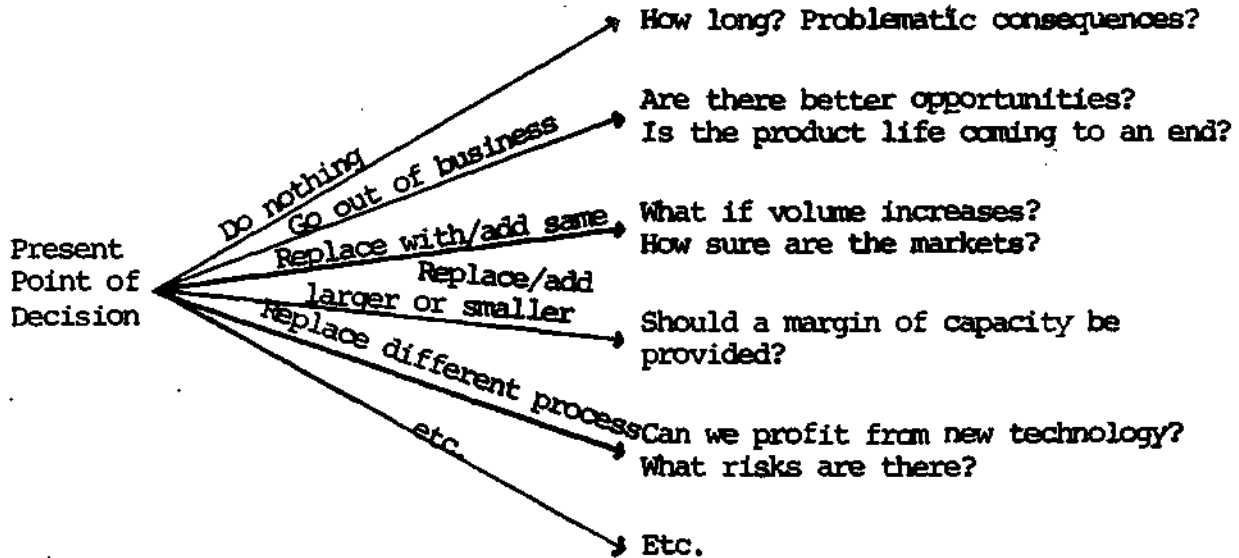
(5) Investment Analysis

The consultant should also assist the owner in evaluating capital investment opportunities. As the figure on the next page illustrates, a number of factors affect whether a given piece of equipment should be replaced or another one added. However, if the decision is made to replace or add to the equipment, rapid capital recovery and return on investment will be key factors in deciding which equipment to buy. Two straight-forward methods will help in analyzing such a decision: average rate of return (annual cash flow generated by the investment divided by the average investment), and cash payback period analysis (the investment cost divided by annual cash flow). Discounted cash flow analysis is a far more sophisticated means of examining alternative investments and may be difficult to explain to the small entrepreneur.

All of these financial techniques will help the consultant assist the small business person in implementing a general strategy. However, some of these tools, such as proforma financial statements or discounted cash flow analysis, should be used by the consultant only on a very limited basis. In general, it is far better for the consultant to use simpler (and perhaps less accurate) means of analysis which the client can understand, than to indulge in more sophisticated techniques which will only puzzle the small entrepreneur.

Figure 11

OPTIONS FOR EQUIPMENT DECISIONS



Source: Adapted with permission from Helfert's Techniques of Financial Analysis, page 93. (Selected Bibliography #45.)

Although it is difficult to generalize, the following are probably sound financial strategies for many small businesses.

(1) Control Costs

In the industrialized world, it is wise for the small business to try to reduce fixed costs and to keep other costs variable. This lowers the firm's break-even point, and thus enables it to withstand downturns in sales volume. This may also be prudent advice for developing countries, especially given such nations' volatile economies and SSEs' fragile equity cushions. However, inflationary conditions in many countries may make investment in land, buildings, and equipment very attractive. And relative to other opportunities, such a decision might be wise. Nonetheless, the consultant should examine with the client the source of financing for such an investment, the savings it might generate vs debt repayments, and alternative uses for such financing in expanding working capital and operations.

(2) Match the Debt to the Need

A common pitfall for the business person is to finance fixed assets with short term funds, or to purchase a non-revenue producing asset with borrowed capital. The first decision is unwise since repayments for the loan will mature faster than returns on the piece of equipment. The second is problematical since the purchase does not produce income to liquidate the credit. This certainly applies to many consumer or luxury purchases; it may also apply to items like cash registers or adding machines, unless the business as a whole can produce the added cash necessary to liquidate the credit purchase.

The consultant should advise the client concerning the insidious expense of bank overdrafts, and the high cost of installment purchases. Many banks will offer to cover a firm's check overdrafts. While the amounts may be small on each month's bank statement, they reflect extremely high annual interest rates which will accumulate over time. Moreover, habitually resorting to overdrafts often discourages cash planning or careful bank reconciliations by the owner-manager. Installment purchases of equipment can pose similar financial burdens, since retailers in developing countries often offer extremely liberal repayment periods. However, the client usually pays for the privilege by paying double or triple the cash purchase price of the item.

(3) Improve Liquidity

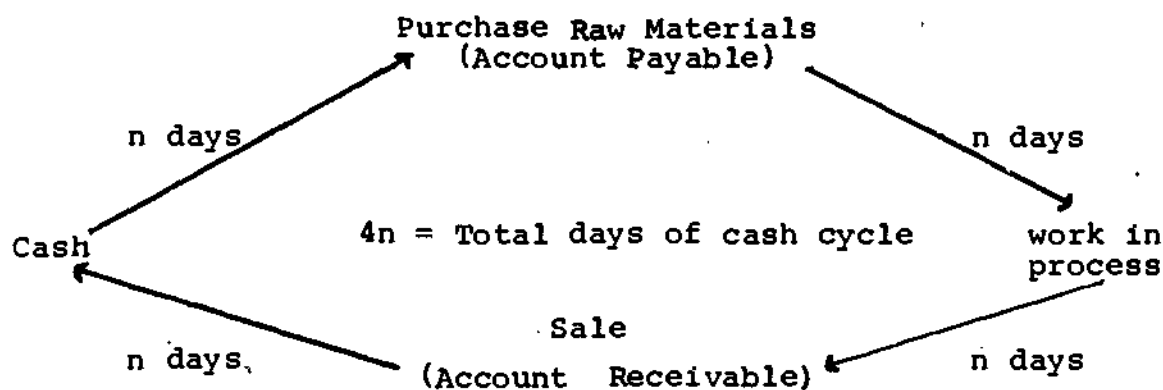
Although liquidity problems may be due to lack of credit, they often result from poor cash management practices by the small entrepreneur. Many of the techniques discussed in this section--such as more stringent credit policies for accounts receivable and accounts payable, better inventory management, and more consistent cash budgeting--will enhance a firm's liquidity position. The cash flow process, illustrated on the next page, is discussed further in the following sections on Purchasing and Inventory.

(4) Enhance Capitalization

Poor liquidity often goes hand in hand with weak capitalization in many small businesses. It is not uncommon for SSEs in developing countries to have debt-equity ratios of 2:1 or greater. By contrast, other SSEs may have a lower debt-equity ratio than is necessary due to lack of credit opportunities, or due to the owner's aversion to the risk of borrowing (and eventually repaying) money to expand his or her business. In general, the client should prudently acquire debt, avoiding both of these extremes.

Figure 12

THE CASH CYCLE FOR A SMALL-SCALE INDUSTRY



(5) Improve Earning Power

Earning power summarizes many of the previous strategies in one concise concept: higher net profit margin, times a higher turnover of assets, yields a greater rate of return on assets. In mathematical terms this concept is:

$$\frac{\text{Net operating income}}{\text{Net operating assets}} = \frac{\text{Net operating income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Net operating assets}}$$

$$\text{Earning power} = \text{Margin} \times \text{Turnover}$$

This expresses a powerful idea in business management. Put another way, a maximum profit margin on every dollar sold, combined with maximum sales generated per every dollar invested, will yield the firm maximum return on its asset investment. This idea is a valuable one for the consultant to explain to small entrepreneurs, most of whom operate with only one half of the right side of the equation: i.e. high profit mark-up, but low sales volume.

In pursuing the above strategies, the consultant should assist the client (upon request) with financial analyses in making credit applications. However, the consultant should restrict his role to one of advisor and intermediary; it should be clear to both the client and the banker who is responsible for soliciting and paying the loan.

Many SSEs are unable to obtain commercial or public sector credit. In such cases, loans from family members, cooperatives, or moneylenders may be the only option.

By making initial deposits in a cooperative or credit union, the small business person may eventually be able to borrow a multiple of his or her deposit with little red tape or elaborate restrictions on the use of the funds. Despite their high interest rates, moneylenders can also be a useful source of financing for small business. They often seek relatively long term investment opportunities where they can receive a steady monthly interest income. Their credit requirements are also usually much more informal than those of private or public sector banks. On the other hand, moneylenders may abuse their position to obtain gifts or discounts on merchandise from the owner (thus raising the real cost of the loan), or to learn the entrepreneur's business in order to set up a competing enterprise. Nonetheless, a reliable moneylender can be a good credit source if the borrowed funds are profitably invested by the owner.

C. Marketing and Sales

Marketing is that branch of business administration which addresses customer demand. A firm's marketing strategy should help it better address the potential demand for its goods and services. The small business's marketing strategy should consist of five areas: market definition, market research, product development and pricing, packaging, and sales and advertising.

(1) Market Definition

The small business person should make a conscious decision about which market(s) the firm addresses. Customer characteristics, competition, seasonality, and susceptibility to changes in general economic conditions are important factors in defining one's market. In assisting the client, the consultant should evaluate whether the firm is meeting a growing market, and occupying a niche in that market without serious competition. If not, the client should consider switching product lines. If the consultant recommends such action, he or she should do so as early in the consulting as possible and provide the client with financial projections and other analyses supporting the new product line. If the SSE is a manufacturing firm, it is normally best to recommend a product which can be made using as much of the firm's existing equipment and human resources as possible. For example, a metal bicycle frame manufacturer can use similar equipment, skills, and raw materials in producing metal-frame furniture.

Even if the small firm's existing products have a promising future in the marketplace, the consultant and client might decide that a slight change in market focus

could brighten prospects further. For example, a manufacturing firm might decide to sell only to wholesalers or directly to the general public. A retailer might decide to depend on only a few large customers, or to diversify sales among a wider variety of smaller customers, perhaps offering special credit terms.

(2) Market Research

As the entrepreneur defines the firm's market, he or she should research customers' needs and desires and assess competing products and services offered by other firms in the market. For the small business person, a good way to initiate such research is to keep a card file on customers, noting their tastes, preferences, and reactions to the product. Industry publications (where they exist) will help him or her to keep pace with changes in the market. And if the opportunity arises, the small entrepreneur should attend trade fairs in the field to keep abreast of new marketing trends. In addition, the owner or an observant employee should periodically visit competing businesses in the community to compare their prices and products with those of the firm.

(3) Product Development and Pricing

A small manufacturer's product development and pricing strategy is an important step in assuring a product's niche in the marketplace. Quality control, and the ability and willingness to modify designs to meet new demands will help to sell more products. And proper pricing is essential to assuring a market and a healthy return for the firm's product. Four factors influence how an SSE sets prices: competition, demand, costs, and legal controls. The first two factors are usually familiar to the small business person. However, weak accounting records and a poor relationship with local authorities may lead the owner to pass over the other two factors.

In a retailing firm, accurate costs of products are based on their purchase price; pricing can be arrived at simply by applying a margin large enough to cover administrative overhead and a profit factor as high as the competition allows. Manufacturing companies, however, find it more difficult to establish a product's cost, especially when inventory controls and accounting are lacking. A firm's pricing strategy can be further confused by the owner's propensity to variably negotiate the sales price of many of his or her products.

While helping the client establish optimal pricing, the consultant should suggest that the client explore varying price/volume relationships. Many small entrepreneurs prefer the security of a low volume/high mark-up market, rather than the greater risk and work, but greater profitability associated with a higher volume/lower mark-up market. The client should pilot test various prices for his or her products with customers to see which range yields the largest amount of sales and profits, taking into account the client's ability to expand.

(4) Packaging

Packaging may be important in marketing a firm's product, depending on the product and the market. In a small hardware store, for example, stock items such as nails or ball bearings, will likely be sold from collective containers and packaged in old newspapers. Economical prices, not sophisticated packaging, will sell more of these items. On the other hand, larger ticket items, such as tools and appliances, should be packaged so as to enhance their appeal, highlight their uniqueness, and perhaps offer suggestions on their use.

(5) Sales and Advertising

A good sales operation is the final link in a sound marketing strategy. The owner may wish to hire sales people to increase the firm's turnover. However, many sales people may be motivated to bring in as many orders and commissions as possible, regardless of the customer's credit record or the production capacity of the firm. Except for distant clients who might best be handled by traveling sales people or established dealers, the owner is often wise to resist delegating all of the sales function to others. By retaining a personal role in making sales, the small business person stays in tune with his or her customers and with the strategies of competing firms. Tasks such as accounting or plant management are probably better delegated to others before an entrepreneur relinquishes his daily contact with sales.

A firm's advertising can range from a sign outside the building identifying the business, to labels on individual products, to slide advertisements shown in local movie theaters. Some of the many alternative ways to advertise products are listed below:

- Photographs of merchandise: A catalog with photographs of key products, including captions indicating dimensions and colors, will allow the owner to show and sell the

product to a customer without actually having it on hand.

- Advertisements in the media: Ads in the local press, on the radio, or printed on handbills (See Figure 13) can also bolster a firm's sales. Such advertising is most appropriate when a mass market exists for the company's good or service.
- Shop layout and display: Care in this area will impress the customer with the neat appearance of the firm and can also be used to direct attention to certain products.
- Promotion of sales/specials: If a firm chooses to hold a sale of limited duration, it may want to use more attention-getting techniques to attract customers. These may include hiring promoters with loudspeakers or even using clowns with sandwich signs on stilts.
- Product quality and service: Good products and follow-up service to repair defects may be an SSE's best sales strategy. Unfortunately, many firms neglect this important marketing tool.

d. Purchasing and Inventory

Just as a marketing strategy should precede actual sales, so a purchasing strategy should come before actual buying of inputs. The isolation of SSEs in small communities in developing countries may force them to rely on a few suppliers. However, other firms may traditionally use certain suppliers and never actually calculate the costs and benefits of these relationships. Therefore, in evaluating or re-evaluating a purchasing strategy the consultant might consider the following:

(i) Source of supply: Should the firm buy an input directly from the manufacturer or indirectly through a retail or wholesale outlet? Buying direct often occasions large economies. Moreover, should the company purchase from several sources of supply or only from a few principal sources? As another option, a small industry might consider manufacturing some of its inputs instead of purchasing them ready-made from a supplier. A consultant will frequently confront this situation and should be prepared to advise the owner on such make-or-buy decisions.

Figure 13

EXAMPLE OF AN ADVERTISING HANDBILL ⁵



Atendemos pedidos de Provincias con Precios Especiales

JUEGOS DE SALA CAMAS CUNAS LITERAS
ESTANTERIAS MODULARES MESAS PARA T.V.
JUEGOS DE COMEDOR DE VIDRIO
VELADORES JUEGOS PARA OFICINA.
TUBOS CROMADOS
SILLAS MESAS PARA EQUIPOS DE SONIDO

Para la Industria Metalmeccánica: Servicio de zincado, pavonado, latonado, cobrizado, niquelado, cromado. etc.

ECUANICRO
Ecuadorean Nickel and Chrome
Store: Martínez 211, telephone 823588
Plant: km. 2 via Baños, Telephone 825428 - Ambato

WE ATTEND ORDERS FROM THE PROVINCES WITH SPECIAL PRICES

LIVING ROOM SETS	BEDS	CRIBS	PALLETS
MODULAR BOOKCASES		T.V. TABLES	
	GLASS DINING ROOM SETS		
NIGHT TABLES		OFFICE SETS	
	CHROME TUBES		
CHAIRS		TABLES FOR SOUND SYSTEMS	

For the Metalmechanic Industry: Zinc, bluing, tin, copper, nickel, chrome plating, etc.

⁵Sample handbill found in Ecuador.

One relatively simple way is to calculate the yearly marginal savings (vs outside purchase) accruing to the firm by making the input, and divide this into the additional cost of equipment and machinery needed to produce it. This calculation will yield the number of years necessary for the firm to recoup its investment. The longer the investment recovery period, the relatively less attractive the decision to manufacture the input.

(3) Assessment of suppliers: Before buying from a supplier, the entrepreneur should evaluate the following characteristics of the supplier:

- Quality of the product
- Timely delivery
- Honesty of claims for the product
- Acceptable total cost of the item (i.e. including the cost of the number of defective items and late delivery time)
- Technical services following an item's delivery to guarantee satisfaction with the supplier's product.

(4) Recordkeeping: The small business should keep a careful chronological record of all its purchases. Entries should note the date of purchase, item(s) bought, name of supplier, unit price, total price, and credit terms or other conditions (e.g. promised follow-up servicing of the item). The owner or employee should indicate in the record book which purchases have been ordered but not received, which have been received (and in what condition), and for which orders has the final invoice been received and transferred to the bookkeeper or cashier for payment. Good purchases recordkeeping, if performed by an employee other than the stock clerk, may also constitute a check on the stock clerk's accounting for inventory (see below).

(5) Controls: If an employee does most of the company's purchasing, the owner-manager should exercise proper controls over his or her actions. A larger industry with a separate agent, accounting clerk, cashier, stock room clerk, receiver, and plant foreman might use the following system for controlling purchases (and inventory).

- Inventory (Kardex) Card: Keeps perpetual record of balance of merchandise in the stock room. After glancing at an item's stock

balance, the stock clerk or plant foreman can then prepare a purchase requisition.

