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UNIVERSITY OF ARKANSAS AT LITTLE ROCK

From Your Proceedings Editor

I first want to welcome each of you to the 36th Annual Conference of the Small Business Institute®. I thoroughly enjoyed working with many of you in getting the competitive papers, workshops and "best practices" ready for inclusion in this edition of the Proceedings. Included in the Proceedings this year were a total of 45 submissions, 38 in the competitive paper category, 4 best practices and 3 workshops, plus an excellent preconference workshop.

This document is one of the largest Proceedings in SBI history – more than 550 pages - and it was made possible by the dedication of each and every one of you who worked on the conference, authored or reviewed papers, or even just talked up SBI to your friends and colleagues. I want to take this opportunity to quickly thank all of those who made it possible. First, to the authors, I want to thank you for providing us with your interesting and often thought-provoking submissions. I urge each of you at the conference to take a look at the papers that were submitted. I think you will enjoy them as much as I did.

Second, I want to thank all of the reviewers who served SBI so well in getting each submission reviewed in a timely manner and provided their thoughtful comments for the authors' use. Next, I want to also thank the Track Chairs for this year's Proceedings: David Dearman in Accounting and Finance; Harriet Stephenson in Ethics and Environmental Responsibility; Paul Belliveau for Experiential Learning; Hanqing Fang in Family Business; Nina Radojevich-Kelly in Global Entrepreneurship; Esra Memeli for Social Entrepreneurship; Shanan Gibson in Women and Minority Business; James Wilbanks for Small Business; Todd Mick for Best Practices; and Joe Bell for Workshops. Even though some of these individuals were unable to be here with us, they all took on these tasks willingly and got the jobs done in an exemplary fashion. I truly appreciate their continuing work for SBI.

Finally, I could not have completed this document without the help of *all* of the current Board members for SBI, especially our Program Chair - Dianne Welsh – and Mike Harris, who will become the President of our organization for 2012-2013. Thank you all!

As you can easily see, the 2012 Conference and Proceedings of the Small Business Institute® are the result of many personal efforts and much hard work. It has been a real pleasure to be a part of this effort. It is absolutely true that this is one of the most supportive and collegial organizations in both academics and business, and I am proud to be a member and to serve each of you.

Have a great conference!

John R. Hendon

John R. Hendon
Proceedings Editor

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AN EIGHT-COUNTRY COMPARATIVE ANALYSIS OF "MICRO" VERSUS "SMALL" FAMILY BUSINESSES

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ABSTRACT

Utilizing a sample of 601 family businesses in eight countries throughout the world, this study compared "micro" enterprises (0-9 employees) to "small" enterprises (10-49 employees), with regard to twelve managerial characteristic variables which have been identified as important in family business management. Statistical analysis indicates significant differences with regard to 6 of the 12 variables, and pre-testing of the survey instrument with a panel of small business experts successfully predicted 8 of the 12 test findings. Results and implications for family business owners, consultants, and researchers are presented.

INTRODUCTION

Throughout the world, family firms constitute a highly important component of most countries' economies. In most countries, family businesses are the most common form of business organization (Nordqvist & Melin, 2009). In the United States, an estimated 80 percent of the total 15 million businesses are family businesses (Carsrud, 1994; Kets de Vries, 1993). Family businesses contribute more than 50 percent (McCann, Leon-Guerrero & Haley, 1997) to as high as 60 percent (Bellet et al., 1995) of the total Gross National Product, 50 percent of employment (Morris, Williams, Allen & Avila, 1997), and have higher annual sales than non-family businesses (Chaganti & Schneer, 1994). Estimates classify 35 percent of *Fortune 500* firms as family owned (Carsrud, 1994). Data from most other countries provide a similar picture (Eddy, 1996; Morck & Yeung, 2003). However, much of the family business literature, regardless of the country being investigated, is non-quantitative (Dyer & Sánchez, 1998; Litz, 1997) and family business articles have only recently begun to be published in broad-based academic business journals.

