



GUARDIAN[®]

Special Report

**Small Business Owners' Mindset
by Employee Size**

April 2010

According to the U.S. Census, approximately 40,000 companies with more than 100 employees account for roughly half of the U.S. gross domestic product (GDP). The other half of the American economy is generated by 20 million sole-proprietorships and another five million businesses that have between 2 and 99 employees.

The Guardian Life Small Business Research Institute found that stark differences occur in what matters most to small business owners as their companies evolve from very small entities with fewer than ten employees to sizeable enterprises approaching 100 employees that resemble larger corporations. Based on an analysis of its study – The Guardian Life Index: What Matters Most to America’s Small Business Owners – The Institute seeks to better understand businesses with fewer than 100 employees and what happens as their employee base increases.

In analyzing the shifting focus, needs and priorities of small business owners, The Institute segmented and defined four types of small businesses based on the number of employees:

Number of Employees	Definition
2-9	Smallest business entity; often consisting of the principal and a dedicated support staff. The focus is on the principal.
10-24	An organizational structure exists but is informal, collaborative and collegial below the principal. The focus is on the business.
25-49	Beginning to look like a formal corporation but lacking the resources for rigid departmentalization. The focus is on “the team.”
50-99	Organized much like its larger corporate counterparts but with fewer resources. The focus begins to be on the organization itself.

The analysis also provides a possible explanation for why many of these companies deliberately remain at their current size for most of their existence. For instance, small business owners quickly learn that operating a business of 99 employees is less “fun” and less personally rewarding than running a company of 2-9 employees, and what matters most changes accordingly.

Specifically, as the business grows from 2-9 to 50-99 employees...

- Productivity and efficiency decline
 - Smaller organizations typically generate higher revenues per employee than larger organizations (between 100% and 400% higher, on average)
- It increasingly focuses on growth
 - Owners of 50-99 employee businesses are more likely to plan an expansion of the business compared to those with 2-9 employees (53% vs. 33%)
 - Smaller organizations struggle with maintaining business as usual (58% to 35%)

Which of the categories below best captures your 2008 revenues?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
\$500,000 - under \$750,000	24%	40%	16%	6%	3%
\$750,000 - under \$1 million	19%	22%	20%	17%	5%
\$1 million - under \$5 million	42%	33%	53%	50%	32%
\$5 million - under \$10 million	9%	4%	7%	20%	26%
\$10 million - under \$20 million	4%	1%	3%	5%	26%
\$20 million or More	1%	0%	1%	2%	7%
Mean (Thousands)	\$3,160	\$1,850	\$2,957	\$4,480	\$8,607
Efficiency / least number of employees within each category		\$924.85	\$295.70	\$179.22	\$172.14
Efficiency / most number of employees within each category		\$205.52	\$123.21	\$91.44	\$86.94

In the above example, per-employee productivity is defined as revenues generated per capita

Intensity ratings

The Guardian Life Index reveals a consistent linear progression of increasing feelings of intensity to key issues among small business owners as the number of employees increases. The Guardian Life Index, which uses a proprietary 21-point positive/negative intensity scale (from +10 to -10), generated intensity scores for more than 150 small business issues. In analyzing the 21-point positive/negative scale, experience with more than 25,000 respondents shows that a 0.5 intensity difference between groups is significant.

Presented on the following pages are deeper insights and data tables from The Guardian Life Index regarding small business owners' mindset as employee size increases.

Businesses with 2-9 employees

In this structure, the business focuses on the owner/founder where she or he functions as the manager and employees serve as support, allowing the owner to perform the responsibilities of running the business. All operational decisions are made unilaterally and the owner's sense of independence and sole responsibility for decision-making is a powerful impetus for being in business and often a key reason for having gone into business in the first place.

