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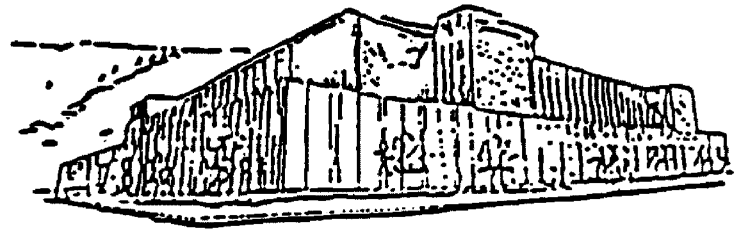

AN EXAMINATION OF THE POTENTIAL OF MICROENTERPRISE DEVELOPMENT AS A TOOL FOR SOCIAL WELFARE REFORM

by

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Director: Richard T. Dailey

Since the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, there has been much debate about the impact of the Act on America's poor. Much of this debate has centered on finding the best ways to bring about welfare reform without creating economic chaos for those in need.

One idea that has received considerable attention and yet has not been extensively studied is that of using microenterprise development as a means of helping the poor to help themselves. Such a program appeals to the entrepreneurial spirit of the American people, but it also engenders a certain amount of criticism from some people who feel that it is "just wrong" to help someone start a business who has previously been a "welfare bum" or who feel that welfare recipients lack the necessary motivation and other personal attributes to successfully lift themselves out of poverty through entrepreneurial activity.

Although microentrepreneurship is certainly not without its pitfalls, it seems worthy of careful examination and consideration as a potential tool in the nation's efforts to transform the poor from wards of the state to independent citizens.

This paper examines microentrepreneurship with regard to the personal and business factors that may help to increase the likelihood of success. In addition, the roles of government, nonprofit organizations, and businesses are examined with regard to both support systems and policy implications. A discussion of economic impact is also included in order to provide both stimulation and direction for additional research. Finally, a few of the many opportunities for further research in this area are identified.

The author spent fifteen evenings in the spring of 1997 teaching eight welfare recipients how to start and operate a microenterprise, and untold hours since consulting with the six who did. To a great extent, this paper is their story and serves as a tribute to six people who are working to build a better life for themselves and their families than was ever available to them at the welfare office.

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Dedication

This work is dedicated to the two women who provided help and encouragement during its formulation, research, and writing: my beloved wife Jan and my friend and mentor, Dr. Teresa Beed.

Acknowledgments

First of all, I would like to say thank you to the members of my thesis committee, all of whom have proven helpful and have shown themselves to be both my professors and my friends. Thank you for all your help, and for never letting me do less than my best on this project. Special thanks to Dr. Dailey, who never complained that he was actually my second choice of management professors to sit on this committee, and to Dr. Manuel, whose instruction and friendship are second only to my own interests in influencing my decision to pursue further study in finance.

Although it may seem strange to some, I would also like to thank James Tobin. Although I have never had the privilege of meeting Mr. Tobin, his insightful article on the Business@Home website in May, 1997 was what sparked my interest in microenterprise development as a potential tool for social welfare reform. I still keep a copy of that article in my file.

I would also like to add a special thank you to Bill Elison, the social sciences librarian at The University of Montana's Maureen and Mike Mansfield Library for his help in conducting the research for this thesis, and to Pam Marek in interlibrary loan for securing the many books and articles that I could not find elsewhere.

Finally, I want to thank my wife, Jan, for standing by me through the research and writing of this thesis, and I want to thank numerous members of the faculty of The University of Montana School of Business Administration for help, encouragement, and a quality education that helped lead to what I hope is a quality thesis "product."

Chapter 1

Introduction and Background

With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, the welfare reform debate shifted from one addressing what was needed to a debate that focused on how best to comply with the requirements of the new legislation. States were left with only a handful of federal guidelines to replace the volumes of regulations that had been in force under the previous welfare system. Suddenly any idea, no matter how ludicrous it might seem, could be implemented on at least an experimental basis if it showed the slightest promise of moving welfare recipients into the workforce on a permanent basis.

As might be expected, a plethora of programs were conceived and funded in an effort to make PRWORA work. Some, such as New York City's workfare program, were either ill conceived or improperly managed. This led to profuse litigation (Harper's 1997) and left many politicians and bureaucrats scrambling for new answers. Other programs, while well constructed and competently managed, were unsuccessful simply because they tried to do too much too quickly. A few programs succeeded beyond the imaginations of their originators, but they were far too few to have any lasting impact.[1]

In spite of the many failures associated with welfare reform, advocates point with pride to the fact that the welfare rolls decreased by half between 1992 and 1998 (Clinton, 1999a). However, by the admission of these welfare reform proponents, only 410,000 of the 6.8 million people who have left the welfare rolls have been accounted for by the Welfare-to-Work Partnership. This implies one of three possibilities: (1) the Welfare-to-Work Partnership did not account for the majority of welfare leavers, (2) most welfare leavers are not finding work, or (3) most welfare leavers are finding work in the informal sector.

Among the numerous possibilities that have been reviewed, perhaps one of the most promising is microenterprise development. Traditionally part of the informal sector of the economy, microenterprise has become more a part of mainstream economic and social thought in recent years, thanks in great measure to PRWORA studies by organizations such as the Aspen Institute, funding provided by forward-thinking foundations such as the Charles Stewart Mott Foundation, and the model microfinancing programs of groups such as the Grameen Bank in Bangladesh. The efforts of the latter organization have been of particular interest as both government

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[1] For a discussion of the impact of welfare reform programs in Montana, see Miller (1998).

agencies and private charities in the United States have sought answers to the many problems faced by microenterprise development programs.

This study proposes to examine the potential of microenterprise development as a tool for social welfare reform. Although the bulk of the study will be a review and synthesis of the existing literature, case studies related to the author's work in microenterprise development with welfare recipients will be undertaken and reviewed in order to test, on at least a rudimentary level, the hypotheses deduced from the literature.

If microenterprise development is to prove useful in assisting social welfare reform efforts, its use must be predicated on sound principles. In order to lay a groundwork that will make this study a utilitarian effort rather than simply an academic exercise, the factors that lead to success or failure in microenterprise will be examined. These factors will include personal characteristics of the microentrepreneur, the characteristics of the microenterprise firm and its industry, and factors related to the environment and support systems.

In addition to these elements, this study will also explore the potential impact of microenterprise on the Montana economy. While the expected results in Montana may not be the same as those in other parts of the nation, the current upheaval as the state's economy transitions from resource-based to service-based coupled with the chronic economic problems that plague the state's rural areas and Indian reservations imply that even better results could be obtained in a more stable and wealthier economy.

Next, this study will examine the implications of its own findings for the policies of governmental entities, businesses, and nonprofit organizations with regard to microenterprise development programs as well as other programs that may be needed to provide support or a "safety net" during the development phase of the microenterprise.

Finally, the author will endeavor to identify some of the numerous opportunities for further study of this subject that exist in such diverse disciplines as business administration, economics, sociology, psychology, anthropology, social work, education, and political science.

Case studies used in this investigation are taken from the files of Northwest Business Development Corporation (NBDC), where the author has served as president since 1996. In order to maintain the confidentiality of the agency's records, all identifying information for the firms and entrepreneurs has been changed in this document.

To a great extent, this paper will follow eight of NDBC's clients. These eight are a very special group, because all of them were welfare recipients who completed NBDC's Project for Economic Empowerment of the Poor (PEEP) microenterprise training program in 1997. All eight participants had children in the home (an average of 2.5). Only one (the only male) was married: one woman was widowed, five women were divorced, and one woman had never been married. One participant had completed a bachelor's degree, another had 70 semester credits of college (essentially an associate's degree although no degree had been awarded), four were high school graduates with no college, and the other two had quit high school during or just after the tenth grade. Time on welfare at the time of enrollment ranged from four months to eight years. Two participants had income from another source (Social Security survivor and Social Security disability benefits) besides welfare at the time of enrollment. Two of the divorcees knew where their childrens' fathers were, but neither was able to collect any significant child support (one father was in prison and the other was unemployed and homeless). Three participants had been reared in single parent homes by a mother who was on welfare, and a fourth remembered her parents receiving welfare assistance for approximately two years during the recession of the late 1970s. While the author acknowledges that there are numerous other demographic and psychographic factors that could be of interest to this study, this additional data is currently unavailable.

Of these eight clients, six started microenterprises which continue to date, and a seventh used her microenterprise training and some additional course work taken through the Missoula County Public Schools' adult and continuing education program to secure employment that was sufficient to allow her to leave welfare completely.

Although using only the data available from Northwest Business Development Corporation severely limits this study, this limitation was made necessary by time constraints and the dearth of information available from other sources. Numerous agencies throughout Montana were contacted, but their records regarding their microenterprise clients consisted largely of loan application and debt servicing information. If this study accomplishes nothing else, it will hopefully provide motivation to other microenterprise programs to track the kinds of data used here and to compare their results with the findings of this study.

Chapter 2

What is Microenterprise?

In studying microenterprise, it is first essential to understand what microenterprise is and is not. Without a firm understanding of microenterprise it would be possible to review considerable amounts of business and economic knowledge only to find that the results of the study are more applicable to Microsoft than to microenterprise.