For research purposes, standardized and accepted business size categories would be of significant value. If all researchers utilized the same size definitions, then cross-fertilization and replication of research would be supported and facilitated. Unfortunately, in the United States, no such standard category definitions exist. The U.S. Small Business Administration uses maximum size definitions to determine whether a firm is a "small business" and thus eligible for S.B.A. assistance and financing programs, but these definitions are not constant. For many types of businesses, the limit is 500 employees, but for other types of firms the limit is $7 million in sales (S.B.A., 2010). Unfortunately, most research definitions of "small business" would not include companies at the high end of S.B.A. eligibility.

In Europe, better and more research-useful definitions exist. The European Commission has established uniform size categories for *all* businesses in the European Union:

Micro Enterprises	0-9 employees
Small Enterprises	10-49
Medium-sized Enterprises	50-249
Large-sized Enterprises	250 or more

There are additional annual sales revenue and assets criteria, but the above categories are used in most European business research (Commetrics, 2010; Schmiemann, 2010).

The purpose of this research is to investigate possible similarities and differences between "micro" and "small" family businesses, utilizing the above EC size definitions. Specifically, twelve managerial characteristic variables which have been identified as important in family business management were tested with regard to these two size categories. This research fills a gap in the literature, as there has been minimal prior research with this specific focus. A more extensive discussion of the choice of these twelve managerial characteristics, and of the current gap in the literature is presented in the next section of this paper.

The findings and implications of this study should be of value to researchers, practitioners and consults of family business. For the researcher, this study will add to our empirical-research-developed understanding of family business and will move us toward an eventual set of theories and models for family business. For practitioners and consultants the findings of this study should enable family business owner/managers, and their advisors, to better understand the possible impacts of moving from a "micro" level to a "small" size level, and thus lead to more effective family business management. Again, these implications will be more fully discussed later in this paper.

LITERATURE REVIEW

Family Business research has developed significantly over the past two decades, and a variety of size categorizations have been investigated, so as to better understand this particular type of business (Dyer & Sánchez, 1998; Litz, 1997; Menzies & Lococo, 2011). However, searches of the *family business* literature find little prior investigation of issues of firm size, as measured by number of employees or any other measure (Sonfield & Lussier, 2008).

Even a broader search of the literature in business and management in general generates only modest results. Various researchers have attempted to find relationships between firm size (as measured by the number of employees in the firm) and that firm's performance. For example, Watson (1996) investigated whether firm size related to failure, Ettlie and Rubenstein (1987) examined the relationship of firm size to product innovation, Goetz, Morrow and McElroy (1991) and Brush and Chaganti (1999) explored the relationship of size to management styles and effectiveness, Edmunds (1979) looked at size's effect on management competence, and Bates (1989) studied firm size and its effect on business failure. All of these studies were preliminary investigations, and the mixed results underline the complexity of this basic issue. While a company's number of employees may influence managerial and firm activity and performance, considerably more research is needed before solid conclusions and meaningful implications can be reached, and theories can be generated.

Prior research specifically utilizing “micro” versus “small” businesses, even in Europe where these two categories are established, has been very limited, and further attention by both academic researchers, and by policy-makers, is needed (Greenbank, 2000). (More common, but still infrequent, have been comparisons of “small” versus ‘medium-sized” enterprises [Cakar & Erturk, 2010].)

One study, especially relevant to this current study was conducted using interviews in north-west England, focused on “micro” businesses (0-9 employees). While “micro” businesses were not compared with any other specific EU size group, the implicit analysis was with small and medium-sized enterprises. This study reached several conclusions regarding the management of “micro” versus larger enterprises (Greenbank, 2000):

1) Decision-making tends to be concentrated among one or two owner-managers. This is because there is rarely a need in a micro-business to appoint non-owner managers. Furthermore, there tends to be no separation between ownership and control because micro-businesses almost never have ownership beyond owner-managers.

2) The owner-managers of a micro-business generally work at both the managerial and operational level. Manpower is too limited to separate these functions.

These two characteristics of micro-businesses influence the manner in which such businesses are managed:

3) Decision-making by micro-business owner-managers is extremely complex and results from the interaction of individual, social and economic contexts. The *individual* context involves the owner-manager’s learned behavior, abilities, and beliefs. The *social* context entails the owner-manager’s education, past employment, and membership in professional or trade organizations. And the *economic* context involves the economic needs and desires of the owner-manager(s).