- Owners of smaller businesses enjoy greater freedom. Additionally, the owner's ability to make unilateral decisions declines while the ability to create opportunities for others increases.
- "Being able to make my own decisions" ranks highest (5.1) among smaller businesses (2-9 employees) and lowest (4.4) among the largest small businesses modeled (50-99)
- "Personal freedom" diminishes for larger business owners compared to their smaller counterparts (4.2 to 5.9)

Businesses with 10-24 employees

At this employee size range, the company begins to have a decision-sharing structure where the owner either has a partner or a key employee who shares aspects of responsibility for decisions, though final decision-making still rests with the owner. At this size, small business owners also begin to feel the increasing "burden" of management and recognize that the

organization itself becomes an entity apart from themselves – one that requires increasing time, energy and attention.

A greater stability and a shift from “survival” mode to measured growth mode also occurs as the number of employees increases.

- “Making enough sales to cover payroll expenses” decreases in importance as a concern as company size increases (2.0 to 1.3) as does “making enough money to pay my family’s personal expenses” (3.0 to 1.4)
- “Being able to pay myself as much as I should” tracks similarly (2.6 to 1.1), as does “being able to add significantly to my retirement funds” (2.8 to 2.0)
- “Being able to grow the business” increases substantially (3.0 to 3.8)

Businesses with 25-49 employees

In this size category, the owner finds herself/himself beginning to manage others who have more clearly defined responsibilities, although such responsibilities are not yet formal departments and the same individual within the company may be responsible for more than one area.

Additionally, at this size some small businesses begin to seriously consider hiring a designated HR professional or, at the very least, an HR-experienced person who might also have other duties not directly-related to managing the company’s human resources.

As the business grows beyond 25 employees...

- It increasingly looks outside of itself and connects to the larger world.
 - The value of a company Web site rises (3.2 to 5.1)
 - The value of business information from industry associations increases (1.5 to 2.9)
 - Membership in professional associations becomes more valuable (1.6 to 2.2)
- There is a greater focus on the discipline of professional management with increasing interest in best practices.
 - Sourcing good ideas for improving the business increases (3.3 to 3.9)
 - Innovations/methods of others rises (2.9 to 4.1)
 - Practices for finding good employees rises (2.1 to 3.6)
 - Employee retention tracks similarly (2.0 to 3.5)
 - As does motivating employees (2.2 to 3.9)
 - Negotiating better health insurance rates also rises as company size increases (1.8 to 2.9)
- Work/life balance issues nearly double with company growth (0.9 to 1.7)
 - Interest in improving productivity also escalates (2.9 to 4.1)

Businesses with 50-99 employees

In the largest employee size category, the founder/owner is most likely to see the need for a defined HR “department” of one or more employees. This increased focus on specialized roles both within and outside of the company is what begins to distance owners from the

day-to-day operations of the business and increasingly requires them to become more of a “professional manager” relying on others to provide their expertise.

At this size, the small business owner also needs to focus less on “me” and more on “the organization” with many of the same distinctions of larger companies. The owner’s job is less about managing others and more about managing the enterprise itself. The necessity for and reliance upon HR professionals is more of a requirement – particularly as the issues of compliance, professionalism, motivation and regulation among others move to the forefront.

As the business grows from smaller to larger...

- Owners are more gratified with the quality of their staff (4.4 to 5.4)
- The desire to create opportunities for others increases (3.5 to 4.6)
- Personal freedom diminishes for larger business owners compared to their smaller counterparts (4.2 to 5.9)
- With increased size there is an associated need to focus more attention on the actions, needs and motivations of others
 - The need to keep customers from leaving rises (5.5 to 6.1)
 - Getting governments to reduce the burdens of taxes and paperwork rises (4.2 to 4.8)
 - Finding ways to be noticeably different to customers and prospects becomes more important (4.9 to 5.4)
 - Giving employees reasons to feel better about being part of the team also increases (4.0 to 5.3)

And, as the business grows from smaller to larger, people matter more, both internally and externally...

- Employees rise in importance (4.9 to 6.3)
- “My management team” scores similarly (3.1 to 5.7)
- A strong #2 also becomes increasingly valuable (2.1 to 4.3)
- HR managers more than triple in value as a resource (0.9 to 3.2)
- Accountants increase in value (2.9 to 4.2)
- Lawyers double their value to their clients (1.4 to 2.8)
- Financial advisors fare similarly (1.3 to 2.6)
- Business insurance agents improve their standing by over 100% (1.0 to 2.3)

Planning for the future also becomes increasingly important...