- Purchase requisition (two copies): One copy is kept on file in the stock room and the second copy is sent to the purchasing agent for action.
- Request for price quotations (two copies): Correspondence initiated by the purchasing agent with letters sent to each vendor and copies kept by the agent.
- Purchase order (at least four copies): This form, signed by the owner-manager, should authorize all purchases over a given purchase value. The purchasing agent should probably have the authority to sign purchase orders for routine purchases in small amounts. One copy of the purchase order is kept by the purchasing agent, one is sent to the vendor, one notifies the receiving department of what merchandise to expect, and one notifies the stock control department that the merchandise has been ordered.
- Receiving list or report (at least three copies): Once a shipment is received, a receiving clerk should compare the quantity and quality of the merchandise received against the specifications in the purchase order. If satisfactory, the clerk then sends one copy of the receiving list to the stock clerk, and one to the purchasing agent.
- Vendor's invoice (one copy): This is the final bill from the supplier. It first goes to the purchaser for approval on the type, quantity, and price of the merchandise, and then to the cashier for payment by check.

Once an item is purchased, it enters the firm's inventory. As indicated above, the stock clerk should maintain a perpetual inventory record so that the firm knows how much of a given item it has at any one time. The first step in organizing such a system is to clean the stock room, placing all items in separate, labeled bins or shelves. Ideally, the clerk should release materials to workers over a locked counter. Items should not be released from the stock room unless the worker has a written authorization from the owner or plant foreman to show the stock clerk. When the item is

In manufacturing firms, inventory control is more complicated than for retail firms since there are three categories of stock: raw materials, work-in-process, and finished products. Stock records in small industries are also more vital since they can assign portions of lump costs such as overhead, labor time, or raw materials to individual product lines. Entries #15, 43, 46 and 51 in the Selected Bibliography provide further information on cost accounting systems.

Good inventory control in a small manufacturing firm seeks to prevent theft and waste of raw materials, in addition to providing cost information. Yet cost accounting systems are often very difficult for small businesses to administer. For example, it is difficult for a small industry's stock clerk to know when to record movement from work in process to finished product, unless he or she is specially informed by the plant foreman. Special formulas for assigning overhead or labor time to individual products can also be complex. The stock clerk may take advantage of the position to steal, or be resented by fellow workers for doing the job properly, and eventually become ineffective.

As a result, the consultant should carefully consider the complications of cost accounting systems before suggesting one to the entrepreneur. Is information produced by the system worth the time and expense of operating it? In some cases, a firm's inventory control needs can be met through much simpler procedures: workers can just sign receipts for raw materials withdrawn, and the owner or plant foreman can make periodic checks on how such material has been used; the entrepreneur can make use of gross margins to estimate product costs; and he can perform periodic physical inventories to help detect theft and waste of merchandise on manufacturing inputs.

Periodic physical inventories can be used in place of perpetual systems, or they can be used as an occasional check on the accuracy of such systems. Such an inventory should take place before a new accounting system is installed, and regularly thereafter--at least once, and preferably twice, a year. The taking of physical inventory should coincide with a slack period of business activity, and the firm should be closed to the public in order to take inventory. The following steps are useful guidelines for the consultant to follow in taking physical inventories:

- Organize a team of employees to count inventory on pre-typed stock lists.

- Tag all items counted to avoid double counting.
- If a manufacturing firm, include all unsold work in process and final products.
- After the physical count, an employee should apply costs to each stock item and calculate its total value.
- Inventory data should then be transferred to the firm's accounting records, and used to check the accuracy of a perpetual inventory system if the firm has one.

Purchasing and inventory procedures constitute a key link between a small industry's production of a product and its later sale and shipment. All of these steps are often described in the context of a business's physical distribution system. Apart from purchasing and stock practices, such a system will include storage and shipping. For example, certain products may require special storage conditions: proper temperature, spacing, or freedom from dampness. And depending on the country, shipping alternatives may range from sending products on beasts of burden to shipping them on trucks or busses.

By better understanding a small business's physical distribution system, the consultant can assist the owner in minimizing the space, time and money devoted to successfully distributing a product. The interrelationship of the various elements in such a system is summarized in Figure 15.

e. Personnel

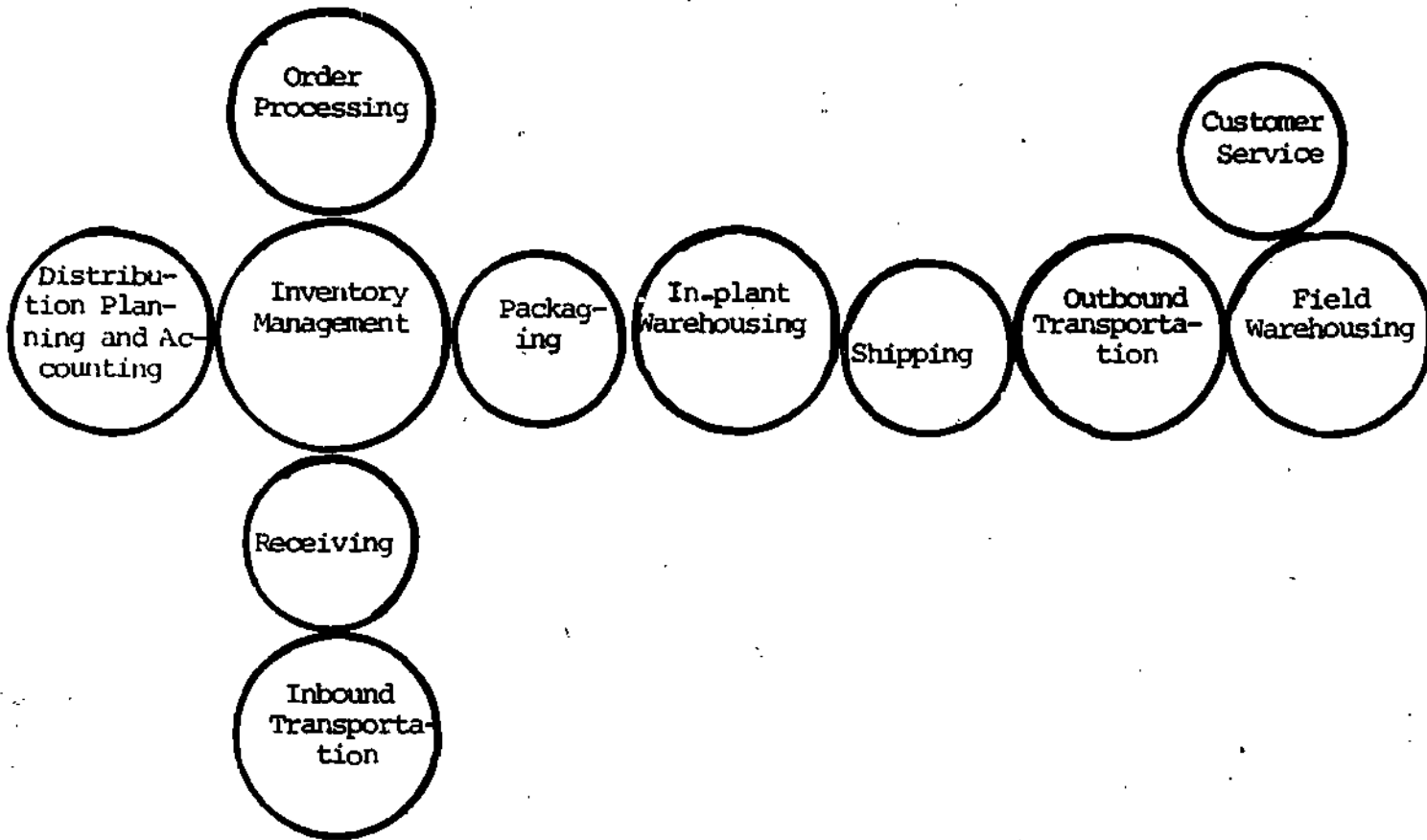
Personnel administration differs from culture to culture and the consultant will have to judge what kinds of management styles are acceptable in his or her country. Nonetheless, the small entrepreneur should address the following key areas in personnel administration: hiring, firing and delegation of responsibility; compensation, training, and motivation; written employee records and company policies; and employee health and safety. By advising the owner in such areas, the consultant should help the entrepreneur overcome employee turnover and absenteeism, a common problem in many SSEs.

(1) Hiring, Firing and Delegation

One way to assure a stable and competent labor force is to select employees carefully. The small entrepreneur should first have a clear idea of the job for

Figure 15:

THE DISTRIBUTION SYSTEM



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Reprinted with permission from the Handbook of Modern Marketing, edited by Victor P. Buell and Carl Heyel, McGraw Hill Book Company, 1970, pp. 4-52.

which a worker is needed. A clear conception of the task will often help the owner define the corresponding skills and aptitudes required of the prospective employee. The owner should then locate possible candidates by way of personal references, or perhaps by advertising in the local press. In selecting an employee from this pool, he or she might conduct a personal interview with the candidate, and perhaps test him or her at a given work task. It is also wise to obtain letters of reference from the worker's last place of employment, as well as reactions from other individuals in the firm who would work with the new employee.

The owner should make employees aware of production quality standards and rules concerning personal conduct while on the job. The owner-manager should also keep a written record of each employee's job performance. Such records will assist the entrepreneur in deciding whether to promote, or perhaps fire an employee. If an entrepreneur is considering firing a worker, he or she should talk to the employee and other workers concerning the employee's performance before arriving at a decision. If the owner wishes to dismiss the individual, he or she should personally inform the employee of the decision as soon as possible. Protracted delay and uncertainty over personnel problems will only harm both employer and employee.

Delegation of responsibility can reduce employee turnover by creating ladders of advancement within the firm. It should also help the entrepreneur make better use of his or her time in managing the business as a whole. The entrepreneur of a small factory, for example, can delegate supervision of workers at a given production station to a senior worker, can assign purchasing and production planning to a plant foreman, and can turn over bookkeeping and secretarial duties to a clerk. However, given an SSE's small size, the amount of work in a specific area often does not warrant creation or delegation of a full-time work slot. Consequently, the entrepreneur will often have to delegate such work to a part-time employee, add to the responsibilities of an existing full-time employee, or retain the functions him or herself until expansion of the firm justifies creation of a full-time job slot.

It is usually difficult for a small entrepreneur to delegate responsibility. He or she is proud of having the prominent position in the enterprise and often views delegation of detailed tasks as surrendering authority. The owner may claim that no employee could be trusted to carry out such tasks without abusing that trust. Finally, delegation often requires a basic shift from a paternalistic to a more teamwork-type management style. Despite the challenges, delegation of responsibilities to workers and

managers is necessary for the small firm to increase its productivity. Moreover, the small business person does not have the time to perform all tasks equally well. And contrary to common fears, it may be demonstrated that delegation would give the owner more, not less, control over the enterprise and allow continued expansion of the firm.

In delegating a task to an employee, the owner should take care that it is delegated precisely, and with adequate authority to carry it out. Once delegated, the entrepreneur should allow the employee to exercise the responsibility. If the employee does need discipline or instruction, the owner should do this away from the other workers over whom the employee has delegated authority.

(2) Compensation, Training and Motivation

Workers must be paid adequately and regularly if they are to continue to work for the enterprise. If the business produces a quality product, an hourly wage is often more appropriate, whereas if the product is lower in quality, a piece-work rate might achieve greater production and greater incentives to workers. For example, a producer of handcrafted copperware for export will produce a relatively small volume of high-priced goods. He or she is more interested in the time and skill of workers in producing quality products, and thus an hourly wage is indicated. However, a manufacturer of inexpensive wooden packing crates is far more interested in quantity than quality to make a profit. Therefore, such a business person would be well advised to pay workers so much for every crate built, thus motivating them to maximize their production during a given work day.

Market conditions or the law also often require a number of fringe benefits for employees such as social security, vacations, transport to and from work, and uniforms. Workers may also expect to be able to periodically borrow small amounts of money from the owner to meet personal expenses.

Employees need training to perform a job effectively. A worker must know how to operate a machine properly, a clerk needs to strengthen his or her accounting skills, and a new plant foreman requires guidance in supervising employees. The owner-manager should devote time to receiving and passing on such training--often a first step in delegating responsibility (discussed above). In other cases, government agencies or private commercial schools provide training outside the work-place. If such schooling takes place after working hours, the small business person should consider paying the employee's travel and tuition costs for the classes.

The entrepreneur will not retain loyal, hard-working employees just by paying and training them. He or she must also treat workers sensitively--in essence, striving to operate under the same principles the consultant uses in dealing with him or her.

As noted earlier, adequate compensation and other benefits, relevant training, and sensitive supervision all enhance worker motivation. Other incentives might include the following:

- Job enrichment. Varying employee's work routines, upgrading equipment, and expanding responsibilities can all increase job satisfaction.
- Group Activities. Production contests in the plant, or company picnics for employees and their families, can inspire a greater feeling of teamwork on the job.
- Employee merchandise discounts. Such discounts add to the employee's compensation and also make him or her more self-interested in producing a quality product.
- Awards. Employees might receive plaques, caps or badges (all bearing the company's logo) in recognition of superior performance.
- Profit-sharing. The small entrepreneur might offer workers a share in increased profits as an incentive to expanding their production. Larger enterprises might also enable employees to buy company stock at discount prices.

(3) Written records and policies

Written records--concerning delegated tasks, records of employment, and company procedures and policies--are another element in good administration of personnel in the small business. The informality in small business often leads to confusion and conflict over what actions are allowable. For example, can an employee leave work on his own to borrow a tool from the workshop next door to complete a job, or should he or she ask permission from the foreman or the owner-manager before doing so? Written company procedures and perhaps notices on a company bulletin board can make clear to workers their rights and responsibilities on the job. Moreover, simple organization charts can guide the owner in dividing functions among employees.

(4) Employee health and safety

Employee health and safety is a neglected area in many SSEs in developing countries. Yet improvements often cost very little and simply require a changed attitude toward health and safety by the entrepreneur and the labor force. Use of protective clothing, careful storage of tools, cleanliness of work stations, and proper ventilation in a small factory not only improve workers' welfare, but increase their productivity. Prudent practices concerning handling and storage of flammable or explosive materials will also benefit individual employees and the plant as a whole.

f. Production

The management consultant should attempt to learn as much as he or she can about the production side of those small businesses which are manufacturers. Selection and maintenance of equipment and materials, plant layout, quality control, and manufacturing budgets are some areas where the consultant can apply both management skills and common sense in helping the owner-manager.

When the plant closes for inventory, the consultant should suggest that the owner use the downtime to perform neglected maintenance such as repairing the building, painting the plant, or moving tools and equipment to improve work flow. The consultant should also assist in seeing that the raw materials and equipment are properly stored and protected.

The consultant will probably not know enough about the industry to help the owner with the application of technical criteria in selecting equipment or raw materials.⁶ However, he or she should advise the owner to consider alternative inputs and equipment from other suppliers so as to get the best quality for the lowest price. The advisor should also ask the entrepreneur if adequate financing is available, especially for purchases of fixed assets. If an equipment purchase is considered, the consultant should ask the owner exactly how the new machine will fit into and help improve the production process. In addition, he or she should assist the owner in considering other options such as

⁶ As noted in Chapter Two, the consultant would ideally be able to draw on the advice of an industrial engineer or an experienced local craftsman in assisting the small business person. Such cooperation would broaden the impact of the consultancy on the firm, and help address the deficiency indicated above.

buying an older piece of equipment, hiring additional workers, or scheduling extra work shifts with the same number of employees.

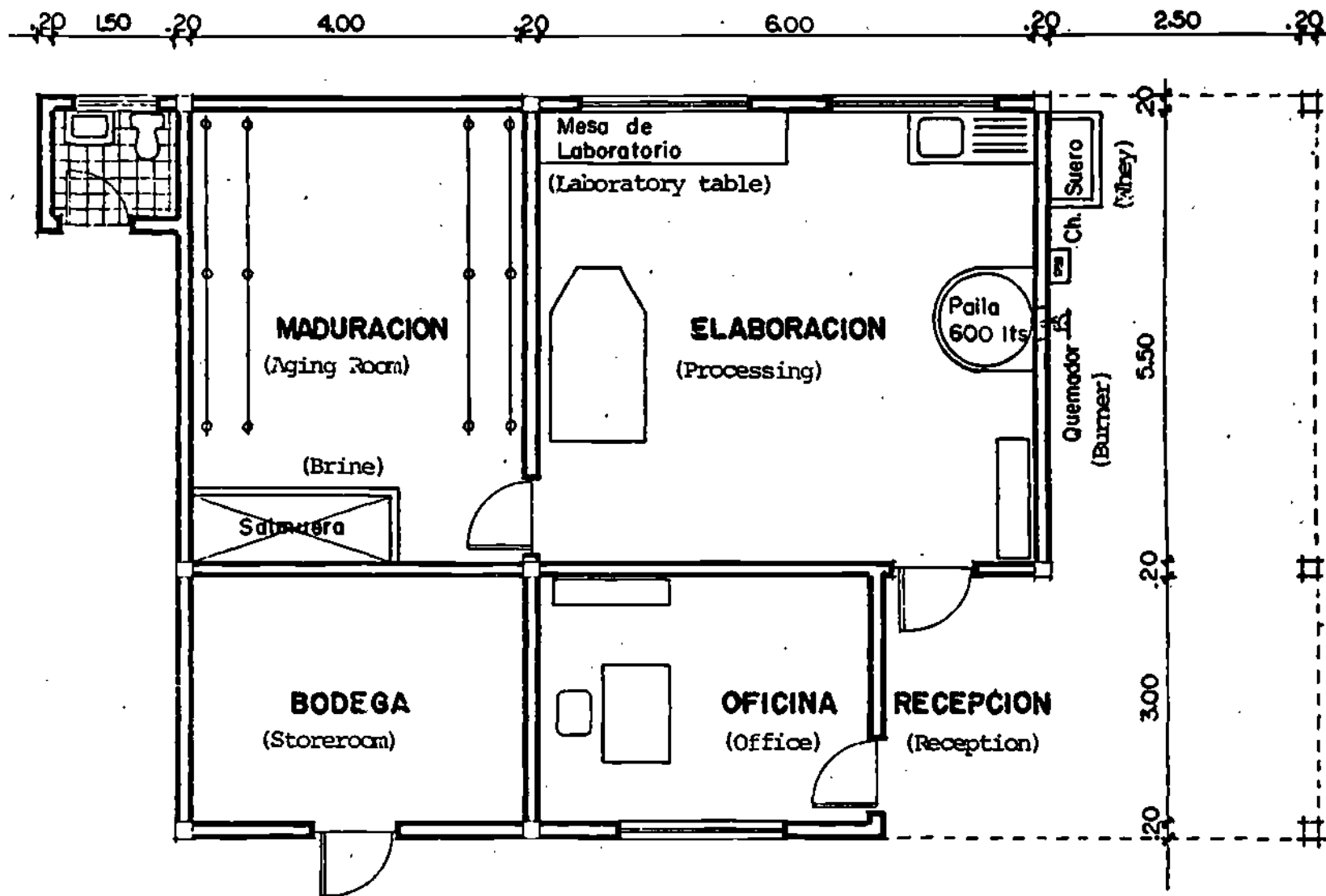
A rudimentary floor plan can also help the consultant and client to better understand the production process and note areas for improvement. With such a plan they can readily identify areas for storage of raw materials and for stocking the final product ready for delivery so as to permit greater control and more efficient work flow. Figure 16 on the following page provides a sample floor plan drawn for a cheesemaking plant in rural Ecuador.