Numerous definitions of microenterprise have been proposed by scholars and government agencies, and many more could be derived from business practice. Perhaps the most commonly used definition is set forth by the Microenterprise Act. This definition states that a microenterprise is any business with five or fewer employees including the owner(s).

Although elegantly simple, the Act's definition appears to have been intended to make as many *foreign* businesses as possible eligible for financing. The Microenterprise Act is not aimed at American businesses. Instead, it is a foreign aid act that is targeted toward developing nations. When applied to businesses in the United States, the Act's uncomplicated definition of microenterprise can result in skewed data. For example, Lerner (1996) used this definition in studying microenterprise in an economically disadvantaged area of Detroit, Michigan. As a result, her findings included data from several businesses with considerable amounts of capital. While this was not necessarily detrimental to Lerner's study, its inclusion of businesses formed with large capital outlays is not appropriate to this study, as few welfare recipients could raise hundreds of thousands of dollars in capital.

A common practice of the United States Small Business Administration (SBA) in grouping businesses is to base its classifications on annual sales. However, attempting to define microenterprise in this manner would either include firms that are not true microenterprises or exclude the most successful microenterprises. For example, if we assumed that a microenterprise would have annual sales of no more than $50,000 we might include some firms that have considerable capital but very low returns on investment. On the other hand, this same (admittedly arbitrary) figure would exclude several very low capital, home based businesses which qualify as microenterprises in all other aspects but enjoy substantial returns on investment. Therefore, sales figures are not considered by this study in defining microenterprise.

Similarly, it did not seem to be in the best interests of this study to limit the definition of microenterprise on the basis of the firm's form of organization. The exception to this is that publicly held corporations would necessarily be excluded since no microbusinesses would be able to enter the capital markets at that level. However, the author's experience shows that some microenterprises are incorporated as either closely held or subchapter S corporations: as a result, these forms were included, along with partnerships and proprietorships, within the definition of microenterprise used by this study.

Although most microenterprises are home based businesses, the author is aware of several that are instead located in small business incubators or leased commercial spaces. As a result, location was excluded from the definition of microenterprise for the purposes of this study.

The final possible criterion was capital outlay required to start the business. As noted earlier, the ability to raise capital is one of the primary hurdles that a welfare recipient would face in attempting to establish a microenterprise or small business. According to the Aspen Institute (Clark and Kays, 1995), the microenterprises started under the programs in their study were all started with no more than $15,000 in capital. While this amount would be out of reach of most welfare recipients, it at least provides a viable upper boundary for the purposes of this study.

As the term is used in this study, then, *microenterprise* will mean a proprietorship, partnership, or closely held or subchapter S corporation with no more than five employees including the owner(s) that was started with no more than $15,000 in *total* capital. The terms *microenterprise* and *microbusiness* will be used interchangeably throughout the remainder of this paper.

Chapter 3

Microenterprise Success Factors

If the purpose of PRWORA is to move people from welfare to work, then microenterprise development can only be a viable tool for use in those efforts if we can ascertain when and how it is to be used. Obviously our goal must be to create vital microenterprises that improve the economic status of the owners and their families. If they can be expanded at a later time to create jobs for increasing numbers of workers, that is certainly a welcome byproduct.

Are There Common Characteristics in the Personalities of Successful Microentrepreneurs?

In attempting to determine those factors that serve to make a microenterprise succeed or fail, the first component to examine is the microentrepreneur. If there are certain personality traits that help determine the success or failure of a microentrepreneur, it would be beneficial to know what those traits are.

A considerable amount of investigation has been undertaken regarding the personality traits of successful small business entrepreneurs. McClelland (1961) theorized that the successful entrepreneur was characterized by a high need for achievement. Filion (1991) hypothesized that vision was the primary factor that set entrepreneurs apart from the general population. Other researchers focused on the need for autonomy (Solomon and Winslow, 1988), internal locus of control (Brockhaus and Nord, 1979), opportunism (Stevenson, Roberts and Grousbeck, 1989), creativity and innovativeness (Herbert and Link, 1988), and calculated risk taking (Liles, 1978). Winslow and Solomon (1987) even went so far as to suggest that entrepreneurs were mildly sociopathic. A study by Johnson and Ma (1995) attempted to test all of these hypotheses (except sociopathy) on a sample of fifty entrepreneurs who were currently in business and fifty more whose ventures had failed. They found that there was little difference between the two groups and that, in fact, the study could not validate *any* of the hypotheses with an acceptable degree of certainty. Koh (1996) administered a similar questionnaire to MBA students in Hong Kong and found that a test of six characteristics (need for achievement, locus of control, propensity to take risks, tolerance of ambiguity, self-confidence, and innovativeness) could predict an entrepreneurial proclivity with an 87% accuracy rate. However, Koh also points to the research of McClelland and Winter (1969) and Timmons, Smollen and Dingee (1985) to suggest that personality traits can be learned and therefore the mere lack of these traits do not preclude one from becoming an entrepreneur. The author would also argue that Koh's study tested MBA students who hoped to become entrepreneurs and has no real bearing on the probability that any of the subjects will ever actually start a business or that they will be successful if they do start a business.

Caird (1993) examined the various personality tests that are commonly used by researchers in exploring the entrepreneurial personality and found that virtually all of them were deficient with regard to either face validity, discriminant validity, reliability, or transparency. Hull, Bosley and Udell (1980) found that the most probable personality determinants of entrepreneurial success were creativity, perseverance, and leadership. However, as DeCarlo and Lyons (1980) point out, the skills required to start a business are significantly different than those required to operate a going business. They liken the search for a model of the entrepreneurial personality to the fruitless search for the personality traits that would distinguish good leaders from poor ones, and suggest instead that the entrepreneurial "model" should be based on a contingency theory that relates to the firm's stage in its life cycle rather than on an endless battery of psychological tests.

In addition to these studies, a number of investigations have suggested that there are significant gender-based differences between the personalities of entrepreneurs. In a comprehensive study, Brush (1992) found that women business owners are more similar to than different from their male counterparts in most personality and demographic traits. However, she noted that, while levels of education were similar, the fields of study differed widely. In addition, Brush found that the goals, motivations, and thought processes of male and female entrepreneurs differed considerably. For example, men were more likely to emphasize economic goals (e.g.

profitability), while women were more likely to temper economic concerns with broader social goals (e.g. customer satisfaction). Male entrepreneurs in Brush's study were more likely to have started their businesses from a desire to be an entrepreneur than women, most of whom had started their businesses from a combination of economic necessity and a desire to help others. These differences, along with the generally accepted difference in brain hemisphere dominance between men and women, accounted for most of the differences in thought processes.

In addition to these findings, Brush notes that the personal environment of women creates different issues and concerns than men's. These issues and concerns appear to be predicated on the woman's stage of personal life cycle, geographical region, industry, and role perceptions in business ownership. Ehlers and Main (1998) contend that these environmental (and, in some cases, biochemical) differences lead women to start businesses which may survive but are ultimately disadvantaged as compared to businesses started by men. The conclusions reached by Ehlers and Main have not yet been subjected to rigorous scrutiny. However, when one considers that most welfare recipients are women and, therefore, any microenterprise development program aimed at welfare recipients will deal predominantly with women, the hypothesis advanced by Ehlers and Main merits consideration with regard to the potential differences that must be addressed in the training and support systems.

In addition to gender, ethnicity can have a profound effect on personality and must be considered in attempting to assess the personal and demographic traits of successful entrepreneurs. Yusuf (1995) reported a difference in perceptions of critical success factors between indigenous and non-indigenous entrepreneurs in the South Pacific islands. To the extent that perceptions affect personality, these differences would lead to the demonstration of different characteristics between these groups of entrepreneurs. Christopher (1998) noted several distinctions between survivability of minority and non-minority owned businesses. These differences were primarily related to education, work experience, and firm capitalization. Christopher found that education was less important to the survival of minority owned businesses than to non-minority owned firms, while the owner's work experience was more important to minority owned businesses than to non-minority owned firms. Capitalization questions are more germane to the discussion of firm and industry characteristics and will be revisited elsewhere in this paper.

The real question facing this study, however, is whether any of the myriad theories of entrepreneurial characteristics are in any way applicable to the microentrepreneur. Mushinski (1996) studied Grameen Bank-type "borrowing circles" used by the Lakota Fund on the Rosebud Indian reservation and found very little evidence of the various personality traits normally associated with entrepreneurship among the microentrepreneurs working with that program. However, Mushinski notes that most of the businesses enjoyed at least a modicum of success and that the Lakota Fund was enjoying a 93% repayment rate. Possible reasons for this are advanced by Mushinski and will be discussed later in this chapter along with other support system factors that may help lead to microenterprise success.

