



University of  
New Haven

University of New Haven  
**Digital Commons @ New Haven**

---

Management Faculty Publications

Management

---

2016

# Improving Small Business Viability Through the Strategic Longevity and Health Maintenance Evaluation

Michael Rolleri  
*University of New Haven*

Abbas Nadim  
*University of New Haven, ANadim@newhaven.edu*

Robert N. Lussier  
*Springfield College - Springfield, MA*

Follow this and additional works at: <https://digitalcommons.newhaven.edu/businessmanagement-facpubs>

 Part of the [Business Administration, Management, and Operations Commons](#)

---

## Publisher Citation

Rolleri, M., Nadim, A., & Lussier, R. (2016). Improving Small Business Viability Through the Strategic Longevity and Health Maintenance Evaluation. *Small Business Institute Journal*, 12(1), 10-20.

## Comments

This article was published in *Small Business Institute Journal*. "This journal provides immediate open access to its content on the principle that making research freely available to the public supports a greater global exchange of knowledge."

## **Improving Small Business Viability Through the Strategic Longevity and Health Maintenance Evaluation**

Michael Rolleri  
University of New Haven

Abbas Nadim  
University of New Haven

Robert Lussier  
Springfield College

Most adults are urged to go through an annual health checkup. We recommend that most mature small businesses perform an annual strategic longevity and health maintenance evaluation as well to ensure their viability. To this end, we provide strategic areas of critical importance to a small business viability and longevity and offer guidelines for small business owners, managers, consultants, and small business/entrepreneurship educators use to help improve performance. We add to the body of literature on small business success and failure factors by emphasizing the need for a closer look at the open systems nature of these businesses and the impact of interaction with the larger external environmental system for viability. We urge small business owners to be more proactive in evaluating the health and viability of their businesses by using systems approach before the emergence of signs of trouble through the use of the Annual Health Maintenance and Viability Evaluation checklist. We recommend the use of the checkup for use by consultants including SBI student consulting projects.

The “management audits”, “gap analysis”, or “business checkups” are not new. However there is little evidence in the literature that they are actually commonly used by small business owners and consultants. Therefore, we bring the importance of what we call the health audit to the attention of small business owners and consultants. Also, most small business owners and many educators and consultants do not understand the system approach. In this article we explained the systems approach, and unlike other audit lists, our healthcare maintenance checklist adds to the literature by providing a systemic application.

### **ECONOMIC IMPORTANCE OF SMALL BUSINESS AND GOVERNMENT SPENDING**

An estimated 99% of all the registered firms in the United States are regarded as small business (SBA, 2016). There are 5.7 million firms with employees in this country and most of them have fewer than 500 employees (Collins, 2012; Kobe, 2012). Most of the new jobs (Clark & Saade, 2010) and more patients come from small businesses (Bagly, 2012).

Each year a vast amount of resources are employed to help small business. There are no solid or readily available total sum for the two major categories relevant to this research namely total money spent on startups and total money spent on keeping small business operating. According to the White House Office of Management and Budget (2014), the president’s 2013 budget supported \$16 billion in Small Business Administration (SBA) loan guarantees; \$14 billion in term loans and \$2 billion in revolving line of credit. Additionally \$4 billion in Small Business Investment Centers (SBIC) and \$18 million in direct loan to emerging entrepreneurs are part of the budget. Similarly \$200 million in guaranteed debenture is included for matching funds for investors seeking to support innovative companies for expansion of operation and job creation.

Other supportive actions include promoting impact investment in economically distressed regions for disadvantaged groups and in a section of national significance, Improving small business and exporter access to Federal services, helping them to connect to regional innovation, strengthening their exports and doubling the small business employer pension, plan startup credit, and help them provide health insurance to their employees (White House Office of Management and Budget, 2014).

There are two major obstacles in assessing the effectiveness of these measures for enhancing the success factors and/or eliminating the failure small businesses. First, there are no operational measures of before or after success rates. It is not known or readily available if all or any of these loans, subsidies, guarantee and helps do in fact keep more small businesses operating or if they help potential startups to become viable businesses. The federal government spends all these resources without knowing precisely if they achieve the desired outcomes.

Secondly, there are no clean-cut breakdowns of how much resources are dedicated towards creating new small businesses and financing startups and how much is spent helping to keep them in business and preventing them from failure and bankruptcy. Suffice to say that all of the loans and subsidies are hardly the cure for the failure factors, unless the resources are clearly and specifically earmarked to remedy a specific category, such as funding for marketing research and advertising, funding to train the management, funding for website development, or funding for going green and becoming sustainable.

