

The Small Business Space

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Serious analysis of what it is that I had really learned in the course of my career as a small business person became possible only after I developed the idea of the business *space*. This is the term that I began using to provide an overall label for the social, psychological, and philosophic environment into which a business is fitted. Since these are not words that flow naturally from normal business discourse, it follows that the characteristics of the space in which a business can be located are not uppermost in the minds of either those who start businesses or even those who have been happily operating them for many years. Nevertheless the idea of the business space turned out to be of fundamental importance to my analysis.

As I confronted my own business experiences with the results of my business reading I recognized that my business did not conform well to established norms. Originally I conceived this to be a consequence of personal idiosyncrasy. I did things differently because my business was an expression of my own peculiar notions and ideas. However, the results of extensive networking with many other entrepreneurial business people soon revealed my business approaches to have a great deal more commonality than I had previously expected or that could be explained by personal eccentricity. It was as if each of us had independently and inadvertently found a space in which we could comfortably operate our businesses, only to discover, to our surprise, that we were occupying a common space.

From such experiences came the notion of the business space and recognition of the fact that the business space occupied by me and my entrepreneurial colleagues was quite different from the “normal” business space. I now identify these two distinct and separate spaces as the “large business space” and the “small business space”. The significance of this separation is not generally acknowledged. Business texts and educators frequently assert the opposite: that whether large or small, a business is still a business and good business practice in one also applies to the other. The fact that they are wrong explains why current business education has proved so irrelevant to the success or failure of start-up businesses.

The formalization of business practices has stemmed exclusively from study of the large business space. When educators refer to business management, they mean management in the large business space. When books are written purporting to explain how to start a business, they are derived from the experience of the large business space. When politicians create “business” legislation, either

to support or to control, they do so based exclusively upon a dialogue emanating from the large business space. In fact, the only universally recognized business space is the large business space.

Only by using the concept of the small business space was I able to begin to bring coherence to the pattern of my business experiences. I came to recognize that everything I read, emanating as it did from the large business space, had to be passed through a filter before the results could be usefully fitted into the small business space. I discovered that some things simply never passed through the filter at all, while certain of my business practices fitted only into the small business space and had no counterpart or relevance at all in the large business space.

The concept of the small business space is important because it accounts for a whole range of practices that I noted in my own business experiences and in those of other small businesses, that differ, in sometimes obvious and other times subtle ways, from comparable “normal” or text book practices. To legitimize the concept of the small business space, however, requires that it be meaningfully differentiated from the conventional large business space. I believe that two fundamental differences account for the logical separation of these two spaces.

The large business space is occupied almost exclusively by businesses that are publicly owned. In such public corporations ownership is divorced from operation. This divorce necessarily produces motivational tensions and constraints on those who operate the business. All of us who have invested in the stock market and thereby acquired an ownership stake in a public company understand our motivation as owners. We wish the company to generate growth and profits so that the value of ownership (our shares) will increase at a rate greater than would a bank savings deposit. Since the necessary goal of any public corporation is to satisfy its owners, achieving profits and growth become the principal motivating factors of the business.

People who direct the operation of businesses are motivated in many possible ways. It is extremely unlikely, however, that their primary motivation would ever be to make money for the shareholders. Since, however, this is the owners’ motivation, it is clear that a necessary tension must exist between personal and corporate motivation within the business. A rationalization must be created by corporate managers that brings personal motivation into acceptable harmony with corporate motivation. However, this rationalization can only be stretched so far, so there will always be motivational opportunities that are denied to those who operate public corporations.

For instance, a chief executive who was strongly motivated to undertake a project that would be “hugely beneficial to mankind” would receive approval from

the owners (through the board of directors) only if a persuasive argument could be made that the financial return on such an investment would exceed that of logical alternatives. Every chief executive understands these limitations that corporate motivation places upon personal motivation.

The small business space is populated by businesses that are exclusively private, where the owners and those that direct the operation of the business are the same people. Under such circumstances no motivational tensions can possibly exist. The small business owner is free to direct the business in whatever manner genuinely satisfies his or her motivations.

This freedom of motivation means that in the small business space, profits and growth are generally not the primary driving force of the business and decisions are frequently taken without serious concern that they enhance either. Thus while the large business space is dominated by "bottom line" motivation, it is really quite remarkable how little attention is paid to "profits" in the small business space. Lest this observation be misinterpreted, I would hasten to add that successful small businesses are acutely aware of cash flow, but as will be clarified later, this is quite a different matter than profits.

The significance of this difference between the large and small business space is far more dramatic than appears at first glance. My own business offered a good example of this. It was involved in the development and sale of new process and testing technology to the pulp and paper industry. By the criterion of the large business space, it was an abject failure. Growth was purposely minimal, and "the next project" continuously absorbed any excess cash. Yet it was a business that provided a reliable and good standard of living to eight families in Vermont, and contributed to the welfare of dozens of others who provided services to the business. Pulp and paper mills around the world have adopted its products to enhance their operational efficiencies. Many would thus argue for the success of the business. The point is, of course, that within the small business space such a conclusion is tenable. Within the large business space it is not.

Of possibly greater significance, however, is the certainty that none of the existing products of this business now being used by an increasing percentage of the pulp and paper industry world-wide, could have been developed in the large business space. When I factor in the development costs that would necessarily have occurred in the large business space, where my own and other services obtained for next to nothing would have commanded market rates, I know that I could never have produced a persuasive argument, even to myself, that these projects could produce a competitive return on investment.

In other words, my business would not only have been a failure in the large business space, its development activity would have been inconceivable.

The second fundamental difference between the large and the small business space is implicit in their descriptions. The large business space is populated overwhelmingly by businesses who count their employees in the hundreds or in the thousands. Those who direct such businesses are effectively divorced from any serious contact with all but a very small percentage of those actively engaged by the business. Employees necessarily tend to become statistics, and hierarchical structures are needed to create some semblance of order. The motivational tensions that are a problem at the highest levels of a large business are trivial by comparison to the fragmentation that occurs as one descends through the hierarchy. It is extremely difficult if not impossible to sustain any coherent motivation in such unwieldy structures. Performance in the large business space is predicated on organization, not on motivation. Since organization can produce only an insecure and tentative employee motivation, corporate efficiencies suffer accordingly. The characteristic of the large business space is therefore a low productivity of labor that is not enhanced by the additional burden imposed by the magnitude of the organizational task. Anyone outside the corporate structure who has frequent contact with large businesses, such as myself, cannot but be impressed (or depressed) by the percentage of time people are unavailable because they are in meetings, and by the frequency that casual observation finds people unengaged with any productive task.

The small business space is populated by businesses that overwhelmingly count their employees by the dozens, and frequently less than this. Under such circumstances the relationship between the owner/operators and all employees can be, and most frequently is, a highly personal one. Hierarchical management structures are unnecessary. The relationship of each employee to the business can receive the detailed attention of the owner. Thus building a common motivation that embraces everyone in the business, an overall business goal that can enthuse everyone, becomes feasible. For this reason the productivity of labor can be far higher than is remotely conceivable in the large business space. Contrary to general perception, then, large and small businesses really do occupy different spaces. They are each a different species, needing to operate in ways very different from each other. Many consequences of importance to the effective operation of small businesses have for too long been ignored. These consequences represent the foundations upon which the instructional programs of the Vermont Small Business Training Center are built.