An owner-manager can also lay out his plant to permit closer supervision of employees and greater delegation of responsibility to managers. A metal furniture maker, for example, might profitably divide operations among one plant to assemble the metal frames, another to upholster them, and perhaps a third separate location to retail the final product. Such dispersion groups workers into smaller, more easily controllable units. Moreover, breaking the plant into three physically separate units provides openings for three different managers. Different business locations allow these managers greater relative freedom in running their operations. Different locations also make it more difficult for any one manager to master all aspects of the owner's business and later quit to set up a competing firm.

Quality control involves efficient production of a quality product, with a minimum number of rejects in the plant or returns by a customer. Efficient production implies the economical use of labor, time, and raw materials in producing the product. By patiently observing how a product is made, the consultant can often make common-sense suggestions for making the process more efficient. For example, do workers make many independent measures of materials instead of using patterns or models? Can the purchase of small power tools make workers more efficient, and thus enhance production? And how closely are workers supervised and products inspected, thereby strengthening quality control? By posing such questions, the consultant and the client can work together to help improve the technical productivity of the business. If the consultant wishes to refine advice in this area, he or she can conduct time-motion studies of employee's work habits. Such studies can result in recommendations for more standardized operations by employees in order to improve their productivity.

The consultant can also improve production by helping the owner to organize manufacturing budgets. Such budgets enable the entrepreneur to forecast his or her needs

FIGURE 16 : FLOORPLAN FOR A 600-LITER-CAPACITY CHEESEMAKING PLANT⁷



⁷ The cement floor is inclined to allow runoff of waste water. Storeroom must be shaded with temperatures of 12° C.

Source: Reprinted with permission from José Dubach's booklet, El ABC para la Quesería Rural del Ecuador.

for raw materials and labor to meet a given production target. And if budgets allow the owner to meet the target, he or she can then assure customers of delivery times with greater confidence. The production budget estimates the number of units of each product which will be produced in the coming budget period, say one month. The budget should estimate the quantity of the finished good presently available in inventory, plus the added production which will be necessary to both meet anticipated demand and to yield an adequate inventory at the end of the period. The production budget (expressed in units rather than money values) is based principally upon projected sales. In addition to sales, the budget must consider such factors as the production time (and equipment and labor skills) required to produce a unit of product, the storage facilities which are available, the "cost" of unfilled or out-of-stock orders, and perhaps even the perishability of the product. Once assembled, the production budget may result in plans to acquire added productive capacity, or revising sales budgets to keep them in line with productive capabilities.


A budget for costs of production is a necessary complement to the production budget. It contains estimates for raw materials, labor, and manufacturing overhead necessary to meet the targets in the production budget. Once compiled, the cost-of-production forecast will help measure the affordability of the production goal. Moreover, both budgets will provide valuable data in completing the company's projected cash budgets.

g. Planning

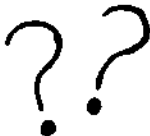
As Figure 7 at the beginning of this section indicated, planning should be the lens through which the small business person organizes all business activities. Chapter One noted the small entrepreneur's reluctance to plan. Yet planning is crucial in equipping the owner-manager to deal with an uncertain future, and in forcing him or her to evaluate current operations. In essence, planning encourages the small business person not only to look to the future, but to design step-by-step strategies for achieving his or her objectives.

In general, the consultant should work with the client in performing two different kinds of planning: strategic and operational. In strategic planning, the client should take a long-term view of the firm; one or two years in advance is probably a reasonable period. He or she should ask him or herself how the firm's market may evolve over that period. What new equipment may be necessary? Where could financing be obtained to acquire such equipment?

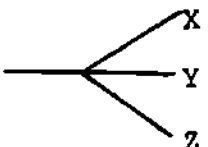
FIGURE 17: STEPS IN THE PLANNING PROCESS

	Define the PROBLEM
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1

	Look for INFORMATION
---	-------------------------


2

	Decide among ALTERNATIVES
--	------------------------------

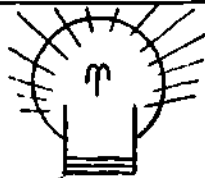
3

	Formulate a PLAN OF ACTION
---	-------------------------------

4

	Put your PLAN IN MOTION
---	----------------------------

5

	Analyze and Evaluate RESULTS
---	---------------------------------

6

And what major changes in personnel might occur over the next year? As with any planning exercise, the client should commit questions and answers to paper, perhaps discussing them with the consultant.

Operational planning assists the owner-manager with the daily, weekly, or monthly running of the business. Perhaps the simplest form of such planning is for the entrepreneur to keep a pocket calendar in which he or she notes important delivery times, appointments, and other key dates. The owner might supplement this system by taking twenty minutes at the beginning of each workday to write down the day's projected activities on a sheet of paper. This exercise will help him or her to choose which tasks can be done today and which must be postponed until tomorrow. It will also compel the entrepreneur to sit down and prioritize the day's activities.

Budgeting or quantitative forecasts are another means of planning a firm's operations. Previous sections have discussed cash, financial, and manufacturing budgets. Other areas of small business administration, such as personnel and purchasing, can also be aided by the use of budgets.

In planning for the future, the small business person should also consider the need for insurance and investments. Although insurance can cover a wide variety of needs, fire and automobile (if the entrepreneur owns one) insurance for the business, and life and health insurance for the owner-manager are essential. The consultant should encourage the client to review insurance needs and urge him or her to contact a local insurance agent.

Given the shortage of capital common in many SSEs, the small business person may have difficulty in perceiving the need for depositing savings or making investments. However, unless the business is failing, the entrepreneur should periodically deposit cash in a bank savings account. Such savings can accumulate cash which can be used for predictably large, one-time expenses such as payment of special salary increments and incentive bonuses to workers at the end of the year. They are also valuable in providing the firm with a cash reserve which can be drawn on in an emergency.

D. Work Related to Management Consulting

The heart of any consulting program consists of management assistance to individual firms, and support to local institutions which can carry on SSE promotion activities after a consultant's departure. Nonetheless, a consultant can also promote three types of community activities which might ideally complement the above two objectives: small business cooperatives, trade fairs, and external investment promotion. Since all of these actions require community support to be effective, the consultant should carefully consider whether this will be forthcoming before encouraging such activities.

1. Small Business Cooperatives

By joining or creating cooperatives, small entrepreneurs can cooperate in purchasing raw materials, marketing output, or, through a credit union, obtaining loans. Unlike sole proprietorships, the equity of cooperatives is held by many individuals and their activities are managed democratically. Cooperatives also normally produce goods and services only for their members, usually at low prices.

Cooperatives vary widely in their degree of sophistication. For example, the informal "solidarity groups" of the Federation of Credit Agencies (FEDECREDITO) program in El Salvador are groups of five to ten entrepreneurs who guarantee each other's borrowing from the Federation. (See PISCES; Selected Bibliography #9.) On the other hand, some cooperatives may be large organizations offering a wide range of services to members and the general public. A good practical manual on cooperative and credit union management is found in Peace Corps' Cooperatives resource packet. (Selected Bibliography #29.)

Although a cooperative may appear to be an ideal solution to small entrepreneurs' problems, such an organization may be difficult to establish among competitive and individualistic owner-managers. Government controls and sharing of equity also usually make a cooperative's bookkeeping more complex than for a sole proprietorship. In addition, the more comprehensive the services proposed for the cooperative, the more complex it may be to administer and finance it. As a result, it is often wise to initially restrict a new cooperative organization to a narrow service benefiting different and not directly competitive businesses. One example might be a purchasing coop to buy steel tubing for the many types of manufacturers that use this raw material.

Generally, the consultant should gain experience consulting with small entrepreneurs individually prior to

assisting them in group enterprises. He or she might also consider the following questions before helping to create or strengthen a cooperative among small business people.

(a) Why a cooperative?

Does the task require a formal, permanent cooperative organization? Some activities, such as purchase of a raw material in bulk, may require more informal types of association.

(b) Would a cooperative venture be a good business opportunity?

In addressing this question, the consultant should consider the same factors he or she would in evaluating a small enterprise opportunity: i.e. market, location, capital, personnel, and other factors.

(c) How will the cooperative be financed?

Will member business people finance the venture with equity capital, or will external credit also be necessary? Arrangements must be made so the cooperative's financial affairs will be accurately and honestly accounted for. Measures should also be taken to prevent decapitalization of the cooperative by members who insist on goods and services below cost.

(d) Where will the cooperative be located?

It may be wise to locate the cooperative in its own, separate building. Though it may be cheaper to site it in an unused portion of one share-member's plant, such a location might inspire suspicions among the rest of the membership that the host is gaining favorable treatment.

(e) How will the cooperative be managed?

Unlike a sole proprietorship, a cooperative has many owners. Its activities are directed by elected officers in accordance with written bylaws --all approved by the membership. Thus, the consultant should have a good appreciation for group dynamics. He or she should also assist the coop's officers in consciousness-raising activities designed to increase present and

prospective members' awareness of the meaning and purpose of a cooperative, still an unfamiliar concept in many countries.

2. Trade fairs

If demand is a problem for SSEs, one way to increase it is to sponsor a trade fair with a focus on small-scale businesses in the region. Such an event would facilitate sales by bringing together many buyers and sellers in a common location. Since attendance of prospective customers is crucial to a fair's success, it is best if the SSE trade fair occurs at the same place and time as another popular established fair or religious observance in the area (e.g. an agricultural fair).

Organization of a trade fair is a major undertaking and requires a great deal of advance planning. Before organizing a trade fair, the consultant and local sponsors should assure themselves that SSE exhibitors will have adequate stock on hand to meet a hopeful surge in demand. Location of banking facilities on the fairgrounds should also help finance these sales.

The consultant might also consider the following points before organizing a trade fair:

- (a) Content and focus: Will the fair be local, national, or international in scope? Will it host firms from one or several business sectors? Will it be linked to an agricultural or other fair which might draw wider crowds? Who will be attracted to the fair (customers, suppliers, bankers, tourists, government officials)?
- (b) Location and support facilities: If the community has existing fairgrounds, this would be the best site. If not, a public park or vacant lot might do. In any event, public utility hookups will probably be necessary to service refreshment concessions, exhibitors' stands, and perhaps a first aid station. Once the general location is determined, the organizers should plot the arrangement of the exhibits, walkways, and other facilities to encourage a steady flow of visitors around the grounds.
- (c) Financing and organizing: A steering committee should be established to carry out the various tasks associated with the fair. The committee might collect funds to finance advertising, to

contract entertainment and to partially subsidize the cost of exhibit-stand rental to small entrepreneurs. The organizers might also charge the public a modest admission fee to the fairgrounds to help cover these costs.

- (d) Publicity: The fair's sponsors could print handbills and programs, or purchase local press and radio advertising (where available) to publicize the event. Local or national dignitaries might also be invited to help inaugurate or conclude the fair.

3. External Investment Promotion

The consultant can also complement his or her SSE management assistance by mobilizing local investment resources for small business. Private commercial banks, local landowners, or government agencies may all possess resources which could be productively lent or invested to SSEs. However, often a Third World community's local resources are limited, as are its reserves of technical and managerial talent. Consequently, external investment by business outside the community might help address these constraints and promote a development climate in which existing small firms should also prosper.

If the community is receptive to outside investors, then it should organize a campaign in which the following questions are addressed:

- (a) What kinds of businesses are the focus of the campaign? Should companies be national, foreign, or restricted to a given type of trade or industry?
- (b) Who will conduct the campaign? Which members of the community will support it, especially after the departure of the consultant?
- (c) How will external investment be attracted? A variety of means are available, including distribution of promotional brochures, inviting and escorting investors during visits to the community, and organizing exhibits or presentations at national trade fairs.
- (d) Who will follow up investors' interest in establishing operations in the community? Once the letters are mailed, the fair is over, and the visiting investor is seen off, persistent follow-up is

needed to close the sale to potentially interested companies. Such follow-up will consist of letter-writing, telephone calls, and perhaps a local citizen's traveling to personally convince undecided investors. Individuals in the community should be prepared to commit themselves to the time and expense of such follow-up even before an investment campaign gets under way.

- (e) How will the investment campaign be evaluated? The community should decide on quantifiable targets by which the campaign will be evaluated (e.g. amount of outside money invested, number of new jobs generated), and then apply them.

CHAPTER IV

CONCLUSION

This manual has addressed three basic areas: the problems of SSEs and their role in Third World development, various kinds of management consulting programs which might address such problems, and specific tools and techniques which the management consultant can employ in assisting the small entrepreneurs. The reader should also refer to Appendices I and II for aids in consulting and teaching small entrepreneurs, and to Appendix III for guides to various other publications and information sources on small-scale enterprise.

Although this manual offers much material of interest to SSE programmers, its primary audience consists of management consultants in the field. The text and appendices of this book should prove a useful general guide to the consultant. He or she, in turn, should feel free to change or expand upon these guidelines in adapting them to the needs and realities of a particular country.

In summary, the job of the management consultant to small-scale enterprise can be divided into four roles: observer, expert, teacher and catalyst. Although no consultant will possess all of these qualities, he or she should consider them as worthwhile goals.

First, the consultant is an observer--of individual people and of the community as a whole where he or she works. The advisor will likely differ from the client entrepreneur in cultural background, education and age. By being a patient listener and observer, the consultant will learn much in overcoming these obstacles to better understanding the entrepreneur. A key first step in transferring knowledge to others is to appreciate the wisdom and knowledge which others already possess.

Second, the consultant is an expert. He or she should possess academic training plus some experience in business administration (especially accounting, planning and general organizational skills). The advisor should also have a sound grasp of human relations. Skills in persuasion and group dynamics will help the consultant to better "sell" his or her advice to the client. The entrepreneur may also wish to directly emulate such skills in improving his or her own sales or personnel management abilities.

Third, the successful management consultant is a capable teacher. With the patience of the observer and the knowledge of the expert, as a teacher the advisor can also transfer new ideas. He or she should be able to translate abstractions such as liquidity and rate of return to practical concepts for the small business person. And in teaching groups, the consultant should be able to deal with audiences including not only owner-managers, but small business employees, accountants, lawyers, bankers, and other professionals.

Fourth and finally, the consultant is a catalyst. He or she is a self-starter ready and willing to motivate others. Though aware of small business clients' economic and cultural constraints, the advisor will advocate change when appropriate. He or she will also expand the consultant's role beyond assisting individual small enterprises. By helping with community activities such as cooperatives, trade fairs or external investment promotion, and by strengthening local SSE assistance institutions, the consultant will lay the basis for continuing efforts by the community to assist small-scale enterprise.

A P P E N D I C E S

APPENDIX I

Exhibit A

SAMPLE TABLE OF CONTENTS FOR A SEMINAR
FOR SMALL ENTREPRENEURS

(Drawn from a seminar given by the author
to small entrepreneurs in Tuluá, Colombia)

- I. General Information about the Seminar
 - A. The seminar forms part of the "How to Develop Your Enterprise" Program of the Chamber of Commerce of Tuluá, and the Foundation for Industrial Development of the Cauca Valley (Colombia).
 - B. Total length of the seminar: 19 hours (9 classes of two hours each, the last "class" being graduation).
 - C. Time: August 8 through August 28, 1978 (three nights a week, from 7:30 until 9:30 pm).
 - D. Value of matriculation in the seminar: Col.\$330.00 (US\$9.00) per person. We cordially invite two people from each firm to attend--if you wish, one might be the owner-manager, and the other might be that person charged with bookkeeping or other administrative tasks in the company.
 - E. Seminar Presentation: The instructor will make extensive use of posters and photocopies to facilitate a clear and practical presentation of material. Participation of class members in discussions will also aid in the learning process. There is no need to take many notes; nor will the classes require extensive homework or examinations. Furthermore, it is not necessary that seminar participants have previous knowledge of accounting. Refreshments will be made available to class participants during a ten minute rest period in the middle of each class.
 - F. No participating firm in the seminar is under any obligation to later request the management consulting. At the conclusion of the seminar, those firms interested in receiving consulting assistance should fill out a brief application form. Three firms will then be selected for an intensive consulting period

APPENDIX I

Exhibit A

of three months at a cost of Col.\$1,200.00 (US\$30.00) per firm. All monies collected by the Program are reserved exclusively to defray the operating expenses of the Program.