In addition to the SBA, the Small Business Development Centers (SBDC) and the Small Business Institute® (SBI) provide resources to help small businesses. The mission of the SBDC is to deliver through a nationwide network of service centers educational assistance to strengthen small/medium size business management, thereby contributing to the growth of local, state and national economies ([www.sba.gov](http://www.sba.gov), n.d.). The mission of the SBI is to be the premier provider of professional development for those engaged in experiential student team consulting and related entrepreneurship education, research and activities ([www.smallbusinessinstitute.biz](http://www.smallbusinessinstitute.biz), n.d.). In carrying out these respective missions both organizations can and should explore opportunities to engage in a corporative effort to connect students with businesses to enhance experiential learning for students while also bringing additional resources to bear to assist business clients (Geho & McDowell, 2015).

### **SMALL BUSINESS SUCCESS VERSUS FAILURE**

There is an abundant body of literature on causes of small businesses failure. However, it does not do any of those businesses any good; they are out of business! Avoiding those causes also do not increase the chance of small business success: the absence of unhappiness does not make one happy, just neutral. The emphasis must be directed at finding ways to insure the viability of small business at all stages of their existence.

Entrepreneurs start business ventures for independence and to generate economic wealth but many do not succeed (Fiore & Lussier, 2009; Lussier, 1995; Lussier & Pfeifer, 2000, 2001). Success of a venture is uncertain (Carter & Van Auken, 2006); failure is a norm (Jiao, Welsch & Moutray, 2008). Why do some businesses succeed and others fail? Every start-up is launched with high hopes of success, but each year in the United States there are over a half million new startups, and around the same number close each year (SBA, 2015). Thus, the odds of forming a profitable venture appears to be of high risk. Understanding the causes of business owners' success and failure has been called the cornerstone of entrepreneurship research (Michael & Combs, 2008).

Predicting entrepreneurial fate is an important area of research because bankruptcy is both costly and disruptive to a variety of firm stakeholder including owners, investors, and communities (Van Auken, Kaufmann & Herrmann, 2009). Success versus failure prediction research benefits both potential and current entrepreneurs; those who assist, train and advise them; those who provide capital for their ventures; their suppliers; researchers; and public policy makers (Lussier, 1995; Lussier & Pfeifer, 2000). Research based evidence provides insight for government and academic institutions in their efforts to provide resources that may help reduce the incident of bankruptcy (Carter & Van Auken, 2006). However, discovering which factors or practices lead to business success and failure is an unfulfilled purpose of

business research (Rogoff, Lee & Sub, 2004). To date, there is no universal agreement on the causes of small businesses success or failure (Rogoff, *et al.* 2004) because there is great discrepancy in the literature as to which variables do in fact lead to success and failure (Lussier & Halabi, 2010).

## **THE CURRENT APPROACH TO SUCCESS VS FAILURE RESEARCH**

The current focus of success vs. failure research is primarily on identifying a list of internal environmental factors. For example, Lussier and Halabi (2010) list the success and failure factors as capital, record keeping and financial control, management experience, professional advisor, education, staffing, product/service, economic timing, age, partners, minority, and marketing. Similarly, Bradley and Cowderly (2014) list the specific causes of small business bankruptcy as under capitalization, lack of planning, trade credit, tax burden and regulation, personal issues, unrealistic expectations, poor cash flow, loss of key person, growing pain, lack of technology, poor location, natural disaster, poor record keeping, and failure to use advice. Note that while the two lists share many similarities, there are very few factors for success or failure that are rooted in the larger external environmental system of which the small business is a part.

## **THE NEED FOR SYSTEMS APPROACH IN DETERMINING THE CAUSES OF FAILURE OF SMALL BUSINESSES**

Small businesses face both internal and external obstacles that make survival difficult (Miller, Besser & Riibe, 2006). However, success versus failure research tends to focus more on the internal environment, such as capital and management, more so than the external environmental factors that clearly influence business success or failure. Research supports that the external environment affects the success of small business (De Clercq & Rangarajan, 2008; Lim, Morse, Mitchell & Seawright, 2010) and that both internal and external factors must be addressed to build sustainable success (Nadim & Lussier, 2012; Smith, Discenza, & Baker, 2005). Because research supports that the external environment affects the success of small business (De Clercq & Rangarajan, 2008; Lim, *et al.*, 2010) both internal and external factors must be addressed to build sustainable success (Smith, *et al.*, 2005).