4) Specifically, with regard to managerial behavior and characteristics, micro-business owner-managers utilize a more *informal* style of management. Rather than deliberately collect relevant information prior to making a managerial decision, they tend to utilize information they have subconsciously and informally absorbed during their managerial activities. This informal decision-making process involves the use of past work experience, interaction with customers, and the observation of other businesses. Furthermore, this informal managerial behavior means that managerial *planning* is rarely conducted, *cost analysis* is not often utilized, and *marketing research* is very infrequently employed.

Another prior research study, again not specifically comparing “micro” to “small” businesses, but still useful in the literature search for this current study, was an American comparison of “micro-businesses” with “high-growth ventures.” For this study the definition of “micro” was a) less than 25 employees and b) not engaging in innovative business practices. A “high-growth venture” was a small business in which the management had greater-level goals of growth and profitability, and did use innovative strategic practices (Friar & Meyer, 2003). So this study is also not quite comparable to the current study, but may be of some prior-research value. The primary findings of this study were that, in comparison to owner-managers of “microbusinesses," 1) the founders of high-growth ventures had significantly higher levels work experience and/or advanced training in their industries and/or technologies, and 2) high-growth ventures' business plans were developed by teams rather than individuals.

As previously discussed, a search of the literature found no prior comparisons *specifically between "micro" and "small" businesses*. The above two studies are perhaps the most relevant to the current research. To compensate for this lack of a prior research base, and to use in formulating hypotheses for this study, a pre-test of potential hypotheses was conducted.

PANEL OF EXPERTS PRE-TEST

A panel of small business experts was identified for pre-testing of the survey instrument and for qualitative prediction of the quantitative testing outcomes. These respondents were all university professors who were administrators of programs in which students, under faculty supervision, engaged in consulting projects for local small businesses. These respondents each had considerable experience working with small businesses and their owners/managers, and thus had clear understandings of the nature of micro and small businesses.

A thorough review of the family business identified twelve basic managerial characteristics especially important in family business management (Sonfield & Lussier, 2008). From these variables a series of 12 questions regarding possible differences between "micro" and "small" was developed and a questionnaire was administered to these experts. Of 60 survey instruments distributed, 25 completed instruments were returned, generating a response rate of 42 percent. The survey instrument and tabulations are presented in Table 1. As can be seen, mean responses (on a seven-point scale) ranged from a high of 5.64 (strong agreement) to a low of 3.08 (modest disagreement). Thus, these pre-test results supported the value and wording of each of the following twelve hypotheses, and allowed for some predictions as to the subsequent results of the primary statistical testing of this research study, as discussed in the following sections.

Table 1
Pre-testing the Survey Instrument with a Panel of Experts (N = 25)

Statement	Mean[1]
1. "Small" businesses, in comparison with "Micro" businesses, are more likely to use non-family members within the top management team.	**5.08**
2. "Small" businesses, in comparison with "Micro" businesses, are more likely to have a greater percentage of women family members within the top management team.	**3.40**
3. "Small" businesses, vs. "Micro" businesses, are more likely to use a "team-management" style among top management.	**4.96**
4. "Small" businesses, in comparison with "Micro" businesses, are more likely to have a greater amount of conflict within the top management team.	**4.12**
5. "Small" businesses, in comparison with "Micro" businesses, are more likely to engage in the formulation of specific succession plans for top management.	**4.88**
6. "Small" businesses, in comparison with "Micro" businesses, are more likely to use outside consultants, advisors and professional services.	**5.08**
7. "Small" businesses, in comparison with "Micro" businesses, are more likely to spend more top management time on strategic management.	**5.46**
8. "Small" businesses, in comparison with "Micro" businesses, are more likely to use sophisticated methods of financial management.	**5.40**
9. "Small" businesses, in comparison with "Micro" businesses, are more likely to behave under the influence of the original founder(s).	**3.08**
10. "Small" businesses, in comparison with "Micro" businesses, are more likely to be considering "going public."	**5.64**
11. "Small" businesses, in comparison with "Micro" businesses, are more likely to have a "formal" management style rather than an "informal" management style.	**5.12**
12. "Small" businesses, in comparison with "Micro" businesses, are more likely to use debt financing rather than equity financing.	**4.72**

