



Minority and Small Business Review

Volume 16

UNIVERSITY OF THE WEST

Spring, 2018

Featured Articles

Economic Outlook for the Year of 2018

Elder Planning 101

Human Resources – Creating a Competitive Advantage

Understanding MIS – An Effective Resource to Optimize Your Business

The Rise and Perils of Cryptocurrencies

Not a Required Course – Suggestions for Introducing Peter Drucker

SBA – Fueling America's Small Business Success

Minority and Small Business Review

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The Minority and Small Business Review is published annually each Spring by the Center for the Study of Minority and Small Business (CSMSB) and the Department of Business Administration at University of the West. This publication includes original contributions based on both theory and practical insights on a variety of topics on entrepreneurship. While the topics may vary, each volume contains articles on subject matters that are critical to the growth and sustainability of minority and small businesses, such as: leadership & management strategies; finance/accounting; access to capital; marketing/branding; and legal/tax issues. The contributing authors include UWest Business Department Faculty as well as industry experts, business leaders/executives and entrepreneurs. Each year, the Review seeks to provide information that is content-rich and topically current.

We invite such articles to be submitted to the Editor via e-mail to meskeremt@uwest.edu (using a standard MS word-processing program such as Word). All submissions are subject to editorial review and modification--acceptance is not guaranteed unless such notification is provided in writing by the Editor.

The annual subscription rate is \$10.00 for mailing within USA and \$15.00 outside USA. (Please see Order Form). All correspondence regarding contributors' writings, excerpt permission and scholarly exchange; as well as subscriptions, changes of address and request for sample copies, should be addressed to: Editor of The Review, CSMSB, University of the West, 1409 N. Walnut Grove Avenue, Rosemead, CA 91770.

Editor: Prof. Meskerem Tadesse, Director, Center for the Study of Minority and Small Business
(meskeremt@uwest.edu)

Administrative Assistants: Pauline Lim,
Rozalia Zazian

Center for the Study of Minority and Small Business

The Center for the Study of Minority and Small Business (CSMSB) serves as a link between the University and the minority and small business community, offering regular seminars, lectures, conferences, business counseling and the publication of "The Review". The Center seeks to develop itself into an outreach link to connect area minority and small businesses with governmental and non-governmental organizations in order to broaden their exposure to current business realities and changing governmental regulations.

As the Center strives to strengthen its efforts to play a more meaningful role towards the long-term growth and sustainability of minority and small business, it is mindful of the fundamental need for a broad-based support and partnership of area stakeholders and the community at large.

Your subscription to The Review will not only provide us your contact info so we can advise you of upcoming programs and events, it will also signify your support to the Center's programs and activities.

We invite your ideas, feedback, support and involvement. Please address all correspondence to the Center's Director via email @ meskeremt@uwest.edu.



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Volume 16, 2018

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Message from Dr. Stephen Morgan, President University of the West

April 25, 2018



When I arrived on-campus in June of 2013, I immediately started to count the Points of Pride that make University of the West such a unique learning community. One of those Points of Pride is the continuing publication of **The Minority and Small Business Review**. A product of our Center for the Study of Minority and Small Business, The Review is in its sixteenth year. Each year Professor Meskerem Tadesse, Editor of The Review, gathers articles from UWest faculty members, noted scholars, and accomplished practitioners. These articles are written specifically to serve the needs of the small business community of Southern California.

We are proud to partner with the entrepreneurs of our region to provide resources that will promote their continuing success and achievement. Small businesses are the backbone of our local economy. They invest in our region, create jobs for our residents, generate local tax dollars, and contribute to the vibrancy of life in Southern California.

As I complete my final year as president of UWest, I am proud of the university's contributions to the business community and grateful for the leadership Professor Tadesse provides as the Editor of **The Minority and Small Business Review**. This fine publication continues to serve as one of our important Points of Pride.

Sincerely,

A handwritten signature in black ink that reads "Steve Morgan". The signature is written in a cursive, flowing style.

Dr. Stephen Morgan, President
University of the West

From The Editor

April 25, 2018



On behalf of the Business Administration Department of University of the West (“UWest”), I am happy to present to our readers this 16th Volume of the UWest **Minority and Small Business Review** (“**The REVIEW**”). **The REVIEW** is an annual publication hosted by the UWest Center for the Study of Minority and Small Business (CSMSB) each spring, containing a collection of insightful and educational business articles authored by faculty from UWest and other institutions, as well as industry experts, entrepreneurs and business leaders.

Given the large number of businesses serving and operating in the broader San Gabriel Valley, in which our institution resides and operates, this publication serves as our venue to extend our greetings to, as well as to inform and consult our community businesses and our readers at large, on current and relevant topics that impact our collective societal and economic interests. As such, the publication offers a variety of academic and practical subject matters and content in each issue. This year’s issue includes articles on key management functional areas such as MIS and HR, targeted to equip owners and managers of small and emerging businesses with practical tools to effectively manage, grow and sustain their business in today’s highly technological and competitive environment.

As we continue to focus on and explore how best to advance our local businesses, we invite your ideas, contribution of thoughts, articles and partnerships in this worthwhile endeavor. Our local businesses are indeed the backbone of our communities--serving, employing and enriching our communities in many ways. Any correspondence can be addressed directly to the Editor @ meskeremt@uwest.edu.

Finally, we extend our sincere appreciation to our contributing authors who graciously provide their valuable works to share with our readers. Special welcome and thanks to our new contributing authors.

Best Regards,

A handwritten signature in black ink, appearing to read 'Meskerem Tadesse', written over a light blue horizontal line.

Professor Meskerem Tadesse, Director
Center for Minority and Small Business (CSMSB) &
Editor, Minority and Small Business Review



ECONOMIC OUTLOOK FOR THE YEAR OF 2018

By Otto Chang, PhD

ABSTRACT

Beginning with a lot of uncertainty, the year of 2017 turned out to be one of the better years for the US and world economy, particularly, the stock market in the U.S. had registered a record year. Will the economy continue this upward trend or would there be a correction that will slow down or reverse the longest economic recovery since 2009? Are there major risks that will cloud the economic outlook in 2018? These are issues debated by economists. The positive economic climate seems to be more likely to continue. The key question is for how long. For the year of 2018, the mood of most economists can be described as cautiously optimistic. The consensus is that the economic expansion will continue to grow in 2018, but the pace will slow down for the coming year.

For the US economy, the positive economic climate is expected to continue for a while in 2018. There are few immediate warning signs visible now. Inflation and interest rates remain low. Consumers do not appear to be overly leveraged. Corporate balance sheets are in good shape and there is room for their profits to improve because global growth is reviving and commodity prices have come back to reasonable levels. The demand and supply for housing remain in relative balance except for some apartment markets and commercial real estate. Government fiscal policies will remain expansionary in the coming year. Given this positive economic climate, US real GDP is expected to grow at 2.7 percent rate in 2018, compared with a growth rate of 2.3 percent in 2017 (Wells Fargo 2017).

For the rest of the world, the economic growth is anticipated to continue in 2018 for several reasons. First, global industrial production is expected to maintain its pace as the commodity price has recovered to a relatively stable range. Second, expansionary macroeconomic policies will be maintained in many major foreign economies to stimulate global economic activity. Third, global trade will continue to grow at its current pace. Based on these observations, the global economic expansion is expected to be at the rate of 3.7 percent in 2018 (IMF, 2017). The International Monetary Fund pointed out several intermediate downside risks that may hinder the world economy: a more rapid and sizable tightening of monetary policies in US and/or EU; potential financial meltdown in China; inability of the central banks in advanced economies to further lower the interest rates if needed; rollbacks of the financial regulations; shifting policies toward protectionism, and other noneconomic factors such as geopolitical conflicts, extreme weather events, and terrorism.

OUTLOOK FOR THE U.S. ECONOMY

Given an economic climate without major negative signs, the U.S. economy is expected to grow at a faster pace than in 2017. For the year ahead, business investment will substantially increase because of the reduction in corporate taxes and more pro-business government policies and regulations. Federal spending will grow, particularly in defense spending and infrastructure. Unemployment will continue to stay low. Real personal income and consumption, however, will decline because of slow wage growth and higher inflation. Both short-term and long-term interest rates will rise in anticipation that the Federal Reserve will continue to raise interest rate to keep inflation in control.



The consensus among economists is that real gross domestic product (GDP) will grow at about 2.7 percent in year 2018, increasing from the growth rate of 2.3 percent in 2017. Most of major components of real GDP are consistent with this faster growth trend. The real business fixed investment will grow at 4.7 percent (as compared to a growth of 4.6 percent in 2017). Industrial production is expected to increase at a rate of 2.7 percent, compared with a growth rate of 1.9 percent in 2017. Real personal consumption expenditures are expected to grow by 2.6 percent in 2018, representing a slight decrease when compared with a 2.7 growth rate for 2017. The decrease is caused by a slower growth rate in real personal disposable income than the real personal consumption expenditures in the previous two years, indicating that the consumers were overspending from savings or borrowings in 2016 and 2017. The consumer overspending is expected to continue in 2018 as the growth rate in real disposal income in 2018 (2.3 percent) is again lower than the growth rate of real personal consumption expenditure (2.6 percent). Since industrial production grows faster than consumption, inventory buildup will increase in 2018 (48.3 billions), as compared to 2017 (21.4 billions). Housing starts are estimated to gain modestly from 1.20 million in 2017 to 1.28 million in 2018. Car and light vehicles sales will decrease from 17.2 million units to 16.8 million units next year as Americans slowed down their car purchases after record increases in 2015 and 2016. Oil prices will fluctuate around \$55 in 2018, translating into higher transportation cost when compared with 2017 (USEIA, 2017). Interest rates are forecasted to climb in 2018. Unemployment rate is forecasted to be at 4.0 percent in comparison with 4.4 percent in 2017.

Forecasts of U. S. Major Economic Indicators

Major Economic Indicators*	2017	2018
Real Gross Domestic Products	2.3	2.7
Industrial Production	1.9	2.7
Real Personal Disposal Income	1.3	2.3
Real Personal Consumption Expenditures	2.7	2.6
Real Business Fixed Investment	4.6	4.7
Changes in Private Inventories (in billions)	21.4	48.3
Net Exports of Goods and Services (in billions)	-612.0	-612.3
Real Government Consumption Expenditures	0.0	0.9
Car & Light Truck sales (millions of units)	17.2	16.8
Corporate Profits after tax	5.5	4.0
Housing Starts (millions of units)	1.2	1.8
Unemployment Rate	4.4	4.0
Consumer Price Index	2.1	2.2
Two-year US Treasury Bill	1.31	2.10
10-year Treasury Note	2.38	2.83
30-year Fixed Mortgage Rate	3.95	4.23
Oil Price (dollars per barrel)	54.5	54.8

*All numbers are fourth quarter over fourth quarter percent changes unless otherwise indicated.

**Source: Wells Fargo (2017).

In 2017, after-tax corporate profits grew by 5.5 percent as global economy improved and consumers overspent their real disposal income. In 2018, it is expected that corporate profits will continue to grow, but at a slower rate of 4.0 percent, as corporations exhaust consumer overspending and real wages go up. It is expected that their after-tax profits will grow at 3.5 percent in 2019. As economy grows at a faster pace, corporations will hire more workers. Unemployment rate will drop further and real wage will pick up. A stronger job market means consumers will have more money to spend. But the higher gasoline bills and the higher inflation will dent the



consumers' pockets, causing real consumption to grow at a slower rate than last year.

The 2018 national real estate market is predicted to slow down compared to the last year. Home prices are anticipated to increase 5.5 percent and existing home sales are forecasted to increase 3.7 percent to 5.67 million homes. Mortgage interest rates are expected to reach 4.5 percent due to higher inflationary pressure in the year ahead (NAR, 2017).

The S&P 500 finished 2017 with about 20% return for the year. At the current index of about 2,700, the current P/E ratio of the market is about 26.5 times. For 2018, the forecasts vary in wide range. The more optimistic forecast estimated the operating earnings per share to be around \$155. If the market P/E ratio remains constant, this suggests a 2018 year-end S&P Index valuation of 3,000. Based on these numbers, the forecast for the return on S&P 500 is about 17% in the coming year, everything else being the same (Badkar, 2018). The more cautious forecast, however, only expected the index to be at 2,800, yielding a return of 4.78 percent. Potential headwinds in 2018 include more rate hikes from the Federal Reserve, stronger dollar, geopolitical conflicts, and potential financial turmoil in emerging economies.

OUTLOOK FOR WORLD ECONOMY

Global economic growth is expected to be 3.7 percent in 2018 as compared to 3.6 percent in 2017 (IMF, 2017). The expansion will be accompanied by stable inflation, around 1.9 percent for advanced economies and 5.0 percent for emerging markets and developing economies. The price of oil is expected to fluctuate around \$55 a barrel. In the foreign exchange market, US dollars will become weaker because of US trade, fiscal, and monetary policies. The euro is forecast to close at \$1.20 per Euro and Japanese Yen at 115 per dollar in 2018 (Scotiabank, 2017).

In the Americas, Canada's growth rate for next year is estimated to be 2.1 percent, down from 3.0 percent in 2017. Mexico's economy will grow at 1.9 percent, down from 2.1 percent for the 2017. Brazil's economy will recover from its growth rate of 0.7 percent in 2017 to a growth rate of 1.5 percent in 2018. The Argentine economy is expected to grow at the same rate of 2.5 percent as in 2017. Chile's growth rate will increase from 1.4 percent in 2017 to 2.5 percent in 2018. Venezuela is expected to reduce its recession rate to -6.0 percent in 2018 as compared to a -12.0 percent recession in 2017 that was caused by severe supply bottlenecks, challenges from capital flight, and weak policy frameworks.

In Western Europe, British economy will grow by 1.5 percent next year, down from the 1.7 percent in 2017 partly due to the Brexit. The Euro area is forecast to grow by 1.9 percent in 2018, down from 2.1 percent in 2017.

In Central and Eastern Europe, the growth rate is different depending on the specific situation in each country as compared to 2017. Russia's economy will slow down from 1.8 percent in 2017 to 1.7 percent in 2018. Poland and Romania's growth will be 3.3 and 4.4 percent respectively in 2018, compared with 3.8 and 5.5 percent registered in 2017. Hungary's economy will grow from 3.2 percent in 2017 to 3.4 percent in 2018. Turkey's growth rate will decrease slightly to 3.5 percent in 2018 from 5.1 percent in 2017.

The economic growth in Asia is mixed for 2018, when compared with the growth rates in 2017. The four countries that will have the largest growth are India, Philippines, China, and Vietnam. In India, consumer spending continues to be the primary driver of Indian GDP growth. In China, residential investment should decelerate in coming year, because lending standards are being tightened again at the margin. Chinese economy will experience a "soft landing," growing at 6.8 percent and 6.5 percent in 2017 and 2018 respectively. The slowdown reflects China's over-leveraged business sector, especially its state-owned enterprises which are often kept afloat by the Chinese government.



The following is a table showing the projected growth rates in 2017 and 2018 for the countries in this region.

Table: Growth Forecasts for Asian Countries

Country	2017	2018
China	6.8%	6.5%
India	6.7%	7.4%
Indonesia	5.2%	5.3%
Japan	1.5%	0.7%
Malaysia	5.4%	4.8%
Philippines	6.6%	6.7%
Singapore	2.5%	2.6%
South Korea	3.0%	3.0%
Taiwan	2.0%	1.9%
Thailand	3.7%	3.5%
Vietnam	6.3%	6.3%

Source: IMF (2017).

RISKS AND UNCERTAINTIES

Several risks are inherent in the economic projections presented above. As we head into 2018 with positive momentum, there are some major uncertainties that we need to watch for. These major uncertainties are discussed below.

The debt-to-GDP ratio in the Chinese economy has shot up over the past decade, with leverage in the non-financial corporate sector rising markedly. China is the second-largest economy in the world and a sharp economic slowdown in the Chinese economy that is caused by an inability to service excessive leverage would clearly have economic repercussions on China's major trading partners.

A sharper-than-expected rebound in global inflation poses another potential downside risk to the global economic outlook. At present, inflation generally remains benign on a global basis. If inflation creeps up only slowly, then central banks are likely to tighten policy at a restrained pace. However, if inflation was to shoot up sharply, then central banks could tighten at a much faster pace, posing a threat to the global economic expansion.

Underlying vulnerabilities among some large emerging market economies (including high corporate debt, declining profitability, and weak bank balance sheets in some cases) leave emerging market and developing economies still exposed to sudden shifts in investor confidence. Such shifts could materialize, for example, if incoming inflation data for the United States point to an earlier hike in the interest rate than anticipated.