Thus, the missing element in the search for success of failure factors is the ignorance of the systemic nature of a small business. Let us take a closer look at what constitutes a system. According to Ackoff (1999), a system is a “whole consisting of two or more parts. It satisfies the following five conditions:

1. The whole has one or more defining properties or functions.
2. Each part of the system can affect the behavior or properties of the whole.
3. There is a subset of parts that is sufficient in one or more environments for carrying out the defining functions of the whole; each of these parts is necessary but insufficient for carrying out this defining function the way that each essential part of a system affect its behavior or properties depends on (the behavior or properties of) at least one of the essential part of the system.
4. The way that each essential part of a system affects its behavior or properties depends on (the behavior or properties of) at least one of the essential part of the system.
5. The effect of any of subset of essential parts on the system as a whole depends on the behavior of at least one other such subset.”

A system cannot be divided into independent parts without loss of its essential properties or function. The five principles of openness, purposefulness, multidimensionality, emergent property, and counter intuitiveness, acting together as an interactive whole, define the essential characteristics and assumption about the behavior of an organization viewed as a purposeful, multi-minded system (Gharajedaghi, 2006). Of these five principles, openness and emergent property play a critical role in defining a new paradigm of success for small businesses. Openness means that the behavior of living (open) systems (those systems

that are dependent on their environment for survival) can be understood only in the context of their environment (the larger, containing system). Emergent property (success or failure of a small business) is the property of the entire system, not the property of the parts, and cannot be deduced from the properties of the parts. When a business fails, it fails as a whole, not part-by-part and section by section. The success or failure is the product of the interaction, not the sum of the action of the parts, and therefore has to be understood on their own term. Emergent property, by their nature, cannot be analyzed, it cannot be manipulated by analytical tools, and they do not yield to causal explanation (Gharajedaghi, 2006). When the performance of the parts of a system, considered separately, are improved, the performance of the whole may not be (and usually is not) improved.

A general observation of the majority of the research on success and failure of small businesses reinforces the methodological problem in design and conduct of these researches. It is a reductionist, analytical method based on causality. In this methodology, the field study is reduced to its major components, each component is researched for possible solution and the sum of the solution for each component is presented as the solution for the phenomena as a whole. However, from a systemic point of view, the behavior of a system cannot be observed from the sum of its parts. It can only be observed within the context of its larger system and environment.

Success for a small business is an emergent property; failure is the same. Nevertheless, we generally break the small business into its basic components, ignore its open systems properties, and try to understand why it succeeds and/or fails from a part oriented, reductionist, perspective. To understand the critical behavior of small businesses, their success, we have to place them in the context of their larger system: the environment and the neighborhood in which they operate. Concern for the immediate environment and sustainable behavior strengthen the ties of the small businesses with their communities and increases their probability of success.

The proposition of additionally looking for causes of success and failure in the context of the small business larger system, its environment, opens the door for appreciation of a whole host of new ideas. Sustainability and social and sustainable entrepreneurship will serve as a new paradigm for engaging small businesses in their immediate communities and increase their probability of success.

### **PASSIVE AND ACTIVE ADAPTATION: AN OPEN SYSTEM**

To paraphrase Ashby's (1956) law of requisite variety to survive, organizations must have as many adaptive responses as there are changes in their competitive environment even though they may be all passive. However, in today's turbulent and chaotic global competition, passive adaptation may not be sufficient for survival. Playing the game changes the game and the game changers are those that lead the competition. To remain viable through creating and maintaining a competitive edge requires active adaptation and sustainable innovation. As demonstrated earlier in reviewing the literature, most small businesses fail not only due to managerial ineptitudes, but also fail to adapt to changing or unknown external conditions. For the startup it is a case of unknown external conditions and for those already in business it is a case of dynamic, turbulent, and chaotic external conditions.

Adaptation, passive or active, to environmental conditions requires designing learning and adaptive business practices. It requires the design of the structure, process, functions and culture of the organization that can learn and adapt to the unknown or changing environmental conditions. From an open systems' perspective, an organization can fail by lacking the proper structure, process, functions or culture and failing to adapt to the changing environmental conditions, and/or creates its own future. It can also fail by not monitor the changes in its environment and consequently not adapting to what it does not know (Ackoff, 1999).