- Retirement planning rises (2.2 to 2.7)
- Succession planning tracks similarly (1.5 to 2.5)

Summary

According to The Guardian Life Index, the following trends emerge as small businesses grow larger:

- Smaller organizations are less concerned with issues not immediately of value to running the day-to-day concerns of the business.
- Owners of smaller businesses enjoy greater freedom.
- Larger organizations have more resources available to founders/owners, freeing them to be more concerned with the bigger picture.
- Larger businesses tend to be more stable and more inherently able to manage economic fluctuations and focus on growth of the enterprise rather than maintenance of the business.
- The importance of the management team and employees rises, including the need to adopt effective practices for finding, motivating and retaining good employees.
- Professional services advisors, such as accountants, lawyers, financial advisors and insurance agents, increase in value.
- There is a growing focus on the disciplines of professional management, with an intensifying interest in improving productivity and stimulating business innovation.
- The business increasingly begins to shift its focus externally, rather than looking inward. In particular, the small business owner places greater value on membership in – and information from – professional associations, and the value and importance of the company's Web site rises.

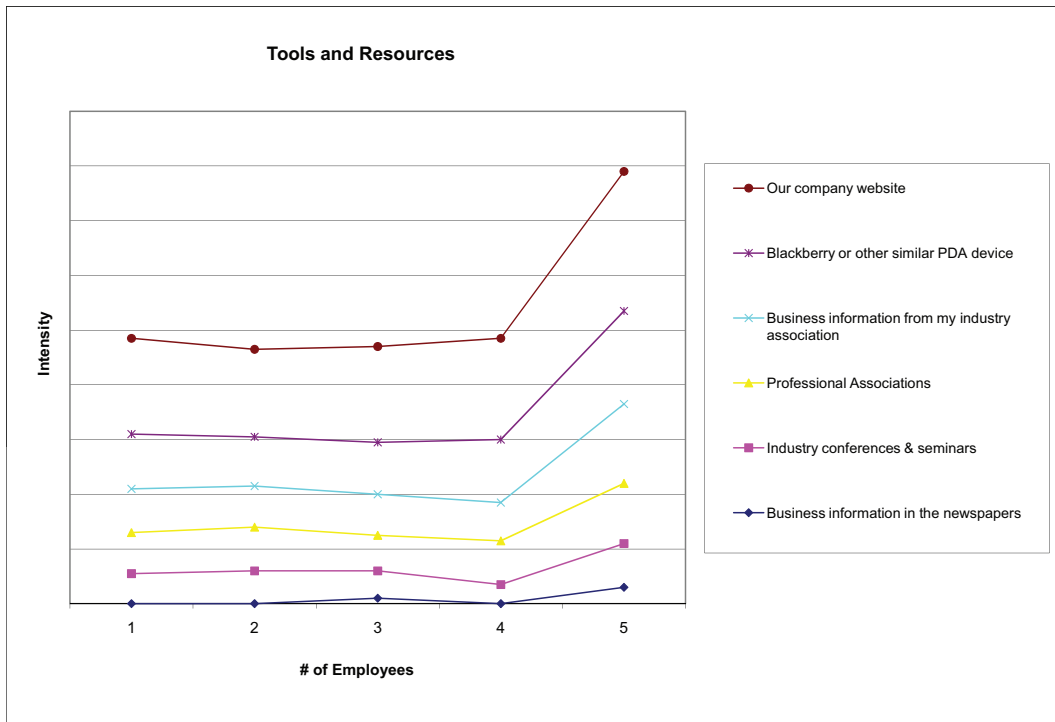
Appendix of Charts & Tables

As the Business Grows in the Number of Employees, It Increasingly Focuses on Growth

Which of the following best captures the plan for your business over the next 12-24 months? Select all that apply.	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Maintain business as usual	54%	58%	53%	52%	35%
Plan to expand the business	38%	33%	42%	39%	53%