Then there are a whole host of geopolitical risks that are truly difficult to forecast. Clearly, a nuclear exchange with North Korea, should one occur, would not be positive for the global economic outlook. However, there are less cataclysmic geopolitical risks that, if they were to come to pass, could weigh on global economic growth. A "hard" Brexit, in which the United Kingdom abruptly leaves the European Union before a new economic and financial relationship can be negotiated, would probably cause a recession in the former.

Finally, there is the risk of global trade tensions. The United States, Mexico and Canada are currently



negotiating revisions to the NAFTA agreement. There are extensive trade ties among the three North American economies, and an abrupt end of the agreement would impart adjustment costs on many businesses in the three countries. In addition, the Trump Administration came into office talking a hard line about American trade relations with China. So far, the administration's actions have not matched its rhetoric, but an increase in trade tensions between the two largest economies in the world could lead to financial market volatility and slower global economic growth.

OUTLOOK FOR CALIFORNIA ECONOMY

California continues to outpace the nation in economic growth, now accounting for 13.6 percent of U.S. GDP. Its economy will continue to expand as the US and world economy continue to grow in 2018. Nonfarm payroll employment will grow at a lower rate of 1.6 percent in 2018 as compared to 1.8 percent in 2017. Regardless, unemployment will shrink to 4.8 percent at the end of 2017 and to 4.6 percent at the end of 2018. Real personal disposal income will increase at 4.3 percent in 2018 versus 4.1 percent in 2017 (Young 2017).

California's housing market will post a nominal increase in 2018, as supply shortages and affordability hamper market activity. Single family home resale will increase at 7.2 percent in 2018, compared with an increase of 4.2 percent in 2017. Median home prices will increase from \$538,500 in 2017 to \$561,000 in 2018. "Solid job growth and favorable interest rates will drive a strong demand for housing next year," said C.A.R. President Geoff McIntosh. "However, a persistent shortage of homes for sale and increasing home prices will dictate the market as housing affordability diminishes for buyers struggling to get into the market." "This year's housing market can be told as a tale of two markets – the inventory constrained lower end and the upper end that's non-inventory constrained," said C.A.R. Senior Vice President and Chief Economist Leslie Appleton-Young. "This trend is likely to continue into 2018 as active listings have declined across all price ranges for the past two years, but is most obvious at the lower end." (CAR 2017).

Regarding of job growth, the sectors expected to add large number of jobs over the next two years are health care and social assistance (121,600 new jobs) and administrative and support services (120,900 jobs). After two years of falling job numbers, natural resources will stabilize and add 400 jobs. Manufacturing is also expected to grow in 2018 for a net gain over the two years of 14,100 jobs. This sector shed 181,400 jobs between 2007 and 2016, so while higher jobs counts over the next two years are welcome, it is unlikely they foretell a return to pre-recession employment levels (LAEDC 2017).

IMPLICATIONS FOR SMALL AND MINORITY BUSINESS

In summary, U.S. and world economy will continue to grow steadily from previous years. Although the change in the US tax policies may encourage business investment, the changes may also bring higher market uncertainty and volatility. Businesses should not be overly optimistic about the positive prospect of the new business environment. Instead, they should be aware of the negative forces that can potentially harm the economic outcomes such as stronger dollars, rising wages and interest rates, tightening immigration policy, and potential trade wars.

There are things that small business can do to improve their bottom lines in a period of economic uncertainty. On top of all, small firms should continuously try to raise their productivity by incorporating information and communication technology into their operation. Secondly, as global uncertainty increases, the prices of the raw materials are expected to be more volatile in the future. Small and/or minority business should carefully plan their requirements of inputs and materials for the coming year to make sure the cost of them are under control.

There are techniques to improve e-commerce, inventory planning, and to manage global supply chain. If any business needs assistance, please contact the Center for Minority & Small Business at the University of the West at (626) 571-8811, ext. 380.

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About The Author



Dr. Otto Chang is a reputed accounting and business educator with specialty in several areas, including taxation, management and international accounting, business ethics and philosophy, corporate governance and social responsibility. Born in Taiwan of Asian Heritage, Dr. Chang attended National Taiwan University, receiving a bachelor degree in Economics. He came to University of Illinois in 1978 to complete his Master and Ph. D. degree in accountancy. He taught at the University of Wyoming, Texas Christian University, and California State University at San Bernardino (CSUSB). He was the Chair of the Department of Accounting and Finance, Associate Dean for Administrative Affairs at CSUSB, and Dean of the Doermer School of Business at Indiana University-Purdue University Fort Wayne.

Throughout his educational career, Dr. Chang received numerous awards and recognitions for his outstanding teaching, excellent research, and dedicated service to the community. His professional activities include more than forty-five publications; some of them appear in major academic journals, such as Journal of Accounting Research, Journal of American Taxation Association and Management Accounting. He is often called upon to conduct professional workshops to top-level management from all over the world and serves as consultant to several major firms in the United States and China.

ELDER PLANNING 101

By Fredrick Ho, CPA, MBA

ABSTRACT

One in seven Americans was over 65 in 2015, and the number of retirees and senior citizens continues to grow. What they might *not* consider are the ways life may change once they've retired and in the sunset years of their lives, and the planning needs that go into preparing for the future. Most have heard of the need for retirement planning, but few have explored further into elder planning. There is a fine line between retirement planning and elder planning: While all financial planners help ensure their clients have enough savings to last until the end of their lives, elder planning also involves helping clients plan for life's transitions after retirement and during their senior years. This article provides a general overview of some of the critical areas of elder planning and highlights how it goes beyond financial independence and retirement to include planning for you and your dependents, planning for your property and assets, planning for insurance needs, and estate planning.

PLANNING ... FOR YOURSELF

Advance Directives

During an illness, it can be difficult or impossible to communicate your wishes about what kinds of health-care decisions you would like made on your behalf. Advance care planning enables you to state your wishes before you become ill. These documents allow you to outline the treatments you wish to receive or to avoid. The most common example is a living will. A living will is written between a patient and his or her physician.

Proxy Directives

With these documents, a spokesperson is named who will share your wishes should you become unable to communicate. This spokesperson may be referred to as a proxy, surrogate or advocate who can be given general or durable powers of attorney.

- A general power of attorney is a legal document that allows one person to act on behalf of another. It is typically used for financial decisions. This designated person, sometimes referred to as an agent or an attorney-in-fact, can be authorized to do things such as pay bills, sign checks and tax returns, enter into contracts, buy or sell real estate, deposit or withdraw funds or run a business. A power of attorney can be broad (general) or limited to a specific purpose. An agent cannot do anything beyond what is described in the power of attorney document. A general power of attorney ends when its purpose is fulfilled, or at the incapacity or death of the person who enacted it.
- A durable power of attorney serves the same function as a general power of attorney, but it remains in effect even if the person becomes incapacitated. This allows someone to continue to manage your financial affairs, provide for family needs and perhaps reduce the risk of financial losses.

Many financial institutions and other businesses have their own special power of attorney forms. It is advisable to show your power of attorney documents to third parties who may be dealing with your named attorney-in-fact to ensure that your documents are acceptable to them.

General and durable powers of attorney may also include provisions that allow someone to make medical decisions on your behalf (such as a do not resuscitate (DNR) order instructs medical personnel not to perform life-saving cardiopulmonary resuscitation (CPR) or other procedures to restart the heart or breathing once they have



ceased). In the absence of any power of attorney, the courts may name a legal guardian who can make decisions for you if you are unable to do so.

PLANNING...FOR YOUR DEPENDENTS

A CPA can help plan for the financial needs of your dependents, and an attorney can draft the proper estate-planning documents to ensure your wishes are followed. Those who may need to be considered include:

- **Spouse:** In the event of your illness or death, it is important to ensure that a spouse continues to have access to your shared assets. To ensure proper titling of assets, individuals should seek a competent adviser.
- **Former Spouse:** Your adviser can help you arrange an automatic transfer arrangement to ensure alimony continues during your illness. Alimony generally ends upon the death of the spouse who pays it, although it is possible to provide for a former spouse if desired.
- **Child Support:** Generally, child support also ends upon the death of the parent who pays it. Death benefits provided through Social Security may replace this loss of support to your minor children.
- **Children with Special Needs:** A child, even a grown one, with physical or mental disabilities can require special planning.
- **Other Dependents:** Special arrangements may be needed to provide for parents or other family members during an illness or after your death.

PLANNING...FOR YOUR PROPERTY AND ASSETS

Choosing the “title holder” to your various assets is critical. It can ensure that your wishes are known and respected and can be crucial in providing for your dependents and loved ones.

The most common ways to title assets are in one name alone, jointly with a spouse, jointly with someone other than your spouse, or in a trust.

- **Assets Titled in One Name Alone** Assets titled in your name only will be distributed after your death based on the directions in your will and/or trust. If you don’t have a will, the courts or state laws will determine who receives your assets. Usually the law spells out precisely who will receive your assets after all debts and administration expenses are paid. Wills are filed with probate court, which has the authority to supervise the administration of your estate. The court will determine that the will is valid, and that the assets are distributed based on the deceased’s intentions. It also confirms the appointment of the personal representative, someone who manages the legal affairs of another, such as an executor or administrator. Assets that are titled in your name only but have a named beneficiary (that is, left to someone other than your estate) will be distributed directly to that beneficiary. Examples include Individual Retirement Accounts (IRAs) and life insurance policies that designate the beneficiary or beneficiaries.
- **Assets Titled with a Spouse** Assets owned jointly with a spouse can be titled as either “tenancy by the entirety” or “joint tenancy.” In either case, your surviving spouse takes full title when you die. People sometimes think it is advisable to use joint ownership to avoid probate, but this can be problematic if you and your spouse die at the same time or if you have been married more than once. Be careful to ensure that property does not unintentionally go to someone other than you intended.
- **Common Property** Common property defines the ownership of property acquired during marriage, in which all earnings and property acquired during the marriage, as well as all debts, are considered community property. Community property laws exist in Arizona, California, Idaho, Nevada, New Mexico, Texas, Washington and Wisconsin. Those living in these states should check appropriate laws.
- **Assets Titled with a Non-Spouse** Assets owned with someone other than your spouse can be titled in two ways:
 - **Joint with Rights of Survivorship:** When you title your property so that your survivor inherits a property, make certain the other owner(s) is the person(s) you wish to inherit it. This method is often used to avoid Probate Court, but it is not always reliable because lawsuits, liens or a divorce of the other owner(s) can affect the interests of all owners.



- **Tenancy in Common:** This is used most often if the owners have undivided interests in an asset. Here's a simple example: Several individuals choose to buy some vacant land. They title it as "tenancy in common" so each person owns a percentage of the property as if it is in their sole name, which will pass to their heirs at death.
- **Assets Titled in Trust** Assets titled by a trust generally are not included in the probate process and therefore go directly to the intended recipients on whatever schedule the trust directs. Trusts can also avoid the pitfalls of joint ownership because they:
 - Generally, may avoid probate (court supervision)
 - Maintain privacy (compared to wills, which are recorded with the court and open to the public)
 - Provide for control of assets both during life and after death
 - Allow tax benefits
 - Can be structured to take care of your family after your death

Business Ownership

If you own a business, it is important to give some thought to whom will inherit it and run it after your death. There are many ways to set up a business entity. Each one has advantages, disadvantages and provisions for more than one owner. Each choice also has specific estate-planning considerations.

Your choice of estate-planning tools used to transfer a business will often depend on whether you plan to retire from the business or keep it until your death. Business succession planning generally considers both the continuity of the business and the minimization of adverse tax consequences.

A buy-sell agreement allows you to keep control of your interest in a business until a triggering event occurs, such as your retirement, divorce, disability or death. When the triggering event occurs, the buyer is obligated to buy your interest from you or your estate at the fair market value. The buyer can be a person, a group (such as co-owners) or the business itself. Price and sale terms are prearranged, which eliminates the need for a fire sale if you become ill or when you die.

Retirement Accounts and Pensions

There are numerous kinds of retirement accounts and pensions. As part of the process of gathering information and planning for the future, it's advisable to get a sense of how many and which kind you have. Some are provided by an employer, so it is important to remember both current and past employers, including the military. Other types of retirement accounts are created by the individual.

If you have ever worked for an employer who has put money aside in a profit-sharing plan or a pension plan, you might be eligible for a pension from that employer. Determine whether you can name a beneficiary for your plan's assets or review your earlier beneficiary choice to make it reflect your current wishes. Common retirement plans for individuals include IRAs (traditional, non-traditional and Roth), Keogh Plans, 401(k)s, Savings Incentive Match Plans for Employees (SIMPLE), Simplified Employee Pensions (SEPs) and 403(b) plans. Once you create a list of the ones you have, you can begin to consider some key questions. For example, what benefits are available in the event of disability, retirement or death? Have you chosen a beneficiary for each account? Does that choice need to be updated? How do your choices fit into your overall estate plan?

Also determine whether you have an existing retirement account from a former employer. If you withdrew your plan's assets when you left a job or had the plan's assets transferred to another type of retirement plan, no additional steps are necessary. If there is still an account balance with a former employer's plan, follow the steps for a current employer.



PLANNING INSURANCE NEEDS

Disability Insurance

Everyone who works and earns a living probably needs disability insurance. At any age before 65, you are more likely to be disabled (defined as at least 90 days out of work) than you are to die prematurely. More people lose their homes because of disability than they do because of sudden death. If you became disabled and were unable to work, could you still meet your financial obligations? Could you get by without having to use savings or borrow from relatives? If not, you will want to make certain that you have adequate disability insurance coverage designed to pay your expenses while you are disabled and cannot work.

As you are required to meet a strict definition of disability to qualify for benefits from government programs (e.g., Social Security), you should not rely on them as your only source of income in the event you become disabled. If disability coverage is not available at work or if you are self-employed, consider purchasing an individual policy from a private insurer. Most policies pay between 50 and 70% of your gross income for anywhere from a couple of months to age 65.

Life Insurance

One of the most common reasons for buying life insurance is to replace the loss of income that would occur in the event of your death. Proceeds from a life insurance policy make cash available to support your family almost immediately upon your death.

You should review regularly all beneficiary designations on insurance policies to ensure they are current and appropriate.

In general, life insurance proceeds are not taxable to the beneficiary. Proceeds may be taxable in limited cases if proceeds are paid in installments with interest, or if a policy is sold or transferred. Federal income tax rules also vary with benefits paid before the insured's death, such as cash withdrawals, policy loans or dividends.

It is best to consult a financial adviser before selling or surrendering part or the whole life insurance policy.

Before taking any steps, consider your dependents' needs for the benefit after your death, and remember:

- If a policy has accumulated a cash value over the years, you can borrow against it. Borrowed amounts must be paid back. If they are not, the amounts plus interest are subtracted from the death benefit.
- The policy owner may surrender a policy and receive a check for the cash value, ending all life insurance coverage thereafter.
- If there is an accelerated benefits rider, it can be used for someone who has less than one year to live. The insurance company pays a portion of the benefit to the patient. At death, any remaining balance is paid to the beneficiary, less any administrative fee due.

A viatical settlement is a financial transaction in which the owner sells a life insurance policy for cash while still alive. The new owner, typically a viatical settlement broker, resumes premium payments and becomes the beneficiary. Companies usually offer about 60% of the face value of the policy, depending on the health of the patient.

If there is a waiver-of-premium benefit, life insurance premiums do not have to be paid during a period of disability. Some life insurance contracts automatically provide this waiver; with most it is optional. Even if the benefit is provided, there is usually a waiting period of six months during which premiums must be paid. If the waiting period ends and disability continues, premiums are waived retroactively.

Long-Term Care Insurance

Although you may never need long-term care, you'll want to be prepared, because skilled nursing facilities are often very expensive. Medicaid can cover some long-term care costs, but it has strict financial eligibility requirements, so you would have to exhaust most of your life savings to become eligible. HMOs, Medicare and Medigap do not pay for most long-term care expenses, which have become extremely expensive. A long-term



care insurance (LTCI) policy is not for everyone, however. Whether you should buy it depends on factors such as your age and financial circumstances. Consider purchasing an LTCI policy if:

- You are between the ages of 40 and 84
- You have significant assets that you would like to protect
- You can afford to pay the premiums now and in the future
- You are insurable

Several states have passed Long-Term Care partnership laws that allow individuals who purchase qualified LTCI policies to protect a larger portion of their estate should they need to rely on Medicaid at some point for their long-term care.

A variation of long-term care insurance is Critical Care or critical illness insurance, whereby the insurer is contracted to make a lump-sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed in the policy.