[1]Mean Score of Disagree 1-7 Agree with each of the 12 statements

HYPOTHESES

As explained, this study utilizes an international combined sample of "micro" and "small" family businesses to investigate the similarities and differences between these two groups with regard to a variety of managerial characteristic variables which have been determined by prior family business studies to be important factors with regard to family business practice. Where the pre-test of small business experts generated a score greater than 5.0 it is predicted that small enterprises will be shown to be significantly higher with regard to the hypothesis variable. Where the pre-test score is less than 4.0 it is predicted that "micro" enterprises will be significantly higher with regard to that hypothesis variable. For pre-test scores from 4.0 to 5.0 no significant differences are predicted and the null hypothesis is used:

H1. "Small" enterprises are more likely than "micro" enterprises to use non-family members within the top management team

H2. "Micro" enterprises are more likely than "small" enterprises to have women family members within the top management team

H3. There is no difference between "micro" and "small" enterprises with regard to the use of a "team-management" style among top management

H4. There is no difference between "small" and "micro" enterprises with regard to the degree of conflict within the top management team

H5. There is no difference between "small" and "micro" enterprises with regard to the formulation of top management specific succession plans

H6. "Small" enterprises are more likely than "micro" enterprises to use outside consultants, advisors and professional services

H7. "Small" enterprises are more likely than "micro" enterprises to engage in time spent on strategic management

H8. "Small" enterprises are more likely than "micro" enterprises to use sophisticated methods of financial management

H9. "Micro" enterprises are more likely than "small" enterprises to have a greater degree of influence by the original founder(s)

H10. "Small" enterprises are more likely than "micro" enterprises to be considering "going public"

H11. "Small" enterprises are more likely than "micro" enterprises to have a "formal" management style versus an "informal" management style

H12. There is no difference between "small" and "micro" enterprises with regard to the use of debt financing versus equity financing

METHODOLOGY

Sample

The sample was designed to provide global coverage with representation from eight nations, with varying demographics, economies and small business/family business environments. The USA was selected to represent North America, Argentina to represent South America, France represents the European Union, Croatia represents Central Eastern Europe, Kosovo and Serbia represent an important link between central and southern Europe and the Adriatic and Black Seas, Kuwait represents the Middle East, Egypt represents Africa. Researchers in China, India, and Australia were contacted for data collection. However, data was not collected.

Precautions were taken to avoid sample bias. Identifying family firms from various listings is consistent with that of other family business researchers, who have been constrained by the lack of national databases of family firms (Chua, Chrisman, & Sharma, 1999; Sonfield & Lussier, 2004; Teal, Upton, & Seaman, 2003). Because of varying difficulties in identifying and contacting family businesses in the various countries, the data collection was slightly different. The use of different data collection approaches was due to the availability of family business listings. In the countries with mailing lists (USA, Argentina, France, Egypt), postal contact was used. In the countries without family mailing lists (Croatia, Kosovo, Kuwait, Serbia) personal interviews were used.

In the United States, survey instruments were randomly mailed or hand-delivered to a variety of New York and Massachusetts companies, which had been identified as family firms (listings of "family businesses" in local business newspapers). There were 822 surveys mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. A total of 159 usable questionnaires were returned, providing a response rate of approximately 29 percent. However, 59 had 50 or more employees and had to be dropped from the sample; leaving 100 from the USA.

In Argentina, a previous database from "Observatorio PyME del Centro de la Provincia de Buenos Aires" provided contact information for 129 family businesses in Tandil and the nearby region (Donato, 2007). Another 30 Tandil firms identified previously as family business in the Tourism and Food industries were also added. Thus the total sample frame included 159 SMEs family firms. Data collect included phone or email contact in order to schedule a time for a personal interview to complete the questionnaire. However, some family business owners completed the questionnaire and returned it by email. Of the 159 family firms, 105 questionnaires were received, providing a response rate of 66 percent. All 105 had less than 50 employees.

In Egypt, the survey was sent through the family business network of the Egyptian International Trade Point (EITP) and the Egyptian Ministry of Trade and Industry. Six-hundred (600) family businesses received copies of the survey; 172 businesses responded to the survey, but 25 were found to be non-family businesses or otherwise not appropriate for sampling. This resulted in

147 usable survey responses, providing a response rate of approximately 29 percent. However, 49 had 50 or more employees and had to be dropped from the sample; leaving 98 from Egypt.