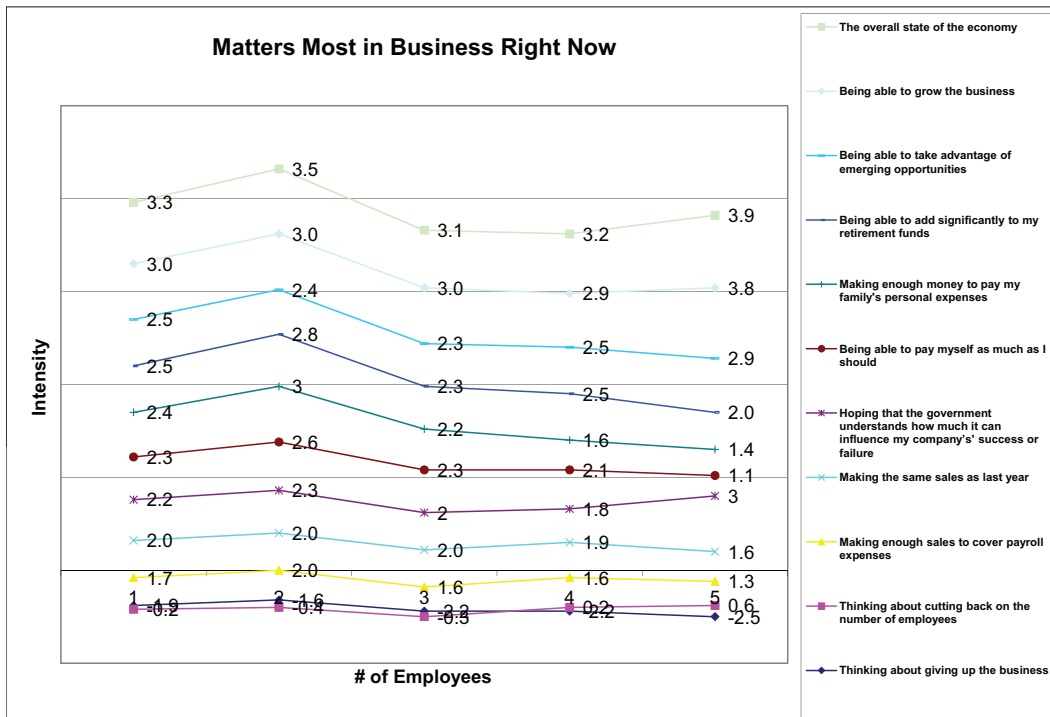
As the Business Grows in the Number of Employees, It Places More Value on Information from Outside Resources

Which of the tools and resources listed below matter the most to your business?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Our company website	3.5	3.2	3.5	3.7	5.1
Business information from my industry association	1.6	1.5	1.5	1.4	2.9
Business information in the newspapers	0.0	0.0	0.2	-0.3	0.6
Industry conferences & seminars	1.1	1.2	1.0	0.7	1.6
Professional Associations	1.5	1.6	1.3	1.6	2.2
Blackberry or other similar PDA device	2.0	1.8	1.9	2.3	3.4