PLANNING...FOR YOUR ESTATE

Estate planning is a process designed to help you manage and preserve your assets while you are alive, and to conserve and control their distribution after your death according to your goals and objectives. Your age, health, wealth, lifestyle, life stage, goals and many other factors determine your estate-planning needs. For example, you may have a small estate and may be concerned only that certain people receive a distribution of your assets. In that case a simple will should suffice. Or you may have a large estate and minimizing any potential estate tax is your foremost goal. In this case you will likely need to use more sophisticated techniques, such as a trust.

Estate planning is not only for the rich, however. It can be used by anyone to ensure that financial concerns and goals are addressed after death. That may include providing for dependents, avoiding probate or reducing estate taxes.

Estate planning may be as simple as writing a will (the cornerstone of any estate plan) or as complex as executing trusts and exploring sophisticated tax or estate-planning techniques.

Probate Court

Many people assign a family member as the executor of their will. This person will be working with the probate court, which is charged with approving a decedent's will, supervising the administration of a decedent's estate, and ensuring that the terms of the will are properly executed. Proceedings are initiated by someone who petitions the court, usually the executor.

If there is a will, the petitioner must present it to the court, which then watches over the executor/personal representative while he or she settles the estate. If there is no valid will, the court appoints an administrator. The probate process can take between three months and two years or longer if there is litigation. Probate also makes the will a public document. Probate court charges include court costs, publication costs for legal notices, attorney fees, executor fees, bond premiums and appraisal fees. Total costs for probating an estate can range from \$250 to \$10,000 (or more if there is litigation). The estate pays the probate costs, thereby reducing the amount of money going to the heirs.

Wills

A will is a written and legally enforceable declaration of a person's wishes regarding matters to be attended to after his or her death. Matters to consider when drafting a will include:

- Minor children and/or children from a previous marriage
- Beneficiaries with special needs
- Ownership of significant assets and the desire to minimize estate taxes
- Goals such as controlling the management and distribution of property after death
- The chance that the will may be contested after death
- Desire for a specific asset (such as a collection) to go to a specific person
- Desire that heirs be disinherited



- Charitable donations

Without a will, there are no legal instructions about how property is to be distributed. In this case, the state steps in and dictates how property will be distributed, following intestacy laws. Laws vary among states, but typically half the property goes to a spouse and half is split equally among the children.

In the absence of a will, property will be distributed according to state laws rather than your wishes. Special matters, such as who settles an estate or who takes care of minor children, will also be decided by the state. Disinheritance involves stating that someone is not entitled to inherit even though they would otherwise be a rightful heir. Typically heirs include a spouse, descendants and possibly other relatives. In most non-community property states, spouses who are disinherited may take legal action in an attempt to receive a portion of the estate. In community property states it is not possible to disinherit a surviving spouse because he or she legally owns one-half of the marital property. Remember too that leaving a child out of a will may not succeed in disinheriting that child. An experienced estate-planning attorney can help ensure that your intentions are clearly communicated to avoid complications after your death.

Living Trusts

A living trust becomes operative during your lifetime, as opposed to one created by a will. You may use it to transfer property to a separate entity created to “own” that property, such as a house, boat, jewelry or mutual funds. You may name yourself as trustee and someone else as the successor trustee. Upon your incapacitation or death, the successor trustee steps in to manage the property according to the terms of the trust agreement.

A living trust is revocable; that is, it generally can be changed while you are alive. Property may be removed from the trust, beneficiaries may be changed or the trust can be dissolved altogether.

A living trust:

- Allows the successor trustee to step in automatically at incapacitation as defined in the trust document
- Sets aside assets that are not included in your will or in the probate process
- May make it possible for assets to get to your beneficiaries faster
- Keeps the terms of the trust private
- Does not avoid estate tax
- Does not freeze the value of estate assets

Irrevocable Trusts

You can also choose to establish an irrevocable trust, meaning it cannot be changed once established and funded with assets. Irrevocable trusts can be used to minimize estate tax and can be very complex.

CONCLUSION

By 2030, the U.S. Census Bureau predicts, more than 20% of the U.S. population will be over 65 and potentially retiring. Most have heard of the need for retirement planning, but few have explored further into elder planning. Elder planning involves helping clients plan for life’s transitions after retirement. Elder planning highlights planning for you and your dependents, planning for your property and assets, planning insurance needs, and estate planning. If you are interested in exploring an elder planning strategy, you should contact a competent advisor for additional information.



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About The Author



Fredrick Ho, CPA, MBA is principal of Ho & Associates, Certified Public Accountant, a full service public accounting firm. Since his graduation from the University of Southern California's School of Accounting, Mr. Ho has been providing accounting services to individuals, profit and nonprofit organizations for over 25 years, and his firm has been awarded certificates of recognition by the American Institute of Certified Public Accountants. As an extension of his firm's tax practice, Mr. Ho has been providing and promoting elder planning consulting services. In addition to his accounting practice, he has been concurrently an educator at various colleges and universities in the southern California area. He is currently a tenured Professor in Accounting for the Los Angeles

Community College District and an Adjunct Accounting Professor at University of the West. Mr. Ho can be reached by email at Hocpa@yahoo.com.



Human Resources – Creating a Competitive Advantage

By Cassandra Lattin and Barbara Sullivan

PEOple OneSource, Inc.

OVERVIEW

Most small business owners need to recognize the competitive advantage that can be derived from harnessing their “*Human Capital*” asset... people. The “*Human Capital Theory*” asserts that to prosper, a business must create value in ways that their competition will not. The development of a robust Human Resources function will contribute to this value proposition.

Human Capital is a term propagated by Gary Becker, an economist and Nobel Laureate from the University of Chicago, and Jacob Mincer. It refers to the knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. The subject is closely associated with the study of human resources management as found in the practice of business administration and microeconomics.

As such, companies that invest in their employees, Human Capital, can innovatively increase their competitive edge. This investment can be quantified and an overall monetary value ROI (Return on Investment) has often been studied and documented.

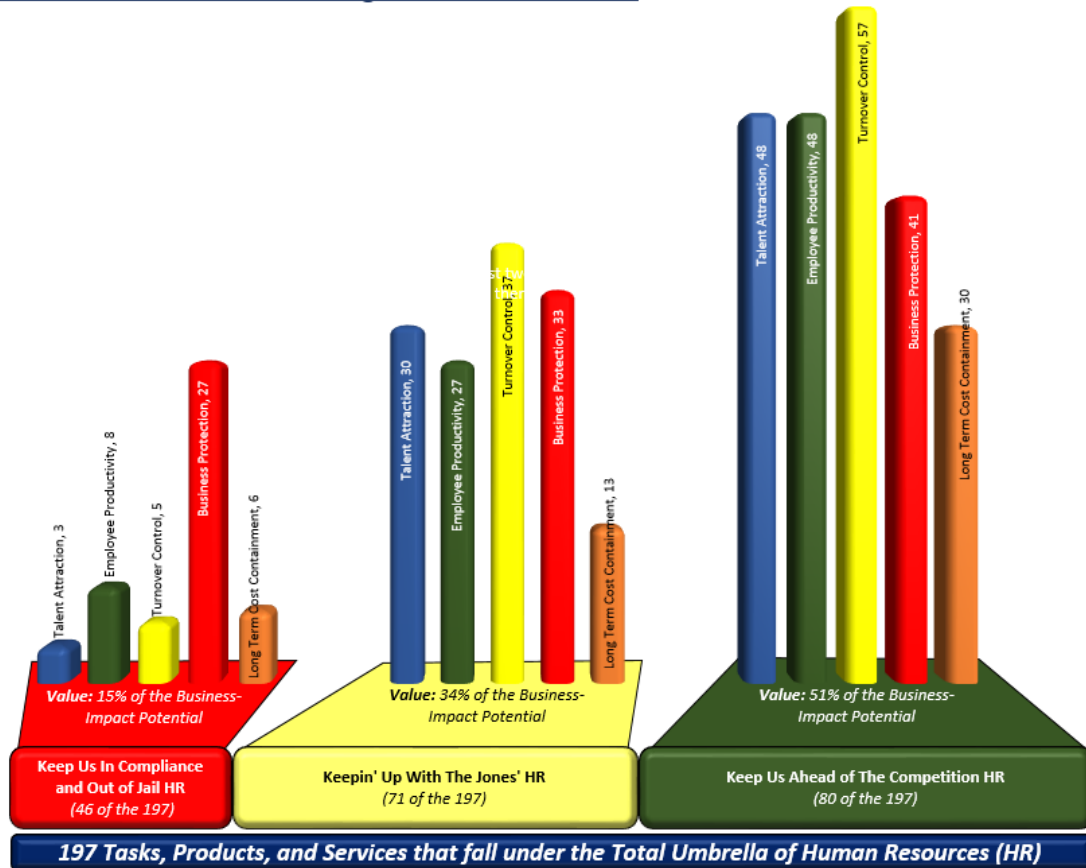
For the purpose of this article, “**Human Resources (HR)**”, is used as a noun which is defined as: “*the personnel of a business or organization, especially when regarded as a significant asset.*”

*The Human Resources function in a company should **recruit the best employees, design appropriate and effective training programs and institute successful retention programs**. Ideally, while competitors struggle with maintaining an experienced and motivated workforce, a company that focuses on enriched HR services can be more productive and produce increased sales when HR plays an integral role in its business development”.*

There are approximately 197 tasks that fall within the HR Function. These tasks are encompassed into three key areas:

1. 46 Tasks or 15% related to compliance issues
2. 71 Tasks or 34% related to general industry standards
3. 80 Task or 51% will create a competitive advantage for businesses performing these tasks

The following table as presented by Rob Blunt of 4-Profit -HR shows Tasks versus Value.



The person or department responsible for Human Resources in any organization large or small should endeavor to create a competitive advantage through attracting talent, increasing productivity, reducing employee turnover, protecting the business and cost containment.

As such the five (5) primary tasks and focus should encompass:

1. Recruitment
2. Training and Development
3. Occupational Safety & Health
4. Employee Relations/ Labor Law Compliance
5. Compensation and Benefits

This responsibility has not changed either functionally or significantly over the last 50 years. Methods for implementation, designated function names, and the use of technology have been infused into its basic operation. Therefore large or small, HR is functioning in every business unless it is staffed with only the owner.

If a business is growing, or plans to grow, paying attention to the operation of these five (5) primary areas are imperative.

Area 1 - Recruitment

The principal function of recruiting is to aid in developing the employer's workforce. This essential task includes advertising, posting open positions, , screening applicants, conducting interviews, presenting diverse qualified candidates and coordinating hiring efforts with owners/managers responsible for making the final selection of candidates (acquiring talent).

Effective Recruitment should embrace three key areas; Workforce Diversity, Hiring and Onboarding.

1. Workforce Diversity

According to the online Business Dictionary, the definition of *Workforce Diversity* is: “*similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, sex, and sexual orientation.*”

One of the best ways for small businesses to ensure their competitive advantage is by employing a diverse workforce and paying attention to how it initially recruits its employees. Companies that embrace diversity typically broaden their skill base and become more competitive and innovative.

As companies evaluate their size, number of employees, demographics of said employees along with their job classification codes, it should easily discern whether or not it has diverse representation. If it does not reflect diversity, the company should determine that whenever a new position is open, the recruitment strategies would include actively looking for candidates from diverse backgrounds.

New locations for recruiting should be identified, and added to the businesses *recruitment radar*, on an ongoing basis. This gives access to diverse and qualified persons actively seeking employment.

Advertise positions in local community and faith based organizations' publications that serve a diverse audience of people. These resources should include possible candidates of all ages, cultures, disabilities, ethnicities, religious backgrounds, women organizations, and other diverse communities. Taking advantage of community based and faith based organizations' publications may also reduce advertisement cost, as many publish at a discounted rate, or at no cost.

According to a study published in the Harvard Business Review, entitled “*How Diversity Can Drive Innovation*”, **diverse firms are 45% more likely to report a growth in market share over the previous year and 70% likelier to get into a new market.** You want the diversity factor contributing to your competitive advantage.

2. Hiring

In his book **Hiring for Attitude**, author Mark Murphy, stated “The financial cost of hiring failure (lost productivity, irritated customers, management time, hiring a replacement, etc.) coupled with the cost of missed

opportunities can be millions of dollars for small companies”. Hiring for attitude and training for skills has become a very popular concept in the small business world.

Of course this has to be balanced with the technical skills required to get the job. When making hiring decision do not overlook either attitude or technical skills in evaluating candidates for positions.

The candidate who has the behavioral traits and characteristics that you believe are necessary for success in your business and the job for which you are recruiting can sometimes be trained for the skill when given the opportunity. You should ensure that the candidate has a good capacity to obtain the skill, particularly if the company is a small business.

3. Onboarding

Following a thorough onboarding process will also help a small business to maintain a competitive advantage. Onboarding is the first step of the new hire process, which we define as orientation.

Effective Onboarding involves collecting all relevant human resources, payroll and benefits information from your new hire. It is during this process that the new hire provides proof of eligibility to work. But more importantly this is also the opportunity to share your company’s vision and expectations.

This function involves a complete and comprehensive exchange of information between the new employee and the company. Failure to maximize a thorough information exchange at this juncture could put a company in compliance danger as well as make the difference in establishing long term retention of a committed employee.

Information distributed to the employee during the onboarding process should at a minimum include Job offer Letter, Job Descriptions, Current/updated Employee Handbook and New Hire Training schedule.

Area 2 - Training & Development

According to Josh Bersin in an article published on Forbes.com, “Many business people think of training as something distracting or often a waste of time. And despite the fact that successful US businesses spend more than \$60 billion a year in employee development, many small business owners often question its return on investment”.

To create a competitive advantage, small business owners must provide their employees with the necessary tools to ensure their success. New hires should be given extensive orientation on the Company’s Vision, Mission, Core Values and Goals. New hire training should focus on technical, soft skills and authentic commitment, to learning in a *diverse environment*.

1. Leadership Training

A critical role of the person or department performing the Human Resource function is to deliver leadership training and professional development.



To maintain a competitive advantage, leadership training should be required for all supervisors and managers that have been newly hired or promoted. Small companies with fewer than 250 employees are often led and managed by owners and founders. It is imperative that the owners and founders recognize that to ensure the success of a company's Leadership programs, it must have the active blessing and when possible participation of top management, especially the CEO.

Leadership Training should ensure leaders possess required knowledge, subject matter content, and skills to make good decisions particularly in the areas of:

1. How the company makes money
2. Conflict Management
3. Communication
4. Performance Management
5. Employee Relations
6. Employment Compliance
7. Identifying and mitigating risk

2. Employee Development Training

According to the HR Council for non-profits “Employee training is the responsibility of the organization. Employee development is a shared responsibility of management and the individual employee. The responsibility of management is to provide the right resources and an environment that supports the growth and development needs of the individual employee”.

The more personally we accept and embrace the concept of who is responsible for employee training and who is responsible for employee development, the more we will advance in creating a competitive advantage.

Employers should not only focus on technical skills which advance the employees actual job performance, but should also focus on soft skills training that should address at a minimum the following areas:

2.1 Effective Communication

Communication training is critical to equipping employees to outperform your competitors. This training should focus on sharpening the employee's abilities to use effective skills in the areas of listening, showing empathy, using appropriate tone, conveying solutions, and implementing actions, as well as writing and verbal communication. The training should cover proper etiquette to include proper response when responding to co-workers and clients. We are operating in a technological world; therefore, training employees on your company's protocol for written responses to emails and other documents should not be overlooked. It is also a plus if non-verbal communication is included in the training.

2.2 Conflict Management

“Conflict is a normal, and even a healthy, part of relationships. People cannot be expected to agree on everything at all times. Since relationship conflicts are inevitable, learning to deal with them in a healthy way is crucial. When conflict is mismanaged, it can be an impairment to the efficient operation of a business. However, when

handled in a respectful and positive way, conflict provides an opportunity for personal growth and often business process improvement. By equipping employees with tools to use to successfully defuse conflict, some challenges in the workplace can often be minimized.

Today we are faced with increased workplace violence incidents. Some of these incidents are the result of internal conflicts. Companies *that prepare employees by instituting standardized training, processes and plans for addressing conflicts creates a competitive advantage as employees potentially feel safer. According to the Occupational Safety and Health Administration (OSHA) of the US Department of Labor, “**Safety and Productivity go hand and hand**”.*

A sample training program reviewed recently designed to address the effective management of conflict included topics on:

1. acknowledging and respecting others
2. being tactful
3. being tolerant of individual differences
4. taking interests in others
5. controlling the tongue
6. understanding and showing concern for peers
7. being diplomatic when addressing conflict
8. always encouraging co-workers and others

Area 3 - Occupational Safety & Health

Workplace safety is an important factor. Under the Occupational Safety and Health Act of 1970 (OSHA), employers have an obligation to provide a safe working environment for employees. One of the main functions of the person or department responsible for Human Resources in any business is to support workplace safety training and maintain federally mandated logs for workplace injury and fatality reporting.