Unfortunately, most of current success of failure research have had an overemphasis on the structure, process, function (SPF), and culture of the organization by taking fault with each one individually. The question of whether the small business was aware of and appreciated its dynamic environment, or was prepared to adapt to it, have not received adequate coverage in the literature (Nadim & Lussier, 2012).

### **ARE FAILURES PREVENTABLE?**

The key question in assessing the success and failure factors for small business is the degree of prevention of the failure and reinforcement of the success factors. In other words, are the failure factors preventable and the success factors reinforceable? There are two general ways to accomplish this and they are interrelated: 1. managing the internal affairs of the business, and 2. managing its interaction with the external environment.

In regards to managing the internal affairs of the business, the review of the literature clearly indicated that most of the research has been conducted on the internal affairs of the business (SPF, and its culture), not the external environment. Small businesses, in terms of their ability to succeed, are not a special case, they can benefit from advances achieved by larger organizations. Recent trends in avoiding hierarchical structure in favor of flat or network structures, process method improvement to achieve the same ending with improved processes, and lower cost, and innovation and product/service improvement and sustainability, can all be emulated by the small business to increase their probability of success.

External stakeholders' management, in the general field of management, is a relatively new concept. While it was first introduced in the early 1970s, the actual implementation of the concept is still an evolving argument. There is now a growing body of literature on the effects of stakeholders' management on business performance (Sinclair, 2010). Post, Peterson, and Sachs (2002) strongly argue that managing relations with stakeholders for mutual benefit is a critical requirement for corporate success. The same argument can hold true for small businesses management as well. Recent development in sustainable business practices (Nadim & Lussier, 2012) can advance the practice of stakeholders' management for small businesses.

### **THE NEED FOR SMALL BUSINESS AUDITS**

It is well known in the medical field that people should get an annual check-up, and like the individual, so should the small business. Although the SBA and SBDC and others recommend an annual audit, the researchers found no evidence in the literature that small businesses go through the same annual check-up to increase their chance of long-term viability and discovery of the early warning sign of trouble.

### **THE SEC AND SARBANES-OXLEY ACT OF 2002**

Much is known and written about audits of larger businesses, specifically publicly traded companies. An annual report is a review of the financial records of an organization, checking for its accuracy and compliance with the sound accounting practice including the internal control. Starting back in 2006, all public companies are required (for the first time) to submit an annual assessment of the effectiveness of their internal financial auditing controls to the Securities and Exchange Commission (SEC). Additionally, each company's external auditors are required to audit and report on the internal control reports of management, in addition to the company's financial statements (Sarbanes-Oxley Act, 2002).

It is difficult to claim outright if a small business does or does not need an annual audit. In the absence of a generally agreed definition of a "small business", any business, irrespective of its size that falls under Sarbanes-Oxley Act requires an annual audit. If we choose to define small business as a privately held

company with fewer than 50 employees, there is very little evidence in the literature that they choose to commit to an annual audit. The primary reluctance to an annual audit is the cost and in the mind-set of the owners who question their usefulness to the success of their business.

### **IMPROVING VIABILITY THROUGH AN ANNUAL AUDIT AND HEALTH MAINTENANCE CHECKUP**

We strongly recommend that small businesses perform the annual health maintenance checkup to increase their chance of viability. This health maintenance checkup can be performed internally and does not require the help of outside consultants, CPA or other independent organizations, unless required by law or other contractual obligations.

Small businesses whose books are audited by a hired CPA, not the Internal Revenue Service, improve their chances of getting a loan, and at far better terms, than businesses with less scrutinized financial statements. Yet even as owners continue to struggle with tight credit, few can afford the time, effort, or cost of preparing complex financial statements, let alone having them audited (Loten, 2011). Nevertheless, small businesses that have any arrangement with the SBA are required to comply with the audit requirement of the SBA. (SBA Audit Program, 2015) Unfortunately, reviews of scant literature on small business audit all discuss the audit of the financial statement and internal control of the business, not the structure, process, function (SPF), culture or interaction with its stakeholders.

### **ANNUAL STRATEGIC HEALTH MAINTENANCE AND VIABILITY EVALUATION FOR SMALL BUSINESS**

We recommend that small businesses, similar to individuals, engage in annual health maintenance checkup. The procedure recommended here can be performed internally and does not necessarily require a CPA/Consultant or outside help. The small business owner/manager answers a series of questions.