- G. Seminar Director: Gary L. Vaughan, Economist, US Peace Corps Volunteer.

II. Seminar Contents

- A. First Class - Tuesday, August 8, 1978:
BASES ON WHICH TO EVALUATE THE ADMINISTRATION OF SMALL AND MEDIUM-SIZED INDUSTRY IN COLOMBIA
1. Introduction: Background on the seminar/consulting program in Tuluá - "How to Develop Your Enterprise."
 2. Discussion of the general situation of small and medium-sized industry in Colombia today.
 3. The small or medium-sized entrepreneur as a "jack-of-all-trades" with respect to the management of the business.
 4. Discussion of internal and external factors which favor success of the enterprise.
- B. Second Class - Wednesday, August 9, 1978:
BASIC CONTROLS IN BUSINESS MANAGEMENT
1. Discussion of Case #1: "The Cachaco Tailor Shop."
 2. The concept of control.
 3. Examples of some practical controls.
 4. Detailed presentation of three common controls: daily cash reconciliation, monthly bank statement reconciliations, and inventory control.
- C. Third Class - Friday, August 11, 1978:
BEGINNING ACCOUNTING PRINCIPLES
1. What is accounting? Why is it useful?

APPENDIX I

Exhibit A

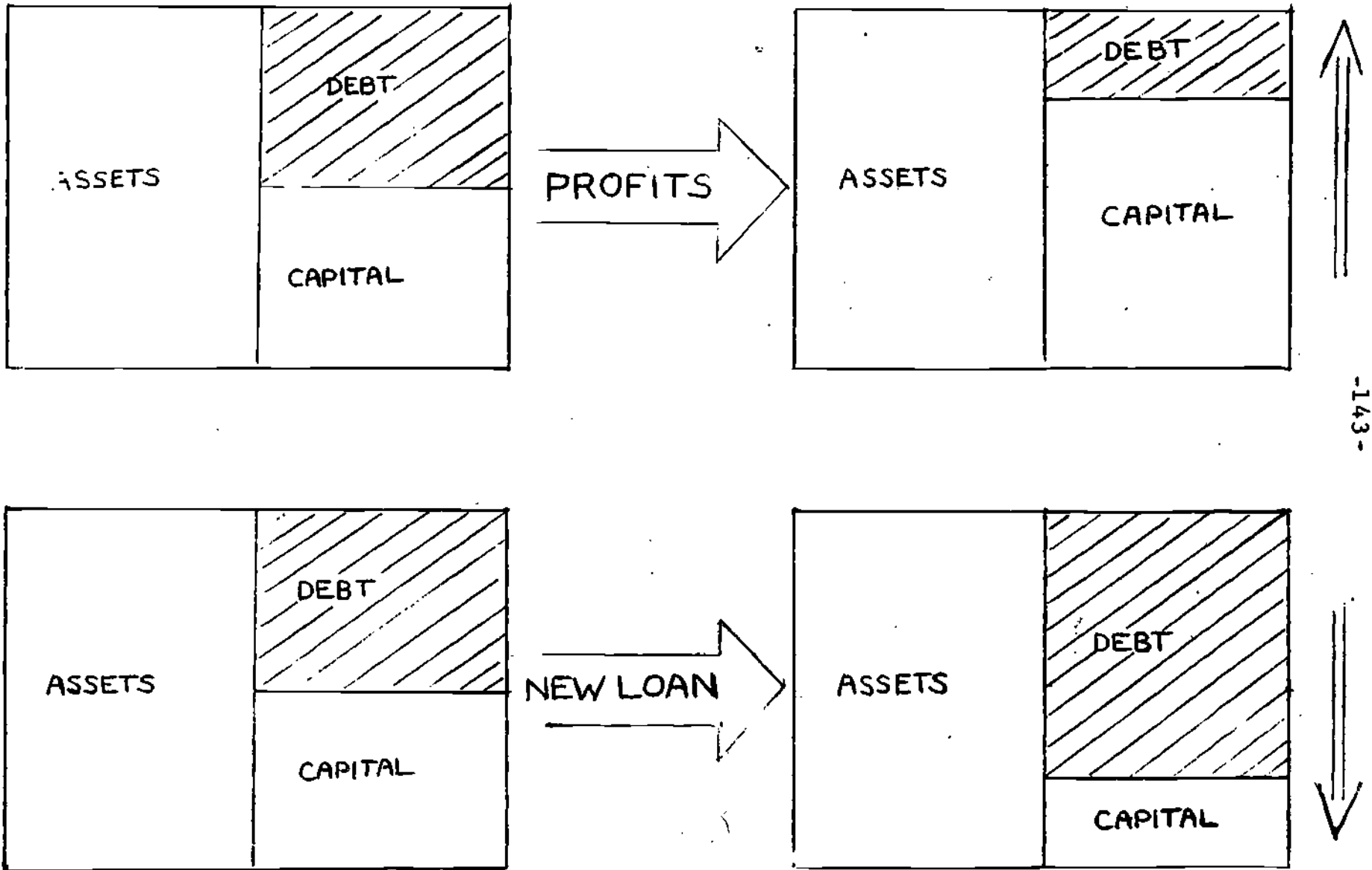
2. Explanation of financial statements--the balance sheet and income statement.
 3. Class exercise: Case of Juan Gomez, the Taxi Driver, to see how, in practice, various transactions affect the balance sheet.
- D. Fourth Class - Wednesday, August 16, 1978:
REVIEW OF ACCOUNTING AND BASIC PRINCIPLES OF FINANCE
1. Review of the Balance Sheet and Income Statement--concept of "cost of goods sold" and its relation to inventory of raw materials--review of important accounts.
 2. Practical Aspects of Financial Analysis: financial ratios of liquidity, indebtedness and profitability; analysis of fixed and variable costs; setting a price for your product--use of practical cost studies; the problem of working capital--its definition, management and financing.
- E. Fifth Class - Friday, August 18, 1978:
DISCUSSION OF FINANCIAL CASES
1. Review of Basic Principles of Finance.
 2. Discussion of two cases with the class: "Confianza Industries" and the "Bonanza Workshop". Analysis of common problems presented in these two cases.
- F. Sixth Class - Monday, August 21, 1978:
PLANNING
1. Concept of Planning and its Advantages.
 2. Why people do not plan.
 3. Concrete examples of practical planning techniques for the small industrial enterprise: e.g. cash budgets.

APPENDIX I

Exhibit A

- G. Seventh Class - Wednesday, August 23, 1978:
PRACTICAL ACCOUNTING SYSTEMS FOR SMALL AND MEDIUM-SIZED INDUSTRY
1. Characteristics of any good Accounting System.
 2. Explanation of the books and general system used under the Peace Corps MICRON method for small and medium-sized industry.
 3. Final questions concerning material presented in the seminar.
 4. Distribution of consulting application forms to interested firms.
 5. Distribution of seminar evaluation forms to the participants.
- H. Eighth Class - Friday, August 25, 1978:
1. Special presentation by a Guest Speaker
 2. Period for questions after the presentation.
- I. Ninth Class - Monday, August 28, 1978:
GRADUATION
1. Closing ceremonies for the seminar at the Chamber of Commerce; closing remarks by Alonso Lozano Guerrero, Secretary of the Chamber of Commerce of Tuluá.
 2. Presentation of Diplomas to the Participants.

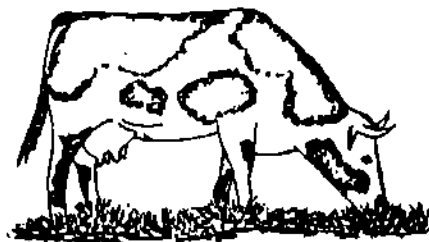
Illustrative Diagram: How Profits or a New Loan Affect the Balance Sheet



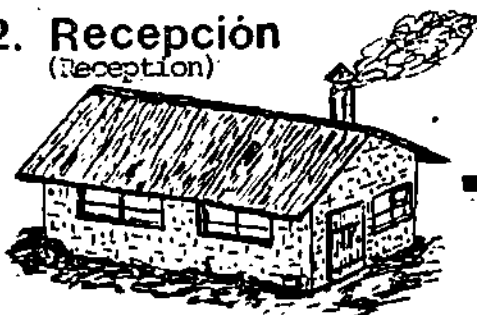
-143-

ESQUEMA DE LA TRANSFORMACION DE LECHE EN QUESO

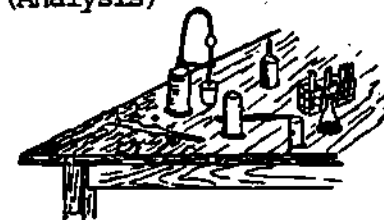
1. Leche (Milk)



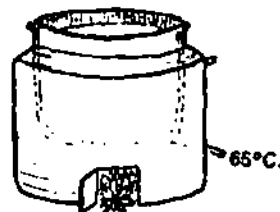
2. Recepción (Reception)



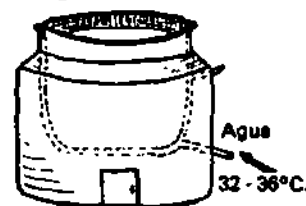
3. Análisis (Analysis)



4. Pasteurización (Pasteurization)



5. Enfriamiento (Chilling)



(maturation)
1% lactic
fermentation

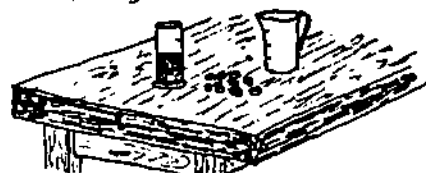
6. Maduración

1% fermento láctico



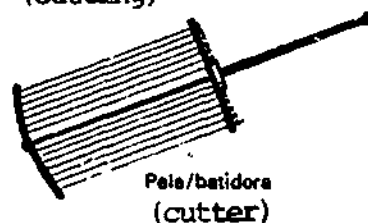
-144-

7. Coagulación (Coagulation)



Agregar 2.1/2 grs. de cuajo c/ 150 litros
(add 2.5 grams of whey to 150 liters)

8. Corte (Cutting)



Pala/batidora
(cutter)

9. Batido (Beating)



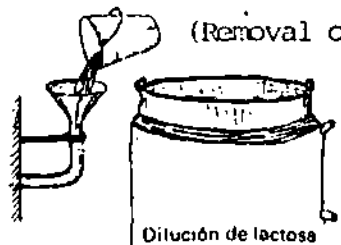
Lira
(beater)

* This exhibit illustrates how simple drawings can be used to explain concepts to a relatively unsophisticated audience. The drawings on this and the following page are reprinted with permission from José Dubach's booklet *El ABC para la Quesería Rural del Ecuador*, pp. 24-25 (Selected Bibliography #22). The pictures graphically depict the series of steps involved in making cheese in a 600-liter-capacity plant in a rural area in Ecuador.

ESQUEMA DE LA TRANSFORMACION DE LECHE EN QUESO

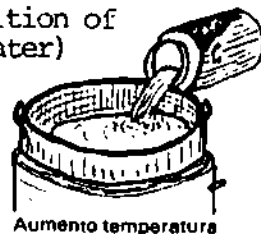
10. Desuerado

(Removal of whey)



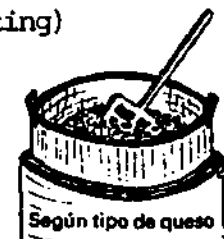
11. Adición de agua

(Addition of water)



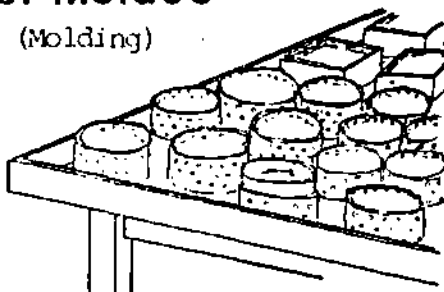
12. Batido

(Beating)



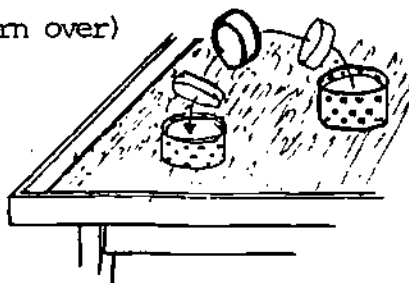
13. Moldeo

(Molding)



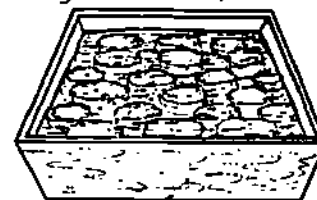
14. Volteo

(Turn over)



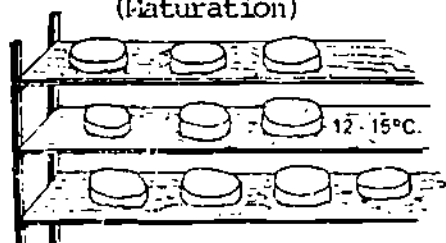
15. Salmuera

(Soaking in Brine)



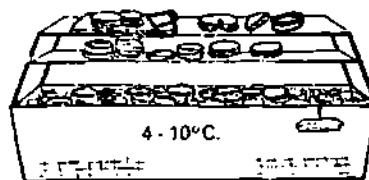
16. Maduración

(Maturation)



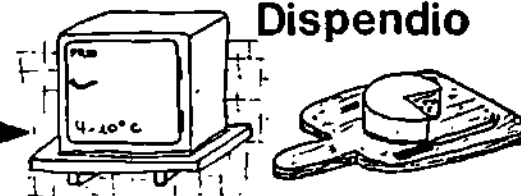
17. Despacho

(Selling)



(Preservation/Storage)

18. Conservación / Dispendio



Conservación: temperatura de 4° - 10° C.

Dispendio: 2 horas a la temperatura del ambiente para obtener el máximo desarrollo del sabor.

Preservation: temperature between 4°-10°C.
Storage: 2 hours at room temperature to obtain maximum development of flavor.

APPENDIX I

Exhibit C.1

ILLUSTRATIVE CASE MATERIALS WHICH THE CONSULTANT
CAN USE IN SEMINAR PRESENTATIONS FOR SMALL ENTREPRENEURS

(Drawn from a seminar given by the author to small
entrepreneurs in Tuluá, Colombia)

Case 1. The Cachaco Tailor Shop¹

Mr. Miguel Caballero is the owner-manager of a small tailor shop with 12 employees, 11 women and one man; the shop mainly produces men's shirts. The one male employee, Enrique, is 20 years old and has been working in the shop for two months. He happens to be the best worker, in the opinion of Mr. Caballero, and he sews more shirts than any other employee. Of the 11 female workers, three are between 16 and 18 years old, and the other 8 women are between 25 and 35 years of age. Their length of service with the firm ranges from one to ten months. The owner's wife, Doña Marta, keeps the company's books and supervises the workers in the absence of Mr. Caballero.

Twice a week or so, Mr. Caballero has to leave the shop in order to purchase special materials available only in the city of Cali. He also travels to collect on accounts with retail clients in Tuluá and the nearby town of Buga. He sells most of his shirts to these retail shops on a wholesale basis. When Don Miguel leaves the shop, Doña Marta has the following problems. Although Enrique is a very productive worker, he is a bit of a flirt. And especially when the owner is away, he likes to tell jokes and tease his female co-workers. Although this teasing does not affect Enrique's productivity, it really destroys the efficiency of the women in the shop--so much so that one day one of the younger girls sews a shirt with three sleeves.

¹ This case is fictitious and does not represent a real small business in Tuluá. However, some of the characteristics of this theoretical firm are common to many small businesses in Tuluá.

APPENDIX I

Exhibit C.1

Apart from the problem with Enrique, the shop has a lot of employee turnover. Consequently, there is a need to constantly train new women how to use the sewing machines, how to follow patterns, and how to work smoothly with their co-workers. This training process takes about three to five days (depending on the trainee) for the workers to attain at least an average level of production. Another problem concerns the need for supervision of employees in Mr. Caballero's absence. The workers lack guidance on questions of measurements, cuts, color selection, etc.--questions which only Don Miguel is capable of answering.

Señora Caballero has complained to her husband almost daily about these problems for some time. Since the situation involves a delicate issue of personnel, Don Miguel has put off any decision. Finally, in desperation, he runs into you on the street (you are a close friend of Don Miguel) and begs your advice. He asks you how he could solve these problems at his shop, and in so doing bring back harmony both to his work and his marriage. How would you advise Señor Caballero?

Before you answer, consider the following issues:

1. What further information not given in the case do you need in order to better advise Sr. Caballero?
2. Is Don Miguel's problem with Enrique, or is it with the female employees? What alternatives are open to Don Miguel? What is the best alternative?
3. How would you deal with the problem of worker turnover?
4. How would you remedy Doña Marta's lack of technical ability in supervising the workers in her husband's absence?
5. What are the possible solutions for the problems cited above? Is there a general change in personnel management of the shop which might solve all these problems at once? Which of the above problems are difficult to solve given the nature of the environment here in Tuluá?

APPENDIX I

Exhibit C.1

Note to the Instructor

This case is typical since it illustrates the participation of family members in running a business, and how such participation may lead to personnel problems. It is a useful teaching aid since it places the student in a familiar role--that of the owner-manager--in trying to advise Don Miguel on how to address his problem.