In addition, HR safety and risk specialists often work closely with HR benefits specialists to manage the company's workers compensation issues.

According to OSHA “A healthy and happy workforce produces good quality output. A good **Health and Safety** program can improve **productivity** and ensure regulatory compliance, thereby mitigating risk. **Safety**, quality, and **productivity go hand in hand**”.

On-the-job injuries can have a negative impact on both employees and the company's bottom line. ***Companies that focus on safety, which include illness and injury plans, routine safety inspections and routine safety meetings create a competitive advantage particularly in protecting the assets of the business by reducing cost and time away from work due to loss of productivity related to accidents***

Lost productivity due to employee absences and the cost of implementing corrective actions are just two significant expenses that contribute to an estimated \$170 billion businesses spend nationwide each year when employees suffer job-related injuries or illnesses. (California State Fund)



Area 4 - Employee Relations

The Employee Relations' function in a business encompasses areas that demonstrate its efforts to manage its relationships with employees. Effective employee relations provide processes, policies, and guides for fair and consistent treatment for all employees. Good focus and attention in this area helps control and reduces employee turnover as well as protect the assets of the business.

Key Employee Relations areas of functionality, if a labor Union does not exist, include: creating and updating employee handbooks, developing personnel policy and procedures and organizing and administering employee benefit packages. If a Union exists the responsibility for negotiations and compliance with a contract are usually assigned to this function.

The responsibility for complying with all the Labor related State and Federal laws fall under the responsibility of this function

This function, if poorly managed can be very costly. Several State and Federal Agencies often have jurisdiction for the enforcement of laws and have assigned very stiff penalties if a company is found to be out of compliance.

The person or department responsible for the company's Human Resources is at the very front line of a range of complex compliance issues. Today the term "Sexual Harassment" is so common that companies should take proactive steps that prove, if sued, that training of all of their employees in harassment and sexual harassment was provided.

The team that monitors legislation on a weekly basis, and subscribe to numerous publications which provide insight on the constantly changing laws, will ensure that, as a company, you not only create a competitive advantage, but that you maintain that advantage.

Compliance training aimed at educating employees on laws, regulations and company policies is an essential prerequisite to the organization's risk management, safety and compliance initiatives.

Some of the key headliners effecting employee relations management today are:

1. Harassment
2. Sexual Harassment
3. Discrimination
4. Nonpayment of overtime Hours
5. Absence of scheduled mandatory rest breaks

Headlines on the areas mentioned above are quickly disseminated by technology. Prior to 2002 with the rise in the popularity and release of the cell phone camera, and 2004 with the origin of Facebook, employee relations issues were not as widely publicized. Today, employee relationship issues are aired and shared immediately through social media, with videos, pictures and instant feedback.

To create a competitive advantage in employee relations, business owners should develop policies and procedures and an employee handbook that in addition to the customary topics, specifically address expectations for:

- Social Media (both during and non-work hours)
- Personal Electronic Devices.
- Marijuana in the work place

- Workplace Romance
- Workplace Gossip
- Dress Codes
- Profanity

Area 5 - Compensation and Benefits

Motivation.... Many employees feel motivated to help their companies succeed if the employer shares its profits with employees, such as distributing bonuses or instituting profit-sharing plans. The greatest impact of money on productivity and performance is in jobs where performance is directly related to compensation. (Rose Jones Chron.com). ***Creating a competitive advantage in the area of Compensation by incorporating monetary and non-monetary benefits can reward innovation, and promote loyalty.***

A comprehensive compensation plan will include the employee's

1. Base Salary
2. Health, Dental, Vision, Life Benefits
3. 401 K Contribution
4. Vacation/Sick/PTO
5. Stock Options

The more generous the compensation packages the more it may contribute to employee retention and satisfaction. When customizing a compensation plan it is important to coordinate with your CPA, Payroll Provider or Attorney as these plans could be subject to Federal taxes and ERISA reporting requirements.

Five (5) Human Resources Mistakes to Avoid

According to Doug Bender, Managing Partner HR Global, there are five common HR mistakes businesses make. These mistakes can cost your small business in the long run, both in money and wasted time.

1. **Bad Hire:** Small businesses often fall victim to filling open positions with any person they can because they feel pressured to fill the position quickly. They think they don't have the money or ability to do extensive background checks or hiring procedures. However, as the old commercial would warn...you'll pay now or pay later if you don't do it right to begin with!
2. **Lack of Job Definition:** Business culture now seems to like the idea of "open ended" job descriptions. Businesses are better off telling employees specifically what's expected of them. It's impossible to hire the right person if you can't clearly articulate the specific job you want them to do.
3. **Lack of Performance Documentation:** In an ideal world employee performance should be an on-going dialogue...a 'natural' part of the work culture. That said, all performance reviews, meetings, and issues need to be documented, whether good or bad. If there are performance problems, discuss it with the employee, outline an improvement plan, and document it. You'll need this as insurance if you end up firing an employee.
4. **Ignoring Employment Laws:** You are responsible to follow the employment laws where your business is located. Disregard will not protect you from legal action or problems that may arise.



5. **Improper Job Classification:** This is the most common mistake small and large businesses make...and it costs them dearly in penalties. Does your small business use contract employees? Many businesses use contract employees to save money and headache, but treat them as if they were full or part time employees. This is a real no-no! The IRS has strict guidelines that could haunt you.

Mistakes like these can set a business on a serious path towards big problems and must be managed proactively. .

CONCLUSION (Evaluating HR Outsourcing Solutions)

Human Resources, is sometimes viewed as a back office, paper pushing and effortless job. This is far from the truth. In fact, HR can be a most valuable inside partner of a business.

Before projects begin, HR should be present to see that the company is compliant with all labor laws, regulations, and policies. From safety issues, to harassment, to fair wages, you name it-- HR is there. This is why now, more than ever, many companies prefer to outsource their HR functions.

In a recent article, "[The Advantages of Outsourcing HR Functions](#)", by Sherrie Scott, for the online small business magazine, *Chron*, Sherrie points out four reasons outsourcing works. After identifying and combining them with our professional inside experience, we sought to put our own perspective on those elements and share them with you.

1. Risk Management

Here, HR deals with all the various laws that fall under running a business. And yes, they also apply to a *compliant* employee. Laws change all the time. HR's job is to stay on top of those changes and insure that everyone and all parties are completely aware of them. HR makes all sides compliant to changes, and that policies aligned to these changes, are implemented and/or updated. HR is the first step in avoiding a costly lawsuit, and any company embarrassments.

2. Cost Savings

This is crucial if you're operating a small to midsize business. Unwanted back office cost for departments that bring back no financial rewards, is a business worst nemesis. This is like carrying a back pack to school with heavy rocks in it, every day. It's there, but for what? The idea of a business is to profit. An extra office space, plus computers and supplies, apart from employee wages, could be the difference between closing and keeping your business doors open.

3. Efficiency

Why? Let's look at this closer. Nobody and I mean nobody, likes to spend an entire *off* day, every week, adding up "*Timmy's Time Sheet*", to make sure *Timmy* receives his hard earned pay check on time. Business owners do not have time for it! Businesses understand that time is money, and money is time. I'll leave this one to Sherrie Scott's recent article, "[The Advantages of Outsourcing HR Functions](#)": "Outsourcing helps employers and managers spend less time doing paperwork and more time dedicated to improving the efficiency and effectiveness of the workforce."—A very insightful and valuable words of wisdom to small business owners!!



4. Employee Development.

No matter how big or small a business is, they have to and must, monitor employee performance. They invest thousands, if not millions of dollars and hours, empowering and providing the curriculums and resources to develop what we know as, “*Top Performers*”. This is precisely how these small companies become giants in business. **They outsource what they don’t know, and focus on their strengths.**

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ABOUT THE AUTHORS



Barbara Sullivan is the President and Chief Executive Officer of Sullivan International. Ms. Sullivan has a life time of commitment to the Human resources field. She designed and directed HR Departments for major Healthcare providers for over 20 years. In 1984, Ms. Sullivan showcased her talents for the Olympic

Games as Associate Vice President for employees and volunteers recruiting for all 12 Olympic venues. She has established and operated temporary agencies, co-founded PEOple OneSource and has since been expanded to a global level of HR service delivery. Ms. Sullivan has designed HR Departments for clients that included cities, federal agencies, multi \$billion corporations and Utility companies.

Ms. Sullivan has a Bachelor of Science in Sociology and a Masters of Arts in Education from Tuskegee University. She completed both Tuck School of Business Executive Education and Atlanta University Executive Certificate Management programs.



Cassandra Lattin is the President and Chief Operating Officer of PEOple OneSource, a Professional Employer Organization (PEO/ASO). PEOple OneSource provides back-offices employment support for small to medium-sized companies. Mrs. Lattin

utilizes more than 20 years of experience in the PEO sector to oversee all operations for human resources, benefits administration; recruiting, training, risk management, human capital and payroll. Since completing her education at the University of California, Santa Cruz (Economics), Mrs. Lattin has acquired experience including; working with government legislation, bills, rules, regulations, publications, and implementing public policy, transitioning a variety of projects including overseeing service delivery, HR, training and recruiting and deploying staff and developing HR policies and procedures for businesses. Ms. Lattin was selected by Congressman Filner to serve on a small business development committee. She served as the Chief Administrator for the Elite Service Disabled Veterans owned Business. She also served on the Department of Rehabilitation Disabled Employment Services Committee.

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Understanding MIS: An Effective Resource to Optimize Your Business

By Eduardo Espinosa and Prof. Rafael Wu

I. Introduction

Management Information Systems (MIS) is a growing field in this current age. In order for a small business to compete in its industry and grow into a larger organization, MIS must be implemented. But do people understand what MIS and how important it is? Amazon was once a small business that slowly grew by using MIS into one of the largest companies in the world. MIS is something that cannot be implemented immediately but it can be achieved in increments. MIS is also not complicated as people think it is. The goal of this paper is to provide a better understanding of what MIS is and what you can expect from it.

II. History and Evolution of MIS

The evolution of MIS is divided into five eras. Each era has new levels of technology that have contributed to one another. MIS evolution and history fit together perfectly into five eras which include: Computing on Mainframe and Minicomputers (1965), Personal Computers (1965-1980s), Client/Server Networks (1980s), Enterprise Computing, and Cloud Computing.

This article will only be covering the more recent eras.

Personal computers (PC) started to appear in 1965 with the introduction of the microprocessor. Companies would be able to purchase affordable PCs. PCs provided the computing power that was necessary to do work in less time. By mid-1980, PCs became affordable to the mass markets as MIS began to appear in many organizations with the development of a spreadsheet application known as VisiCalc (Visible Calculator). VisiCalc was the reason why microcomputer went from an expensive gadget for scientists and admirers to an important business tool. The success of VisiCalc made a path to the creation of powerful spreadsheet software like Microsoft's Excel.

With the expanding use of computing in business and advancements in technology, the business community needed to be more efficient with the interaction of information. The community kept requesting the need for employees within organizations to share information. One of these solutions was setting up a client/server network. This network can go far in optimizing MIS. A major step in technology occurred during this time which was the development of intranets and websites providing employees access to information stored in a central location. This would result in higher productivity and more efficiency.

After the **client/server network era**, different departments in companies were able to easily access more information. One major improvement introduced during this time was of high speed networks for enterprises. It provided better and more complete management structures that would be readily accessible from different departments of a company. Different applications used by each department come together into a single platform that can be accessed from the company networks. A single platform allows business operations such as



accounting, human resources, marketing, and sales to be able to work together efficiently and effectively. These applications would be able to give management a complete overview of the business current standing.

Cloud computing is an era with the expansion of resources on computer infrastructures and maintenance. Business invests in cloud services and the amount of cloud-based solutions. Users are able to access remote servers hosted on the internet. With the increase in high speed network in mobile devices and Wi-Fi, managers were able to access the information at any given time. Mobile devices such as smartphones or laptops provided that mobility that can make it easier to improve work efficiency for managers. These changes of work environment will change a manager's management style. Workers would produce and consume information that is given to them and this would slowly convert them into knowledge workers. Knowledge workers are given more authority which will naturally cause them to be more productive naturally, and employee autonomy would appear more frequently.

III. Types of Information System

There are several types of information systems and MIS is one of them. In order to have a better understanding of MIS, we have to look at the different types of information systems used in business. In the following paragraphs, we will look at a few of these and see what the difference is between them.

3.1 Executive Support Systems (ESS) are designed to help management make strategic decisions. ESS will gather, analyze, and summarize key information for the business. Information collected comes from external and internal sources. This system deals with a large amount of data and uses analytic and modeling tools. ESS solves the "what if" problem which would be described later on. A transportation business is a good example since it takes advantage of this system to help support in their investment planning process.

3.2 Decision Support Systems (DSS) are designed to help management make the best possible decision based on the information given. Managers are still required to make decisions even after given the best possible solution. DSS improves decision making to managers by forecasting the best course of action based on the information collected from several sources. Some examples of DSS include computer supported cooperative work, financial planning, and logistics.

3.3 Transaction Processing Systems (TPS) are designed to collect, process, and store all transactions that occur on a daily basis. Transactions that requires cancellation or modification, this system would deal with it. TPS can effectively record multiple transactions simultaneously. It is built to handle a large volume of transactions. Some example of TPS include order processing, payroll, and stock control systems.

3.4 Knowledge Information Systems (KMS) are designed to create and share information for a business. IT is mainly used in businesses that requires the employees to create new knowledge and expertise. Information is then shared to other employees in the organization. An example of a business that would utilize this system are law firms. Law firms include accountants, consultants, and lawyers.

3.5 Office Automation Systems are designed to improve employee productivity. Software, such as Microsoft Excel or Microsoft Word are a few examples. These software increase employee productivity and can be utilized on business trips. Employees are no longer limited to a physical location to finish their work; and it is important for a business to utilize this in order to gain production efficiency and competitive edge.

IV. Components of MIS

To deliver the information needed to decision makers effectively, MIS requires four components; namely: Information Systems, Database Management Systems, Intelligence System, and Research Systems. Each component is important in collecting, processing, storing and retrieving information that is needed at any given time. The following paragraphs will outline how each component contributes to MIS:

4.1 Information systems collects the information that is stored in the MIS. It collects information through the use of hardware, software, personnel, and the company's infrastructure. Examples of hardware's that collect information include computers, printers, scanners and other devices that is connected to the network. The company collects information through the use of software such as an accounting software used in accounting firms.

4.2 Database Management System consist of several programs that help store and retrieve data. This includes physical databases where information is stored after the information is retrieved. Depending on the size of the organization, a database management system can be used on personal computers or a large server if the organization is large. Larger and complex databases require more physical database servers in order to run smoothly. An example of a software that is used with this system is Microsoft SQL Server.

4.3 Intelligence System helps to process the data that is collected and present it in an easy to understand. Some organizations refer intelligence system as business intelligence. Business intelligence stores knowledge on individuals and uses it to formulate quick solutions for future problems that contain patterns that match.

4.4 Research System helps to identify the main problems that concern management in the business and develops alternative decisions that could help resolve a certain situation. This helps to ensure that the best possible decision is made.

V. Major Types of Information Produced by MIS

When using MIS, there are four types of information that are being used. These types of information are descriptive, diagnostic, predictive, and prescriptive.

5.1 Descriptive Information provides answers to the "**What is?**" situations. These types of information's include reports in sales, financial, production, shipping, and several others.

5.2 Diagnostic Information provides answers to the "**What is wrong?**" situations. It will compare current information to the standardized information. An example of this is, a production report of a product shows how many products have been produced but based on a key performance indicator, it will report if the target levels of productions are normal or below target levels.

5.3 Predictive Information provides the answers to the "**What if?**" Situations. This information helps produce results that can help predict the future. An example of this is predicating the sales for the next quarter.

5.4 Prescriptive Information provides the answer to the "**What should be done?**" situations. This provides the company the information necessary to make a decision on company strategic goals and objectives.



VI. Fundamental Needs of MIS in Small Business

A functioning MIS is critical to every organization in order to survive and grow in this modern competitive time. Small businesses and start-up companies have a hard time in their market. This makes certain sectors in the organization crucial. A few of these sectors include strategic decision making, HR management, planning, organizing, and other crucial sectors in the business.