While it might be argued that Mushinski's work concentrated on a special segment of the population where the Grameen Bank-type borrowing circles are more likely to be effective than in the broader population, similar systems were used in several of the programs studied by Clark and Kays (1995), and in every case similar results were noted. Of particular interest was Minnesota's Women Venture program, which used the Grameen Bank-type borrowing circles with welfare recipients. While not every project funded by this program was successful, 55% of the businesses funded showed income gains over the three year period covered by the study, and 25% of the funded microentrepreneurs who started with incomes below the poverty line rose above the line within that time. This is tempered by the fact that 25% of the firms started under the program failed during that period. In spite of that fact, Women Venture still collected more than 90% of the money it had loaned to microentrepreneurs enrolled in the program.

Indications From Montana Microentrepreneurs

In reviewing existing microenterprise in Montana, the case files provided by Northwest Business Development Corporation (NBDC) proved quite useful in spite of their limited number. Of the twenty-seven files provided, nineteen included the results of a ten question self-evaluation quiz that the agency uses with all clients (except those who are only seeking review of a business or marketing plan or other business document). These nineteen clients included seven women and one man who had been enrolled in the agency's Project for Economic Empowerment of the Poor (PEEP) microenterprise education program and seven women and four men who had sought out the organization for consultation on business management or special problems or issues faced by their firms. This self-evaluation quiz is reproduced in Appendix A.

The self-evaluation quiz is designed to measure ten entrepreneurial characteristics: motivation, orientation toward people, leadership, responsibility, organization, work ethic, decisiveness, trustworthiness, perseverance, and health. Each question has three possible answers presented in multiple choice format. Answers that are considered "entrepreneurial" are given three points, while two points are awarded for "marginally entrepreneurial" answers and one point is assigned for "non-entrepreneurial" responses.

While both the brevity and transparency of the self-evaluation quiz bring its overall utility into question, it is still interesting to note the comparative results of this quiz among the nineteen NBDC clients to whom it was administered. These results are summarized in Table 1.

Table 1: Results of Entrepreneurial Self-Evaluation Quiz

	Men		Women	
Characteristic	**PEEP**	**Other**	**PEEP**	**Other**
Motivation	3.000	3.000	2.714	3.000
People Orientation	2.000	2.750	2.857	3.000
Leadership	3.000	2.750	2.714	2.857
Responsibility	3.000	2.750	2.714	2.857
Organization	3.000	2.750	2.857	2.857
Work Ethic	2.000	3.000	2.714	2.857
Decisiveness	3.000	2.750	2.571	3.000
Trustworthiness	3.000	3.000	2.857	3.000
Perseverance	3.000	3.000	2.714	2.857
Health	2.000	2.500	2.571	2.571

It is interesting to note that PEEP clients evaluated themselves equal to or lower than microentrepreneurs with existing businesses in most characteristics. There are several possible reasons for these variations. The PEEP clients may have been more honest in the hope of receiving more applicable help from the program. On the other hand, they may have been less honest due to a fear of being expelled from the program. Male microenterpreneurs' views of themselves may be skewed by "machismo," or it may be that their responses reflect an honest difference between themselves and the female microentrepreneurs and PEEP clients. As Brush (1992) might well have predicted, female microentrepreneurs see themselves as excelling in people orientation and trustworthiness, two essential elements of their purported benevolent motivations and focus on social goals.

Any hypothesis for predicting microentrepreneurial success based on specific personality or demographic traits of the microentrepreneur must be shown to result in reasonably accurate predictions in a majority of cases. In examining the NBDC files, no such evidence is forthcoming. If anything, these records tend to serve as a collection of exceptions to such hypotheses rather than as evidence for them. A concise presentation of two representative cases should serve to illustrate this trend.

“Angela” came to NBDC for help in evaluating the profitability of exporting her product and for advice on managing the financial risks of accepting orders for export. Angela’s microenterprise is a home based business which makes custom t-shirts which, at the time, were being sold on a website hosted by a local Internet service provider (ISP). The t-shirts consist of seven parts (front and back halves of the bodice, front and back halves of the yoke, left and right sleeves, and the collar). Angela allows customers to specify different colors from a vast array of solid and print fabrics for each part individually. Photographs of several t-shirts were included on her website.

On the self-evaluation quiz, Angela rated herself as entrepreneurial in four of the ten traits. She rated herself as marginally entrepreneurial in leadership, responsibility, work ethic, trustworthiness, perseverance, and health. Her demographic profile includes such facts as being a divorcee with three children, being a high school graduate with no post-secondary training, and having a very short and sporadic work history which was primarily concentrated in food services. Her custom t-shirt business was started with less than $1,000 in total capital, and its only physical asset was a sewing machine which had been purchased new for about $650. Angela's brother had designed her website and maintained it for her.

Whether one chooses to believe in fate or not, it was apparently at work in Angela's business. One of the photographs displayed on her website was seen by the coach of a soccer team in Russia, and it happened to be in his team's colors. When Angela first approached NBDC, she was trying to decide whether to accept an order from that coach for fifty t-shirts which would be used as jerseys for the soccer team. NBDC put Angela in contact with an import/export broker in Seattle who was better qualified to answer her questions. Follow up interviews were conducted every six months for the next two years. As of the final interview, which took place in early 1999, Angela had discontinued her website and was contracting with several other women to manufacture t-shirts for export to soccer teams in the former Soviet bloc countries. Even with the additional production capacity, she had enough outstanding orders to remain at full capacity for approximately two years. Her personal income from the business had climbed to just under $24,000 for 1998 and she expected it to increase again in 1999. In addition, each of her subcontractors was enjoying a substantial increase in income as a result of what can only be described as a fortuitous event.

"Michelle" was a PEEP client who completed the training and decided to utilize her previous training as a community access television producer to start a videotaping business. Michelle had the lowest of the nineteen scores on the entrepreneurial self-evaluation quiz. She was a single mother with two children who had withdrawn from school after the tenth grade and had no work history until the Families Achieving Independence in Montana (FAIM) program forced her to perform "voluntary" community service in order to maintain her welfare benefits. She started her videotaping business with $5,000 borrowed from an uncle and $200 in personal savings. The $5,000 was used to purchase second hand videotaping and editing equipment through a dealer in New York, and the $200 provided a small inventory of tape stock and packaging materials. With no marketing efforts beyond personal selling and word of mouth, Michelle began the task of finding clients who would "pay a reasonable fee to have a videographer record special events in their lives and deliver a professionally edited finished product for them to cherish."

Even though budgetary constraints had forced Michelle to purchase somewhat outmoded and often troublesome equipment, she was able to contract for enough work to repay the loan from her uncle and convince her case worker that she was, in fact, making a concerted effort to achieve independence. Eventually, the lack of all the fashionable "bells and whistles" in her equipment made it virtually impossible to obtain videographic work. However, this young woman, who had evaluated her own perseverance as only marginally entrepreneurial, saw opportunity in her predicament. She sold the editing equipment and used the proceeds to purchase a computer, printer, video capture card, and t-shirt press. She then loaded her children, belongings, and business equipment into a trailer and moved to the Seattle area, where she is using her new equipment and her old video camera to make "portrait" t-shirts in a cabana located in a mall. In addition, Michelle has found a niche market in the Seattle area that utilizes her videography skills to tape events for use as streaming video on websites. An August, 1999 letter to NBDC indicates that she is enjoying some tangible success and hopes to purchase a better computer that can also be used as a video editing platform in the near future.

This is not meant to imply that every NBDC microenterprise client has been an unqualified success. Of the twenty-seven files provided, fifteen were currently in at least marginally successful businesses (that is, solvent), seven were currently attempting to reorganize and save their businesses, and five had either closed their businesses or had not started a business. However, of the successful microenterprises, only five of the owners had scored higher than 27 on the self-evaluation quiz. Of the files that contained self-evaluation quizzes, the ten successful microentrepreneurs had the lowest mean score, 27.3 as compared to 28.4 for the five who were reorganizing their businesses and 28.67 for the three who had either not started a business or had closed the business due to financial failure. It is, perhaps, noteworthy that the one microentrepreneur who had closed his business because of retirement scored 29 on the self-evaluation quiz and had sought the help of NBDC in exploring the viability of selling his business. Possible scores range from a low of 10 to a high of 30. Overall, the rates of outcomes (successful, reorganizing, failed, or retired) are shown in Table 2.

Table 2: Distribution of Outcomes Among NBDC Microenterprise Clients

	Men		Women	
Outcome	**PEEP**	**Others**	**PEEP**	**Others**
Successful Business	0	4	3	8
Reorganizing Business	1	1	2	3
Failed or No Business	0	1	2	1
Retired	0	1	0	0

Unfortunately, none of the other agencies that the author contacted were able to provide information regarding the personality characteristics of their clients. This leaves the question of personality traits as predictors of successful microentrepreneurship open. However, based on the findings of Mushinski (1996) and Clark and Kays (1995) and on the arguments of DeCarlo and Lyons (1980), Brush (1992), and Koh (1996), it may be appropriate to assume that any personality characteristics that affect microentrepreneurial success can either be learned or supplanted by well designed training and support systems, and that the personality model for microentrepreneurs should be based on contingency theory rather than on absolute measurement of characteristics.

In Search of the "Model" Microenterprise: Do Certain Firm Characteristics Help in Predicting Success or Failure?

If the search for determinants of success among the personality traits of microentrepreneurs seems less than satisfying, no significant relief will be had by examining the characteristics of successful microenterprise firms.