The first question is one that Don Miguel's friend might well ask him: What other information can you give me on the problem? Insufficient information is also a typical situation with many small entrepreneurs--one which they may not realize until they have to analyze a case like the present. Such a question might also be a good way to start the group talking without pressing them for specific answers. Then again, it may stifle any discussion. In writing this case or any other, the instructor should be careful to include all essential data needed for its solution, and leave out only a few details to whet the students' curiosity. In responding to the first question, students might request the following information: What is the cost of training new employees (in salaries for days not worked, and in Don Miguel's time in training them); and how does this compare quantitatively with Enrique's greater productivity?

The second question tries to focus the class on the problem and its cause. The cause of the problem here is not all that clear: Is it Enrique, the owner's wife, or the female employees? Or is it Don Miguel himself and his trips away from the business? Nor are alternative solutions clear-cut. Should the owner fire Enrique, let some of the women go, or start new personnel management policies?

In responding to the problem of worker turnover (question 3), the student might suggest higher salaries to retain employees, more mechanization to decrease reliance on them (a popular measure with small entrepreneurs if they have the money), or more informed supervision by Doña Marta which leads us to question 4. The final question in the case tries to hint at an optimal solution. It also relates the case directly to similar situations in the local community, hopefully after such similarities have been mentioned in the class discussion.

APPENDIX I

Exhibit C.1

Case 2. Industrias La Confianza²

"Industrias La Confianza" is a small factory which produces plastic bags in Tuluá. The firm has been operating for the past five years under the direction of its owner and manager, Carlos Cumplido. The company's ten employees manufacture the bags and sell them to a variety of retailers, small clothing manufacturers, and other businesses in the city. The credit terms for Mr. Cumplido's small business are normally thirty days for credit purchases, and sixty days for credit sales. In the past, the owner's problem has not been demand, but rather lack of raw material (polyethylene sheets) for the factory. This scarcity has largely been due to controls on the importation of unprocessed plastic from overseas, and on insufficient production of this raw material in Colombia.

Don Carlos has two bank accounts--one with the Bank of Tuluá, and the other with the Industrial Bank. Both accounts have a similar average amount of deposits and movement. Two or three times a month, however, Señor Cumplido draws a check with insufficient funds on one or both of his accounts, and the check is then returned to him (together with an angry call from the "paid" supplier!). This situation often comes about because the owner had been counting on depositing a post-dated check (when due) which he had received from a customer. However, many times these post-dated checks "bounce", and may consequently throw Señor Cumplido's account into the red.

Don Carlos rents the building in which the business operates. However, he owns a new Japanese motorcycle (valued by him at \$ 50,000 pesos) and shares ownership of a small farm near Tuluá with his brother (he calculates his share at roughly \$ 100,000 pesos).

² This case is fictitious and does not represent a real small business in Tuluá. However, some of the characteristics of this theoretical firm are common to many small businesses in Tuluá.

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Exhibit C.1

After examining his financial statements (which were prepared by his wife and reviewed by his accountant) for the last year (see attached), Señor Cumplido believes that the business is doing well. Consequently, he decides to request a bank loan of \$160,000 pesos to purchase a new machine (with a purchase price of \$60,000) and additional stock of raw material (priced by a supplier at \$100,000) in order to increase his production.

You recently arrived from Bogotá as the new manager of the Industrial Bank branch in Tuluá. Just last week, Mr. Cumplido dropped by your office and spoke briefly about his enterprise and about his interest in obtaining a three-year loan at 18 percent interest. As a banker, your principal concerns are the safety and profitability of your loans. The home office of the bank currently has a lot of extra money to lend and it is pressuring branch offices to make as many loans as possible. The only information which you have concerning Señor Cumplido's plastic bag factory is what has been presented in this case.

Would you give a loan to Señor Cumplido or not? If your answer is yes, how much, under what conditions, and why? And if not, why not? Before answering these questions, consider the following points:

1. What other information would you like to have concerning Señor Cumplido's business and his request for financing?
2. How much in additional sales could the loan generate for the entrepreneur's business? How much in extra profits?
3. Which positive and negative factors might affect your decision on whether or not to approve the loan? What business practices should be corrected by Don Carlos before he receives any credit?
4. Review the financial statements of "Industrias La Confianza" (refer to the figures on the following page). What is the financial condition of the company with respect to liquidity, indebtedness and profitability?

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Exhibit C.1

INDUSTRIAS LA CONFIANZA

(Balance Sheet of December 31, 1978)

<u>Assets</u>		<u>Liabilities</u>	
Cash and Bank Account	\$ 50,000	Accounts Payable	\$ 200,000
Accounts Receivable	150,000	Short-Term Loans	<u>300,000</u>
Inventory	<u>100,000</u>	Current Liabilities	500,000
Current Assets	300,000	Long-Term Loans	200,000
Fixed Assets	500,000	Total Liabilities	700,000
Total Assets	<u>\$800,000</u>	Capital	100,000
		Total Capital and Liabilities	<u>\$800,000</u>

INDUSTRIAS LA CONFIANZA

(Profit and Loss Statement for the twelve months from January 1, 1978 to December 31, 1978)

Net Sales	\$ 1,200,000
Raw Material Consumed (Cost of Goods Sold)	<u>720,000</u>
Gross Profit	480,000
Wages and Salaries	150,000
Owner's Withdrawal	120,000
Other Expenses	<u>150,000</u>
Net Profit	\$ <u>====60,000</u>

APPENDIX I

Exhibit C.1

Note to the Instructor

This case is very different from the previous one. It places the small entrepreneur in an unaccustomed role--that of a banker examining the application of a small entrepreneur (like him or herself) for a loan. The questions the banker asks in the case are also similar to those the consultant might pose in assisting an SSE under the program. The case is also more advanced than the Cachaco case because it uses financial statements. However, few accounts are included in the statements, and all numbers have been conveniently rounded off. Nonetheless, this is a challenging exercise which should be tackled only by local accountants or by entrepreneurs who have recently completed a basic accounting course.

What other information would the participant like to have concerning the case? If he or she considers potential loan collateral, the student should question how Don Carlos arrived at the valuation of his motorcycle and his proportional ownership in the family farm. He might also wonder how accurate the owner's statements are (have Don Carlos and his accountant "cooked the books" for tax purposes as do so many small entrepreneurs?).

The second question invites basic analysis of the financial statements in estimating a possible sales and profit increase if the loan is granted. If the student assumes that the inventory balance is representative for the year, inventory turnover would be 7.2 times, or once every 50 days. Consequently, an added \$100,000 could conceivably double net sales (if the rate of turnover remains the same), and double net profits (if profit margins remain the same). Emphasizing the "ifs", of course, should be a key point in any analytical discussion of the case.

The third question asks what positive, or negative factors should be considered before approving a loan to Don Carlos. Also, what business practices should be changed? On the positive side, Don Carlos is making a profit and selling to a growing market. On the negative side, he bounces checks at the banker's bank, he withdraws a lot of money from the business (almost as much as the paychecks of all his employees), and he has unfavorable terms of trade with suppliers and customers. Turning to his financial statements

APPENDIX I

Exhibit C.1

(question 4), Don Carlos also has a negative working capital position (- \$200,000), a very high debt/equity ratio (7:1), and a net profit margin (5%) which may be low relative to that of other manufacturers. However, a liberal valuation of Don Carlos' motorcycle, his share in the farm, and the inventory which he will acquire with the loan might provide him with adequate collateral for the financing.

The facts of the case may thus persuade some students to grant the loan and others to deny it. During the case discussion, the instructor might find it useful to play the role of devil's advocate--one he or she will also tend to play in many SSE consultancies.

SAMPLE HANDOUT WHICH CAN BE USED DURING A
SEMINAR FOR SMALL ENTREPRENEURS

The Calculation and Significance of
Cost of Goods Sold and Inventory

The profit and loss statement consists of various standard blocks of income and expenses. The block or section of income which is most important is that of the net sales of the company's products. Likewise, the most important block of costs is directly related to cost of those goods sold-- and hence its name, "cost of goods sold". In a small manufacturing firm, most of this cost consists of the value of raw materials.

We must calculate indirectly the value of cost of goods sold. A business's sales are calculated almost automatically since we simply sum up the sales prices for the day as indicated on the accumulated sales slips or on the cash register tape. By contrast, the cost of those goods sold is not normally recorded as each good is sold (it is often difficult enough for the sales clerk to remember or record prices, let alone the different costs of each item sold). Many firms do not have "perpetual" or "Kardex" inventory systems which record the movement of raw materials in and out of the business every day. Therefore, such firms must indirectly calculate the value of cost of goods sold by taking physical inventories. As we shall see below, the ideas of cost of goods sold and inventory are related ones.

The following example assumes (as do many practical accounting systems) that cost of goods sold is equal to the amount of raw material invested in them (for purposes of simplicity we are not assigning other costs such as overhead). Based on this assumption, the calculation of costs of goods sold for a given period would be calculated as follows:

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Exhibit C.2

Initial Inventory:

(Of raw materials in the three stages of production: raw materials, work in process, and finished products; inventory is determined by a physical counting and valuing of a firm's goods on a given day) \$ 2,400

Plus:

Purchases of raw material during the period 35,100

Subtotal:

Raw material available for sale 37,500

Less:

Final inventory at the end of the period (based on the physical inventory of raw material, work in process, and finished products, and carried out at the end of the period) 2,500

Total:

Cost of goods sold for the period \$ 35,000

We might note here that even with a perpetual inventory system (or "Kardex"), there is a need for a physical inventory at least once a year to check on the proper functioning of the system.

The above example shows the complementary and interdependent nature of the concepts of cost of goods sold and inventory. Apart from waste or theft, what is not sold should remain in inventory--and what does not remain in inventory must have been sold. As we will discuss later, there is a problem in estimating the value of inventory and the cost of goods sold due to changes in prices over time (they usually go up!) Consequently, if we badly estimate the value

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Exhibit C.2

of inventory, then we will damage our calculation of cost of goods sold for the period. A poor estimation of cost of goods sold also means that we overvalue or undervalue gross profit.

The problem in figuring out the cost of goods sold comes when various identical items were purchased on different dates and at different prices. When these items are sold, what prices do we use as the cost of goods sold? Since the items are all identical, how do we know which item(s) sold was purchased earlier at the cheaper price? The example below helps address these problems:

Example: Let's assume that during the past year three units of the same raw material "X" were available to be processed and sold from the factory. And at the end of the year, after taking a physical inventory, we find out that only one unit remained in the stockroom. During this period we also kept a record of our purchases of item X:

<u>Date of Purchase</u>	<u>Transaction</u>	<u>Number of Units</u>	<u>Cost of Units</u>
January 1	Initial Inventory	1	\$ 9
March 4	Purchase	1	13
May 9	Purchase	<u>1</u>	<u>14</u>
Total		<u>=3</u>	\$ <u>=36=</u>
Average Cost per Unit			\$ 12

During this period, we used or consumed two units in manufacturing our products, leaving one unit of raw material X in the final inventory. However, since all the X items were identical, we have no idea which items were sold and which has remained. Therefore, we have to adopt a consistent method in order to determine which cost from this flow of costs we will use in assigning a value to inventory, and likewise to cost of goods sold for item X. The value of our inventory of raw material X at the end of the period could be \$9, \$13, \$14.... or the average of \$12! How do we decide on a value? One method is to use the average cost method,

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Exhibit C.2

totaling the purchase prices of a given item and dividing them by the number of items purchased over a certain period. The cost of final inventory using this approach would be \$12. Another method is last-in-first-out or LIFO which is calculated just as its name indicates: we assume that the last item purchased is the first item sold. Consequently, the cost of the first item(s) purchased is assigned to the inventory. Applied to our problem, this formula gives us \$9 as the value of final inventory of raw material X.

LIFO often understates earnings in the face of inflation, and goes against the normal purchase-sales flow (that is, we generally expect that items purchased first will be sold first, and not the other way around). The first-in-first-out method, or FIFO, is yet another way to value inventory and cost of goods sold. It, too, means just what it says: the item first in, or purchased, is assumed to be first out or sold. As a result, the last purchased item remains in inventory. In an inflationary situation this valuation method may overstate earnings; however, it does conform to the normal flow of purchases and sales. Using this method, the value of end inventory in our example would be \$14.

Note to the Instructor

This handout may be used as an aid in explaining the concepts of inventory and cost of goods sold. It also might be more appropriate for larger enterprises (or accountants who work with them) since the time and effort required for consistent inventory valuation may be unrealistic for the small entrepreneur. Obtaining any kind of realistic statements at all, let alone fine-tuning them with inventory valuation methods, is often the best a consultant can hope for with many SSEs.

SAMPLE HOMEWORK PROBLEM WHICH CAN TEST SSE SEMINAR
PARTICIPANTS' KNOWLEDGE OF ACCOUNTING CONTROLS

Example ³: The Y Company has come to you with the following problem.

It has three clerical employees who must perform the following functions:

- a. Maintain general ledger
- b. Maintain accounts-payable ledger
- c. Maintain accounts-receivable ledger
- d. Prepare checks for signature
- e. Maintain disbursements journal
- f. Issue credits on returns and allowances
- g. Reconcile the bank account
- h. Handle and deposit cash receipts

Assuming that there is no problem as to the ability of any of the employees, the company requests that you assign the functions above to the three employees in such a manner as to achieve the highest degree of internal control. It may be assumed that these employees will perform no other accounting functions than the ones listed and that any accounting functions not listed will be performed by persons other than these three employees.

1. State how you would distribute the functions among the three employees. Assume that, with the exception of the nominal jobs of the bank reconciliation and the issuance of credits on returns and allowances, all functions require an equal amount of time.

³ Material from "Uniform CPA Examination Questions and Unofficial Answers", copyrighted 1977 by the American Institute of Certified Public Accountants, Inc., is adapted with permission.

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2. List four possible unsatisfactory combinations of the listed functions. Try to answer the questions before consulting the following solution.

The major feature of the suggested division of duties is the separation of powers so that one individual does not have sole control over all recordkeeping and physical handling for any single transaction. Not only does this limit the chances for fraud, but more importantly, it provides for automatic checks on efficiency and accuracy.

Source: Charles Horngren's Cost Accounting, A Managerial Emphasis, page 672 (see entry #46 in the Selected Bibliography). Reprinted with permission of the American Institute of Certified Public Accountants.

Note to the Instructor:

This internal controls problem is relatively advanced and is also appropriate only for those entrepreneurs with an accounting background. While brief enough to be assigned as homework, it could also be used for class discussion.

Like many problems or exercises drawn from textbooks, it may be overly theoretical for a pragmatic audience of small entrepreneurs. However, the problem may be useful in launching a general discussion not only of accounting controls, but of other small business controls such as building security and delegation of authority to employees. The answers to the problem are indicated below:

SOLUTION 1. Assignment of functions:

Employee No. 1:

- a. Maintain general ledger
- b. Reconcile bank account
- c. Issue credits on returns and allowances

Employee No. 2:

- a. Prepare checks for signature

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Exhibit C.3

b. Handle and deposit cash receipts

c. Maintain disbursements journal

Employee No. 3:

a. Maintain accounts-payable ledger

b. Maintain accounts-receivable ledger

2. Undesirable combinations are as follows:

a. Cash receipts and accounts receivable

b. Cash receipts and credits on returns and allowances

c. Cash disbursements and accounts payable

d. Cash receipts and bank reconciliation

e. General ledger and cash receipts

f. Accounts receivable and credits on returns and allowances.

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Exhibit C.4

ILLUSTRATIVE EXAMINATION TO TEST SSE SEMINAR
PARTICIPANTS' KNOWLEDGE OF BASIC ACCOUNTING ENTRIES

(Drawn from a seminar given by the author to small
entrepreneurs in Tuluá, Colombia)

Indicate the impact of each of the following transac-
tions on assets, liabilities and capital of a small business
by use of the following signs:

Increase +
Decrease -
Remains the same o

<u>Transactions</u>	<u>Asset</u>	<u>Liability</u>	<u>Capital</u>
a. Lottery winnings are invested in a new piece of equipment			
b. A partner buys share capital			
c. Purchase of machinery on credit			
d. A bank loan is received			
e. Repayment of the loan			
f. Payment of workers' salaries			
g. Rental payments accrued (although the cash payment is not made until the end of the month)			
h. A credit sale			
i. The firm's product is bartered to a supplier for some raw material			

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Exhibit C.4

	<u>Transactions</u>	<u>Asset</u>	<u>Liability</u>	<u>Capital</u>
j.	Payment of taxes incurred during last year's tax year			
k.	Amount of depreciation on fixed assets for the month			
l.	Half the firm's equipment is destroyed by fire			
m.	A trade debtor goes bankrupt			

Review of the Basic Sections of the Balance Sheet

In the Balance Sheet, an Asset is anything of value in the firm--for example, cash and bank accounts, accounts receivable, inventory, prepaid expenses, and "fixed assets" (that is, land, buildings, office equipment, machinery, vehicles).

A Debt or Liability indicates what is owed--for example, bank loans, accounts payable, accrued expenses (e.g. salaries, utility bills, rent).

Capital quantifies the value of the owner's investment in the business. This section of the Balance Sheet is normally subdivided into two parts: the original and subsequent investments of the owner and any partners ("paid-in capital") and the earnings accumulated by the business over the years ("retained earnings"). The Profit and Loss Statement will affect Capital positively if there is a profit, and negatively if there is a loss.

Always remember the following formula:

$$\text{ASSETS} = \text{DEBT} + \text{CAPITAL}$$

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Exhibit C.4

Note to the Instructor:

This examination tests participants' understanding of the concept of double-entry bookkeeping. Questions may be made easier or more difficult (in this example, questions g, i, and j are relatively more difficult). The test also includes a capsule definition of the balance sheet and its principal accounts as a reminder to the student.

Such a test not only reviews a student's accounting knowledge, but also provides a convenient way to introduce other important topics to class discussion. Questions b, l, and m, for example, illustrate the value of partners to a business (they bring in new capital), the prudence of insurance (a fire would otherwise wipe out property assets), and the utility of stringent credit policies (a debtor's bankruptcy otherwise liquidates the assets of accounts receivable).