To make sure MIS is functioning properly, there are a few fundamental needs of MIS that are required.

6.1 Internal process such as information should be formulated, established, implemented, and managed. This will cause the limited number of employees and material resources to be diverted into other areas. There will be an increase in efficiency with controlling operations and employees. Office management will be easier. The business will take advantage of the cost reduction.

6.2 Managers must have access to information at any given time, regardless of whether it deals with financial, marketing, or operational issues. This information will help managers to make good decisions for the company. Good business decisions create a positive impact on a company's performance. Since MIS provides a central location for all the information that is collected, managers can easily access the information over the network. Managers from different departments will be able to see the same information and would be able to work with other managers to solve problems quickly.

6.3 Data from daily operations of the company are collected from external sources. This creates a healthy relationship between the company and members of the supply chain. It will also keep track of performance. Production and sales will be recorded and stored in a database that can be easily accessed by any member of the MIS. Access to this information at any given time will help ensure that problems can be detected early and decisions can be made quickly.

6.4 MIS is capable of giving accurate projections of the company's standing with large amounts of information. These projections are important for top executives since they have an impact on the company's strategies. Most MIS have built-in trend analysis that is capable of projecting the performance of a business based on their current performance. Making few changes to these settings will display the affected areas in a business if the changes were applied. The MIS that don't have a trending analysis built into them would require to use external tools to give an accurate projection.

VII. Human Resource Information Systems (HRIS)

Human Resource Information Systems (HRIS) is a software or an online solution designed for data entry, data tracking, and information necessary for Accounting, Human resources, management, and payroll of a business. It is essential for any job that requires data to be tracked and gathered. All the collected information comes together in the form of a database. There are many forms of HRIS that companies sell and each one has different capabilities. Based on what the company does, the choice of HRIS will be important.

When selecting a HRIS, it can become stressful with the number of options that are available. Selecting the features that the company needs are challenging. To make sure that you are making the correct choice, there are a few key factors to take into consideration. An important factor is making sure that the system you select is able to grow in the future as the business grows. Another key factor is to make sure the automation you need can work seamlessly with any add-ons and additional systems. The most important factor is the types of training and support that will be available to the staff. The company must make sure that the training fits the company's needs and has the ongoing support it needs.

An optimized HRIS will have key functions that will provide the necessary functions a business requires to run smoothly. These features range from managing information of employees to keeping records of disciplinary actions towards employees.

The following paragraphs will go into detail on some functions involved in HRIS.

7.1 Managing employee information such as employee names, addresses, titles, and salaries is a good start. The more crucial information that needs to be managed includes performance appraisal, reporting structures, salary and position history, and other critical employee information needed for the company. Another thing that needs to be managed are company-related documents. A few of these documents consist of emergency evacuation procedures, employee handbooks, and safety guidelines.

7.2 A complete integration of accounting, financial and payroll systems is important. When these systems are integrated with each other, it will insure that that paychecks are correct. With the systems being integrated, it's easier update information on an employee's salary across the systems rather than individually updating them. Application and resumes will be easier for recruiters since they will have easy access to all the information needed for the hiring processes. This will save time because it will eliminate the need for additional data entry and paperwork.

7.3 Performance development plans are important because they keep track of employees and how they move from one position to the next. This is extremely useful when it comes to employee seniority. Senior management can run reports to see where employees are located and see what the employee's bosses are planning for the future.

7.4 It is important to keep Records of Disciplinary Actions such as employees who have been demoted, suspended, or other server punishments that have been taken. When other company's request for a former employee reference, the HR department will have no issue looking up and reporting the former employee's status. Along with these records, training records are required if the company needs their employees to have specific certifications and licenses.

HRIS has many other benefits if utilized correctly. This software allows Human Resource staff to be able to manage their own benefits and address changes. This will help the HR staff have more available time that can be dedicated towards strategic functions. Data such as career growth and development, employee management, equal treatment and knowledge development will be easier to access. Managers will have access to information that is necessary to deal with legal, ethical, and effective support of their reporting employees. They will also be able to create their own reports and enter any plans they have into the system.



VIII. Marketing Information System

Market Information System is one approach of collecting large amounts of market research data that is created by clients. This information is used to help small business owners with their research data.

Marketing Information System is composed of three components:

1. Hardware and software required to analyze data and generate reports
2. Output system for marketing and advertising decision makers
3. Four types of data sources that can be analyzed

Marketing Information Systems is an important tool for market research professionals. It helps identify the type of information that is needed for advertising and marketing decision makers. MIS collects the data and sorts it out for future use. Information collected can then be distributed to managers who will use it to promote the company's products or services. Market Information System is one approach of collecting large amounts of market research data that is created by clients. This information is used to help small business owners with their research data.

Four types of data sources that can be analyzed include: Acquired Databases, Internal Company Data, Marketing Intelligence, and Marketing Research.

Acquired Databases are large amounts of information in the form of databases that can be accessed for free to companies such as government databases.

Internal Company data mostly consists of data on sales and marketing activities. This data can be accessed through the company's intranet in order to allow access to different business departments, databases, and employees.

Market Intelligence is all the data that deals with the market environment and can be accessed through smart intelligence activities in order to monitor several competitor websites, marketplace observations, competitor websites and industry trade publications. Market intelligence also collects data from trade shows, conversations with customers and distributors, hiring of mystery shoppers, and testing competitor products.

Marketing Research data includes information from research reports, which can come from secondary or primary sources. The more specified and unique the report is about the business environment, the more valuable it becomes to the company.

IX. Customer Relationship Management

Every business needs Customer Relationship Management (CRM) regardless of the industry they are in. CRM manages all interactions made by customers by organizing and coordinating information it receives. Any information received is used in the sale and marketing departments to provide better customer service and technical support. There are few good reasons why a business needs CRM, including:

- CRM is used to keep track of customers and help a business discover their loyal customers. This system helps provide new and existing customers with the latest information company product and services. Real-time personalization about the habits of existing customers are generated. With this information, a company will be able to provide better and consistent customer service. Finally, implementing a feedback system provides the company information on how to improve their product and service. As shown in figure 1, we can see all the departments involved in CRM.

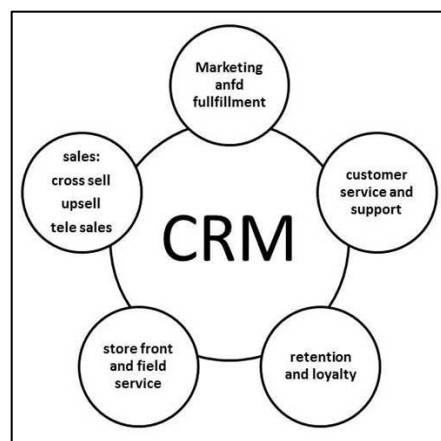


Figure 1: Scope of CRM

Source: "https://www.tutorialspoint.com/management_information_system/customer_relationship_management.htm"

- CRM has many advantages that help a company be more efficient with its customers. It will help to increase customer revenue and customer support. New customers will be discovered through the use of this system. Cross-sells and up-sell products are more effective towards customers. Call centers will be more efficient and help sales employees will finish jobs faster. CRM simplifies most of the work for marketing and sales processes.
- Like other systems, CRM has its disadvantages. One of the problems that CRM has are power or internet outage. Remote CRM applications run the risk of losing information that is being transmitted from the end user. If this occurs, users will not be able to retrieve this information from the database. CRM is a large system that requires to be maintained 24/7 and overhead costs will be become an issue in the long run. The integration of the new system will require the company to invest time and money on training employees. To achieve this level of using this system, it will be a slow incremental process to get there.

X. Supply Chain Management (SCM)

Supply Chain Management (SCM) takes care of managing the movement and storage of work-in progress inventory, finished goods, and depending on the business, the storage of raw materials from start to finish. SCM manages the networks of channels that are involved in producing a good. SCM is designed to decrease inventory

costs, reduce overall production, and improve customer satisfaction. As shown in Figure 2 below, we can see that SCM has a scope on various important management functions in the business.

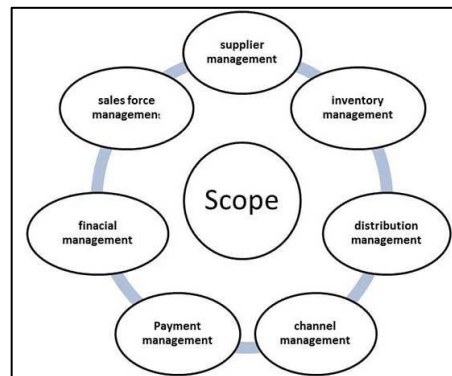


Figure 2: Scope of SCM

Source: “https://www.tutorialspoint.com/management_information_system/supply_chain_management.htm”

Suppliers will be able to leave instructions without misunderstanding and have an online data transfer to reduce paper work. Inventory cost will lower due to having lower cost in handling, lower cost of stock outage by optimizing size of replacement order and achieve logistical performance. Distribution points will have accurate delivery times and locations with few errors. They will also be able to keep track of stock and cost of stock. Channel Management will be able to reduce the number of transactions required in product assortment and the business will be capable of performing custom requirements if needed. Financial management will have lower cost and more realistic analysis. External customers will have their needs satisfied. The products will be delivered with competitive pricing while maintaining the quality and reliability they desire. Employees and internal customers benefit by being able to have an efficient structure and system through teamwork and cooperation. Doing so, will provide optimal delivery and quality of work.

XI. Electronic Commerce (E-Commerce)

As technology evolves, so has the way individuals seek to use it. Consumers are adopting to new technologies at faster rate than previous years. Online shopping offers instant satisfaction with its convince which causes Electronic Commerce (E-Commerce) to grow stronger. Brick-and-mortar stores are slowly disappearing or are still barely surviving. A current example is the recent closing of the Toys R Us. Online stores offered easier access to shopping their products at discounted prices without the need to shop in the physical store. Toys R Us was not able to keep up with the current trend or competition and was forced to file Chapter 11 bankruptcy protection.

There are many types of technology that exist, but there are a few that should be focused on. Small businesses should focus their efforts on mobile, social media, and video. These technologies are extremely popular to individuals these days. Technology will only keep growing so we must keep up with the trend to keep ahead of the competition.

The next few paragraphs will go into detail to illustrate this point:

11.1 Mobile devices are everywhere and most people have one. Some use their smartphones or tablets for online shopping while others use its mostly for social media. With the growth of mobile devices, companies are forced to grow their online retail stores to keep up with the competition. If a business is using a website, it must make sure that the existing website is optimized and compatible with all forms of mobile devices.

11.2 Video's offer great opportunities when it comes to e-commerce. Websites that contain only text and images cannot generate as much traffic as a single video can. Consumers are more attracted to video's rather than images. Most mobile users are attracted to video's that celebrities create through social media rather than the news. As video editing software is becoming simpler to use, developing video content requires little time and money to generate amazing content.

11.3 Social Media is used by many small businesses to deliver content to their customers. Advertising on social media like Facebook, Instagram and Twitter can serve as a significant bridge linking a business and its consumers. Social media is the best targeting a small business can use. Most consumers spend their time on social media sites on a daily basis. The usage of social media will only continue to grow each day, and small business will be best served by optimizing its presence on and use of social media.

XII. Advantages of MIS

Implementing MIS has many benefits for the employees and the organization as a whole. It improves the quality of decision making by providing relevant information to managers. The large amount of information coming through will be summarized in order to avoid any confusion. MIS encourages decentralization for the reason of being able to monitor operations at low levels. It does this by measuring performances and making the appropriate changes in the organization's plans and procedures. MIS also integrates each of the departments activities so they are aware of each other's problems and the necessary requirements they must fulfill. This will encourage coordination between all the departments in the business. MIS will serve as a link between the management in charge of planning and control. It will improve the evaluation process and their performance. These are just a few of the advantages of many that MIS has to offer.

XIII. Challenges of MIS

Just like many information systems out there, MIS has several challenges. The main challenge most companies face is the cost of hardware/software. The cost to implement MIS is extremely high due to the amount of equipment/applications that is involved to run it. Some of the equipment that is needed to be purchased include: desktop computers, tablets, laptops, and servers. The company also needs to invest in a good network that will connect all these devices for the system to work properly.

When new equipment/application is being implemented, the company must provide training for its employees. Without proper training, it will be hard to utilize the full potential of using the system. For a company to achieve full potential, training is necessary for all employees in the company. This can be expensive and time consuming, but it can be done in increments.



Finally, the last challenge for implementing MIS is the loss of employment. This will impact the company, more specifically, the employees. With the automation of MIS, many job positions will be reduced or removed. Employees will not be happy with the changes and can cause problems within the company such as lawsuits or problems with trade unions in large numbers.

XIV. Misconceptions of MIS

Many people assume that MIS will work perfectly the first time and that it will be easy to implement MIS. In reality, it generally does not work the first time, and it is not easy to implement. The installation of MIS requires the company to invest time, effort and capital to start it up. If you think this will take a few steps and a short time to implement MIS, you should not invest in one. Based on the size of the organization, it could take a few months or even years to set up a properly functioning system. Companies implement MIS in order to make the company better, quicker, and smarter. MIS is not designed to help everyone have more free time or decrease the amount of skill and experience required for the jobs they have. MIS is important for a company to implement in its daily business but they should not expect the software to work exactly as they expect it to work. This software can generate possible solutions for businesses such as best contribution, best value added, and even best price but it might not work the same for all businesses. Even though the software can generate the possible solutions, there is still some industry knowledge that is required. An example would be printing companies. Each company is different and each production workflow is unique and as such must be set up in a manner that meets the unique needs and characteristics of the business, market and industry specifics involved.

XV. Conclusion

In conclusion, for a business to survive and keep growing, it must utilize MIS. Amazon is a perfect case in point, having proven that a small business can grow into one of the largest corporation with global presence through the use of this technology. Technology is constantly growing each year and is advancing at an increasingly faster pace. It is important to note that technology in general, including MIS, is a dynamic field with on-going changes. We must all keep up to date to ensure optimal benefits of applying MIS to optimize our business operations and competitive advantage. Each department of an organization will also need to optimize their use of technology in order to enhance their performance and contribute to the overall organizational growth and success. The path to achieving a fully functioning MIS is long, and it requires time and capital; but its significance and pivotal role in today's highly technological and competitive environment would justify the need to make the time and effort required in obtaining one.

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ABOUT THE AUTHORS



Eduardo Espinosa is a recent graduate of University of the West with a Bachelor's degree in

Business Administration with concentration in Computer Information Systems. Mr. Espinosa has been involved with the university's Student Government, both during and after his studies at UWest. As an actively engaged alumni, he continues to work with the Student Government dedicating his expertise to help optimize their IT infrastructure, website and online applications. Mr. Espinosa can be reached at eduardohalo3@hotmail.com.



Rafael Wu, MBA is currently an IT Manager and serves as an IT adjunct faculty at the University of the West. He has over 18 years' experience in the IT industry specialized in servers/networking,

security, system analysis and programing. Born in Taiwan but grew up in Brazil, Mr. Wu holds a bachelor's degree in Computer Science from Sao Paulo University in Brazil. He came to the United States to complete his MBA/IS and Post-MBA/Finance at the University of the West.

THE RISE AND PERILS OF CRYPTOCURRENCIES

By Joven Ng, University of the West
And Peng Chan, California State University-Fullerton

ABSTRACT

This study seeks to investigate the phenomenal rise of the cryptocurrency market over the last few years. It will not focus on the technology behind it, but rather the characteristics and development of the industry. Many initial coin offerings (ICOs) are taking advantage of current investor excitement and offering digital currencies one after another without having any solid business model or government protection. This could lead to many investors losing their hard-earned money. This study will examine data from various cryptocurrency and governmental sources to show that the cryptocurrency market is in a bubble and is highly risky.

Keywords: *Cryptocurrency, Digital Currency, Initial Coin Offerings (ICO), Bitcoin, Altcoin*

1. INTRODUCTION

Digital currencies have caught the eyes of the investment world. Increasingly, it is also catching the attention of the general public and governments worldwide. A new form of digital currency is cryptocurrency, with the most popular one called Bitcoin. There are also other popular and newer digital currencies out there called ‘Altcoins’, such as Ethereum and Litecoin. The cryptocurrency market has grown exponentially and is continuing to do so. In fact, its market capitalization has grown nearly 800% (Pollock, 2017). That is nearly 100% every single month since January 2017. Today, the entire cryptocurrency market has a total market capitalization of over \$145 billion with Bitcoin dominating the market with about 50% market share.