In France, large survey mailings lists that identified family businesses were obtained. A random sample of 800 was selected to receive the survey in the mail; 116 were returned for a response rate of approximately 15 percent. However, 67 had 50 or more employees and had to be dropped from the sample; leaving only 49 from France.

Family business listings could not be found in Croatia, Kosovo, Kuwait, and Serbia. In Croatia, randomly selected businesses were contacted and asked if they were family businesses. Far fewer (70) family firms were identifiable, but an intensive contact effort by mail, telephone, and personal visit resulted in 50 completed questionnaires, for a response rate of approximately 71 percent. However, 3 had 50 or more employees and had to be dropped from the sample; leaving 47 from Croatia.

In Kosovo, data was collected through personal interviews only, and 81 questionnaires were returned for a response rate of 100 percent. However, 8 had 50 or more employees and had to be dropped from the sample; leaving 73 from Kosovo.

In Kuwait, data was collected through personal interviews only, and 80 questionnaires were returned for a 100 percent response rate. However, 36 had 50 or more employees and had to be dropped from the sample; leaving 44 from Kuwait.

In Serbia, data collection was a combination of e-mail and hand delivered. A total of 145 surveys were distributed, 65 e-mailed and 80 hand delivered. Through extensive follow-up, especially hand delivering questionnaires to those who did not respond to the email, 108 surveys were completed for a response rate of 75 percent. However, 23 had 50 or more employees and had to be dropped from the sample; leaving 85 from Serbia.

The combined weighted average response rate for the eight countries was 57.83 percent. See Table 2 for a review of the sample (listed by the number of responses per country) providing the total of N = 601 for all eight countries. Analyses of some of these countries' data, using the same survey instrument, were previously published by Sonfield and Lussier (2004). Thus, the survey instrument had been tested and pre-tested with a panel of experts prior to this current study.

This is a large sample size (601 response rate (58%) for family business, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan and Pistrui, 2002). In three highly-rated small business and entrepreneurship-oriented journals (Entrepreneurship Theory and Practice, Journal of Business Venturing, and Journal of Small Business Management) around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003).

Table 2
Sample Size by Country

Country	Sample Size (n) micro/small	% of Sample (N)	Response Rate (%)	Weighted Average Response Rate[1] (%)
Argentina	105 56/49	17.5%	66%	11.55%
USA	100 46/57	16.6%	29%	4.81%
Egypt	98 26/72	16.3%	29%	4.73%
Serbia	85 44/41	14.1%	75%	10.58%
Kosovo	73 45/28	12.1%	100%	12.1%
France	49 5/44	8.2%	15%	1.23%
Croatia	47 30/17	7.8%	71%	5.53%
Kuwait	44 4/40	7.3%	100%	7.3%
Total	**601 253/348**	100%		**57.83%**

[1]Response rate x % sample

MEASUREMENT

The independent variable used to test all 12 hypotheses was size (Micro 0-9 employees and Small 10-49 employees). The dependent variables to test hypotheses 1-12 were as follows: (1) Does the firm have non-family managers?—the percentage of family to non-family managers. (2) The percentage of male and female family members involved in the operation of the firm. Variables 3-11 were Likert interval scales of: "Describes our firm" 7 to 1 "Does not describe our firm." (3) full family involvement in decisions, (4) level of family conflict, (5) formulation of succession plans, (6) use of outside advisors, (7) long-range planning, (8) sophisticated financial management tools, (9) influence of founder, (10) going public, and (11) formal management style. (12) The use of debt or equity financing was a nominal measure of one or the other. Descriptive statistical data included number of years the firm was in business, the number of employees, industry (product or service), and form of ownership.

STATISTICAL ANALYSIS

Hypotheses 1-11 compared each of the dependent variables by size using the t-test. Variables 12, having nominal measured variables, compared debt to equity by size using chi-square.