SOURCE: Based on material by Dr. José Manuel Arenas, INCOLDA, Cali, Colombia.

APPENDIX II

Exhibit A

PRE-SCREENING INSTRUMENT FOR SELECTING TARGET FIRMS

(Drawn from the author's work with SSEs in Tuluá, Colombia)

1. Name and age of the owner.
2. Name of the firm.
3. Specific products and services offered by the firm in order of importance.
4. Date of the founding of the business (or years of experience in the current business if the present owner bought the firm from a previous owner).
5. Does the owner have other businesses? How many and in which lines of activity?
6. Is the owner-manager satisfied with his or her accounting system or other records which assist in the administration of the business?
7. Is there a secretary or a family member who has the time and interest to do bookkeeping? Is he or she doing it now? Part-time or full-time?
8. Does the firm have an accountant?
9. Has the firm received consulting assistance in the past, whether visits by private consultants, accountants, or government extension agents?
10. Has the firm, now or in the past, borrowed money from banks or finance companies?
11. Does the owner-manager own the plant or rent it?
12. The program cannot provide or guarantee access to credit. However, if at the end of the consulting assistance a credit may be feasible, for what end would the owner use such a credit?

_____ purchase raw materials

_____ test new products

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Exhibit A

- _____ purchase machinery
- _____ purchase vehicles or build a new plant
- _____ increase labor force
- _____ other (specify _____)

13. If the owner were to receive consulting assistance under the program, toward which administrative areas would he or she target such assistance? What results would the owner expect from the consulting assistance?

APPENDIX II

Exhibit B

SAMPLE LETTER OF INTENT

A letter of intent is a form which the consultant can use to clarify the purpose and scope of the consultancy to the small entrepreneur. Unlike a contract, which is a legally binding document signed by both consultant and client, the letter of intent is a less formal document which can be issued unilaterally by the consultant and his sponsoring organization. An example of a letter of intent, drawn from the author's work with small businesses in Tuluá, Colombia, is given below.

The present document evidences a consulting service to be offered the business of _____ (name of company), which starts formally on _____ (date) and will last until _____ (date), including a preliminary period of "Diagnosis" or a free initial examination of the firm in order to orient and lay the foundations for the future course of the consulting. This Diagnosis extends from _____ (date) to _____ (date). All of these activities fall under the program "How to Develop Your Enterprise", sponsored by the Chamber of Commerce of Tuluá and the Foundation for Industrial Development of the Cauca Valley. If at the end of the Diagnosis the Consultant or the Owner is unsatisfied with the progress of the consulting, the latter may be terminated at once without prejudice or cost to the Owner, the Consultant, or the Program.

The consulting will be provided by _____ (name), _____ (profession) of _____ (sponsoring organization) during this period for a cost of \$ _____ which will be paid by check to the Chamber of Commerce of Tuluá on _____ (date). This money will be allocated exclusively for expenses related to the Program "How to Develop Your Enterprise" and will not form a part of the personal income of the Consultant. The Enterprise should pay separately any cost of accounting books, records, or other materials and equipment needed by the firm as a consequence of the consulting.

The general objectives of the consulting include: improve the profitability of the Enterprise, enhance its cash flow, and support the general administration of the Enterprise, with attention to other aspects such as marketing, management, etc. The content and exact course of the con-

APPENDIX II

Exhibit C

ACCOUNTING INTERVIEW

QUESTIONNAIRE

(This questionnaire, drawn from the MICRON accounting manual, can assist the consultant in assembling the information necessary to install an accounting system in a small business.)

Company _____

Owner _____

Address _____

Telephone _____

1. How did you start your business?
 - a. How many years ago?
 - b. What previous experience had you had?
 - c. With how much capital did you begin?
 - d. What factors have had positive and negative effects upon your business?

2. Accounting
 - a. Have you paid an accountant in the past? How much?
 - b. What books, files, or account lists do you use?
 - c. What paper work do you use (receipts, vouchers, etc.)?
 - d. Do you save receipts, vouchers, orders, etc?

3. I am interested in knowing the financial state and business policies of your company to have an idea of its condition and manner of doing business.
 - a. Where do you have your bank account? More than one?
 - How much money is in the account at this moment?
 - Have you borrowed money from this bank?

 - b. Is there a petty cash system?
 - Who controls it?
 - How much cash is kept on hand?
 - Do you use personal cash for expenses?

 - c. Is there a savings account? Where?
 - How much do you have saved?
 - Do you take funds out of the account? Why?
 - Amount of annual interest?

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d. Clients-Receivables

- How many firm clients do you have?
- Where are they located?
- Who pays transportation costs?
- Credit terms?
- What percentage of sales are credit sales?
- Discounts?
- Payment period?
- How does this compare to the industry?
- Do you receive post-dated checks?
 - Wait till due-date?
 - Pay supplier?
 - Sell them to broker? Rate of commission?
- Do you receive orders?
 - Is money advanced?
 - What percentage?
 - Are orders met on time?
- Are there sporadic clients?
 - All locals or from farther away also?
 - Orders?
 - Post-dated checks?
- Is there production without firm orders?
 - Why?
 - What percentage?
- Are the orders in small or large quantities?
- Do you have salesmen?
 - Commission policy?
 - Base wage?
 - Travel expenses?
 - Percentage of all sales due to salesmen?

e. Do you loan money to friends?

- How much?
- For how long?
- At what interest rate?

f. How many employees are there?

- When are they paid?
- What social benefits do they receive?
- Is there much turnover?
- More than one shift?
- What are their hours? Overtime?
- Paid by the hour or contract?
- Do you loan them money?
 - Often?
 - Are these loans reduced from their salary?

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Exhibit C

- g. Do you have investments?
 - Stocks, bonds, certificates, etc?
 - Parts of other business?

- h. Fixed Assets
 - What machines are there? Value?
 - Plant
 - Mortgage? Monthly payment?
 - Rented or loaned? Monthly payment?
 - Do you have a house, car, farm, motorbike, etc?

- i. Suppliers
 - Have you firm suppliers? How many?
 - Where?
 - Who pays transportation?
 - Credit terms? Limit?
 - Do you pay them with post-dated checks?
 - Are there sporadic suppliers?
 - Can you obtain credit?
 - What percentage of purchases?
 - What materials do you purchase? % of total?
 - Which are scarce?
 - Which have risen dramatically in purchase cost?

- j. Do you have bank loans? More than one?
 - Name of Bank
 - Amount?

- k. Other financial obligations?
 - Finance Companies? Amount? Term?
 - Private loan? Amount? Term?

- l. Are there reserves to pay social benefits?
 - How much do you owe your workers?

- m. Sales
 - Which months have more sales?
 - The least sales?
 - Your monthly average?
 - Can you immediately increase your selling price to meet rises in purchasing costs?
 - Why not?

- n. Personal expenses?
 - Do you have a salary?
 - How much do you spend per week? Month?

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Exhibit C

- o. Are there income or expenses outside of your normal business?
-What kind?
-How much per month?

SOURCE: Peace Corps' MICRON, Accounting for the Micro Business: A Teaching Manual, Aid #1.1 - 1.3
(see entry #31 in the Selected Bibliography).

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Exhibit D

HOW TO BUILD AN EFFECTIVE CONSULTING
RELATIONSHIP BY BECOMING A BETTER LISTENER

Reception techniques at the "beginning" stage

Reception techniques involve listening and observing, which have to do with receptivity and assimilation. They might be thought of as "passive" exercises, but this would be entirely wrong, since full concentration is called for, and expected, during this crucial stage. Most people can absorb four times more information than can be delivered verbally; thus there is the ever-present danger of distraction.

Measures to facilitate information gathering include:

- soliciting permission to write down important facts (especially figures);
- using the pregnant pause, i.e. when the speaker stops talking, don't hurry to speak yourself, but look as if expecting further information--when it comes it may be most revealing;
- encourage elaboration of points by asking "anything else?" or "yes, go on please";
- ask for examples to illustrate generalities that are offered;
- try not to be involved in speculation, or answering questions in the fact-finding stage; advise that you will certainly give your opinion at a later stage, but that you would first prefer to hear all other impressions;
- if necessary answer a question with a question, e.g. to a question put to you, reply with "why do you ask that?" or "behind all good questions usually lies an answer--I would like to know your answer to your own question".

Because so much time is involved in listening and observing and the consultant may be impatient to proceed as rapidly as possible, it is quite possible that bad habits

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Exhibit D

will develop. Some elementary precautions that might be taken to prevent this are indicated in the table below:

PRECAUTIONS TO FACILITATE THE LISTENING PROCESS

Bad habits	Possible remedies
Becoming distracted	Try to analyse individual statements and evaluate them (award theoretical marks, e.g. 7 out of 10)
Taking too many notes	Select key points and write digest-style telegram notes
Making snap decisions	Record pertinent data Draw your conclusions after the meeting or interview
Lack of concentration	Try to anticipate the next idea, sentence or phrase
Selective listening	Look for new or hidden meanings
Interrupting the speaker	Wait until there is a natural break in the delivery

Source: Management Consulting: A Guide to the Profession, 1980, p. 357. Copyright 1976, 1977, 1978, 1980, International Labor Organization, Geneva. Reprinted with permission.

Evaluation Form for SSE Consultancies 1/

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Exhibit E.

		Firm		
Type Indicator	A	B	C	D
A. Name of Consultant	Luis Enriquez			
B. Business Data:				
-- Name of owner	Juan Gomez			
-- Address of firm	Carrera 20, #3-40			
-- Telephone	54-89 (business)			
-- Type of business	shoemaking			
C. Baseline Data at Start:				
-- Average Monthly Sales	\$1,000			
-- Number of Employees	12			
-- Other Indicator	---			
D. During Consultancy:				
-- Date Con'cy began	5/15/80			
-- No. hours of intensive consulting	35 hours			
-- No. hours of follow-up	18 hours			
E. End Consultancy:				
-- Date Con'cy (intensive) ended	9/15/80			
-- Date follow-up consultancy ended	1/30/81			
-- Administrative changes:	-- Accounting System installed • Those achieved -- Tighter Credit Policies effected • Those still pending -- Still need to hire plant manager			
-- Quantifiable Changes:	-- Monthly sales up by 20% from baseline (preferably per cent baseline or absolute change from baseline data)			
	-- Two more workers hired -- Firm was denied \$20,000 bank loan -- Multicolumnar Accounting sheets will permit the evaluation of as many as 7 firms on the same sheet.			
F. Name of Evaluator	José Valle			
-- Date of Evaluation	2/30/81			

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A REVIEW OF SELECTED SSE MANAGEMENT
ASSISTANCE PROGRAMS

1. Malcolm Harper's Methodology for Assisting Micro
Businesses

a. Background: Malcolm Harper, a consultant for Intermediate Technology of London and an associate of the Cranfield School of Management in Britain, collaborated with Partnership for Productivity's small enterprise program in Kenya starting in 1970. PFP is a Quaker-sponsored, non-profit foundation based in Washington, D.C., and has played a leading role in developing technical assistance programs for very small, often rural firms in the Third World. By 1974, the work of PFP, Harper, and local institutions in Kenya had provided the basis for the model elaborated below; the approach was subsequently tested in countries outside Africa such as Sri Lanka, Indonesia, and Brazil.

b. General Program Methodology: The program emphasizes comprehensive rather than selective consulting assistance within the SSE sector. It focuses primarily on small village shopkeepers in the poorest developing countries or in poor, isolated areas of wealthier middle-income countries, such as Brazil's northeast. The program's aim is to offer basic management advice to small enterprises with a view toward self-help and an increase in profits and employment. The approach relies on numerous, locally based rural people, often with little education, who act as intermediaries between professional business specialists and entrepreneurs by providing practical, field extension services.

In Kenya the consultants themselves were often high school drop-outs who were recruited to work with small businesses in their own regions. The program allocated limited funds for consultants' salaries (approximately US\$100/month in 1976).

c. Program Content: Program administrators initially screen small groups of young people in local communities for consulting work. After asking for written applications from those interested in being trained to work as consultants, the administrators give a brief "consultancy aptitude test"

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Exhibit A

(consisting of a few simple arithmetic problems) and a short personal interview to each applicant. This process yields a selected group invited to live at a training center (ideally rurally based) for a three-week program designed to train the recruits for small business consultancy. The training is outlined in detail in Malcolm Harper's manual; it consists of 40 percent lectures, 35 percent exercises, 20 percent field trips and assignments, and five percent tests. The training seeks to graduate 20 consultants from each course.

The program emphasizes close supervision of consultants by supervisors. The consultants work on a continuing basis with a variety of clients, with a goal of 30 clients assisted per consultant per year. Both supervisors and the program director (both at a higher level of education and experience than the young consultants) are expected to maintain their own SSE clients. Such extension work enables them to keep in more realistic touch with their subordinates, as well as to provide assistance to larger SSEs whose needs outstrip the lower-level skills of the field consultants.

d. Observations on the Program: The Harper model is an imaginative one and seeks to meet the management assistance needs of unskilled, labor-intensive SSEs from an abundant pool of unemployed young people. Its comprehensive and non-selective approach to small rural firms is very different from the selective management consulting strategies proposed by Staley and Morse in the 1960s¹, or from the selective, target firm approach discussed in this manual. Nonetheless, Harper's approach and the target firm model may well complement each other in a country with diverse regional and program needs.

The Harper methodology possesses a number of advantages. It offers numerous, low-cost consultants who can meet the needs of widely scattered rural SSEs. The program also provides mass training of both consultants and small entrepreneurs in countries where skills of both types are in short supply. A possible weakness of Harper's approach is that it attempts to aid all entrepreneurs regardless of their

¹ See entry #6 in the Selected Bibliography for further details.

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Exhibit A

motivation or success potential, opting to give all clients the benefit of the doubt. The approach also relies on young, unskilled consultants who will inevitably make mistakes. No matter how small or "simple" a business, its affairs are often quite complex, and key decisions such as switching product lines often require experienced advice. The program does reach a relatively large number of firms per low unit of consultant input (700 businesses were covered by 20 consultants in PFP's program in Kenya in 1976). However, given the firms' small size, their scattered location, and the necessarily cursory nature of the consulting offered, the impact of such assistance on national economic development may be limited. Moreover, this program places a heavy emphasis on retail as opposed to industrial consulting (perhaps because retail firms are less complex for the young, inexperienced consultant), and there is little integration between the management consulting program and the credit availabilities of private or government banks. Finally, the Harper model appears to overburden the work of supervisors by adding the requirement that they have their own clients.

2. Partnership for Productivity and the Government of Liberia: The Yekepa Model²

a. Background: This project took place in the unusual environment of Yekepa, a small iron-ore mining town located close to the Liberian-Guinean border. The town's economy has been dominated by LAMCO, a large Swedish-American mining consortium with Liberian government participation. Over the years, the company built up an extensive economic and social infrastructure in the town. By 1969, however, company officials foresaw an end to intensive mining in 20 - 25 years and a consequent need to assist Yekepa's more than 20,000 inhabitants in the transition to a non-iron ore-based economy.

² More detail is available on the Partnership for Productivity study, Realizing the Development Opportunity Created by an Iron Ore Mining Concession in Liberia: The Yekepa Model, 1978. (See Selected Bibliography #10.)

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In 1969 and 1970, the company began to divest itself of its activities in housing, transport, and electrical contracting by turning them over to local Liberian entrepreneurs. These transfers, however, were largely unsuccessful. The townspeople had little experience in managing businesses, and a "company town" mentality prevented them from viewing the firms as their own investments. Consequently, in 1974 LAMCO sought out a development organization to take over its faltering effort to redirect Yekepa's economy for the future.

b. General Program Methodology: Pfp negotiated an agreement with LAMCO and the Liberian government for a comprehensive development program. Specific goals included a target number of self-sustaining local enterprises, jobs, and new investment generated over a three-year period. The program's goals were challenging, especially in view of the lack of infrastructure and entrepreneurial skills in the area and the limited local resources apart from mining.

In general, Pfp's small business promotion efforts were oriented toward firms in Yekepa which:

- used local raw materials.
- produced needed products or services, or substituted for imported goods.
- were well suited to available local land and building sites.
- were labor rather than capital intensive.
- did not require unobtainable technical and managerial skills.
- could survive after depletion of the iron ore.
- had a reasonable chance of success.

Although management consulting played a key role in the Yekepa program, the program hardly confined itself to an SSE consulting effort. Rather, it fostered an integrated approach to small business promotion which included technical and managerial consulting, credit, industrial estates, and sector surveys. Thus, small business promotion was but part

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Exhibit A

of a general regional development program, including community development, agricultural research and extension, and large-scale industrial projects.

c. Program Content: During its first three years, the program drew on six foreign staff (three PFP technicians and three Peace Corps Volunteers) and six Liberian professionals and extension agents. Program funding came from PFP, the Government of Liberia, and private international sources; LAMCO provided technical help, equipment loans, and donations of machinery and facilities. Program funding for the first three years from all sources totaled US\$860,000.