With the exception of product and firm life cycle theories, there is little in the literature to suggest that any specific firm type or industry is especially suited to microenterprise. MacMillian, Seigel and Narasimha (1985) found that the only firm-specific criteria used by venture capitalists in evaluating new investment proposals are short- and long-term return on investment, liquidity of the investment, and the entrepreneur's expectation that the venture capitalist will participate in any future requests for financing. Other criteria relate to the product or service offered, with venture capitalists generally considering whether the product or service is proprietary, high tech, has been developed to at least the point of a functioning prototype, and enjoys demonstrated market acceptance.

Most microentrepreneurs would find it very difficult if not impossible to attract financing from venture capitalists. Although investments in microenterprises tend to be relatively liquid, returns on investment are generally not very high and the microentrepreneur usually needs ongoing financing from a very limited pool of resources. Microenterprises also tend to be new businesses with little or no established track record in the marketplace, and the preponderance of firms are in either personal or business services. The closest that microenterprise usually comes to being "high tech" are the numerous Internet website developers who work from their homes on an informal basis.

This is not to say that there are no characteristics that can be evaluated to predict the success or failure of a microenterprise. Certainly a microenterprise, like any business undertaking, must be engaged in a viable industry. However, viable may be a relative term when evaluating a microenterprise. The author vividly remembers visiting a blacksmith's shop with his father and uncle in the 1960's. Obviously blacksmithing would not be considered a viable industry in the age of the automobile, and yet this blacksmith and a handful like him around the country are able to practice their old fashioned craft and earn a respectable living from it. That the traditional blacksmith's shop is a microenterprise under our definition (assuming that it occupies leased quarters) should go without saying.

Perhaps the most useful study was conducted by Gadenne (1998). Gadenne studied a selection of small businesses in Australia in the retailing, service, and manufacturing industries. He considered twelve factors each in retailing and manufacturing and ten in services. The responses of the firms along with their profitability data were used in a multivariate statistical model to determine which, if any, factors had the most measurable effect on profitability, as measured by return on equity. The study results indicated that the one common factor affecting success in all three industries was a negative correlation between financial leverage and return on equity. This is consistent with commonly accepted financial management theory, which asserts that return on equity will be positively affected by additional financial leverage (i.e. debt) until a point of diminishing returns is reached, after which the effect will be negative.

In addition, Gadenne found that retail returns were positively correlated to low price, cost reduction, sales turnover, and product quality. Service industry returns were positively correlated to employee relations and negatively correlated to large working capital investments. In manufacturing, the positively correlated factors were product pricing, knowledge of competitors' activities, and reliance on professional advice.

Although microenterprises tend to be quite similar with regard to firm-specific characteristics, Mukhtar (1998) found significant differences between firms owned by men and those owned by women. These differences, however, reflect gender-based decision making and are, therefore, more a product of the entrepreneur than of the firm or industry. Ehlers and Main (1998) argue that most of the differences between male and female owned microbusinesses are the result of discriminatory practices that push women into less lucrative "pink collar" businesses that only serve to exacerbate their already marginalized roles in the workplace. However, as we have seen, some "pink collar" businesses actually become quite profitable, especially in terms of return on investment (the ROI for "Angela's" t-shirt business described previously was in the neighborhood of 2,000% in 1998). Admittedly, Angela's business represents a fortunate anomaly in the annals of microenterprise, but it is the exception that tends to disprove rather than prove the rule.

In addition to the possible differences in men and women owned microenterprises, it is important to consider any differences in firms that may be based on owner ethnicity. As mentioned earlier, Christopher (1998) found that minority owned businesses have less access to credit than non-minority owned firms. As a result, they are chronically undercapitalized and are slightly more prone to financial failure than are their non-minority owned counterparts.

In the course of examining Christopher's data, the author was reminded of an experiment conducted by Gilliam (1999) which indicated that respondents, without regard to gender or ethnicity, responded more favorably to a Caucasian woman who was portrayed as being economically disadvantaged than to an African-American woman who was portrayed as being in similar circumstances. In addition, Gilliam found that when there was no visual image of the woman, respondents were significantly more likely to assume that the woman was African-American and to respond negatively. Expanding from Gilliam's findings, it could be assumed that minority business owners do, indeed, face discrimination in the capital markets due to stereotypical perceptions of their creditworthiness and motivation based solely on ethnicity.

Indications From Montana Microenterprises

Of the twenty-seven microentrepreneurs included in the NBDC case files, two of the PEEP clients were the only ones who had not started microbusinesses. This provides a total of twenty-five microenterprises that can be examined to determine if there are any characteristics of the industry or firm that will increase the microentrepreneur's chances of success. These twenty-five firms include two retail firms, two light industrial firms, four technology service firms, eight business service firms, and nine personal service firms. These figures include six businesses started by PEEP clients, which include two of the technology service firms, one of the business service firms, and three of the personal service firms.

Overall, one of the retail firms, both of the light industrial firms, one of the technology service firms, six of the business service firms, and six of the personal service firms are (or were in the case of the firm that closed due to the owner's retirement) at least marginally successful. Of the six businesses started by PEEP clients, three were currently at least marginally successful (that is, solvent) and none had failed as of this writing. A complete breakdown of firms by industry, success track, and the owners' gender is given in Table 3.

Table 3: Outcomes by Industry and Gender of Owner

	Men Owned				Women Owned		
	Succeed	Reorg	Fail	Retire	Succeed	Reorg	Fail
Retail	0	0	0	0	1	0	1
Light Industrial	0	0	0	1	1	0	0
Technology Service	1	1	1	0	0	1	0
Business Service	3	1	0	0	3	1	0
Personal Service	0	0	0	0	6	3	0

There are no apparent differences between successful and unsuccessful firms in the same industries. For example, both of the retail businesses were owned by women in their mid thirties who had some college education (but less than a bachelor's degree), were divorced, had children living in the home, and had no previous business experience. Both were located in Missoula and had access to the same support services and programs. Both firms sold giftware products through a combination of mail and Internet sales. In fact, their only tangible differentiating factor is ethnicity: one is Caucasian and the other Native American. In this case, however, ethnic bias does not appear to have affected the outcomes, since the Native American woman is the one who is succeeding. The use of qualitative analysis throughout this paper is a byproduct of the small, purposic sample which is unsuitable for meaningful statistical testing.

It is noteworthy that the bulk of the microenterprises in NBDC's files are either personal or business service firms. However, this is not an indication that such firms are generally more successful. Most of the microentrepreneurs who started firms in these industries indicated that they were primarily motivated by a combination of their own skills and knowledge and the relatively low capital requirements usually associated with service businesses. For example, the PEEP client who started the business service firm had excellent keyboard skills and was able to acquire all of her capital needs (a computer, printer, desk, file cabinet, and a stock of paper) for less than $1,000, which she was able to borrow from a loan company using her automobile as collateral. Another PEEP client was able to start her personal service (house cleaning) business with virtually no capital outlay since the required equipment was either already in her home or available for rent when needed. In spite of these low capitalization requirements, both of these women have increased their annual household incomes by more than $18,000 (in 1998) through their microbusinesses.

The Business Environment and Characteristics of Successful Support Systems

If microenterprise is to prove viable as a tool for social welfare reform, support systems must be put into place that will help guide the microentrepreneur toward success. Very few, if any, welfare recipients are experienced entrepreneurs, and many may not initially master the numerous disciplines required for success. This problem is exacerbated by an apparent public perception that business is a simple matter of "building a better mousetrap," and may be as simple as purchasing some merchandise and opening the doors. As one wag noted, however, in our time it is not enough to simply build a better mousetrap: it is also necessary to devise better mousetrap advertising in order to catch the attention of consumers, and one must convince consumers that they really need a better mousetrap, even when the infestation is so bad that they are constantly stepping on mice.

The most successful support systems are those that provide training, financing, and ongoing advisory services without paternalism or patronization. Ehlers and Main (1998) present a very vivid picture of what the training program should *not* be. The program they describe (which is an existing program) focuses on self-esteem issues to the near exclusion of business knowledge for quite some time. Business professionals are brought in from time to time as guest lecturers, but they are apparently not reminded that many in their audience are not well educated and, as a result, they tend to speak in terms that the trainees do not understand. Trainees are also encouraged to "visualize" their businesses, but are given very little concrete assistance in evaluating the possibilities of reaching these "visualized" goals. Many of the business plans that are developed by the trainees in this program are shoddy, poorly researched, and even completely infeasible. In spite of these drawbacks, the program continues to operate (with considerable government funding) because it meets a "politically correct" view of what a microenterprise development program should be.

In contrast, Saucier (1996) describes a training program utilized by the Microenterprise Education Program (MEP) in Terrebonne and LaFourche parishes of Louisiana. In the first session, participants are organized into groups which will become their "borrowing circles" when the training is completed. In the second session, they begin to learn why and how to write a business plan. In subsequent sessions they are given instruction in areas such as bookkeeping, marketing, feasibility analysis, management, business law, decision making, problem solving, tax considerations, communication skills, and group dynamics. After five monthly sessions, the participants have completed their business plans and are ready to meet as a "borrowing circle" to determine the order, amounts, and terms of their microenterprise loans. Although Saucier does not indicate the success rate for microenterprises started under this program, one would expect that it is considerably better than the "feel good" program described by Ehlers and Main.