Table 3
Descriptive Statistics

Variables	**Micro** (0-9 employees) (mean 4.75) (n = 253 / 42%)	**Small** (10-49 employees) (mean 22.26) (n = 348 / 58%)	Total (N = 601)
Generation (n / %)			
1st	106 / 41%	120 / 34%	226 / 38%
2nd	107 / 42%	153 / 44%	259 / 43%
3rd	40 / 16%	76 / 22%	116 / 19%
Years in business (mean)	22.02	27.71	25.31
Industry (n / %)			
Product	95 / 38%	189 / 54%	284 / 47%
Service	158 / 62%	159 / 46%	317 / 53%
Ownership (n / %)			
Corporation,	50 / 20%	125 / 36%	175 / 29%
Partnership,	50 / 20%	94 / 27%	144 /24%
Sole proprietorship	153 / 60%	129/ 38%	282 / 47%

Table 4
Hypotheses Test Comparison by Size (N = 601)

Dependent Variables		Mean	S.D.	P-Value
H1 % nonfamily managers with the top management team	micro 0-9 small 10-49	8.11 20.75	21.76 27.93	**.000**
H2 % women with the top management team	micro 0-9 small 10-49	28.55 26.83	26.17 27.06	.436
H3 Team management style of family decision making used[1]	micro 0-9 small 10-49	4.60 4.60	2.380 2.262	.984
H4 Conflict within top management team[1]	micro 0-9 small 10-49	2.42 2.24	1.995 1.770	.261
H5 Specific succession planning of the top management team[1]	micro 0-9 small 10-49	3.28 3.82	2.364 2.437	**.006**
H6 Use outside consultants, advisors and professional services[1]	micro 0-9 small 10-49	3.39 4.26	2.472 2.289	**.000**
H7 Engaged in time spent on strategic management[1]	micro 0-9 small 10-49	3.38 3.63	2.143 2.068	.149
H8 Use sophisticated methods of financial management[1]	micro 0-9 small 10-49	3.23 4.05	2.407 2.208	**.000**
H9 Degree of influence by the original founder(s) [1]	micro 0-9 small 10-49	5.44 4.83	2.118 2.092	**.000**
H10 Considering going public[1]	micro 0-9 small 10-49	1.74 1.71	1.715 1.577	.868
H11 A "formal" management style versus an "informal" management style[1]	micro 0-9 small 10-49	3.88 4.38	2.367 2.018	**.006**
H12 Use of debt vs. equity financing[2]	micro 0-9 small 10-49		103/150 155/193	.349

[1] H3-H11, Mean of Describes our firm 7-1 Does not describe our firm, t-test of differences
[2] H12, Chi-square test of differences between frequencies, not t test

RESULTS

See Table 3 for descriptive statistics of the sample broken down by size (0-9 employees n = 253/42% and 10-49 n = 348/58%) for generation, years in business, industry, and type of ownership.

See Table 4 for the results of hypotheses testing. Six of the 12 test of differences resulted in significant differences between the means of micro and small businesses.

H1 Small businesses do have significantly more nonfamily members in their top management teams than micro businesses (m 8% vs. 21%, p = .000).

H5 Small businesses do make more detailed succession plans than micro businesses (m = 3.82 vs. 3.28, p = .006)

H6 Small businesses do use more outside consultants, advisors and professional services than micro businesses (m = 4.26 vs. 3.39, p = .000).

H8 Small businesses do make greater use of sophisticated financial management than micro businesses (m = 4.05 vs. 3.23, p = .000).

H9 Micro business founders have more influence on the firm than small businesses (m = 5.44 vs. 4.83, p = .000).

H11 Small businesses do use a more formal management style than micro businesses (m = 4.38 vs. 3.88, p = .006)

CONCLUSIONS AND IMPLICATIONS

Eight of the twelve results provided by the statistical testing were predicted by the panel of experts in pre-testing the survey instrument. And, as listed in the Results section, for six of the twelve hypotheses a statistically significant difference between "small" and "micro" family firms was found. Thus this study generated the following conclusions (numbers refer to corresponding hypothesis):

Conclusions

1. "Small" enterprises <u>are</u> more likely than "micro" enterprises to use non-family members within the top management team. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

2. There is no difference between "micro" and "small" enterprises with regard to having women family members within the top management team. *(the hypothesis was supported by the panel of experts but rejected by the statistical test of difference – no significant difference found between "micro" and "small")*

3. There is no difference between "micro" and "small" enterprises with regard to the use of a "team-management" style among top management. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