This rapid growth has led to many financial institutions, such as Goldman Sachs, to be wary of it. In fact, they are warning their clients to no longer ignore Bitcoin (Russo, 2017). Governments are already starting to take action, each having a unique way of dealing with it. This industry, after all, has hardly any regulations behind it, and could lead to many investors easily losing their investments to fraudulent scams. There are some people who even call this industry nothing but a big Ponzi scheme.

Another negative aspect of the cryptocurrency market is the ever-increasing number of different coins produced. There seems to be many popping up every single day with some even made out as jokes. This leads to many questioning the industry. Are these coins legitimate? Are they of value? After all, this industry has had its fair share of outright scams, pump and dumps, and blatant Ponzi schemes (Kastelein, 2017).

1.1 Initial Coin Offerings (ICO)

The rapid growth of the cryptocurrency market brought in a new wave of digital coins. The process of releasing a new cryptocurrency is called initial coin offering (ICO). These coins are released and are offered, private and/or public, to would-be investors. In other words, it is similar to an initial public offering of a company, except that the investors wouldn’t own a share of the company. What they get are tokens that they will be able to use to buy the



company's future product or service, if they ever do come into existence (Vigna, 2017). It is a new version of crowdfunding.

The increasing number of ICOs have affected venture capitalists since companies don't really rely on them as much anymore to obtain capital for their businesses. Venture capital investors have usually been seen as the gatekeepers for capital. So far, \$1.5 billion have been raised by over 120 companies through ICOs. This is greater than the \$256 million raised in 2016 (Chernova, 2017). Because of the obvious growth of interest in the cryptocurrency market, governments have taken notice and are starting to act.

1.2 Purpose of Study

A technological revolution has given rise to cryptocurrency, a digitalized financial instrument, and has caught the attention of the financial world today. While some of the cryptocurrencies seem legitimate in the sense that they are backed by a solid team and business model, others are of no value as they are used to seduce money from the unsuspecting public who are too eager to get rich quick without doing their own due diligence.

This paper seeks to determine whether groups behind ICOs are fraudulent and whether these coins have real value. Some of the questions this study attempts to answer are:

1. What are the motivations behind ICOs?
2. How much value do these digital coins have?
3. What are the similarities between the current cryptocurrency market and the dotcom bubble?
4. Are cryptocurrency investments safe?
5. How are governments reacting to the rise of cryptocurrency?
6. How should we choose a cryptocurrency to invest in?

2. REVIEW OF LITERATURE

There hasn't been much research done on the cryptocurrency market. Most of the research has been more about its technology and potential. This study seeks to put on a spotlight on the current cryptocurrency market and what is to come in the near future. Based on a review of the popular literature, it seems that the cryptocurrency market is overvalued, and is in a bubble. The technology behind cryptocurrency itself (called "blockchain") has potential to become a disruptive technology for many industries. However, it is still in its infancy and is beyond the scope of this study.

2.1 Attractiveness of ICOs

An ICO is a new way for businesses to gain funding for their projects. The current environment of the cryptocurrency market makes it easier to gain funding this way than from crowdfunding, IPO, and especially the venture capitalist. For example, two obscure companies have raised \$400 million through an ICO in just a couple of days despite not having any sales record. This almost equaled the average amount raised by companies through an IPO in the United States (Vigna, 2017). There are even some companies that have raised millions in under a couple of hours and even in seconds through an ICO.

There are also clear advantages to having an ICO as compared to an IPO or other traditional funding. First off, the coin buyer doesn't own a share of the company and the company doesn't owe the investor any money either. It is only a token used to buy the company's future product or service. If the product or service doesn't come to fruition, then the coin will be worthless (Vigna, 2017). Take for example, a new arcade company planning to build an arcade nearby is offering you to buy the tokens that they plan on using for their arcade machines. You buy them thinking they will be opening soon. However, what if they don't move forward with their plan or abandon it or go bankrupt? You then cannot use the tokens you purchased nor sell them since they no longer have any value to the purchaser.

2.2 The Value of Digital Coins

The most widely known cryptocurrency, Bitcoin, has no fundamental price and is exhibiting speculative bubble elements. It is an extremely risky currency due to its speculative characteristics along with its price volatility, which is higher than that of gold or some foreign currency (Kurihara & Fukushima, 2017). Before investors get excited with the growth of the industry, they must first look at the companies and individuals behind these ICOs. The other cryptocurrency prices and market capitalization have been largely attributed to speculation. Many of the companies behind these ICOs only have a so-called “white paper.” Still, investors are driven by emotions and are investing out of fear of missing an opportunity of a lifetime. It has largely become a frenzied game of Russian roulette or some might call the modern version of the Wild West.

There’s a reason why it is difficult for startups to get venture capitalists (VCs) to invest in their company. Among other things, the latter evaluate potential investments based on the startup’s management team, capabilities, business model, and strategy. Pair these along with solid metrics to prove as to why the company has potential for growth and be sustainable, makes it an especially difficult task to get VCs to buy into a startup. Many groups behind ICOs barely have any of these requirements. So, before one puts value on a coin, one should first evaluate the ones behind it first. So how much are these digital coins worth? Currently, as much as the market dictates.

2.3 Current Cryptocurrency Market and the Dotcom Bubble

It is scary to think that there are close similarities between the current cryptocurrency market and the Dotcom bubble back in the late 1990’s. Just like the cryptocurrency groups promising a technology that could change modern life, so did the internet startups from back then. Another similarity is the rise in company value. Internet companies’ values rose exponentially only to drop off a cliff within a short time (Curwen, 2016). So why did the internet bubble pop? Rovenpor (2003) suggested that it was both the result of internal and external factors facing the internet companies.

Internal	External
<ul style="list-style-type: none">• <i>Inadequate Financial Resources</i>• <i>Young Firm Age</i>• <i>Small Firm Size</i>• <i>Poor Strategic Planning</i>• <i>Inexperienced Managers</i>• <i>Lack of Board oversight</i>	<ul style="list-style-type: none">• <i>Resource Scarcity</i>• <i>Intense Competition</i>

(Source: Rovenpor, 2003)

Rovenpor found that the failed internet companies were fairly young. They were only 3.2 years since their inception. Their sizes ranged from very small, small, and medium size and 65% of them were founded by more than one person. The average age of CEOs of those companies was 43.8 years and 92% were well educated with either a bachelor or master’s degree. These firms had a small board of directors averaging only 6 members. They employed 192 employees on average and one having as few as 12 employees. Though many of the young internet startups failed during the Dotcom bubble, established companies were still forced to develop internet strategies. Today, the internet-based industry is well established and is very successful. A similar fate could happen to the cryptocurrency market.

2.4 Frauds and Scams

Charlatans can be found where there’s money. Since there’s hardly any regulation in the cryptocurrency industry for now, coupled with the massive growth of this market, it is not surprising to find many scammers and hackers. As mentioned earlier, before one values the coin, one should first find out the value of the ones behind them. The Financial Industry Regulatory Authority has already issued a warning about the fraudulent environment of the



cryptocurrency market (Dow Jones Institutional News, 2017). The SEC also issued a similar statement and further stated that fraudsters may be using the new technology to lure potential victims. Their schemes could involve market manipulation and pump-and-dump scams (Heller, 2017). Moreover, cryptocurrency exchanges have been notoriously vulnerable to hackers, thus having their customers lose some of their digital coins.

Another aspect in this industry that is not often mentioned is that some are made as jokes. Dogecoin is probably the most popular one of these. It was based on the Doge internet meme and introduced as a joke (Roose, 2017). Today, this cryptocurrency has a total market capitalization of over \$120 million. We'll have to wait and see whether they have a serious plan in the future - at least they openly admitted it to be satire unlike others in the market. Still, investors put so much money into Dogecoin that it once reached a market capitalization of over \$400 million. Even its creator Jackson Palmer no longer thinks that it's funny. He believes that the entire cryptocurrency market is in a bubble and is very similar to the Dotcom bubble, with many of these coins becoming worthless in the future.

2.5 Governmental Action on ICOs

With the industry is notoriously known for a lack of regulations, governments have taken different stances toward cryptocurrencies. Some have taken a negative stance on it, some positive, while others remain neutral. The United States, for example, seems to be taking the neutral view. The SEC is still investigating and so far, has ruled that ICOs by organizations are securities and therefore subject to the federal securities laws. These organizations must register the trading of these securities unless they have an exemption. Participating in an unregistered ICO may be subject to civil and/or criminal penalties (Dow Jones Institutional News, 2017). The SEC also has a new initiative on its enforcement division to combat cyber-based misconducts and threats, with violations involving ICOs to be one of them (SEC, 2017).

China and South Korea have taken a harder stance on cryptocurrencies. During the first week of September, China ruled ICOs illegal (Dow Jones Institutional News, 2017). This ruling caused an abrupt drop in the prices of many cryptocurrencies, including Bitcoin and Ethereum. This can also be attributed to the fact that Chinese exchanges comprised over 90% of all cryptocurrency exchanges (Vigna, 2017). Chinese regulators described ICOs as de facto illegal public financing activities and that all business-related activities related to ICOs must stop immediately (Dow Jones Institutional News, 2017).

The third most-used currency to buy bitcoin is the South Korean Won. Combined with the fact that there's an increase in criminal activity in the cryptocurrency market, South Korea is also cracking down on ICOs. The country outright banned ICOs with the South Korean regulators also saying that they will ban coin margin transactions as well, meaning that buying cryptocurrencies using borrowed money will be illegal (Hunter, 2017). After these announcements, the price of cryptocurrencies dropped a bit but came back up a few days later after Japan's announcement.

Even though both China and South Korea took a negative stance on the cryptocurrency market, Japan decided to look the other way. It approved and officially endorsed 11 cryptocurrency exchanges, with more to come (Nikkei Asian Review, 2017). This creates a safety net for many of the investors as it has largely been unregulated. This type of ruling boosted the price of cryptocurrencies as it made investors feel safer, at least in theory, when it comes to their investments and it also made cryptocurrency look more legitimate. It is important to note that a ruling in one country will not be valid in another. Investors worldwide, however, no matter where the ruling comes from, will still be affected by it. The price swings of cryptocurrencies reflect investor sentiments on the market.



2.6 Deciding on a Cryptocurrency

At the present time, cryptocurrency doesn't have any intrinsic value. There are few exceptions, e.g. some businesses have announced that they will accept Bitcoin as payment for their products or services. Before one invests in any cryptocurrency, one should first ask whether one is willing to play a game where one's entire investment could be completely lost. If the answer is yes, then one should do due diligence by investigating the company that is behind the ICO:

- a) Company or Organization
 - Are they legitimate?
 - Their history? (if not a startup)
 - What is their vision and mission?
 - What are their goals and objectives?
 - Are they transparent?
- b) Development Team
 - Who are they?
 - How's their individual history and are they capable?
 - Do they follow the organization's vision and mission?
 - Do they follow the organization's goals and objectives?
- c) Strategy
 - What is the organization's game plan to achieve their goals?
 - Besides mentioning their responsibilities to the usual stakeholders of their business, do they also mention their responsibilities on the token holders?
- d) Business Model
 - Is the strategy viable?
 - Is it unique?
 - Will it be profitable and sustainable?
 - Does the business model need its own cryptocurrency?
- e) Technology and Potential
 - What is the technology behind the organization's digital coin?
 - Does it have potential for mass adoption?
 - Has it been hard tested or close to being tested for usage?
 - Is there a similar technology that could disrupt the current technology behind the organization's cryptocurrency?
- f) Security and Privacy
 - Will I be protected from hackers?
 - Will I lose all my investment?

The answers to these simple questions should enable the investors to decide if it is a worthwhile investment. If one of the questions is answered in a negative way, probe further. Even if the questions are answered positively, it still doesn't make it a riskless investment. The cryptocurrency market is full of risk and has been notoriously volatile. Even the organization's website can just be a façade from the truth. Also remember, a government can suddenly just ban it altogether if they want.

3. CONCLUSION

The cryptocurrency market is a massive bubble waiting to pop. This is due to many of the groups behind these ICOs having a weak business model, if not, none at all. Many of them are fraudulent with some of them blatant scams due to weak security and lack of governmental regulations. Some are even made as complete jokes and investors



are still investing in it. As a result, governments are starting to take action on these ICOs as the industry has become too big to ignore. The current landscape of the industry is eerily similar to the dotcom bubble back in the late 90's when many internet companies lost value after being found out to be worthless. The future of cryptocurrency will be similar and only time will tell when the bubble will pop. When it does, we will then know which cryptocurrency is truly of value to invest in.

4. UPDATE

The bulk of the research for this paper was conducted in the fall of 2017. Since then, the bitcoin market has seen even greater volatility. In early December 2017, Bitcoin's price grew rapidly and reached an all-time high price of more than \$19000. Its value has since decreased to around half of that, retreating once to even below \$6000. The cryptocurrency market as a whole reached past \$800 billion market capitalization in the month of January (Marshall, 2018), compared to \$145 billion in September 2017. Since then, however, it has decreased and currently has a value of around \$500 billion. Due to public interest, governments have also taken more action. Some ICO companies have been brought down after being discovered to be nothing but Ponzi schemes. The sentiments as of late have been mixed.

With the recent volatility in the price of cryptocurrencies, one may assume that the prices of most cryptocurrencies are somewhat correlated to Bitcoin's. When Bitcoin's price goes up, most of the other digital currencies follow suit, with many of them growing at an even greater rate than Bitcoin itself. A similar effect is seen when Bitcoin's price drops.

The start of 2018 hasn't been friendly to cryptocurrencies. Not only did their prices fall, some Ponzi schemes were revealed, the most notorious one being BitConnect. As typical of other Ponzi schemes, many investors got duped and lost their investments, with some losing their life savings. BitConnect had guaranteed up to a 120% yearly return to investors. After it imploded, BitConnect's coin price fell from its all-time high of more than \$400 to about \$4 (Jenkinson, 2018).

Besides BitConnect, there were other cryptocurrencies out there being revealed as scams. One is a startup called Prodeum that promised to "revolutionize the fruit and vegetable industry." Its website suddenly went down after taking in investor's money (Menegus, 2018). Furthermore, all its social media accounts were purged (Kariuki, 2018). Others have followed a similar route including BitPetite and Confido, to name but a few. Their demise have been hastened as a result of increased government scrutiny.

On the global front, China has since tightened its grip on the cryptocurrency market and has blocked access to all domestic and foreign cryptocurrency exchanges and ICO websites (Perper, 2018). Meanwhile, South Korea has softened its stance, but is planning to add more regulations to the market instead of imposing an outright ban (Meixler, 2018). Japan has kept its regulations relatively lax and has started to notice flaws in it (Reuters, 2018). European countries have been somewhat putting cryptocurrencies in the backseat with the European Central Bank chief supervisor Daniele Nouy saying that they would keep an eye on it (Meredith, 2018). The United States surprisingly had a somewhat positive sentiment about it in its recent senate hearing about cryptocurrencies. Caution on ICO's has been suggested due to fraudsters (Higgins, 2018), but the view towards blockchain technology and Bitcoin was generally positive (Shen, 2018).

5. DOOMSDAY SCENARIO

Recently, one cryptocurrency, Tether, has caught the attention of many. Tether is pegged to the USD and is supposed to be backed by its own reserves (Tether.to). However, no independent audit has ever been undertaken to verify its claims (Leising, 2018). If it is a fraud, then this could have a similar, if not bigger, impact than the Mt. Gox debacle in 2014, which caused the market to fall into a long bearish trend. Bitcoin went from its all-time high at the time of

around \$1200 all the way down to around \$200. Mt. Gox controlled around 70% of all Bitcoin trading at that time (Norry, 2017). A similar scenario could be at play today with Tether. The reason is Tether uses many of the biggest exchanges out there. Some accuse Tether of manipulating the market in order to keep the price of Bitcoin from falling (Kharpal, 2018).

Despite claims by Tether that it is not affiliated with the exchange Bitfinex, a recent report suggested that they might in fact be (Leising, 2017). Bitfinex is one of the biggest exchanges out there for cryptocurrencies. It didn't help that Tether's auditor dropped them as clients (Hochstein, 2018) and that they printed around \$2 billion worth of it in just half a year with around half that amount within a month as cryptocurrency prices tanked last January. The CFTC has also issued subpoenas to both Bitfinex and Tether (Leising, 2018). Only time will tell whether Tether is truly a fraud, but there is enough evidence present to warrant an investigation. Only government intervention can speed up this process. Cryptocurrencies are already viewed as an extremely risky investment. This is even more so because of Tether. Until this matter is resolved, it's probably wise to take a very cautious and educated approach to cryptocurrency investing.