PFP's general philosophy in Liberia was to spend time establishing projects and actually tackling problems rather than on long, drawn-out feasibility studies. In the small business area, the program offered individual management consulting, nightly management seminars, and in some cases, provision of buildings or equipment for a variety of commercial and industrial enterprises, including a large transport company, a one-man electrical contractor, restaurants, a theatre, a supermarket, a sawmill, a brick-maker, and a bakery. The program also promoted a variety of agricultural enterprises (including poultry farms and a piggery) and community projects such as a YMCA-sponsored handicraft center for women of the community.

d. Observations on the Program: PFP's report on the Yekepa project is instructive as an anthology of case histories of the trials and tribulations of small business assistance. Its description of the practical problems of consulting--mismanagement, financial overextension, theft, and even drunken accountants--is a familiar story. On the other hand, some of the program's successes with novice small entrepreneurs are encouraging. For example, one ex-LAMCO electrician successfully started a small electrical contracting business. By the end of its first year, the business employed the owner and five employees and had won a number of contracts. The success of the firm was due to the combination of a feasibility study performed by PFP, a loan of vehicles and communications equipment from LAMCO, and the owner's personal management of and investment in the enterprise. In another case, PFP provided an advisor to strengthen an existing furniture-making enterprise by supervising work flow and the maintenance of machinery and tools. PFP

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also loaned the business US\$15,000 to help pay for more experienced Liberian managerial talent. As a consequence, the firm expanded its employment from five to 30 workers and profits rose dramatically. Despite the firm's success, a role was seen for the foreign woodworking advisor for an additional one to two years before Liberians could assume total management of the business.

The needs of Yekepa seemed to logically invite the kind of integrated development strategy sponsored by Pfp. Similarly, the problems of the many new enterprises seemed to draw the program's external consultants deeper and deeper into all phases of the firms' operations. At times, consultants even assumed direct managerial roles instead of concentrating on training Liberians to fill such positions. It is easy to criticize this situation, but over-involvement by the consultant is often hard to resist when confronted with the array of problems faced by the small business--especially in Yekepa where assistance dealt primarily with new entrepreneurs and enterprises. While perhaps the program attempted too much too fast, the Yekepa model is to be commended for its bold, hands-on attack on the problems.

2. The Small Enterprise Development Program of the Fundación Carvajal and ACCION International/AITEC in Cali, Colombia

a. Program Methodology and Content: Since 1977 the Fundación Carvajal, a charitable foundation, and ACCION International/AITEC, a private voluntary organization based in Cambridge, Massachusetts, have cooperated in organizing the Small Enterprise Development Program (DESAP) in the large city of Cali, Colombia. AITEC provides technical assistance to the DESAP program. The program offers an interesting linkage between a nonprofit, management assistance agency (DESAP) and local private banks in providing small entrepreneurs with consulting assistance, training, and credit.

The program involves three basic steps: a business census to pre-select interested SSEs, an analysis of the selected businesses' profitability, and assistance with a credit request to a private bank for those firms which have shown themselves to be profitable. Only businesses with net monthly sales of up to US\$5,500, net equity of less than US\$20,000, no more than ten employees, and at least one and a half years of existence qualify for assistance under the program.

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DESAP itself has twelve professional and technical staff, one AITEC resident advisor funded by Private Agencies Collaborating Together (PACT, a U.S.-based donor agency), one secretary, and one messenger, and operates on an annual budget of about US\$70,000 (mostly for staff salaries). The program's three technical departments--Selection and Training, Financial Analysis, and Projects and Follow-Up--carry out a tightly organized program which reaches a wide number of clients with an economical use of staff time. In any given month, approximately 240 firms are surveyed to assess their general interest in DESAP. The more motivated and experienced firms are then given a detailed interview by one of the Selection and Training Department's promoters. If the interview is successful, the promoter then enrolls the client in DESAP classroom instruction in appropriate accounting systems. There are then two or more visits of a technician from the Financial Analysis Department to check on implementation of the accounting system the entrepreneur has adopted for his or her business. Of the roughly 240 firms surveyed each month, about 18 eventually became eligible for credit. Firms are not recommended for credit by the Financial Analysis Department until they have upgraded their profitability and recordkeeping through attendance at DESAP-sponsored courses on administration, planning, projects (i.e. preparation of credit application) and costs--each course averaging ten hours each.

The entire program is run on a partially reimbursable basis. For example, installation of an accounting system (two visits by a consultant) costs US\$3.20, class instructors charge one dollar per student per hour, and two percent of every loan obtained with the help of DESAP is paid to the program. Since credit is obtained from private banks, credit terms are fairly strict, and require either a mortgage, acceptable collateral, or a reputable guarantor. From the program's inception in March 1977, to June 1980, DESAP surveyed 2,700 SSEs in Cali, of which 109 or 4 percent actually received credit (loans averaged US\$1,300 per borrower). Evaluations of the firms receiving credit show that employment increased by 30 percent, sales improved by 107 percent, and the loan default rate was only 0.36 percent.

Since June 1980, the AITEC Resident Advisor has moved to Bogotá where he is providing assistance to similar micro-enterprise efforts in Bucaramanga, Medellín and Bogotá. DESAP is also drawing down on a \$500,000 Interamerican Development Bank loan and with these funds should grant close to 200 new

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loans a year. So far, the same impressive increases in employment, sales and the same low default rate have been maintained. DESAP is also being called upon to provide technical assistance to other microenterprise efforts.

b. Observations on the Program: DESAP is certainly an interesting model for a combined program of credit and management assistance to SSEs. Its focus on firms seems to fall in the middle between Harper's micro-businesses and the target firms discussed earlier. The quantitative indicators of the program's results also appear to make it a successful effort. Furthermore, the division of management assistance and credit between DESAP and private banks seems to bolster clients' confidence in the consulting and makes them take their responsibility for paying loans more seriously. Finally, many of the program's consulting forms, accounting systems, and teaching techniques should be useful in any SSE consulting program. Further information is contained in the manual jointly produced by Fundación Carvajal and AITEC entitled Descripción de un Programa de Desarrollo para Microempresas (see Selected Bibliography #13).

Along with its positive aspects, the program has the following limitations:

- (a) The program works on a volume basis, processing large numbers of SSEs for eventual credit. Although practical in a large city like Cali with a population of over one million, such an approach would have limited potential in a small town or rural area.
- (b) If the total DESAP budget is divided by the firms actually receiving credit, selection and processing costs are approximately 25 percent of the value of the average loan. This ratio, of course, does not take into account other benefits such as seminars offered, accounting systems installed, or cost analyses performed--all of which may be useful to the small entrepreneur even if he does not receive credit. Nonetheless, this figure is probably typical of the high processing costs of programs which focus on providing credit to SSEs.

DIRECTORIES OF SELECTED SSE DEVELOPMENT
ORGANIZATIONS AND INFORMATION SOURCES

A number of nonprofit organizations provide assistance to SSEs or to SSE development programs in the Third World. Such organizations offer information on organizing host country SSE assistance programs, funding to start such programs, or consultants to help train small entrepreneurs or the local advisors who work with them. The first directory below gives a selected list of nonprofit and governmental organizations based in the United States which work with SSEs in developing countries. This list excludes a variety of private, profit-making consulting firms which specialize in assisting small businesses. It also leaves out many other private voluntary organizations for which SSE development is only one portion of a much broader range of activities.

The second listing or directory in this exhibit indicates additional directories of nonprofit organizations in the United States and other countries which work with SSEs. It also provides mailing addresses of organizations and information services which can provide the reader with additional information on small businesses. The addresses of other SSE information sources also appear throughout the Selected Bibliography as references to individual publications.

A. Directory of SSE Development Organizations¹

1. ACCION/International-AITEC
10-C Mount Auburn Street
Cambridge, Massachusetts 02138

Provides consulting assistance and funding for SSE programs, mainly in Latin America.

2. Agency for International Development (AID)
320 21st Street, N.W.
Washington, D.C. 20523

U.S. Government official foreign assistance agency.

¹ Based on TAICH DIRECTORY (1978) (U.S. Non-Profit Organizations in Development Assistance Abroad, see listing No. 7 on page 192.

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3. Appropriate Technology International (ATI)
1724 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Supports local organizations that try to solve problems with innovative, low-cost solutions using local skills and resources. Technical assistance is offered, and financial help is provided in the form of grants, loans, or investments.

4. Institute for International Development
360 Maple Avenue, West
Suite F
Vienna, Virginia 22180

Provides technical assistance in small business development using resources of private business sector. Makes financial investments and loans to local enterprises unable to obtain local financing. Provides training courses in small business management, marketing, accounting, and personnel administration, as well as offering consulting services for day-to-day problem solving.

5. Inter-American Foundation
1515 Wilson Boulevard
Rosslyn, Virginia 22209

Provides funding and consulting assistance for rural enterprises (especially cooperatives) in Latin America.

6. International Executive Service Corps
622 Third Avenue
New York, New York 10017

Recruits experienced executives (mainly retired) for short-term assignments as volunteer advisors to locally owned firms that request managerial or technical assistance.

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7. International Voluntary Services, Inc. (IVS)
1717 Massachusetts Avenue, N.W.
Suite 605
Washington, D.C. 20036

Recruits skilled technicians internationally to work on rural self-help projects at the request of host governments and institutions.

8. New TransCentury Foundation
1789 Columbia Road, N.W.
Washington, D.C. 20009

Technical assistance to small private enterprises for development of new marketing networks and expansion of existing markets.

9. Opportunities Industrialization Centers International, Inc.
240 West Tulpehocken Street
Philadelphia, Pennsylvania 19144

Provides on-site technical assistance in planning and implementing small and medium-scale enterprises.

10. Overseas Private Investment Corporation
1129 20th Street, N.W.
Washington, D.C. 20527

Quasi-governmental corporation which insures U.S. companies' investment in developing countries. Also finances small to medium-sized joint ventures between U.S. companies and public and private enterprises in the Third World.

11. Partnership for Productivity Foundation/USA, Inc. (PFP)
2311 18th Street, N.W.
Washington, D.C. 20009

Provides consulting assistance, training and funds for SSE programs, especially in Africa.

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12. Private Agencies Collaborating Together, Inc. (PACT)
777 United Nations Plaza
Suite 6B
New York, New York 10017

A coordinating body for private voluntary organizations in the U.S. Sponsors handicraft programs, develops appropriate low-cost equipment for food production, and sponsors management and organizational training.

13. Technoserve
11 Belden Avenue
Norwalk, Connecticut 16852

Provides technical, managerial, and financial assistance to SSEs and trains participants in such enterprises and related local institutions.

14. Volunteers in Technical Assistance, Inc. (VITA)
3706 Rhode Island Avenue
Mt. Ranier, Maryland 20822

Provides a variety of technical cooperation services--by-mail technical design and problem solving, project planning, needs assessment, information systems analysis, on-site consulting to groups and individuals. Special interest in information systems and appropriate technology.

15. Young Men's Christian Associations of the United States (YMCA)
International Division of the National Board
291 Broadway
New York, New York 10007

Provides assistance to self-supporting business enterprises.

16. Young Women's Christian Association of the U.S.A. (YWCA)
World Relations Unit of the National Board
600 Lexington Avenue
New York, New York 10022

Development and promotion of cottage industries; skill development; management training within YMCA and in coordination with other agencies.

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B. Selected List of Organizational Directories and Data Sources Concerning Small-Scale Enterprise

1. Editor of AID Research and Development Abstracts (ARDA)
ST/DIU Information Division
U.S. Agency for International Development (AID)
Washington, D.C. 20523

Publishes the ARDA quarterly catalogue which lists publications according to development subject (including SSEs). Publications available at subsidized prices to Third World organizations.

2. Resource Utilization Division
Office of Development Information and Utilization (ST/DIU)
U.S. Agency for International Development (AID)
Washington, D.C. 20523

Publishes Directory of Development Resources (June 1979): a listing of on-call technical support services, information clearinghouses, field research facilities, newsletters, data banks and training for a variety of development needs, including SSE promotion programs.

3. American Management Associations
The American Management Associations Building
135 West 50th Street
New York, New York 10020

Sponsors training programs and conferences for all size businesses, primarily in the U.S. Also publishes variety of books on management available through its AMACOM publishing division. Write them for course and book catalogues.

4. General Secretary
International Council for Small Business
University of Wisconsin-Extension
929 North Sixth Street
Milwaukee, Wisconsin 53203

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Publishes a number of publications on small business. Write to the above address for list of available titles and prices.

5. National Technical Information Service
U.S. Department of Commerce
Suite 620
425 13th Street, N.W.
Washington, D.C.

Publishes reprints of publications on wide variety of subjects, including small business. Write above address for catalogues.

6. Peace Corps
Information Collection and Exchange, Room 701
806 Connecticut Avenue, N.W.
Washington, D.C. 20525

Publishes Resources for Development (September, 1981), Appropriate Technologies for Development Series, Manual No. M-3. Booklet reviews a variety of organizations and publications which address a variety of development needs including SSEs. Listings by area of the world.

7. Wynta Boynes, Editor
Technical Assistance Information Clearing House (TAICH) of the American Council of Voluntary Agencies for Foreign Service, Inc.
200 Park Avenue South
New York, New York 10003

Publishes U.S. Non-Profit Organizations in Development Assistance Abroad (TAICH) Directory 1978. Best comprehensive directory and description of activities of U.S. private voluntary and development organizations operating overseas. Contains county-specific indices, as well as several sector-specific listings.

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8. Technonet Centre
RELC International House
30 Orange Grove Road
Tanglin P. O. Box 160
Singapore 9124
Republic of Singapore

Information network and training center made up of
participating SSE development organizations in Asia.
Write for newsletter and other information.

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HOW TO ASSEMBLE A MANAGEMENT
CONSULTANT'S REFERENCE KIT

A management consultant is not equipped merely by a training course and some field experience; a packet or kit of useful reference materials can greatly assist the consultant in his or her work. The size of this reference kit will depend on the relative sophistication of both the consulting program and of the individual consultant. A fairly comprehensive kit might include books or pamphlets in the following key reference areas (individual programmers or consultants should pick and choose which references seem most essential to their particular needs).

1. Consulting: A practical general manual, covering both program approaches and field methodologies, on the subject of management consulting might be useful. This manual could serve as one example. Malcolm Harper's Consultancy for Small Business is another excellent general reference on the subject. (See entry #15 in the Selected Bibliography.) Although it focuses on consulting to primarily large-scale enterprises, The International Labor Office's Management Consulting: A Guide to the Profession is also a useful general reference for the small business consultant (entry #27).

2. Teaching: A consultant may be called upon not only to advise clients individually, but also to instruct them as a group. Therefore, it might be useful to have a guidebook on teaching techniques and individual aids. Perhaps the best book on this subject is the Food and Agriculture Organization's (FAO) Audio-Visual Aids for Cooperative Education and Training (entry #23 in the Selected Bibliography). Two Peace Corps publications, The Photonovel: A Tool for Development (entry # 32), and Visual Aids: A Guide for Peace Corps Volunteers (entry #33), may also be very helpful, as is Arthur Andersen's short pamphlet entitled Manual for Group Discussion Leaders (entry #17).

3. Human Relations: One good way to sharpen your human relations skills is to read personal accounts by other extension agents who have worked in developing countries. One excellent book, dealing with a Peace Corps Volunteer's experience in trying to bring change to a rural coastal village.

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in Ecuador, is Moritz Thomsen's Living Poor (see entry #36). It may also be valuable to skim through some popular psychology handbooks such as I'm OK, You're OK (see note *) or Carnegie's How to Win Friends and Influence People (entry #20). Two other books which provide some interesting analyses of Peace Corps-type experiences are Hapgood's Agents of Change: A Close Look at the Peace Corps, and Textor's Cultural Frontiers of the Peace Corps (see entries #25 and #35 in the Selected Bibliography).

4. Accounting: The consultant should be a competent business professional as well as a sympathetic counselor. The core of the advisor's business skills should be a sound knowledge of accounting, both of generally accepted accounting principles, and of simplified recordkeeping systems attuned to the needs of SSEs in developing countries. A variety of excellent standard accounting texts are available: one example is Niswonger's and Fess's Accounting Principles (entry #51). Simplified accounting systems include Peace Corp's MICRON (#31), VITA's Single Entry Bookkeeping System (#21), and recordkeeping systems developed by Malcolm Harper (#15) and the Fundación Carvajal - AITEC program in Cali, Colombia (entry #13).

5. A Series of Practical Brochures on How to Address Specific Small Business Problems: Although general manuals and textbooks are useful references, a consultant needs real (not theoretical) answers to SSE's concrete problems in accounting, marketing, planning, and other areas. A series of practical leaflets which suggests concise answers to these problems may be a tremendous asset to the consultant in his day-to-day work with clients. Such brochures may also suggest useful topics for group training sessions.

Many developing countries may already have such publications available through a government development bank, vocational training program, or a private business group. In Colombia, for example, the Popular Finance Corporation (CFP, a credit and management assistance organization which caters specifically to SSEs), issues a short monthly bulletin with handy tips for small entrepreneurs and consultants. It also provides a technical information service which gives more in-depth mail-order information on selected technical and business management topics at a reasonable cost.

* I'm OK--You're OK, by Thomas A. Harris M.D. (Avon Books, paperback, 1973).

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If a local series of management aids is not available, several such packages exist in the U.S.: The Bank of America's Small Business Reporter (entry #18 in the Selected Bibliography); various series by the U.S. Small Business Administration (entries #38 and #39); and for Spanish speakers, AID's translation of a Small Business Administration series entitled Programa del Aviso de Dirección Administrativa: Administración de la Pequeña Empresa (entry #37).

6. Other Business References: For the consultant who is interested in analyzing small business administration in greater depth, the following types of references might be useful:

--A textbook on small business administration: Excellent books on small business administration in the U.S. are Steinmetz's and Kline's Managing the Small Business (entry #52), and Cohn's and Lindbergh's Survival and Growth: Management Strategies for the Small Firm (#42).

--A book in a given specialty of small business administration: Although every consultant must be a generalist in meeting an SSE client's diverse needs, he or she will likely gravitate to one area or another of small business administration as being of special interest--whether that be marketing, personnel, finance, or some other discipline. A textbook or study of that particular area might be useful. Helfert's Techniques of Financial Analysis, for example, offers an excellent review of important topics in financial analysis, plus valuable problems and case studies for classroom instruction (see entry #45).

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SELECTED BIBLIOGRAPHY

The bibliography below is divided into three sections, each section corresponding to a chapter in the manual. Individual entries in each section are arranged alphabetically, and the references of special interest are briefly annotated.