The audit covers both categories of internal operations and interactions with the larger system/external stakeholders. The list is comprehensive, but not exhaustive and items could be added or deleted from the list at the discretion of the small business owner/ management based on the criticalness of the factor to its success. The list is a reflection of items in the literature regarding success and failure factors, previously cited in the body of the paper. It also reflects the systemic nature of any business and its interaction with the important components of its larger system and stakeholders.

By following this procedure of answering a series of questions, the small business can increase its probability of success and viability. The suggested list goes beyond the standard strategic planning SWOT analysis and Balanced Score Card (BSC) models. The simple use of SWOT to lists strengths, weakness, opportunities and threats provides little guidance. Whereas the complete SWOT analysis is primarily based on industrial economics concept and has too many items to make it useful for a small business; its applications are complex. The Balance Score Card (Kaplan & Norton, 1992) covers mostly the internal factors and ignores the externalities and stakeholders.

The appendix at the conclusion of the article has a checklist that is divided into two parts. The first part focuses on Internal operations and the second part focuses on the Interaction with the larger system/external stakeholders. Each of the two parts has multiple subparts. Again, less critical factors can be deleted/ignored and other more critical factors can be added to the checklist based on the specific small business's internal and external environments.

## RECOMMENDATIONS AND CONCLUSIONS

Similar to regular exercise and a healthy diet between annual checkups for personal health maintenance, we recommend similar courses of action for small businesses. As presented, the checkup list is quite extensive. However, as stated, the business owner/manager can delete or ignore items that are not critical factors, and add more critical factors relevant to the specific business. The checklist is a control tool that can identify potential problem areas before they lead to problems. As with the SWOT and BSC models used in large businesses, the strategic longevity and health evaluation maintenance evaluation serves as the foundation for developing strategic plans that must be effectively and efficiently implemented to proactively prevent or solve problems that can lead to business failure; with the focus on business success. Below are a few other ideas for strategic action related to the evaluation:

1. Membership in a Chamber of Commerce
2. Participating in free webinars on relevant topics on a regular basis
3. Active compliance with regulatory agency
4. Easy access to CPA when needed
5. Easy access to lawyers if and when needed
6. Finding a business coach

Small business play such an important role in employment that entrepreneurial success is critical to a healthy growing economy. What we have proposed here is one more critical step to achieve viability. Similar to all other living systems, small businesses have interactive elements that contribute to the health of the system, as well as the interaction with the environment that could impact them positively and negatively. Similarly they can benefit from staying healthy, living within a healthy environment and being able to detect the early signs of danger and operational and financial ailments.

We have presented an applied audit checklist to help the small business owners/managers to perform an annual strategic health maintenance checkup and increase their probability of successes. Entrepreneurship educators can teach the audit to future entrepreneurs as they prepare them for small business management. Small business consultants can help small business owners/managers conduct the audit. With the SBI's focus on experiential student team consulting, the health maintenance audit can be added to the existing tools. The checklist is especially helpful when the student consulting team has a client that does not have an existing problem of focus. Even when business owners state a specific problem they want help with, they often do not understand the systems effect, or they have a problem that is actually being caused by another factor. Thus, when students use the checklist they have a systemic tool to help understand how each part of the business system affects the other parts and that the business as a whole is a living system.

While we maintain that using the healthcare system annual checkup increases small business viability, it can be used with other techniques as well as a standalone consulting tools. As with any conceptual model, additional research of the small business checkup is needed to empirically test its validity. Although the use of an annual audit is not new, it is not commonly used by small business owners. Therefore, we bring the importance of the health audit to the attention of small business owners and consultants. Through this article we have explained the systems approach, and unlike other audit lists, our healthcare maintenance checklist provides a true systemic approach.

## REFERENCES

- Ackoff, R.L. (1999). *Re-Creating the Corporations*. New York: Oxford University Press.
- Ashby, W.R., (1956). *An Introduction to Cybernetics*. New York: Chapman & Hall.
- Bagly, R.O. (2012). Small business: Big impact. *Forbes*, May 15, pp 25-26.



- Bradley, D., & Cowdery, C. (2014) Small business: Causes of bankruptcy, July 26, 2004. Retrieved from [www.sbaer.uca.edu/research/asbe/2004\\_fall/16.pdf](http://www.sbaer.uca.edu/research/asbe/2004_fall/16.pdf) on June 7, 2015.
- Carter, R. & Van Auken, H. (2006). Small firm bankruptcy. *Journal of Small Business Management*, 44(4), 493-512.
- Clark, M.L. & Saade, R. (2010). Working paper. Office of Advocacy United States Small Business Administration.
- Collins, G. (2012). Small is so beautiful. *The New York Times*. July 11, 2012. Retrieved from <http://www.nytimes.com/2012/07/12/opinion/collins-small-is-so-beautiful> on March 12, 2015.
- De Clercq, D. & Rangarajan, D. (2008). The role of perceived relational support in entrepreneur-customer dyads. *Entrepreneurship Theory and Practice*, 32(4), 659-683.
- Fiore, R.A. & Lussier, R.N. (2008/2009). Measuring wealth generation in early-stage entrepreneurial organizations: An alternative to the capital asset pricing model. *Journal of Small Business Strategy*, 19(2), 51-67.
- Geho, P.R. & McDowell, W.C. (2015). The Small Business Institute® and Small Business Development Network Collaboration: Student Experiential Learning Opportunities. *Small Business Institute® Journal*, 11(1), 1-5.
- Gharajedaghi, J. (2006). *Systems Thinking: Managing Chaos and Complexity* (2<sup>nd</sup> edition). Woburn, MA: Butterworth-Heinemann.
- Jiao, J., Welch, H. & Moutray, C. (2008). Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs. *Journal of Small Business Strategy* 19(2), 1-16.
- Kaplan, R.S. & Norton, D.P. (1992). The Balanced Scorecard - Measures that drive performance. *Harvard Business Review*, 71-79.
- Kobe, K. (2012). No. 390 Small Business GDP: Update 2002-2010. Economic Consulting Services, LLC, Washington, DC.
- Lim, D. S.K., Morse, E.A., Mitchell, R.K. & Seawright, K.K. (2010). Institutional environment and entrepreneurial cognitions: A comparative business systems perspective. *Entrepreneurship Theory and Practice*, 34(3), 491-518.
- Loten, A. (2011). Audit Adds Shine to Firms. Retrieved from <http://online.wsj.com/news/articles/SB1> on March 14, 2015.
- Lussier, R.N. (1995). A nonfinancial business success versus failure prediction model for young firms. *Journal of Small Business Management*, 33(1), 8-20.
- Lussier, R.N. & Halabi, C.E. (2010). A three-country comparison of the business success versus failure prediction model. *Journal of Small Business Management*, 48(3), 360-37.
- Lussier, R.N. & Pfeifer, S. (2000). A comparison of business success versus failure variables between U.S. and Central Eastern Europe Croatian entrepreneurs. *Entrepreneurship Theory and Practice*, 24(4), 59-67.
- Lussier, R. N. & Pfeifer, S. (2001). A crossnational prediction model for business success. *Journal of Small Business Management*, 39(3), 228-239.
- Michael, S. C. & Combs, J. G. (2008). Entrepreneurial failure: The case of franchisees. *Journal of Small Business Management*, 46(1), 73-90.
- Miller, N. J., Besser, T. L. & Riibe, J. V. (2006). Do strategic business networks benefit male- and female-owned small-community businesses? *Journal of Small Business Strategy*, 17(2), 53-74.
- Nadim, A. & Lussier, R.N. (2012), Small business, community relations and sustainability: New approaches to success. *Journal of Small Business Strategy*, 21(2), 79-95.
- Post, J., Preston, L. & Saschs, S. (2002). *Redefining the Corporation. Stakeholder Management and Organizational Wealth*. California: Stanford University Press.
- Rogoff, E.G., Lee, M.S. & Sub, D.C. (2004). Who done it? Attributions by entrepreneurs and experts of the factors that cause and impede small business success. *Journal of Small Business Management*, 42(4), 364-376.
- Sarbanes-Oxley Act (2002). Pub.L. 107-204, 116 Stat. 745, enacted July 30, 2002.