This is not to say that there is no place for addressing self-esteem issues in a microenterprise development program, especially one that targets welfare recipients. As Bruce, Tekeuchi and Leaf (1991) note, economic poverty has an adverse effect on psychiatric status, and the poor are particularly prone to depression and low self-esteem. These disorders are exacerbated when the welfare recipient has been a victim of abuse (Rapheal 1997) or has been a substance abuser (Wallen 1993). However, these issues should be addressed separately from the business training program, either before the client enters the training program or concurrently with that program (and with the understanding that *both* programs must be completed before any request for financing can be considered).

In addition to a sound training component, a viable microenterprise development program must provide sufficient financing to help the microentrepreneur start the business and maintain its operations through the acceptance and initial growth stages of the firm's life cycle. Perhaps the most effective models are presented by Mushinski (1996) and Saucier (1996). Both of these researchers describe what are, in essence, Grameen Bank-type microenterprise financing programs that use "borrowing circles" as intermediaries and grant "step loans" that allow the microentrepreneur to borrow increasing amounts with each loan until a maximum loan amount is reached. For example, Saucier describes the MEP microloan program, which offers first loans of up to $1,500. As each loan is repaid, a larger loan is made available. The program has a maximum loan of $7,500 except when extenuating circumstances allow a larger amount.

Borrowing circles in Grameen Bank-type group lending programs serve a number of purposes. First, the group serves as intermediary for the lending program. Funds are made available to the group, which in turn decides which projects will be funded and in what order. The group sets the terms of each loan within a set of guidelines provided by the lending program. The group also collects loan payments from the group members that have been funded and makes reports and payments to the lending program. Many borrowing groups also set up group savings funds similar to credit union share accounts which allow the group to increase its loan funds and ensure repayment to the lending program in the event of default by one or more group members.

Wenner (1995) notes that formal lenders face significant difficulty and cost due to the need to ascertain the likelihood of borrower default and monitor borrowers' use of funds and project implementation techniques. In Grameen Bank-type group credit programs, these costs are decreased by the intermediation functions of the borrowing circle. Informal lenders (i.e. borrowing circles) face substantially lower screening and monitoring costs due to social proximity and the multifaceted nature of relationships within the group. In addition, borrowing circles have fewer enforcement problems due to the additional avenues of enforcement (e.g. termination of group membership and social exclusion) available to them. In addition, Zeller (1998) notes that Grameen Bank-type lending programs generally make all members of the borrowing circle jointly liable for loans to group members. This joint liability usually prohibits additional loans to the group until existing loans have met specified servicing requirements. This creates an incentive for the group to perform its intermediary duties in order to preserve its ability to obtain funds for additional lending. As a result, Mushinski (1996) notes that the group will usually use any available resources to service the debt of a group member who is either in financial distress or has abrogated his or her responsibilities. He hypothesizes that this effect of joint liability for loans to group members is the primary reason that the Lakota Fund (and virtually all other group lending programs) enjoys a repayment rate of over 90% of funds loaned.

In addition to serving as financial intermediaries, borrowing circles form a cohesive community of microentrepreneurs who provide valuable business services for one another. Prescott (1997) advances the hypothesis that members of borrowing circles observe one another's output and act cooperatively in order to maximize the expected value of the group's profits. Zeller (1998) adds that the social cohesion of the borrowing circle results in the sharing of valuable information, not only that which applies to the group's financial intermediary role but also that which will help increase the output and profitability of a group member's enterprise. This is verified by Mushinski (1996) who noted that group members in Lakota Fund borrowing circles provided one another with market information, management consultation, and even purchased products and services from group members whose businesses were in danger of defaulting on loan payments. While the first two features are almost entirely a product of the groups' social cohesion, the latter may be a result of the common policy of these types of lending programs that makes the group responsible for all members' loans, with future group access to credit based on repayment performance of individual members.

Where Grameen Bank-type financing schemes are impractical due to limitations in the program or because financing is provided by a different entity from the organization that conducts training and ongoing consultation, many of the benefits of borrowing circles might be obtained through the development of a microenterprise incubator. McKee (1992) notes that the failure rate of small businesses located in incubators is about one-third that of other small businesses. While noting that locating in an incubator significantly reduces a business' overhead costs, McKee hypothesizes that the most important advantage to locating in an incubator is what he terms the "entrepreneurial intensive care" available to tenant firms in the form of expert counseling on such matters as law, marketing, financial management, accounting, and intellectual property issues.[2]

Besides training and financing, a sound microenterprise development program must provide ongoing management assistance services to help the microentrepreneur turn his or her fledgling enterprise into a dynamic and autonomous concern. As previously discussed, part of this duty is carried out by the borrowing circle, which shares information in an effort to maximize the group's profitability. However, this can at times be insufficient since the group members will generally be relatively new and inexperienced entrepreneurs. In addition, as Charan, Hofer and Mahon (1980) point out, the skills that are required to manage an established business are different from those required to manage an entrepreneurial venture. Since, by necessity, the training program would focus on the entrepreneurial skills, management consultation and

[2] The author, having once owned a business that was located in an incubator-like setting, would like to add that such environments also help to create a sense of community that is similar to that noted in Grameen Bank-type borrowing circles by Mushinski (1996), Prescott (1997), and Zeller (1998).

training must be available to assist successful enterprises in their efforts to make the transition from entrepreneurial to professional management. Professional consultation also needs to be made available to assist the microentrepreneur in assessing opportunities and determining the feasibility and desirability of various strategic options. Additionally, this professional consultation can help the microentrepreneur evaluate the business environment and develop appropriate responses to that environment.

Indications From Montana Microenterprises

Even though NBDC's microenterprise development efforts were incomplete and at times inadequate, we are left with only those records in this study. As a result, we will confine our examination to those factors which were included in NBDC's programs and allow the foregoing literature review to address the missing factors.

The PEEP program is of particular interest in considering the training requirements for leading welfare recipients into viable microenterprise. The program consisted of a series of fifteen weekly training meetings. During these meetings, participants were constantly challenged to examine themselves and their business ideas in the light of the new information being presented. Participants were given instruction in bookkeeping, marketing, business communications, cost analysis, financial management (including personal finances), tax considerations, and business law. At the final meeting, participants presented their business plans, which were evaluated by the group and then reviewed privately with the trainer. The trainer was also active in assisting the clients in exploring possible sources of financing and in providing management consulting services to the participants after they had opened their businesses.

As previously noted, six of the eight PEEP participants actually opened businesses. Although none of these businesses has failed, three are in the process of reorganizing in one form or another in order to either keep the firm alive or make it more viable. Management consulting is still provided to all PEEP participants on request; however, most of this consulting is done by mail, e-mail, or telephone since four of the six participants who have started businesses have moved out of the Missoula area.

Just prior to this writing, the author conducted interviews with all eight PEEP participants to determine the outcome to date of their participation in the program. Each participant was asked to provide their work status and welfare status and to identify the usefulness of the ongoing consulting services and what they considered the single most useful aspect of their PEEP training. Participants who had started businesses were also asked to identify their primary source of start up funding. The results of these interviews are summarized in Table 4.

Table 4: PEEP Participant Interview Results

	Succeeding	Reorganizing	Did Not Start
Work Status			
Working the Business Only	2	1	0
Working Outside Business	1	2	1
Not Working	0	0	1
Welfare Status			
Off Welfare and Independent	2	1	1
Off Welfare But Need Help	1	1	0
Still On Welfare	0	1	1
Usefulness of Ongoing Consulting			
Very Useful	3	2	0
Somewhat Useful	0	1	0
Not Useful	0	0	2
Most Useful Aspect of PEEP Training			
Business Communications	0	0	1
Business Finance	1	1	0
Business Law	0	1	0
Cost Analysis	0	1	0
Marketing	2	0	0
Personal Finance	0	0	1
Primary Source of Funding			
Loan Company	1	0	N/A
Friends/Relatives	2	3	N/A

The summaries given in Table 4 omit some important data. For example, even though every PEEP participant was made aware of microenterprise funding programs operated by government agencies or nonprofit organizations, none of the PEEP participants who started businesses listed these programs as their primary source of funding. In fact, only one PEEP participant had applied for funding through such a program, and she was rejected due to lack of credit history. It is interesting to note that this woman, who now resides in Billings, has built the most successful of all of the PEEP microenterprises and is completely independent of welfare with an estimated 1999 income from her business of over $30,000.

When asked why they had not sought financing through government and nonprofit loan programs, other participants cited either expected rejection due to poor or insufficient credit history (3 participants), a fear of starting a business using formal sector debt (1 participant), or fear of government interference in business operations and personal life (1 participant).

Perhaps of even greater interest are the two participants who did not start businesses. One of these was unable to secure financing for her business plan, but has used her PEEP training and some additional training received through the Missoula School District's adult education program to secure employment as a bookkeeper in Great Falls and become independent of welfare. The other shows signs of institutionalization similar to those exhibited by habitual felons that are released from prison and has admitted that her fear of leaving welfare is her primary reason for not moving forward with her business plan. It is particularly interesting to note that she is the youngest of the PEEP participants (age 26 at enrollment) but has the longest stay on welfare (eight years) and is one of the three clients who was reared in a single parent home by a mother who was also on welfare.