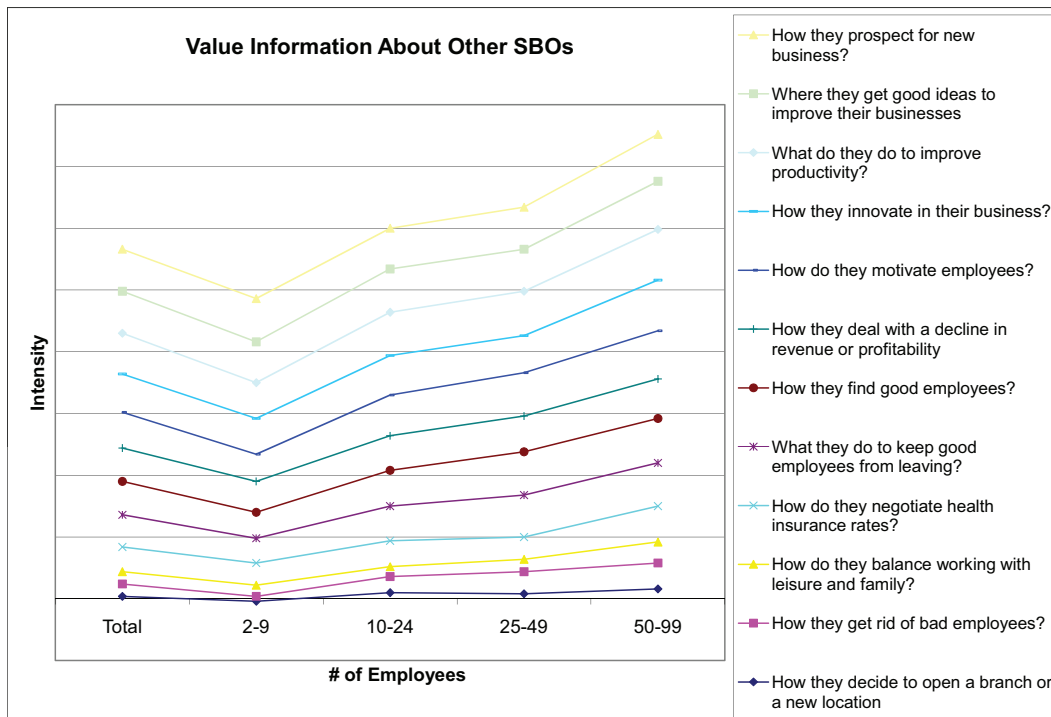
As the Business Grows in the Number of Employees, It Becomes More Focused on the Big Picture

What matters most to you in your business right now?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Making the same sales as last year	2.0	2.0	2.0	1.9	1.6
Making enough sales to cover payroll expenses	1.7	2.0	1.6	1.6	1.3
Being able to pay myself as much as I should	2.3	2.6	2.3	2.1	1.1
Being able to add significantly to my retirement funds	2.5	2.8	2.3	2.5	2.0
Being able to grow the business	3.0	3.0	3.0	2.9	3.8
Being able to take advantage of emerging opportunities	2.5	2.4	2.3	2.5	2.9
The overall state of the economy	3.3	3.5	3.1	3.2	3.9
Hoping that the government understands how much it can influence my company's success or failure	2.2	2.3	2.0	1.8	3.0
Thinking about giving up the business	-1.9	-1.6	-2.2	-2.2	-2.5
Thinking about cutting back on the number of employees	-0.2	-0.4	-0.3	0.2	0.6
Making enough money to pay my family's personal expenses	2.4	3.0	2.2	1.6	1.4



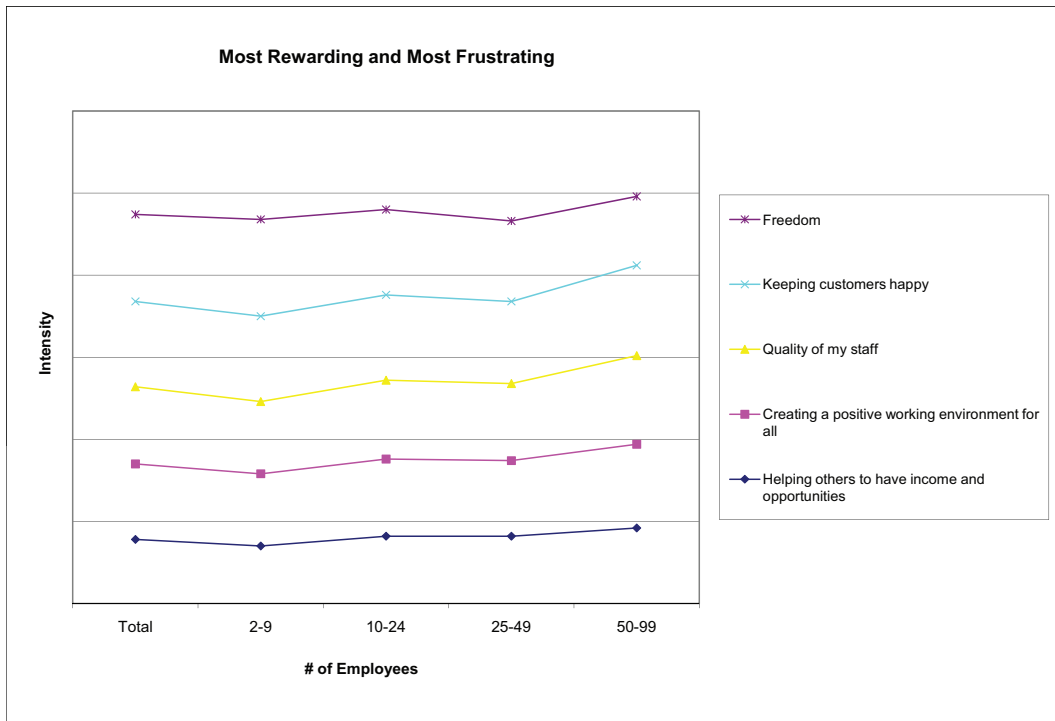
As the Business Grows in the Number of Employees, It Becomes More Interested in Lessons Learned by Other Small Businesses