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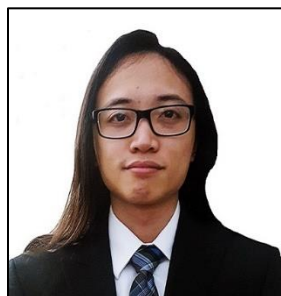
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About The Authors:



Joven Ng is a graduate researcher majoring in Finance and Computer Information Systems at the University of the West. His research interests include cryptocurrencies, big data, artificial intelligence and the internet of things.



Dr. Peng Chan is Professor of Strategic Management at California State University-Fullerton. His teaching and research interests include global strategies, franchising, new ventures, big data and artificial intelligence.

Not a Required Course: Suggestions for Introducing Peter Drucker

By Stephen O'Sullivan, MA, MBA

ABSTRACT

What is the task? A reflection and suggestions for introducing Peter F. Drucker to business students, from a former student in the last class he taught. When a subject becomes totally obsolete we make it a required course, perhaps, but the problem of teaching Drucker is not obsolescence but establishing the relevance of a great 20th Century thinker to globally diverse 21st Century students. The Drucker of some 39 classic management texts is not easily assigned or read, the cases and contexts he cited in developing key ideas about management are now of the last century. But the overly quoted Drucker underserves the man and future management students. Both deserve more. For a simple but useful introduction, a basic learning module is offered for undergraduate study and suggestions for reading and application for managers new to Drucker

When a subject becomes totally obsolete we make it a required course.¹
Peter F. Drucker

If you knew Peter F. Drucker at all, however briefly during his long life, you knew him better than I did. Be sure of that. I knew him only from a seat in the center row of the last class he taught, on six Saturday afternoons in spring 2002, at Claremont Graduate University, in the management school that bears his name. Told this would be his last class, we 30 or so executive management students made sure to take the final course – The Change Leader. For anyone inspired by Drucker, then 92, this understated coda to his teaching was meaningful and personal, because at its heart, Drucker thought is a call to self-improvement. Many of those who read him are changed for the experience or begin the work of self-change because of him. The executive students were joined by long-time Drucker friends who chose to sit in on the closing hours of his long teaching career. He asked to be addressed as Peter.

The classroom was limned with his friends' warmth and private personal associations, mostly unspoken but for an occasional knowing response to a familiar Drucker comment. Drucker presented informally from Management Challenges for the 21st Century (1999) with rich excursions into history. The excursions were the heart of the matter. Drucker offered elliptical anecdotes that came back to his point with the precision of rocket launched and returned to its launch pad. He moved easily through previous writings that comprised essential categories of Drucker thought: Management, performance, change, history, society, effective action, innovation, marketing and self-management. This is the Drucker – the self-described bystander and student of others - who inspired clients, readers, politicians, managers and military with astute insights into economics, freedom, totalitarianism, culture, management and change.

I offer this anecdote not to lay claim to any special Drucker connection – there is none, other than having read Drucker, taken his final course, and subsequently introducing Drucker content to business and communication

¹ There are several references for this classic Drucker comment, which he stated with variation in several writings, starting with The Age of Discontinuity: Guidelines to Our Changing Society, in 1969. The exact wording above is cited to "Peter's Quotations: Ideas for Our Time" by Laurence J. Peter, 1977.



students. Neither an insider nor a Drucker scholar, I write as a minor bystander working to present Drucker to students whose lives are ever less rooted in the 20th century that Drucker was so instrumental in influencing. Since 2004, I have made a practice of asking students whether they have heard of Peter F. Drucker. This question has been asked more than 50 times in as many classes, of some 2,000 students, at three Southern California universities – two schools within a few miles of Claremont.

Few students, perhaps a half dozen, have admitted to knowing of Drucker.

How can this be?

Let's take the communications and business students at their word and assume they have not heard the name of a nearby global figure whose career spanned journalism and management. We will not hold this against them. Rather, this unscientific survey raises practical challenges that fit within Drucker thought. In conclusion, I will offer modest suggestions for introducing Drucker to undergraduate students. Should Drucker be taught, and if so, how?

To the first question – Yes, certainly. And how? Usefully.²

When a subject becomes totally obsolete we make it a required course. Drucker's wry comments touch on a central theme of obsolescence – and on the disciplined cure of deliberate abandonment³ – while casting a sharp glance at the university⁴, whose work it is to convert old knowledge into required study. But the problem of introducing Drucker is not obsolescence or devising requirements. The challenge is making his introduction useful for students today and in the future.

The Drucker of his 39 books⁵ is neither easily assigned nor read, the accounts and contexts he cited in developing key ideas about management are now of the last century. What is a contemporary student, and international student, to make of Drucker's experiences with Henry R. Luce, founder of Time, Life and Fortune magazines, and New Deal labor leader John L. Lewis, or General Motors' Alfred Sloan, and other defining 20th Century figures drawn from his memoirs?⁶ His insights into the strengths and weaknesses of yesterday's decision makers and organizations are applicable today and to emerging management structures, but the historical context asks too much of students – and especially of international students – for whom the personalities, national contexts and times are obscure.

Drucker alluded to such changes in context in this “rough period of transition” in an interview published days before his death in November 2005⁷:

The belief in a western- dominated world is going. The emerging powers - China and India - are by no stretch of the imagination western nor will they westernise themselves the way Japan did 150 years ago.

We don't understand this new world ... We know this much. The world is not going to be dominated by any one great power. For Americans that's going to be a very difficult thing to accept. We Americans will have to learn that it is going to be a very different world in which different values must co-exist. It

² “Just go out and make yourself useful,” Drucker's advice to Jim Collins after a Claremont meeting in 1994, recounted by Collins in his forward to *The Daily Drucker*.

³ Drucker, “The first change policy, therefore, has to be organized abandonment,” “Management Challenges for the 21st Century,” 1999.

⁴ Drucker, “Universities won't survive. The future is outside the traditional campus, outside the traditional classroom. Distance learning is coming on fast.” *Forbes*, 1997

⁵ As counted by The Drucker Institute

⁶ Among the recollections from “Adventures of a Bystander

⁷ Thought Leadership; Peter Drucker - A lifetime of wisdom; *New Zealand Management*, Nov. 3, 2005

will have Western production and competitiveness, and it will be held together by information not by power. It will be a rough period of transition for the next 30 years or so.

Globalization, and the internationalization of business education, challenges us to apply the questions of “Who is the customer and what does (s)he value?” to the task of introducing Drucker to future students. The context of Drucker thought should be applied with depth – not with quotes – to 21st Century problems and opportunities, presumably introduced through case methodology incorporating Drucker principles. How could new study cases not be international in context? An effective introduction to Drucker is not academic but political. We are concerned not with quoting Drucker but with applying what we have learned to new situations. Knowing Drucker is a call to action to apply key ideas and principles to changing circumstances.

Relevance and Requirement

Yesterday’s new ideas are tomorrow’s curation. Drucker doubted the durability of static knowledge⁸, and believed the power and value of knowledge occurred in action – through application and reapplication (What is the task?⁹). He was existential and concerned with human action, not codification. By that logic, categorization of his thought into a required course would be a *prima facie* demonstration of obsolescence. And certainly, with the man gone, Drucker’s work is bounded, finite and at risk of reduction to catechism. The problem of shallow curation is present in the common reduction of Drucker thought to punchy quotes and internet memes.

A first challenge for introducing Drucker is to avoid the easy refuge of great quotes, because his insights emerge not from quotation but from application. Internet writers’ reduction of Drucker’s books to smart quotes reduce the social ecologist and persistent questioner to assuring dispenser of wisdom.¹⁰ We should study Drucker not for good quotes but for purposeful praxis. We should know from Drucker that which can be validated and amended from application. If his literature cannot be applied usefully, then it is obsolete and properly abandoned. We owe that to ourselves. Without application, even Drucker’s knowledge will become stale.

For this, we are fortunate to have a perfect tool. In contrast to the popular reduction of Drucker to business quotes, there is the richly rewarding “The Daily Drucker,”¹¹ a model for learning through personal action.¹²

The Daily Drucker is an excellent means and model by which Drucker should be introduced: Key insights, presented in his voice, followed by practical assignments: assess customer needs, write a business plan, take self-inventory, ask, write, act, and do.

Quoting Drucker without calling for personal action is, to paraphrase Mark Twain on the distinction between the right word and the almost-right word, like the difference between lightning and lightning bugs. The Daily Drucker delivers flashes that illuminate the path, which the reader must then walk. Web quotes offer only sparks.

⁸ “Knowledge has to be improved, challenged, and increased constantly, or it vanishes.” Drucker, *Managing Oneself* (2008)

⁹ Drucker, *Management Challenges for the 21st Century*, 1999

¹⁰ The worst curation of all is the proliferation of “What would Peter Drucker say?” articles and web postings. Conduct your own web search of the phrase and experience a bland parallel Drucker literature of words he did not say about issues that have emerged since his death. These writers should speak for themselves.

¹¹ Peter F. Drucker with Joseph A. Maciariello, *The Daily Drucker: 366 Days of Insight and Motivation for Getting the Right Things Done*, Harper Business 2004

¹² “We can return to his teachings repeatedly, each time with a deeper level of understanding.” Joseph Maciariello, forward to “The Daily Drucker.”



The Daily Drucker reflects its authors' focus on knowledge in action, with special attention to executive education. The readership is likely to be managers and executives, but more essentially, they are adult learners, once described by Drucker as "people who are already highly educated and high achievers (and) increasingly sense that they are not keeping up. They've come back to school because they want and need new ways of looking at things outside of their competencies."¹³

Our management of Drucker knowledge has two aspects: Meaningful introduction to students, and application to seasoned managers looking for guidance for improved performance. The latter is andragogic, or concerned with the special circumstances of adult learning. The term is associated with Malcolm Cowles, the influential proponent of adult education. The following from Cowles¹⁴ reflect both the practice of self-directed adult learning and aspects of Drucker's values, perhaps by influence. Substitute "leaders" or "managers" for adults for comparison:

- Skill in human relations is a skill that must be learned;
- Adults should acquire a mature understanding of themselves.
- Adults should develop a dynamic attitude toward life.
- Adults should acquire the skills necessary to achieve the potentials of their personalities.
- Adults should understand the essential values in the capital of human experience.
- Adults should understand their society and should be skillful in directing social change.

The influence of Drucker over Cowles and like-minded educators is revealed in their use of his concepts and terminology – in particular, adult education within the context of the information age, learning by objective and competitive advantage. Note this subsequent Drucker influenced passage, by educator Marcia L. Conner, from an article about online learning (another prescient insight of Drucker, per his thoughts on the inevitability of online learning to meet demand for education that cannot be met by brick and mortar schools):

In the information age, the implications of a move from teacher-centered to learner-centered education are staggering. Postponing or suppressing this move will slow our ability to learn new technology and gain competitive advantage.¹⁵

What gets measured gets managed.¹⁶

My measurement begins with barely more than zero, representing the collective response of 2,000 students who said they had never heard of Drucker when asked in some 50 business and communication classes since 2004. My management task is to introduce every student to Drucker, however cursorily. This is not a high standard of education and certainly not scholarship. But the goal is changing the haven't-heard-of-him answer to something at least partly affirmative, and I draw satisfaction from trying.

I have approached the task of creating an introduction to Drucker from three levels of engagement.

¹³ Drucker, "Putting More into Knowledge," *Forbes*, 2000

¹⁴ Malcolm S. Knowles *Informal Adult Education*, 1950

¹⁵ Marcia L. Conner, "Andragogy and Pedagogy." *Ageless Learner*, 1997

¹⁶ From Drucker's "The Practice of Management" (1954), though the quote can be sourced to other writers to the same effect. Drucker's full quote has an extra bite that makes it his own: What gets measured gets managed - even when it's pointless to measure and manage it, and even if it harms the purpose of the organisation to do so."

- For a course in Change Management, offered at the University of the West, students are assigned only two books and a changing selection of articles from the business press, and from Harvard Business Review, where Drucker themes have long been at home, accessible and scholarly. Neither assigned book is a classic text from the Drucker canon. Instead the selections are small books that introduce Drucker thought as a means of application to self-improvement and general solutions to business and organizational concerns. For an easy introduction to Drucker thinking we read the practical “Five Most Important Questions.”¹⁷ We apply the book question-by-question to a contemporary case, most recently the change management problems and opportunities facing TOMS Shoes and its founder Blake Mycoskie. In addition to “Five Questions,” we read “10 Must Reads on Change Management” (Kotter 2011), a Harvard Business Review paperback that provides concepts to help students operationalize Drucker’s “first change policy” of organized abandonment (Drucker 1999).¹⁸
- For students who ask for more, I recommend Drucker and Joseph Maciariello’s “The Daily Drucker”¹⁹ (2004), which I find to be the most readable book in the Drucker canon and a perfected example of Drucker excerption written for personal reflection and action. I have been pleased to see students acquire the book and bring it to class for discussion and describe their own rewarding personal encounter with Drucker. I cannot say enough about “The Daily Drucker,” written by Drucker and Maciariello - a professor at Claremont Graduate University professor and Drucker collaborator – in Claremont toward the end of Drucker’s life. The book spans Drucker’s key concerns about management, society and personal responsibility while offering guidance for application and renewal. For students asking for even more, I recommend five Drucker titles familiar to everyone who has read him. I admit not knowing how many students have made the effort to acquire or read these books, but they have asked for recommendations and have the opportunity. These suggestions serve the goal of introduction. Those titles are:
 - The End of Economic Man* (1939)
 - The Effective Executive* (1966)
 - Drucker on Management* (1971)
 - Adventures of a Bystander* (1978)
 - The Essential Drucker* (2001)
- For students who ask not at all, I run a brief search engine exercise in class, asking all students to “Google Peter Drucker” and speak to the results. Then, I ask the students to write a single page summarizing the results in any way they choose. The assignments are brought to class but not collected. Is this not an introduction?

Conclusion: What Is the Task? To Act

Drucker’s work remains vibrant, influential and in need of application today and tomorrow, and globally. But there are problems in extending his thought into the future – as there is in any subject matter. The dynamism of Drucker’s thought – best evinced by his classroom challenge to apply tomorrow whatever was learned today – is not well served by reduction to catechistic quotes and speculative answers on business topics in his imagined voice. Drucker’s insights, so widely and easily quoted without context, are diminished in their removal from the greater narrative that holds the power of his thought, whose true subject is not business, nor even management, but the human condition. I would rather see Drucker understood as we do Aristotle, a polymath concerned with

¹⁷ Peter Drucker’s Five Most Important Questions: Enduring Wisdom for Today’s Leaders Drucker, P.F; Hesselbein, F., Kuhl, J.S. (2015).

¹⁸ Drucker, “Management Challenges for the 21st Century” (1999).

¹⁹ The Daily Drucker: 366 Days of Insight and Motivation for Getting the Right Things Done (2004).



aesthetics, social good, politics and economics, approached application to life and virtuous praxis. Both thinkers should be approached with seriousness.

Drucker has become harder to teach as his ideas become ever more widely accepted. As key insights have become norms – self-management, volunteerism, knowledge workers in a knowledge society, and management by objective – their source becomes less relevant. That would be a success for Peter Drucker. If teaching Drucker becomes a matter of attribution and a required course, then his irony will have become a prediction. As we manage our knowledge of Drucker, we should start with his words but learn through our own actions.

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About The Author



Stephen O'Sullivan is an adjunct instructor of business communication and negotiation at University of the West, and teaches courses in communications ethics, media sales, entrepreneurship and economics report writing at California State University Polytechnic at Pomona and the University of La Verne. He earned the executive MBA at Drucker Graduate School of Management and a master's in education at Claremont Graduate University. He has an extensive professional background in news management and advertising and consults with the newspaper industry, government and nonprofits. He can be reached at osullivanmedia@aol.com or www.linkedin.com/in/steveosullivanmedia/

SBA – Fueling America’s Small Business Success

By Janan T. (Ben) Raju,

ABSTRACT

As the only cabinet level federal agency solely dedicated and focused on entrepreneurs, the U.S. Small Business Administration (SBA) is the most effective tool available to support our country’s small business infrastructure. With the Small Business Act signed on July 30, 1953, Congress created the Small Business Administration as we know it today. Created in response to the Great Depression and World War II, by 1954, the SBA was guaranteeing bank loans to small businesses, making loans to victims of natural disasters, working with small businesses in pursuit of government procurement contracts and providing management and technical assistance through direct training to business owners. Today, America’s 30 million small businesses account for more than 56 million jobs. With a host of no-cost programs and services available, the SBA exists specifically to address the needs of these entrepreneurs with specific programs designed to assist: Native Americans Veterans, women, minorities and the socially and economically disadvantaged individuals. The SBA understands that every small business is unique and there is no “typical” small business owner. Entrepreneurs are comprised of every race, ethnicity, age, gender and socioeconomic background. With the American economy being driven largely by small businesses, the SBA still remains one of the nation’s best kept secrets with most entrepreneurs unaware of what programs and services are available from SBA to support their needs. The following is intended to provide an overview of some of SBA’s key programs.