- Small Business Administration (SBA) (2015). Retrieved from <http://usgovinfo.about.com/od/smallbusiness/a/sbadrives.htm> on May 15, 2015.
- Small Business Administration Audit Program (2015). *SOP NO: 90 10 (5)*. Retrieved from SBA.Gov on October 20, 2015.
- Small Business Institute® (SBI) (n.d.) [www.smallbusinessinstitute.biz](http://www.smallbusinessinstitute.biz).
- Sinclair, M.L. (2010). Developing a model for effective stakeholder engagement management. *Asia Pacific Public Relations Journal*, 11(5), 34-41.
- Smith, H. L., Discenza, R. & Baker, K. G. (2005). Building sustainable success in art galleries: An exploratory study of adaptive strategies. *Journal of Small Business Strategy* 16(2), 29-41.
- Van Auken, H., Kaufmann, J. & Herrmann, P. (2009). An empirical analysis of the relationship between capital acquisition and bankruptcy law. *Journal of Small Business Management*, 47(1), 23-37
- White House Office of Management and Budget (2014). Retrieved from [www.whitehouse.gov/factsheet/supporting-small-business](http://www.whitehouse.gov/factsheet/supporting-small-business) on May 15, 2015.

## **Appendix A: Annual Health Maintenance and Viability Evaluation Checklist**

### **1. Internal Operations:**

#### **A. Structure, Process, Functions, and Culture:**

Human Resource practices: are there rules and regulations in place regarding human resources: hiring practices, workplace compliances, terminations, equal opportunity, etc.?

Is there a culture of innovation that promote risk taking and rewards new ideas?

Is there a formal performance measurement and reward system for excellence and innovation?

Is there a formal total quality management (TQM) and Process Methods Improvement in place?

#### **B. Financial Health:**

Does the business have a consistent cash flow generated from operating activities?

What is the debt structure of the business?

Does the business have positive current and quick ratios?

Is there a continual need for borrowing or capital infusions by the owner(s)?

Are the financial ratios comparable to competitors and industry standards?

Is the business' gross profit ratio consistent from one period to the next?

Is there any obsolete or slow moving inventory that may have to be written off?

What is the business' leverage as compared to equity capital invested?

#### **C. Financial Systems Adequacy:**

Are the business' financial reporting system properly designed and operating effectively?

Does the system include methods and records that minimize risk to a reasonable level and ensure the following:

a. all valid transactions are properly identified and recorded

b. sufficient detailed information is provided on a timely basis to permit proper classification for financial reporting

c. transactions are recorded at their proper monetary value in the financial statements

d. sufficient information is generated to permit the recording in the proper time period

e. transactions and related disclosures are properly presented in the financial statements

#### **D. Business Model Adequacy:**

How does the business earn a profit or generate its funds?

Is the products and services mix optimal?

What are the methods of advertising, selling and distributing?

Is the business model ethical, socially responsible, and sustainable?

Are there any unusual or complex transactions?

### **2. Interaction with the Larger System/External Stakeholders:**

#### **A. Compliance with Regulatory Requirements:**

How extensively is the business' industry regulated?

Are companies in the industry subject to unusual warranty or product liability requirements?

Are any new laws expected to significantly affect the industry?

Has the business received any communication from regulatory agencies? If so, what was the nature of the communication and how was it resolved? What controls are in place to minimize the risk of noncompliance?

**B. Environmental Friendliness:**

Is the business in an industry that has the potential to incur environmental-related liabilities?

Is the business in a high risk industry (real estate, health care, cleaners, gas stations, etc.)?

Is there any evidence that the business may have violated environmental laws? Compliance with existing laws does not free the business from cleanup costs but may reduce potential penalties.

Does the business use or generate regulated substances?

Does the business need to have permits to store, transport or use regulated substances?

Is the business involved in any criminal or civil procedures related to environmental issues?

Have regulatory authorities issued any reports on the business such as site assessments or environmental impact studies?

Has the business retained any environmental remediation liabilities on sites that it has sold?

**C. Competitive Advantage:**

Who are the business' primary competitors?

What is the competitive advantage and is it sustainable?

Is the business keeping up with changes in technology that may affect the way it competes?

Do sales depend on price or product differentiation?

**D. Local Trends and Political Awareness and Community Relations:**

Does the business hire from the local community?

Does the business sell mostly to the local community and close geographical areas?

Does the business give charitable donation to the local entities?

Is the business (ownership) active in the local and state level politics?

**E. Zoning and Conservation and other Local Regulations:**

Is the business operation consistent with local zoning laws and regulations?

Does the business retain a competent attorney who can address zoning issues that may arise?

**F. Sustainable Business Practices:**

Does the business operate with environmental awareness and follow practices of sustainability?