At the end of each entry, publications are further identified as paperback books (PB), hardback books (HB), leaflets or brochures (L), or unpublished papers or manuscripts (UP). It is also possible that some hardcover books may be available in paperback; thus the prospective reader should check with a bookstore or publisher before making any purchase of a hardback publication. Most of these materials may only be available from libraries and bookstores in the United States, or from public information sources such as the U.S. Agency for International Development's Research and Development Abstracts (ARDA), the U.S. Department of Commerce's National Technical Information Service (NTIS), or the World Bank's information center in Washington which distributes many publications at reasonable cost to the general public.³ Those publications in Spanish translation are probably available from private bookstores or government sources in many Latin American countries. Some of the references listed below can be obtained through Peace Corps' Office of Information Collection and Exchange (ICE), 806 Connecticut Avenue, N.W., Washington, D.C., 20525. Those materials which are available through ICE as of the date of this printing are asterisked (*) below at the end of each entry. Peace Corps Volunteers can obtain copies of these materials by requesting them from ICE through their APCD/Project Manager.

³ These and other organizations which may provide information or assistance to SSEs are listed (with their addresses) either in this Bibliography or in Appendix III, Exhibit B. Some information services (such as ARDA and NTIS) may also provide materials at a subsidized cost for development organizations in the Third World.

APPENDIX III

Exhibit D

I. CHAPTER ONE: THE SMALL-SCALE ENTERPRISE: DEFINITION AND ENVIRONMENT

1. Daines, Samuel R. Agribusiness and Rural Enterprise Project Manual, Washington, D.C.: Practical Concepts Incorporated, 1979.

A contracted study for AID which illustrates a range of possible programming and policy options in the area of small-scale enterprise? (PB)

2. Gordon, David L. Guidelines for SSE Project Development. Washington, D.C.: The World Bank, Industrial Development and Finance Department, February 14, 1978.

Paper presented at the "Meeting of Donor Agencies in Small-Scale Enterprise Development", sponsored in Berlin by the German Foundation for International Development, October 23-26, 1979. (UP)

3. Industrial Development and Finance Department, the World Bank. Employment Creation and SSE Development. Washington, D.C.: The World Bank, March, 1977.

A very useful macro-economic exposition on the subject of small-scale enterprise. (UP)

4. Neck, Phillip A., ed. Small Enterprise Development: Policies and Programs (Management Development Series #14). Geneva: International Labor Organization, 1977.

An anthology of articles on SSE programs in a variety of developing countries. (PB). Write to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland, concerning this and other ILO publications.

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5. Schumacher, E.G. Small is Beautiful: Economics as if People Mattered. New York: Harper and Row, publishers (Perennial Library), 1973.
Well-known thesis in favor of, small-scale economics--argued on both economic and metaphysical grounds. (PB). *

6. Staley, Eugene and Morse, Richard. Modern Small Industry for Developing Countries. New York: McGraw-Hill, 1965.
A standard and comprehensive reference on the subject of small-scale industry in developing countries. (HB)

7. The World Bank. Employment and the Development of Small Enterprises: Sector Policy Paper. Washington, D.C.: The World Bank. February, 1978.
A good summary reference on the macro-economic impact of small-scale enterprise in developing economies, as is the entry below concerning SSEs in rural areas. (PB). This and other World Bank publications available from the World Bank, Publications Unit, 1818 H Street, N.W., Washington, D.C. 20433.

8. The World Bank. Rural Enterprise and Nonfarm Employment: A World Bank Paper. Washington, D.C.: The World Bank, January 1978. (PB)

II. CHAPTER TWO: MANAGEMENT ASSISTANCE TO SMALL-SCALE ENTERPRISES: PURPOSE AND PROGRAM

9. Ashe, Jeffrey, PISCES: Program for Investment in the Small Capital Enterprise Sector Phase I: Assisting the Smallest Scale Economic Activities of the Urban Poor. Cambridge, Massachusetts: Accion Internacional/AITEC, 1980. (PB)

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10. Butler, George P. Realizing the Development Opportunity Created by an Iron Ore Mining Concession in Liberia: The Yekepa Model. Monrovia, Liberia: Partnership for Productivity, Sobanok Printing Press, Ltd., 1978.

An excellent, down-to-earth case history of an SSE assistance program in Liberia. See Appendix III, Exhibit A. for further discussion. (PB). Available from Partnership for Productivity Foundation in Washington, D.C.

11. Davenport, Robert W. Financing the Small Manufacturer in Developing Countries. New York: McGraw-Hill, 1967.

A classical study of the relationship between small business growth and credit in developing countries. (HB)

12. Fraser, Peter; and Tucker, William R. Program for Investment in the Small Capital Enterprise Sector (PISCES Phase I): Assisting the Smallest Economic Activities of the Urban Poor: Part II - Case Studies, Latin America. Cambridge, Massachusetts: ACCION International/AITEC, 1980.

See discussion in the text, Chapter Two, Section B. (PB)

13. Fundación Carvajal and ACCION International/AITEC. Descripción de un Programa de Desarrollo para Microempresas. ACCION International/AITEC: Cambridge, Massachusetts, June 1980.

An excellent manual describing the methodology of the DESAP Program in Cali, Colombia. See discussion in Appendix III, Exhibit A. (PB). For further information, write to Desarrollo para Pequeñas Empresas (DESAP), Fundación Carvajal, Avenida Roosevelt No. 26-29, Cali, Colombia.

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14. Gladhart, Peter Michael and Gladhart, Emily Winter. Northern Ecuador's Sweater Industry: Rural Women's Contribution to Economic Development. WID Working Paper #81/01. East Lansing, Michigan: Office of Women in International Development, Michigan State University, June 1981.

An interesting account of socio-economic change brought about by promotion of sweater-making in a rural area.

15. Harper, Malcolm. Consultancy for Small Business: The Concept - Training the Consultants. London: Intermediate Technology Publications, Ltd., 1976.

See a discussion of Harper's consulting program model in Appendix III, Exhibit A. This book is excellent, with a wealth of case studies, problems, exercises and other teaching aids. Its focus is on merchandising and services, rather than on manufacturing. (pB). Can be obtained from Partnership for Productivity Foundation, 2311 18th Street, N.W., Washington, D.C. 20009; from International Scholarly Book Services, Inc., P. O. Box 555, Forest Grove, Oregon 97116; or from Intermediate Technology Publications, Ltd., 9 King Street, London WC2E8HN, United Kingdom. *

16. Kahnert, Friedrich A. and Kozlowski, Janet. Assistance to Extension Services for Small-Scale Enterprises. Washington, D.C.: The World Bank, February 5, 1979.

Paper presented at the "Meeting of Donor Agencies in Small-Scale Enterprise Development", sponsored in Berlin by the German Foundation for International Development, October 23-26, 1979. The paper presents a number of interesting insights to organizing SSE extension services. (UP)

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III. CHAPTER THREE: MANAGEMENT ASSISTANCE TO TARGET FIRMS:
TOOLS AND TECHNIQUES

Reference Materials which may be applied directly to teaching or consulting small-scale entrepreneurs:

17. Arthur Andersen and Company. Manual for Group Discussion Leaders (Staff Training Series). Chicago: Arthur Andersen and Company, January, 1965.
This brochure provides a lot of handy tips on how to organize and conduct group discussion: e.g. seating arrangements, class scheduling, class participation, and the pros and cons of sponsoring a seminar, lecture or some other classroom format. (L)
18. Bank of America. Small Business Reporter. San Francisco: Bank of America, 1970.
An excellent series of brochures which addresses the problems of different types of small businesses (mostly in services and merchandising), and discusses different functional areas of small business management, such as accounting, finance and marketing. (L)
19. Burley, R.J. Supervisión de Personal. Translated by Nuria Cortada de Kohan. Bogotá: Fondo Educativo Inter-Americano, 1966. (Original title in English: An Introduction to Basic Supervision of People, published by Addison-Wesley, 1966).
An elementary, programmed learning text in human relations. The book has good illustrations and is appropriate for teaching small-scale entrepreneurs. (PB)
20. Carnegie, Dale. How to Win Friends and Influence People. New York: Pocket Books, 1964.
Carnegie's ideas on techniques of persuasion and salesmanship still ring very true today. (PB)

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21. Caye, Derry. A Single Entry Bookkeeping System for Small-Scale Manufacturing Businesses. Washington, D.C.: VITA, Inc. 1977.
A simple handbook showing how this system may be applied in developing countries. Less complicated than MICRON. (PB). VITA, 3706 Rhode Island Avenue, Mt. Ranier, Maryland, 20822.
22. Dubach, José. El ABC para la Quesería Rural del Ecuador. Quito, Ecuador: Cooperación Técnica del Gobierno Suizo, June, 1980.
An informative, step-by-step handbook on how to establish and operate a rural cheese-making plant. Based on a Swiss technical advisor's experience with such projects in Ecuador. (PB)
23. Food and Agricultural Organization (FAO). Audio Visual Aids for Cooperative Education and Training. New York: FAO
Excellent handbook depicting a wide range of appropriate audio-visual aids. (PB). Distributor of UN Publications in the U.S. is UNIPUB, 345 Park Avenue South, New York, New York 10010.
24. Fundación Carvajal, Programa de Desarrollo para la Pequeña Empresa (DESAPP). Ejercicio de Simulación para Pequeños Empresarios. Cali: DESAPP, January, 1978. Adapted from the original "SIMPRO" by Robert M. Duncan.
An innovative exercise in which participants make paper airplanes as part of an SSE production simulation. The exercise teaches such concepts as quality control, basic recordkeeping and break-even analysis. (UP). * 4
25. Hapgood, David and Bennet, Meridian. Agents of Change: A Close Look at the Peace Corps. New York: Little Brown and Company, 1968. (HB)

⁴ Request photocopy from ICE technical reference files.

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26. Industrial Development Division, Engineering Experiment Station, Georgia Institute of Technology. Employment Generation through Stimulation of Small-Scale Industries: Guidelines for Extension Personnel. Atlanta, Georgia: Georgia Institute of Technology, 1976.

For information on this and other publications write International Development Data Center, Office of International Programs, Engineering Experiment Station, Georgia Institute of Technology, Atlanta, Georgia, 30332.

27. Kubr, M. ed. Management Consulting: A Guide to the Profession. Geneva: International Labor Office, 1980.

Describes how consultant from management consulting firm should assist large-scale enterprise. However, sections on fact finding, fact analysis, proposals and implementation offer practical advice useful to SSE consultant. Also contains good case histories of sample consulting assignments, good summary guidance on functional areas of business administration (especially production), and exhaustive bibliographic references (including films) on all these subjects. To obtain the book write to ILO Publications, International Labor Office, CH-1211, Geneva 22, Switzerland or 300 East 44th Street, New York City, New York 10017 (HB)

28. Meade, Patrick. Technical Assistance for Small-Scale Industry. Bogotá: "Reunión Latinoamericana y del Caribe sobre la Pequeña y Mediana Industria", November 1973.

This paper, presented at the 1973 Bogotá Conference, contains some very practical tips for management consultants.

29. Peace Corps. Cooperatives (Appropriate Technologies for Development Series, Resource Packet No. P-5). Washington, D.C.: Peace Corps/ICE, 1978).

An excellent handbook, divided into six sections concerning cooperative concept, organization, management, training and resources. (PB). *

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30. Peace Corps. Guidelines for Development of a Home Industry (Appropriate Technologies for Development Series, Reprint No. R-14). Washington, D. C.: PC/ICE.
Practical hints on organization and administration of a small business based on the experience of a rural textile cooperative in Ethiopia. (PB). *
31. Peace Corps. MICRON, Accounting for the Micro Business: A Teaching Manual. Washington, D.C.: Peace Corps/ICE (Appropriate Technologies for Development Series, Reprint No. R-23 (Spanish) and R-23b (English)).
An excellent, simplified accounting system based on the author's experience with SSEs in Colombia. The manual is available in both Spanish and English. (PB). *
32. Peace Corps. The Photonovel: A Tool for Development (Appropriate Technologies for Development Series, Manual No. M-4). Washington D.C.: PC/ICE.
Illustrated how-to brochure on the promotional technique of the photonovel (PB). *
33. Peace Corps. Visual Aids: A Guide for Peace Corps Volunteers (Appropriate Technologies for Development Series, Reprint No. R-2). Washington, D.C.: PC/ICE.
A good handbook showing how simple materials can be used in preparing visual aids in developing countries. (PB). *

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34. Robert Morris Associates. Annual Statement Studies, 1974.
A compilation of industry average financial ratios for small, medium and large-sized businesses in the United States, and useful for at least a crude comparison with SSE financial ratios in developing countries. Since publication is periodically updated, consult latest edition available. (PB)
35. Textor, Robert B. Cultural Frontiers of the Peace Corps. Cambridge, Massachusetts: MIT Press, 1966. (PB)
36. Thomsen, Moritz, Living Poor: A Peace Corps Chronicle. Seattle and London: University of Washington Press, 1969. (HB)
37. United States Agency for International Development (Centro Regional de la Pequeña Empresa). Programa del Aviso de Dirección Administrativa: Administración de la Pequeña Empresa. Mexico and Buenos Aires.
Excellent series of twenty booklets in Spanish dealing with separate topics in small business administration. Translated from a series by the U.S. Small Business Administration, the booklets' ample illustrations and step-by-step approaches make them an ideal reference source for organizing seminar presentations for small business people. (PB). For U.S. Small Business Administration (SBA) Publications contact the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or the Office of Management Information and Training, U.S. Small Business Administration, Washington, D.C. 20416, or any regional office of the SBA in the U.S.

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38. United States Small Business Administration (SBA)
-Small Business Management Aids for Small
Manufacturers.
-Small Marketers Aids.
-Small Business Bibliographies.
Washington, D.C.: Government Printing Of-
fice.

Excellent free series of pamphlets addressing all aspects of small business administration, with additional references cited. Over 200 different brochures are available under these series from the SBA in Washington, or from its regional offices throughout the United States. (L)

39. United States Small Business Administration (SBA).
Small Business Management Series. Washing-
ton, D.C.: Government Printing Office.

A series of small books on finance, management and other topics, and available at reasonable prices from the SBA. Some of the more useful titles in this series are noted below: (PB)

- A. "Financial Control by Time Absorption Analysis", Small Business Management Series #37.
- B. "Financial Recordkeeping for Small Stores", Small Business Management Series #32.
- C. "Strengthening Small Business Management", (unnumbered).
- D. "A Handbook of Small Business Finance", Small Business Management Series #15.
- E. "Guides for Profit Planning", Small Business Management Series #25.
- F. "Improved Material Handling in Small Business". Small Business Management Series #14.

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- G. "Personality and Success", Small Business Research Series #4.
- H. "Profitable Small Plant Layout", Small Business Management Series #21.
- I. "Cash Planning in Small Manufacturing Companies", Small Business Research Series #1.
- J. "Cost Accounting for Small Manufacturers", Small Business Management Series #9, by R. Lee Brummet and Jack C. Robertson, 1972.

Textbooks on Business Administration useful as general references for teaching or consulting small-scale entrepreneurs:

- 40. Anthony, R.N. Fundamentals of Management Accounting. Homewood, Illinois: Richard D. Irwin, 1977.
An excellent intermediate text in accounting and finance. Also available in Spanish with title La Contabilidad en la Administración de la Empresa. (HB)
- 41. Buell, Victor P., and Heyel, Carl, eds. Handbook of Modern Marketing. New York: McGraw Hill Book Company, 1970.
Contains more than you ever would want to know about modern marketing. Some useful principles and points to look for in consulting SSEs. However, the handbook has a large company focus. (HB)
- 42. Cohn, Theodore, and Lindberg, Roy A. Survival and Growth: Management Strategies for the Small Firm. New York: AMACOM, 1974.
An excellent analysis of management strategies for small businesses in the U.S. Also contains a number of brief, practical examples of small business situations to illustrate its points. (HB)

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43. Greisman, Bernard, ed. J.K. Lasser's Business Management Handbook. New York: McGraw-Hill Book Company, 1968.
Good, common-sense advice on small business management in the U.S. (HB)
44. Hargedon, Bernard J. Principios de la Contabilidad. Bogotá: Norma Editores.
Simple, basic accounting textbook written by a former AID technician in Colombia. (PB)
45. Helfert, Erich A. Techniques of Financial Analysis. Homewood, Illinois: Dow-Jones-Irwin, Inc., 1977.
Offers a concise review of selected financial topics, with excellent problems and case studies. (HB)
46. Horngren, Charles T. Cost Accounting: A Managerial Emphasis. Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1972.
An advanced cost accounting textbook with illustrative problems and cases. (HB)
47. Johnson, Robert W. Financial Management (Fourth Edition). Boston, Massachusetts: Allyn and Bacon, Inc., 1974.
Useful general finance textbook. (HB)
48. Klatt, Laurence A. Managing the Dynamic Small Firm: Readings. Belmont, California: Wadsworth Publishing Company, Inc., 1971. (HB)
49. McGregor, Douglas. The Human Side of Enterprise. New York: McGraw-Hill Book Company, 1960.
A pioneering study in personnel management, and a good introduction to basic theories in this field. (HB)

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50. Moore, Russell F. AMA Management Handbook. New York: American Management Association, 1970.
Good general textbook review of management topics. However, has large company focus. (HB)
51. Niswonger, C. Rollin; and Fess, Phillip E. Accounting Principles (Eleventh Edition). Cincinnati, Ohio: South-Western Publishing Company.
General accounting text. Some good step-by-step explanations of basic accounting principles. (HB)
52. Stegall, Donald P.; Steinmetz, Laurence L; and Kline, John B. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc. 1976.
An excellent textbook review of various aspects of small business administration in the United States. (HB).

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