From these cases and the numerous studies cited previously it is possible to glean certain features that will serve to improve the effectiveness of microenterprise development programs targeted toward the economically disadvantaged. First, the program must have a thorough training program that will equip the participant with the necessary skills to start and operate an entrepreneurial venture. Second, the program must provide ongoing consultation to help the microentrepreneur weather the storms of starting the business and evolve from entrepreneur to professional manager as the business grows. Third, the program should participate financially in the clients' businesses through a loan program. This loan program should be designed to both absorb the extra risks inherent in start up lending to low income populations and provide extra motivation and support to the borrower through both programmatic and peer group structures. Finally, the program must be designed to cope with problems such as welfare institutionalization and personal insecurities.

It is unfortunate that this study must be confined to NBDC's client files. Although the PEEP program might have provided a viable model for a "welfare to microenterprise" program if it had been all that NBDC hoped, the program was never able to secure the funding that would have allowed it to provide loans to the program's participants. Without loan funds, NBDC lacked a nucleus for the formation of borrowing circle type groups. In addition, NBDC was unable to secure the services of mental health professionals to counsel and assist clients with personal obstacles. As a result, although the PEEP program and NBDC's microenterprise operations in general can provide some insight into microentrepreneur support systems, the information is incomplete at best. Hopefully, this will inspire other researchers to investigate more complete programs with an eye toward either verifying or disproving this author's findings.

Chapter 4

The Impact of Microenterprise

Before any governmental entity, business, or nonprofit organization could be expected to adopt microenterprise development as a promising tool for social welfare reform, some benefit beyond those enjoyed by the microentrepreneur must be established. How will microenterprise development benefit society? Can the impact be measured in economic terms, or is this simply an act of mercy with no societal remuneration?

Microenterprise development will, of course, deliver the obvious benefits of spending by the microenterprise and its owner(s). However, this is an easy statement to make and a much more difficult one to quantify. There are, nonetheless, measurements that can be used to obtain at least an elemental estimate of the economic impact that can be expected from a sound microenterprise development program.

Measuring the Economic Impact

Okun (1983) found that the economic impact of changes in unemployment could be measured with acceptable accuracy using the simple linear model P = A[1 +

.032(U - 4)], where P is potential GNP, A is actual GNP, and U is the unemployment rate. Unfortunately, Okun's equation does not apply with equal (or even acceptable) accuracy to any political subdivision below the national level. The "holy grail" of regional econometrics is probably to discover a local equivalent to Okun's equation, but in spite of the best attempts of numerous researchers, this goal remains beyond reach until a method is found to overcome the impact of open labor markets on the regional analysis. In the absence of a regionalized "Okun's equation," other, less elegant methods of determining the economic impact of a credible microenterprise development program must be used.

One method of assessing economic impact is to analyze the public economic benefit that would presumably result from the development of microenterprises in lieu of the provision of welfare benefits. The Montana Micro Business Development Corporations (1997) estimated these benefits to range from 1.31 to 4.85 times the costs associated with the program. Total public and private costs of that program were approximately 123% of the outstanding loan balance, which implies that each dollar loaned should produce between \$1.61 and \$5.97 in *annual* economic benefit. Approximately half of this benefit is either decreased welfare costs or the economic benefits expected from the expenditure of funds represented as program costs: as a result, the annual economic impact of the microenterprise for each dollar borrowed can be estimated at between 80¢ and \$2.98. This represents a substantial return on investment even without considering the public savings and program expenditures impact.

Clark and Kays (1995) found that, on average, the annual household incomes of welfare recipients participating in microenterprise development programs increased by $14,000, or nearly double their average incomes prior to starting their microenterprises. Assuming that 2% (an approximation of the current household savings rate) of that income will be put into savings and the remainder will be spent to either help support the household or to expand the business, the additional income translates into average annual expenditures of $13,720. Since economic transactions are subject to certain multiplier effects, it is not unreasonable to assume that these expenditures would contribute to a much larger (and significantly more difficult to estimate) economic impact. In addition, it is reasonable to assume that the $380 of annual household savings would be deposited in a financial institution which would, in turn, invest the money in additional economically beneficial projects. Overall, these assumptions help to support the estimates of the Montana Micro Business Development Corporations (1997) that were summarized previously.

While it would certainly be possible to estimate some sort of transactional multiplier, the accuracy and usefulness of such an estimate would be dubious at best. Although multiplier analysis is often used in macroeconomic studies, attempts to apply multiplier methods where the data are significantly dependent upon microeconomic factors such as individual consumption patterns can be shown to lack predictive value. This problem would only be exacerbated by the small sample size used in this study. Therefore, rather than attempting to quantify the macroeconomic benefit of microenterprise development, the following analysis will focus on the (micro)economic benefits to the microentrepreneur and his/her household. However, one should not forget that these benefits are subject to transactional multipliers and can generally be expected to provide even greater benefits to the society as a whole.

Evidence From PEEP Participants

Among the six PEEP participants who started businesses, three are currently solvent and the other three are still in business but are reorganizing their enterprises either in order to survive or in order to make minimal operations more viable.

In the interviews mentioned previously, each respondent who had started a business was asked to provide his/her *cash* income for 1998 (most had not yet completed accounting for 1999) from microenterprise. Their responses were pleasantly surprising. Only two respondents were unprofitable in 1998, with one losing only $500 and the other essentially breaking even. One other had income that was insufficient to provide at least a minimal living, although she was only working in her business at the time of the interview and estimated that her 1999 income would be greatly improved. The remaining three respondents had incomes (rounded to the nearest $100) of $15,200, $18,100, and $28,800. Average 1998 business income for all six respondents was just over $11,100. Over all, two respondents were off welfare and independent due to their businesses, one was off welfare and independent due to an outside job, two were off welfare but still receiving assistance such as housing subsidies and food assistance, and one was still on welfare but expecting to be off welfare (although not completely independent) soon.

Local economics may play some part in the fortunes of these six microentrepreneurs. Both of the respondents who have achieved complete independence through their businesses have left Missoula and are living in Billings and Spokane. The respondent who achieved independence through outside employment has relocated to Portland. One of the two respondents who is off welfare but still receiving some help has moved to Seattle, and the other is still in Missoula. The only respondent that started a business but is still on welfare has remained in Missoula. These data suggest a link between market size, local economic well-being, and the success of microenterprise and serve as a reminder that local economic development efforts need to be more comprehensive than merely helping welfare recipients start microenterprises.

Noneconomic Benefits

Although the economic benefits of microbusiness development are easily imagined (if not so easily estimated), there are a number of benefits that are not economic, even though some may have economic or quasi-economic components.

First of all, effective microenterprise development programs can help to reduce both welfare rolls *and* poverty. As Miller (1998) points out, while welfare rolls in Montana have been reduced by half, poverty in the state has grown from 11.5% of the population to over 17%. This, in turn, has placed an unexpectedly large (and often largely unfunded) demand on private charities. While microenterprise development is certainly not a panacea for poverty in Montana (or anywhere else), it is worthy of consideration as a method of alleviating some of the growth in poverty and, by extension, some of the excess demand on private charities. This would free resources for use in combating other causes of poverty and their devastating effects.

Besides allowing both government agencies and private charities to concentrate their efforts on other aspects of the poverty problem, microenterprise development can be useful in improving the overall mental health of the population. Bruce, Tekeuchi and Leaf (1991) note that poverty has an adverse effect on psychiatric status. In particular, they cite poverty as being contributory to both low self-esteem and depressive disorders. However, any improvement in economic status can be expected to trigger a corresponding improvement in overall mental health. Once again, this can be expected to free resources of mental health agencies to deal with other mental health problems.

In addition to these benefits, participation in a microenterprise program endows the participant with a renewed sense of self-confidence. Through this new found assurance, the participant is not only able to start a business but also modifies his/her often poor self-image and, as a result, becomes more capable of securing and retaining outside employment.

Additional examination would undoubtedly yield many more economic and social benefits that could be enjoyed as a result of implementing sound microenterprise development programs. However, there is only limited evidence that the outcomes would be as outstanding as one might hope. Nonetheless, the foregoing examples should provide at least a rudimentary representation of the numerous benefits that could precipitate from the types of programs examined in this study.

Chapter 5

Conclusions

Although the small sample size used in this investigation necessitates the use of a multiple case study that is unable to provide many verifiable conclusions, the study does generate a number of hypotheses that should be investigated further. These hypotheses follow the same progression as the study, and can be divided accordingly into hypotheses about the microentrepreneur, hypotheses about the microbusiness firm, hypotheses about the support system, and hypotheses about the outcomes.

The Microentrepreneur

Perhaps the most notable conclusions reached by this study with regard to the microentrepreneur are those which echo the work of DeCarlo and Lyons (1980). There seems to be little to suggest a “model” of the successful microentrepreneur based on personality characteristics, demographics, or psychographics. However, anecdotal evidence, such as the stories of people who succeeded after numerous failures, does suggest that tenacity may be a common characteristic among many successful entrepreneurs. Beyond that, the “model” microentrepreneur would be based on a contingency theory that ties the most favorable traits to the firm’s stage in its life cycle.

As Brush (1992) has shown, men and women are different, both as people and as entrepreneurs. These differences must be taken into account when evaluating the individual's progress as a microentrepreneur. While men can generally be evaluated on purely economic terms, women must be evaluated in light of their more altruistic goals as well as their financial performance. This makes the task of modeling the microentrepreneur even more difficult, especially in light of the concurrent financial and societal success of entrepreneurs such as Mary Kay Ash.

Ethnicity also complicates the search for the model microentrepreneur. Christopher (1998) points out numerous differences that may be the result of either differences in learning styles or differences in opportunity, but in either case appear to be tied to the entrepreneur's ethnic heritage. This is supported by the work of Bond and Townsend (1996), who found significant differences between business practices and capital sources among different ethnic groups. However, Bond and Townsend's work, which was undertaken in an ethnically mixed Chicago neighborhood, may be of less importance in a predominantly rural and less racially mixed area like Montana.

While the "model" microentrepreneur for any given stage of the firm's life cycle might well be shown to exhibit certain personality traits, the work of a number of researchers (e.g. Clark and Kays 1995, Koh 1996, Mushinski 1996, Saucier 1996) suggests that these personality traits can either be learned or supplanted by other factors such as a carefully planned support system or other principals of the firm who have the skills that are lacking. Since most microenterprises are one person or family businesses, the support system seems a more likely substitute than partners or staff.

The Microbusiness Firm

Gadenne (1998) demonstrated that, with the exception of capitalization and financial leverage, there are few if any firm specific characteristics that can be shown to directly affect success across multiple industries. However, within industries there are several factors that should be observed and carefully managed if a firm is to achieve success. These factors are enumerated elsewhere in this paper.

Christopher (1998) also shows that access to credit can be important to the success of a firm. However, Bond and Townsend (1996) point out that credit can take many forms, including institutional credit, private debt placements, and trade credit. The choice of credit instrument must be selected based on the use of the proceeds and should ideally be matched to the life of the asset or project being financed.

The Support System

Perhaps the most important consideration in using microenterprise development as a tool for social welfare reform is the support system that is required to provide the necessary assistance to the program's clients. This support system must address the many needs and barriers faced by the prospective microentrepreneur without becoming stifling or paternalistic. While it need not meet every need the client might have, it must deal with those needs that directly impact the client's ability to succeed in microenterprise.

The ideal microenterprise development program will either directly or indirectly provide five types of support. Four of these are directly related to the formation and operation of the microenterprise, while the fifth, which is an ancillary but essential component of the program, addresses a personal need of many clients which can have a direct effect on microentrepreneurial success.

First, the program will provide practical training in microentrepreneurship that will lead to the preparation of a viable business plan. Second, the program will provide financing for the new business. The lending system should provide for delegated monitoring and should build a sense of social cohesion and shared responsibility among the clients. The Grameen Bank model, with its use of borrowing circles and progressive credit, is ideal for this application. Third, the program should provide a system of ongoing assistance through management consulting, advanced training, and other services in addition to financing. Fourth, the use of a microbusiness incubator will make the program even more effective and should significantly reduce client business failures. Fifth, the system should provide either services or referrals to services that will help the client overcome mental health problems associated with poverty, substance abuse, and domestic violence.

The Outcomes

Although the small sample size and limited program used in this study made meaningful measurement of outcomes virtually impossible, the author is convinced that such measurement is both possible and necessary. However, study of a larger sample of clients from a more comprehensive program will be required to obtain such measurements.

The measurement of the impact of a microenterprise development program on welfare clients must consist of more than simple economic measurement. A truly meaningful study would include assessment of changes in psychiatric status, family stability, personal satisfaction, and social integration along with the measurement of changes in financial status. Although this study is limited, the results presented herein suggest that all of these factors should improve as a result of such a program.

Chapter 6

Policy Implications

If a study such as this one is to have any usefulness beyond dry academic exercise, it must generate some considerations for additional analysis, policy generation, or both. While the author sincerely hopes that this paper will awaken the curiosity of other scholars and bring about more exhaustive study of this issue, he is even more hopeful that this paper will engender additional debate with regard to both welfare reform policy and the role of microenterprise development in attaining the goals of welfare reform.

Porter (1995) notes that public policy must be a combination of governmental, nonprofit sector, and business policies. Although each of these groups devises its policies autonomously, public policy will only work when the three groups' policies coincide and complement one another. With that in mind, we will now explore the policy implications of this research with regard to governmental, nonprofit, and business policies.

Implications for Governmental Policies

Since federal law is at the core of the welfare reform issue, it seems logical to assume that government policy would have been reformulated to support the goals of welfare reform in a sensible and humane way. However, this has not always proven to be the case. Many government policies give lip service to helping alleviate poverty while providing little or no tangible help to the poor at all. The United States Small Business Administration's (SBA) Microloan Program (Collins 1994), which is discussed in the next paragraph, is an example of such a policy. Such policies are reminiscent of the person who talks of helping the poor but whose actual "assistance" is limited to shouting "Get a job, you bum" at every recognizably impoverished person they see.

Nowhere is government policy in "support" of welfare reform more substandard than in regard to the use of microenterprise development as a tool to alleviate poverty. While the Clinton administration touted the government's forward-thinking microenterprise development programs under both the United States Department of Agriculture and the United States Small Business Administration (SBA), the policies underlying these programs are woefully inadequate to the lofty tasks the president set for them. In particular, the SBA was charged with setting up a special microloan program that would be targeted toward welfare recipients and other low income groups. The program that was eventually unveiled by the SBA bore a striking resemblance to the agency's existing small business loan guarantee program, albeit with significantly smaller loan limits. In this case, however, funding was provided directly by the SBA to intermediaries in the form of $300,000 loans. These funds were then used to make smaller loans (up to $25,000) to "microenterprises" (presumably, the 10 employee limit used by the Montana Community Development Corporation applies) at a fixed rate for up to six years. Credit requirements are only slightly more lax than those of other SBA programs, and the applicant must provide evidence of having been rejected by a bank before the application will be considered. (Collins 1994).

As the author pointed out earlier, welfare recipients commonly have poor or abbreviated credit histories and cannot qualify under normal bank or SBA credit guidelines. As a result, the federal microloan program best serves as an illustration of how far the reality of government policy can be from the goals for which it was conceived.

Although the author does not intend to imply that the government should be in the direct loan business in competition with formal lenders, the government must fill a rather large role in microenterprise development. First, government policy must be formulated which encourages the use of microenterprise development as a tool for welfare reform programs where warranted. Second, government loan programs must take into account both the poor or abbreviated credit histories common to welfare recipients and the proven methods of reducing risk while serving credit impaired populations. Third, the government must provide incentives for businesses and nonprofit organizations to join in both microenterprise development efforts and welfare reform efforts in general. Finally, government must recognize the importance of the welfare "safety net" to microenterprise development program participants and learn to use compassion as a lead rather than using sanctions as a club.[3]

Implications for the Policies of Nonprofit Organizations

Nonprofit organizations are in a unique position within the welfare reform debate. On the one hand, welfare reform appears to be at the root of the increased service requests that are draining the resources of many charities (Miller 1998). On the other hand, nonprofit organizations are in perhaps the best position to put faces and names to case numbers, thus humanizing both welfare reform and the programs that can make reform viable. This appears to be especially true of faith based organizations (FBOs), who are often better able to serve the poor at the community level due to

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[3] Welfare recipients in Montana have complained that case workers can and do use sanctions as a means of punishing clients for minor infractions that were beyond their ability to prevent. For example, see Curless (1999).

their deep roots in the community (Christian Century 1999), ability to use personal relationships and spirituality to meet the needs of clients (Howd 1999b), and perceived obligation to help those in need (Glennon 1999).

Fortunately for FBOs interested in helping welfare recipients become independent of government subsidies, the same legislation that mandated the current reforms in welfare services also made it possible for religious organizations to receive government funding for charitable activities without having to subordinate their religious character. This "Charitable Choice Clause" should provide FBOs with the final piece of the puzzle as they contemplate how to best aid those in need. However, many FBOs are proceeding with caution, fearful that government policies will change and they will be forced to choose between attempting to support an expensive program without government funds, closing the program, or compromising their beliefs and the character of their organizations. (Howd 1999b).

In Montana, fear of changes in government policies appears to be less prevalent. Data provided by Miller (2000) indicate that Montana churches are more concerned with not having enough trained and experienced social workers to adequately provide faith based welfare services (77.4%), a lack of financial management capabilities (48.5% with an additional 23.3% unsure), a fear that providing faith based welfare services would result in political schisms within the congregation (48.8% with 30.9% unsure), and a belief that welfare services should be the responsibility of the government rather than the churches (47.9% with 29.4% unsure). However, 14.7% of the churches polled did believe that contracting with the government to provide faith based welfare services would endanger the central mission of the church, while an additional 45.4% were unsure.

Both pragmatism and altruism demand that nonprofit organizations adopt policies that will multiply their effectiveness per dollar spent. The author would contend that sound microenterprise development programs certainly fall into that category. As previously noted, each client who achieves independence through micro-entrepreneurship means that scarce resources of the nonprofit service provider are made available for application to other, more complex problems.

Besides simply embracing microenterprise development as a means of achieving organizational goals, nonprofit organizations must recognize that such programs require a wealth of different competencies and strengths. Due to the significant degree of specialization needed and the multitude of disciplines involved, it is unlikely that any one organization will possess all of the attributes necessary to maximize the program's effectiveness. Therefore, it is incumbent upon nonprofit organizations to formulate policies that encourage cooperation with other agencies and the formation of strategic alliances that will be beneficial to both the organizations involved and their clients.

Implications for the Policies of Business Firms

At first glance it might seem that businesses should either oppose microenterprise development efforts or at least remain ambivalent toward them. After all, microenterprise development efforts would seem to generate additional competition with which the firm must contend, thus making profitability more elusive. However, business owners might wish to consider microenterprise development in another light before dismissing it as a source of more unwanted rivalry.

Although it seems contrary to logic, microenterprise development can actually provide existing businesses and larger ventures (such as "small businesses") with a number of benefits that might otherwise be either unavailable to them or significantly more costly. For example, several busy small business owners have been relieved of their housekeeping chores for a very reasonable fee by microentrepreneurs who have started house cleaning services. Others have been able to outsource clerical work to microentrepreneurs, thus freeing valuable time to concentrate on strategic issues facing their businesses. Still others have found microentrepreneurs to be an invaluable resource in areas ranging from production to sales.

In addition to these benefits, many businesses have found that microentrepreneurs are a lucrative market for a number of products and services. These have included everything from airline tickets to zebra striped upholstery fabrics. However, the microentrepreneur market is only as profitable as its members.

Finally, businesses can benefit from the training that must be part of effective microenterprise development programs. Not every participant in the training will go on to start a business, others will start a business that will fail, and still others will tire of the uncertainty of entrepreneurship and decide to return to the labor market. In any case, these trained microentrepreneurs will create a pool of skilled workers who will be an asset to the businesses that are fortunate enough to hire them.

For these reasons, businesses should adopt policies that help to foster microenterprise development. Such policies might include either preferences or bid solicitation programs when outsourcing work. They might also include special financing programs when selling to microenterprises. Finally, they could include special hiring outreaches to former participants in microenterprise development programs.

It seems prudent to reiterate, however, that government, nonprofit, and business policies toward microenterprise development (or any other poverty alleviation initiative) must complement one another and be designed to work together to achieve common goals. None of these groups can bring about permanent and meaningful change alone. Instead, it will require a coordinated and sustained effort on the part of all parties, including the programs' clients.

Chapter 7

Opportunities for Further Study

This paper is by no means a complete and authoritative study of microenterprise and its potential as a tool for social welfare reform. The limitations placed on this study by the use of NBDC's client data and the time constraints inherent in an academic study that is primarily geared toward capping a graduate degree program in a timely manner leave too many questions unanswered. Not only are there additional opportunities for research in the business administration field, but also in such diverse areas as economics, the behavioral sciences, social work, education, and political science. Even historians might find a review of the history of microenterprise among the poor a worthwhile study. What follows are some of the areas where the author feels that more research both within certain disciplines and in combinations of disciplines would be beneficial.

Business Administration

Perhaps one of the most intriguing business questions that remains unanswered by this study is an expansion of the DeCarlo and Lyons (1980) study to determine if requisite entrepreneurial skills differ between small business and microenterprise.

In addition, there are as many possible studies with regard to optimal microbusiness practices as there are business disciplines. Much of the current literature of business academia revolves around corporate practices, with small business practices receiving increased (but still subsidiary) attention. While it should be obvious that microenterprise practices are significantly different from either small business or corporate practices, the dearth of information on microentrepreneurship and microbusiness practices leaves these smaller businesses vulnerable to forces that many microentrepreneurs (and, unfortunately, many small business consultants) do not understand and are ill equipped to confront.

Economics

Microenterprise is rapidly moving from the "hidden economy" (Koopmans 1994) into the mainstream of American economic life. However, its impact remains largely unmeasured. With the increasing visibility of these previously "underground" activities (Simon and White 1992, Tanzi 1992), economists have ample opportunity to accurately determine what microeconomic phenomena attend microenterprise participation and how much macroeconomic impact the informal sector really has.

The Behavioral Sciences

Perhaps no other fields of study could find the examination of micro-entrepreneurship as rich as could the behavioral sciences. Psychologists could study microentrepreneurs for a multitude of reasons, which include additional insight into the entrepreneurial personality, the apparent paradox of an adult who struggled with high school mathematics being able to grasp the mathematics of basic financial management, and the potential of microenterprise as a form of occupational psychotherapy for disorders such as depression. Sociologists and anthropologists should find the community formation in Grameen Bank-type borrowing circles and microenterprise incubators fascinating and may receive new insights into the formation of social groups and subcultures.

Social Work

That microenterprise development is a form of empowerment practice should go without saying. That this form of empowerment practice deserves more attention than the few studies now available (e.g. Clark and Kays 1995, Ehlers and Main 1998, Else and Raheim 1992, Feit 1990, Midgley and Livermore 1998, Charles Stewart Mott Foundation 1989, Rodriguez 1993, and Spalter-Roth, Soto and Zandniapour 1994) should motivate social work researchers to go beyond the author's perspective to study this enthralling subject in light of their own professional applications.

Education

If microenterprise development programs are to be effective, one of their pivotal elements must be a carefully designed and comprehensive training system that employs the most productive teaching methods possible. Education researchers could build on the work of Saucier (1996) to develop training systems and teaching methods that would meet these needs. This would also be very fertile ground for research into adult learning that could improve instruction in continuing education and college level programs.

Political Science

The political climate that spawned the current welfare reform legislation and that makes microentrepreneurship both an attractive alternative for implementing those reforms and a target for denigration as yet another government "gimme" program begs to be explained. Political scientists might also wish to study the disparity alluded to earlier in this paper between federal microenterprise development policy (Collins 1994) and the realities of using microenterprise as a tool to assist the poor.

Interdisciplinary Studies

Perhaps the most enticing opportunity is to continue the study begun in this paper with an eye toward expanding and further integrating the findings from the various disciplines into a cohesive model that would better demonstrate all of the potential benefits and better identify all of the possible pitfalls of using microenterprise development as a tool to alleviate poverty.

As was stated at the beginning of this chapter, this is by no means a complete and authoritative study of the subject. Much work remains to be done, and while the author certainly hopes to play a part in accomplishing that work, his even greater hope is that others will be inspired to contribute to a more comprehensive treatment of this subject. This is far too broad and important a topic to be left to this one simple study.

Appendix A

Entrepreneurial Self-Evaluation Quiz - Northwest Business Development Corporation Microenterprise Consultation Program and Project for Economic Empowerment of the Poor (PEEP): Adapted from Parsons Technology's Small Business Expert Software.

1. Are you a self starter?
   ( ) I do things on my own. Nobody has to tell me to get going.
   ( ) If someone gets me started, I keep going all right.
   ( ) Easy does it. I don't put myself out until I have to.

2. How do you feel about other people?
   ( ) I like people. I can get along with just about anybody.
   ( ) I have plenty of friends - I don't need anyone else.
   ( ) Most people irritate me.

3. Can you lead others?
   ( ) I can get most people to go along when I start something.
   ( ) I can give the orders if someone tells me what we should do.
   ( ) I let someone else get things moving. Then I go along if I feel like it.

4. Can you take responsibility?
   ( ) I like to take charge of things and see them through.
   ( ) I'll take over of I have to, but I'd rather let someone else be responsible.
   ( ) There's always some eager beaver around wanting to show how smart he (she) is. I say, let him (her).

5. How good an organizer are you?
   ( ) I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
   ( ) I do all right unless things get too confused. Then I quit.
   ( ) You get all set and then something comes along and presents too many problems. So I just take things as they come.

6. How good a worker are you?
   ( ) I can keep going as long as I need to. I don't mind working hard for something I want.
   ( ) I'll work hard for a while, but when I've had enough, that's it.
   ( ) I can't see that hard work gets you anywhere.

7. Can you make decisions?
   ( ) I can make up my mind in a hurry if I have to. It usually turns out okay, too.
   ( ) I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
   ( ) I don't like to be the one who has to decide things.

8. Can people trust what you say?
   ( ) You bet they can. I don't say things I don't mean.
   ( ) I try to be on the level most of the time, but sometimes I just say what's easiest.
   ( ) Why bother if the other fellow doesn't know the difference.

9. Can you stick with it?
   ( ) If I make up my mind to do something, I don't let anything stop me.
   ( ) I usually finish what I start - if it goes well.
   ( ) If it doesn't go right I quit. Why beat your brains out?

10. How good is your health?
   ( ) I never run down.
   ( ) I have enough energy for most things I want to do.
   ( ) I run out of energy sooner than most of my friends seem to.

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