4. There is no difference between "small" and "micro" enterprises with regard to the degree of conflict within the top management team. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

5. "Small" enterprises <u>are</u> more likely to formulate specific top management succession plans than are "micro" enterprises. (*the hypothesis was supported by the panel of experts but not by the statistical test of difference - "small" enterprises were significantly more likely to formulate such plans)*

6. "Small" enterprises <u>are</u> more likely than "micro" enterprises to use outside consultants, advisors and professional services. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

7. There is <u>no</u> difference between "small" and "micro" enterprises with regard to engaging in time spent on strategic management. *(the hypothesis was supported by the panel of experts but not by the statistical test of difference – no significant difference found between "small" and "micro")*

8. "Small" enterprises <u>are</u> more likely than "micro" enterprises to use sophisticated methods of financial management. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

9. "Micro" enterprises are more likely than "small" enterprises to have a greater degree of influence by the original founder(s). *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

10. There is no difference between "small" and "micro" enterprises with regard to considering "going public." *(the hypothesis was supported by the panel of experts but not by the statistical test of difference – no significant difference found between "small" and Micro")*

11. "Small" enterprises are more likely than "micro" enterprises to have a "formal" management style versus an "informal" management style. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

12. There is no difference between "small" and "micro" enterprises with regard to the use of debt financing versus equity financing. *(the hypothesis was supported by the panel of experts and by the statistical test of difference)*

These findings are also supported by the two most-relevant prior studies cited earlier. Greenbank (2000) findings would support this study's findings regarding (H1) the use of non-family-member managers, (H6) use of outside experts, and (H11) "formal" versus "informal" styles of management. Similarly, Friar and Meyer's (2003) findings would support (H3) team-management versus sole-management.

For H5 (succession planning), testing showed that "small" family business managers were more likely to engage in planning for succession than were "micro" family business managers. While the pre-tested experts did not predict this strongly (with a score of >5.0), their score was 4.88, quite close to the chosen break-point for such a prediction.

Implications

Predictions based on managerial, scholarly, or consulting experience (such as the panel of experts pre-testing in this study) are insufficient bases for understanding small business in general and family business in particular. Also, the two prior studies cited have somewhat different focuses than this study, and their findings provide only limited support and basis for this current study. Thus there is value in formal and empirical studies such as the statistical testing reported here. For the researcher, the value of this study is that it adds to our empirical-research-developed understanding of family business and moves us toward an eventual set of theories and models for family business. Future research efforts, replicating or complementing this current study, can move our knowledge of family business in this direction.

This research should also be of both interest and value to practitioners and consultants. The findings of this study, combined with comparable and derivative future studies, should enable family business owner/managers to better understand the possible impacts of moving from a "micro" level to a "small" size level. This study indicates that certain changes occur with such growth. Would these changes be desirable and beneficial or be dysfunctional for the business owner and the firm? This is also a question that consultants to family businesses must consider as they analyze such firms and make recommendations regarding alternative strategies for growth.

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THE SECOND GENERATION IN A FAMILY BUSINESS: AN AGENT OF CHANGE OR CONTINUATOR OF FAMILY TRADITION?
The Example of Internationalization in Polish Small and Medium Sized Family Businesses

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ABSTRACT

The objective of this paper is identification of the role of the first and second generation in the process of internationalization of a family business active in the SME sector in Poland.
The research method used was the case study. A total of six case studies were developed that demonstrate the experiences of Polish exporters—family companies in the SME sector.
Analysis of the developed case studies indicates that it was the first generation that was responsible for making decision and undertaking operations in the first phase. With time, that generation kept only decision–related responsibilities. The second generation tends to continue tradition rather than being an agent of change.

INTRODUCTION

Major expansion in worldwide interest among researchers in family businesses occurred in the nineteen–nineties. This growth with each successive year can be seen in the number of research studies conducted on such companies. Study results appeared in renowned journals and were presented at conferences. (Sharma P., 2004, p. 1). The basis behind such interest lies in the noting of the weight and importance of this type of organization in the national economy. They are dominant among the population of economic entities in many countries—the United States, Japan, and Great Britain, for example (Sharma P., 2004, p. 3, Astrachan J. H. and Shaker M. C., 2006, