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## Entrepreneurship in Grand Rapids

Thomas Dandridge, Director - Center for Entrepreneurship, Seidman School of Business, Grand Valley State University

The four counties of west Michigan (Kent, Ottawa, Muskegon, and Allegan) have approximately 25,000 business establishments. Of these, roughly 24,000 have twenty-five or fewer employees. A very rough estimate is that over 18,000 have fewer than five employees. These are difficult estimates to make, as this part of the community is so dynamic -- starting, stopping and merging --but the Entrepreneurship Center at The Seidman School has undertaken a comprehensive survey of as many of these as we can identify through mailing lists. To our knowledge, this survey is unique in the country and should give detailed insight into these businesses. Locally and nationally we have very little information about the owners and management of such firms.

We add to this initial comprehensive survey by returning to a sub-sample every six months to measure owners' confidence now and for the future. This survey was designed to parallel the West Michigan Economic Forecast done by Prof. Hari Singh and reported elsewhere in this Review. That Economic Forecast turns to large firms, with 200 or more employees. The small business survey reports on only firms with less than twenty-five full-time employees. These are the great majority of our firms in number, if not in total employment. But in their numbers, they represent a great many independent decision-makers. As Prof. Singh and I collaborated in creating a similar design for the new survey, we emphasize the parallel importance of both components.

The following information summarizes some of what these small firms say about themselves. Data reported at this time is only for 1000 respondents from Kent County, our initial survey group.

Only 35% of these owners had experience as an entrepreneur prior to their current venture, and 44% operate at least in part from their home. In such characteristics we see many enterprises that are a "new experience" and a close part of the owner's life. While 50% were legally organized as a sole proprietorship (44%) or a partnership (6%) most of the rest are corporations (21% as "C" corporations; 28% as "S" corporations), which portrays a higher level of tax and legal sophistication. Another measure of the sophistication of these businesses is the extent of their planning. When asked if they kept a running projection of cash flow for the next three months, 33% responded affirmatively. This proportion is low, if we are looking for good foundations for careful planning, but is generally higher than national estimates for similar sized firms. One more measure is the use of advisory boards, or a board of directors. Forty eight percent of respondents with a corporate legal form and 53% of limited partnerships indicated they had an operating advisory board. These are the more sophisticated legal forms. In contrast, 21% of regular partnerships and only 8% of sole proprietorships had such a board. A board can be just as useful, although not legally required, for these latter forms.

To look more closely at total employment, we considered all human resources, including full time, part time, and contract labor. As an estimate, part time workers were counted as one-half, and contract labor as one-fourth of a person. The "full time equivalent" work force was then calculated. The proportional distribution of the respondents by this new measure is shown in Table 1.

<b>Number of Full Time Equivalent Employees</b>	<b>Cumulative Percent</b>
One or less	23
1.1 to 2	45
2.1 to 3	61
3.1 to 5	80
5.1 to 9	91
9.1 to 20	95
Less than 100	100

As can be seen, the "size" of the company is extended when we consider extensive use of part time and contract workers, as virtually all firms in the original mailing had less than five full time employees. (The original mailing list purchased was to include only firms with less than five employees. Some had outgrown this category when responses were received, but none were included in the final analysis if they had more than 25 full time employees.)

We can now look at the average size of small firms, by legal form. This is shown on the next page in Table 2.

As indicated above, a sample of these small firms were asked about their confidence in the west Michigan economy. The average current index, with 100% being completely confident, was 81.8. The index of confidence for next year was 77.3. As this is a new index, it is difficult to interpret fully. The lower figure for the longer-term future may be a real change in expectation, or may simply reflect the greater uncertainty of any future. Either way, the numbers seem comfortably positive. By comparison, the School's most recent large business indices are 85 for current status and 82 for next year. So small business appears slightly less confident in general.

For more specific insight, the survey asked for the owner's expectations of change in their employment in the next six months. Average response was an increase of six percent. In response to a question on the expectation of change in sales in the next six months, the average was an increase of over ten percent. We can speculate as to whether the difference is due to existing labor capacity for expansion, or more cautious plans when it comes to adding employees. When asked for long term employment change, twenty nine percent said they felt their employment would rise by 50 percent or more in the next two years.

Legal Form	Average Full-Time Equivalent Employees
Sole Proprietorship or Partnership	2.8
Both Corporate Forms	10.6
Average of All	6.9

### 1998 West Michigan Economic Forecast<sup>1</sup>

Hari Singh, Economics Department, Seidman School of Business, Grand Valley State University  
 Thomas Droog, Office for Economic Expansion, Seidman School of Business, Grand Valley State University

- The Confidence Index for the west Michigan economy continues to be at a high level (approximately 85%)
- Confidence level is projected to decline marginally for 1998 (approximately 82%)
- Employment growth is expected to be around 2% for 1998
- Sales growth is projected to slow marginally to around 4%
- Export growth rates are also expected to be lower, around 3.4%

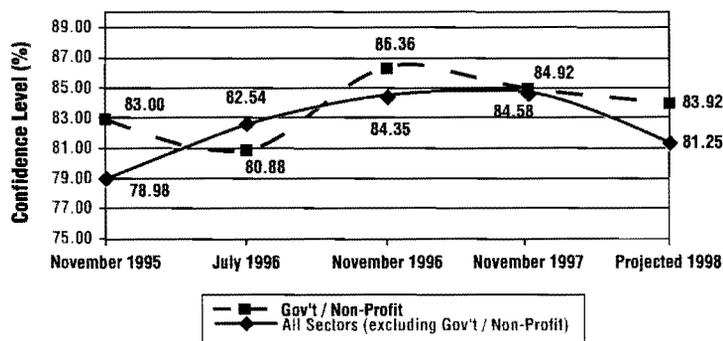
#### Introduction:

We conducted our fourth survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan counties) during November 1997. A survey instrument was mailed to the CEOs of 270 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. Eventually, eighty seven organizations responded, resulting in a response rate of 32.2%. The results of the survey need to be interpreted with caution because of the small sample size and the dispersion in the responses.

In order to give some sense of the variation in the responses, the data is presented highlighting two aspects. First, we provide histograms to show the entire distribution of responses. Second, we report estimates with and without outliers (defined as beyond one standard deviation from the mean in each case).

#### Confidence Index:

**Figure 1**  
**Confidence Index**  
 Caution: Wide Variation in Data



<sup>1</sup> Dean Emery Turner provided encouragement and comments. Sharon Palmitier of OEE did the final formatting. We are grateful for all their help.