While some small business owners build success and wealth beyond their wildest dreams, many face barriers and a host of obstacles that can impact their success. Although entrepreneurs recognize that knowledge and planning are key ingredients in starting or growing a prosperous business, many do not know where to get the information they need to help their business. At the SBA, you will find a wealth of information on the myriad of programs and services, guidance and direction for people who desire to make their business dreams to start, grow, succeed and recover, a reality. Many of today’s most successful large businesses chose to use the programs and services created by SBA. As these businesses started, they grew and succeeded with nothing more than an idea, a dream, hard work and the SBA

As the agency continues to expand its network of partners and is laser focused on conducting grassroots community outreach particularly in underserved rural and urban markets, the SBA should be an entrepreneurs’ primary source of technical support regardless of where they are in their business ownership lifecycle. Whether an entrepreneur is starting out and needs assistance with creating a business plan or an existing business is exploring financing, how to expand into foreign markets, learning about government contracting or protecting intellectual property, SBA has resources available to assist them in navigating through various business phases. Specifically here are a few areas the SBA has programs designed to help assist businesses succeed:

Government Contracting

As the largest single purchaser of goods and services in the world, buying everything from airplanes to paper clips, the U.S. government is an exceptional entity for a small business to have as a customer. Small businesses face inherent challenges when looking for capital or competing for opportunities, some turn to government



contracting as an option to diversify their client portfolios. Every year, the federal government awards more than \$500 billion in contracts; the SBA works with federal agencies towards a goal of awarding at least 23 percent of all prime government contracts to small businesses, with specific statutory goals for:

8(a) Business Development program

The 8(a) Business Development program is a nine-year program established to assist eligible socially and economically disadvantaged individuals to develop and grow their businesses. Business development assistance includes one-on-one counseling, training workshops, match-making opportunities with federal buyers and other management and technical guidance. There is a statutory requirement that small disadvantaged business concerns be awarded not less than 5 percent of the total value of all prime contract awards. All firms that become eligible for SBA's 8(a) business development assistance are also considered small disadvantaged business concerns for the purpose of federal contracting.

Historically Underutilized Business Zones (HUBZone)

The historically underutilized business zones (HUBZone) program is for small businesses located in distressed urban and rural communities. The goal of this program is to assist HUBZONE businesses gain access to federal set-aside contracts and sole source contracts, as well as, provide a price evaluation preference in full and open contract competitions. This program aims to create local economic growth in HUBZONE communities through job creation by employing HUBZONE residents resulting from the award of these contracts. There is a statutory goal that HUBZone small business concerns be awarded not less than 3 percent of the total value of all prime contract awards. The HUBZone program also establishes preference for award of federal contracts to small businesses in these areas.

Small Disadvantaged Businesses (SDB)

A Small Disadvantaged Business (SDB) is defined as a small business that is at least 51 percent owned and controlled by one or more individuals who are socially and economically disadvantaged. There is a federal government-wide goal of awarding at least 5 percent of prime contracting dollars to SDBs each year. Large prime contractors must also establish a subcontracting goal for SDBs in their subcontracting plans.

Women-owned (WOSB)

On October 7, 2010, the SBA published a final rule effective February 4, 2011, aimed at expanding federal contracting opportunities for women-owned small businesses. The Women-Owned Small Business (WOSB) Federal Contract Program authorizes contracting officers to set aside certain federal contracts for eligible women-owned businesses and economically disadvantaged women-owned small businesses. To be eligible, a firm must be at least 51 percent owned and controlled by one or more women. The women must be U.S. citizens. The firm must be "small" in its primary industry in accordance with SBA's size standards for that industry. To be deemed "economically disadvantaged" its owners must demonstrate economic disadvantage in accordance with the requirements set forth in the final rule.

Service-disabled Veteran-owned (SDVOSB)

The Service-Disabled Veteran-Owned Small Business (SDVOSB) program has a federal government-wide goal of awarding at least 3 percent of prime and subcontracting dollars to Service-Disabled Veteran-Owned Small Businesses each year. Large prime contractors must also establish a subcontracting goal for Veteran-Owned



Small Businesses in their subcontracting plans. These subcontracting goals are reviewed at time of proposal by both the contracting officer and the SBA prior to the award of a contract.

Because of SBA's support of all small businesses and their federally mandated involvement in the procurement process along with their statutorily defined programming, the agency levels the procurement playing field for federal contracting.

Financing

One of the biggest challenges that face all entrepreneurs at some point of their business life-cycle is accessing capital. SBA recognizes this need and addresses it by offering a loan guarantee to lenders which mitigates their risk and encourages banks to make loans to small businesses that do not meet their typical lending criteria. Many entrepreneurs need financial resources to start or expand a small business and must combine what they have with other sources of financing including family and friends, crowdfunding, venture-capital financing, and small business loans.

As the nation's single largest guarantor of small business loans, SBA's primary business loan and equity financing programs include the 7(a) Loan Program, the Certified Development Company or 504 Loan Program, the Microloan Program and the Small Business Investment Company or SBIC Program. The distinguishing features for these programs are the total dollar amounts that can be borrowed, the type of lenders who can provide these loans, the uses for the loan proceeds and the terms placed on the borrower.

If you are contemplating a business loan, familiarize yourself with the SBA's business loan programs to see if they may be a viable option. The SBA does not actually provide the loan, rather the agency guarantees a portion of the loan provided by a SBA lender (except for microloans). The SBA's business loan guaranty programs provide a key source of financing for viable small businesses that have real potential but cannot qualify for credit on reasonable terms by themselves.

SBA's programs are designed to assist small businesses be competitive expanding their access to capital and increase opportunities locally and in the global marketplace.

Expanding Into Global Markets

SBA has many ways to support small businesses that look to do business beyond our borders. As businesses continue to grow their volume and customer base, there is significant opportunity for small businesses to profit through exporting. SBA's State Trade Expansion Program (STEP) helps American businesses seeking to enter foreign markets. Entrepreneurs interested in learning more about exporting their goods and services have a wealth of knowledge available through SBA staff at a U.S. Export Assistance Center (USEAC.). Located throughout the U.S. and are typically staffed by SBA, U.S. Department of Commerce and the Export-Import Bank of the U.S., these centers provide trade promotion and export-finance assistance in a single location. The USEACs also work closely with other federal, state and local international trade organizations to provide assistance to small businesses. Additionally, the SBA International Trade Officers work closely with lenders and small businesses to identify their needs and when needed, matching them to the most logical financial loan programs.

International Trade Loan (ITL)

The SBA's International Trade Loan (ITL) is designed to help small businesses enter and expand into international markets or when they are adversely affected by import competition. The ITL offers a combination of



fixed asset financing, working capital financing and debt refinancing with the backing of an SBA guaranty. The ITL Loan program helps small businesses make the investments necessary to be more competitive in the global marketplace.

Export Working Capital Program (EWCP)

SBA's Export Working Capital Program (EWCP) assists lenders in meeting the needs of exporters seeking short-term export working capital. Exporters can apply for EWCP loans in advance of finalizing an export sale or contract. With an approved EWCP loan in place, exporters have greater flexibility in negotiating export payment terms providing assurance that adequate financing will be available when the export order is won.

Supporting Disaster Recovery

After a natural or man-made disaster, SBA is the nation's number one source of recovery funds. SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters, non-farm businesses of all sizes and private, nonprofit organizations. When a disaster is declared, the SBA is authorized to make two types of disaster loans:

Physical Disaster Loans

Physical Disaster Loans are the primary source of funding for permanent rebuilding and replacement of uninsured or underinsured disaster-caused damages to privately-owned real and/or personal property. These loans are available to homeowners, renters, businesses of all sizes and private nonprofit organizations of all sizes. A homeowner may apply for a loan of up to \$200,000 to repair or replace the primary residence to its pre-disaster condition. Homeowners or renters may apply for a loan up to \$40,000 to help repair or replace personal property, such as clothing, furniture or automobiles, lost in the disaster. Businesses and private, nonprofit organizations of any size may apply for a loan up to \$2 million (actual loan amounts are based on the amount of uncompensated damage) to repair or replace real property, machinery, equipment, fixtures, inventory and leasehold improvements. The SBA can also increase a loan up to 20 percent of the total amount of disaster damage to real estate for improvements that protect the property from similar future disasters.

Economic Injury Disaster Loans (EIDL)

Economic Injury Disaster Loans provide the necessary working capital after a declared disaster until normal operations resume. Small businesses, small agricultural cooperatives, small businesses engaged in aquaculture (fisheries, for example) and private nonprofit organizations of all sizes are eligible to apply for the EIDL, regardless of whether there was any physical damage. The EIDL helps small businesses meet ordinary and necessary operating expenses as they recover from a disaster.

Military Reservists Economic Injury Disaster Loan

SBA's Military Reservists Economic Injury Disaster Loan is a working capital loan for small businesses facing financial loss when the owner or an essential employee is called up to active duty in their role as a military reservist. The business can use the funds to cover operating expenses until the essential employee or business owner is released from active duty.



Virtual Tools

SBA continues to work with the lending community to reduce the administrative burden both on the lender and the customer who is applying for a loan. There have been changes made to reduce the processing time and to clarify terminology making it easier to understand. Additionally, the SBA is embracing technology to provide a more customer friendly experience when applying for SBA loans.

Over the years, SBA has expanded its programs by tailoring them to the needs of small businesses. Just like our small business community, the SBA is ever growing and evolving to respond to and meet the needs of today's entrepreneurs. To help meet these needs, SBA has refined its loan programs and simplified loan processing and streamlined the process to obtain certain certifications.

Getting Certified

Certify.sba.gov is an online tool designed to simplify the application process for obtaining SBA certifications. By answering a few questions and inputting some business data, most small businesses are able to learn about the certifications they may qualify for and apply directly through the portal.

Finding a Lender

SBA also created LenderMatch, an online tool that small businesses can use to identify potential lenders in their communities, and serves as a matchmaker bringing together entrepreneurs and SBA lenders to help increase their access to capital. This free online referral tool connects small business borrowers with participating SBA lenders. After a prospective borrower completes a short online form (no registration is required), those responses are forwarded to participating SBA lenders that operate within the small business' local county. If lenders are interested in the referral, the lenders and prospective borrower's contact information is exchanged within 48 hours.

Convenient Online Training

Since small businesses owners and their schedules are unique, SBA created the Small Business Learning Center, an online portal that hosts a variety of self-paced training courses, quick videos, web chats and more to help small business owners explore and learn about the many aspects of business ownership. Content is filtered by topic, so no matter the stage of your business, or the kind of insight you need, you can quickly get answers 24 hours a day. SBA offers innovative solutions, products and services designed specifically for the small business community. If you prefer to have an expert guide you through your training to address your needs, SBA has that covered with our network of counselors and mentors.

Building your Network with SBA Resources and Mentors

Today's entrepreneurs are continually evolving and the SBA provides them the resources to explore their dreams. The word "entrepreneur" does not apply only to an exclusive group of thinkers and doers but also includes everyday Americans eager to tap into local and global markets. SBA's network of business consultants and mentors provide advice and education to assist start-up business owners, as well as, seasoned entrepreneurs looking to grow their business.

Collectively, SBA's advisors with the: Women's Business Centers (WBC), the Small Business Development Centers (SBDC), Service Corp of Retired Executives (SCORE), and our Veteran Business Outreach Centers (VBOC) train thousands of small business owners each year. This partner network reaches into rural, urban and suburban communities across America with more than 13,000 business counselors, mentors and trainers available



through over 980 Small Business Development Centers, 100 Women's Business Centers and 300 SCORE chapters. These business professionals can help with writing a formal business plan, locating sources of financial assistance, managing and expanding your business, finding opportunities to sell your goods or services to the government or global markets, and recovering from disasters.

Women's Business Centers (WBC)

SBA provides support to Women's Business Centers who exist to meet the unique needs of women entrepreneurs as they start their businesses and compete in the business world. However, they will just as gladly work with men who are building their small businesses. The centers provide counseling, training and some even participate in microloan programs. Centers are located throughout the country and are able to provide referrals to other resources if your needs cannot be directly addressed by them, such as, the Small Business Development Centers.

Small Business Development Centers (SBDC)

SBDCs have a variety of counseling services available to entrepreneurs. The Centers are hosted by academic institutions and located throughout the U.S. and its territories. They assist aspiring or seasoned businesses in preparing business plans, assisting with forecasting, conducting market analysis, manufacturing expertise, import and exporting, contracting and bid proposal preparation, etc. If you have a specific need, the SBDC can probably provide you the information or connect you with a resource that can help. The SBDC counselors will often collaborate with their local SCORE Chapter forming a support team for the entrepreneur.

SCORE

One of the most valuable resources that SBA has is their 10,000 SCORE Mentors working in over 300 locations. These professionals volunteer to share their life's work with others by helping them to benefit from their vast experiences, training workshops educational resources and business networks. Small Business Owners who don't seek a SCORE Mentor are missing an opportunity to find that voice of reason that is invested in seeing them succeed while providing the mentors an opportunity to give back to their communities. Most SCORE Mentors have a variety of methods to counsel, whether meeting at a coffee shop, a classroom, by phone or virtually. SCORE Mentors have counseled more than 10 million small businesses since 1964. With current technology, a small business can choose a subject matter expert in another part of the country allowing them to meet virtually and share information.

Just as SCORE Mentors share their experiences they may offer to connect businesses to their own business networks, the Veterans Business Outreach Centers do the same for Veteran entrepreneurs by linking them with services tailored to our servicemen and women seeking to build a business and continue in their service to their country.

Veteran Business Outreach Centers (VBOC)

There are 19 Veteran Business Outreach Centers nationwide who provide business assistance to military veterans and their spouses as they start a business or grow an existing one. As a SBA partner, the VBOC hosts the Boots to Business Program and Reboot to assist transitioning service members, Reservists, National Guard Members and their spouses. There are business advisors available who are able to work with the small business entrepreneur to provide counsel and support.

Get to know your SBA

Sixty five years after being established, the SBA remains loyally committed to helping entrepreneurs succeed by providing counseling, access to capital, disaster recovery and assistance with government contracting for small business owners. SBA's team is dedicated to the delivery of quality customer-oriented service to help small businesses get going, keep them growing, creating jobs, and fueling the entrepreneurial spirit which America's



foundation is built on. SBA's programs and services help maintain our commitment to ensuring that we remain the land of ingenuity and enterprise while keeping the "American Entrepreneurial Dream" within the reach of millions.

The SBA team is comprised of seasoned professionals who are passionate about their work and willing to share their knowledge and expertise. Whether you need SBA Lending, Government Contracting or information about Economic Development, they are ready to assist you in finding the resources you need to start, grow and succeed. The SBA team and its vast network of partners within the small business ecosystem can work with you to make sure that you get to the right resources, when you need them.

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Janan T. (Ben) Raju is the Deputy District Director (DDD) for the U.S. Small Business Administration's, Los Angeles District Office (LADO). Serving Los Angeles, Ventura and Santa Barbara Counties, Mr. Raju is responsible for the deployment of all SBA programs and services within the nation's largest SBA lending market.

While he is passionate about utilizing his experience and contributing to the diverse small business community within the tri-county area, Mr. Raju is motivated to engage the District's many resources, ideas, industries, and cultures to create a strong eco-system where commerce can continue to thrive locally and have a dynamic influence globally.

Mr. Raju can be reached by calling (818) 552-3201, via Twitter @SBA_LosAngeles or for more information visit

[https://www.sba.gov/offices/district/ca/glendale.](https://www.sba.gov/offices/district/ca/glendale)

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The mission of University of the West is to provide a whole-person education in a context informed by Buddhist wisdom and values, and to facilitate cultural understanding and appreciation between East and West.

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For further information, please contact:

University of the West

1409 N. Walnut Grove Avenue, Rosemead, CA 91770, USA.

Tel: (626) 571-8811

Fax: (626) 571-1413

E-mail: info@uwest.edu

Website: [http:// www.uwest.edu](http://www.uwest.edu)