How much value would the following information about other small businesses be to you?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Where they get good ideas to improve their businesses	3.4	3.3	3.5	3.4	3.9
How they prospect for new business?	3.4	3.5	3.3	3.4	3.8
How they innovate in their business?	3.1	2.9	3.2	3.0	4.1
How they find good employees?	2.7	2.1	2.9	3.5	3.6
What they do to keep good employees from leaving?	2.6	2.0	2.8	3.4	3.5
How do they motivate employees?	2.9	2.2	3.3	3.5	3.9
How they get rid of bad employees?	1.0	0.4	1.3	1.8	2.1
How do they negotiate health insurance rates?	2.0	1.8	2.1	1.8	2.9
How do they balance working with leisure and family?	1.0	0.9	0.8	1.0	1.7
What do they do to improve productivity?	3.3	2.9	3.5	3.6	4.1
How they deal with a decline in revenue or profitability	2.7	2.5	2.8	2.9	3.2
How they decide to open a branch or a new location	0.2	-0.2	0.5	0.4	0.8



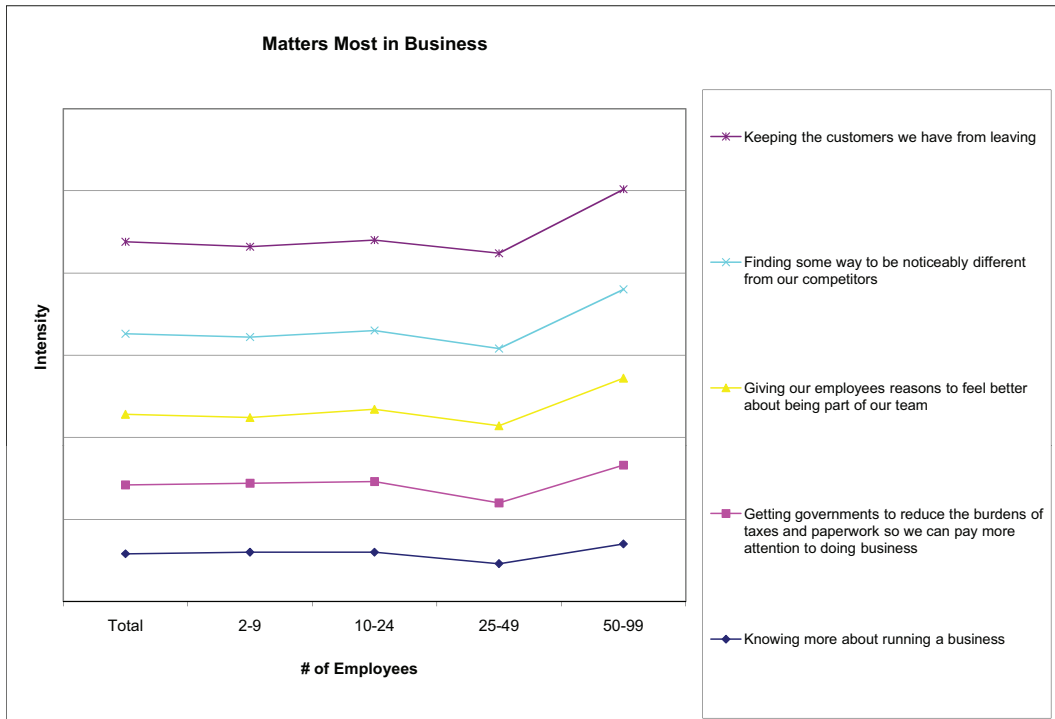
As the Business Grows in the Number of Employees, It Becomes Increasingly Concerned about Customers and Employees

What are the most rewarding and most frustrating things about owning your own business?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Keeping customers happy	5.2	5.2	5.2	5.0	5.5
Quality of my staff	4.7	4.4	4.8	4.7	5.4
Freedom	5.3	5.9	5.2	4.9	4.2
Helping others to have income and opportunities	3.9	3.5	4.1	4.1	4.6
Creating a positive working environment for all	4.6	4.4	4.7	4.6	5.1



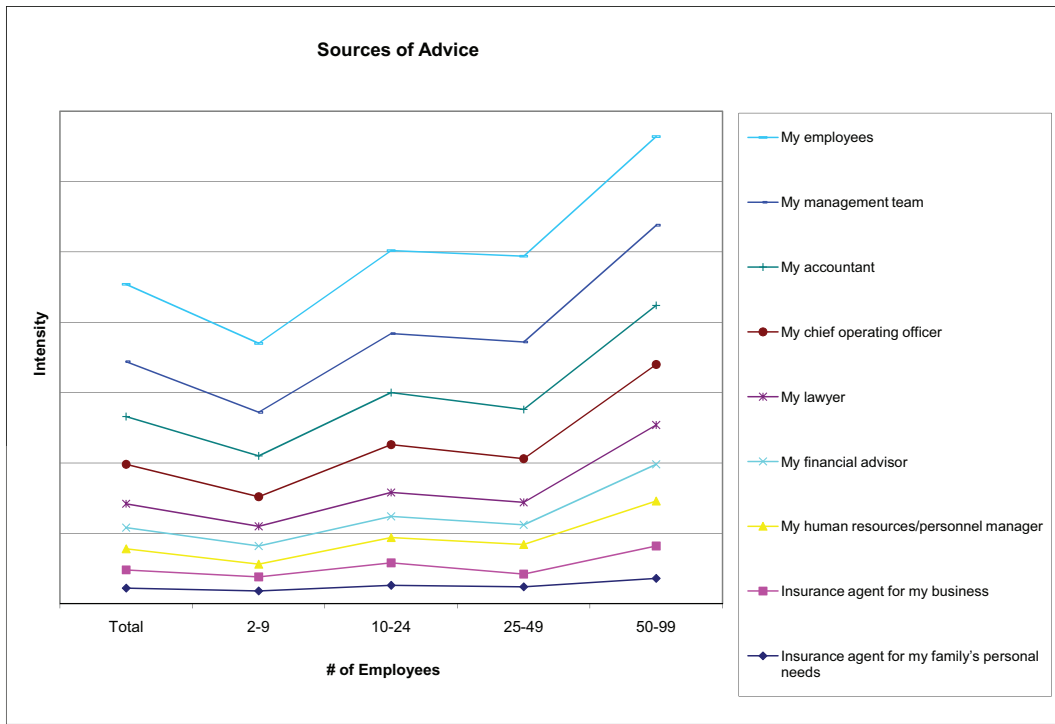
As the Business Grows in the Number of Employees, Employers Begin to Focus More Attention on the Actions, Needs and Motivations of Others

What matters most to you in business?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Knowing more about running a business	2.9	3.0	3.0	2.3	3.5
Keeping the customers we have from leaving	5.6	5.5	5.5	5.8	6.1
Getting governments to reduce the burdens of taxes and paperwork so we can pay more attention to doing business	4.2	4.2	4.3	3.7	4.8
Finding some way to be noticeably different from our competitors	4.9	4.9	4.8	4.7	5.4
Giving our employees reasons to feel better about being part of our team	4.3	4.0	4.4	4.7	5.3



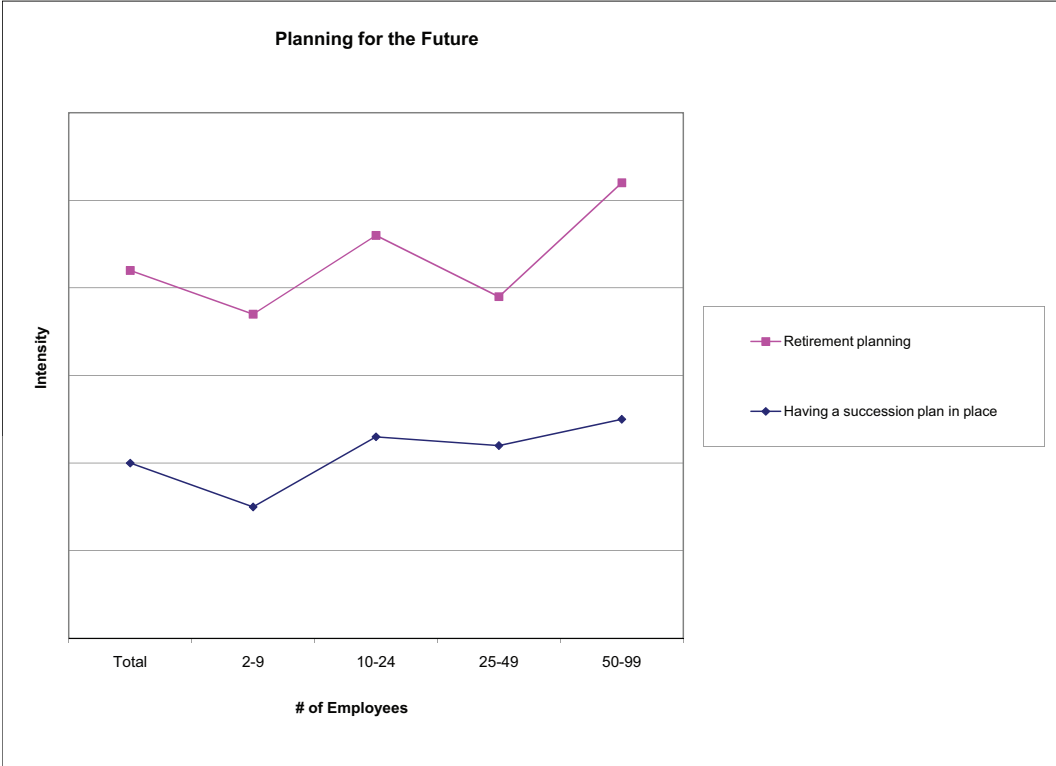
As the Business Grows in the Number of Employees, People Matter More, Both Internally and Externally

How does each of the following matter to your business?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
My employees	5.5	4.9	5.9	6.1	6.3
My management team	3.9	3.1	4.2	4.8	5.7
My chief operating officer	2.8	2.1	3.4	3.1	4.3
My human resources/personnel manager	1.5	0.9	1.8	2.1	3.2
My accountant	3.4	2.9	3.7	3.5	4.2
My lawyer	1.7	1.4	1.7	1.6	2.8
My financial advisor	1.5	1.3	1.5	1.4	2.6
Insurance agent for my business	1.3	1.0	1.6	0.9	2.3
Insurance agent for my family's personal needs	1.1	0.9	1.3	1.2	1.8



As the Business Grows in the Number of Employees, Planning for the Future Becomes Increasingly Important

How does each of the following matter to your business?	Total	2 – 9 employees	10 – 24 employees	25 – 49 employees	50 – 99 employees
Retirement planning	2.2	2.2	2.3	1.7	2.7
Having a succession plan in place	2	1.5	2.3	2.2	2.5



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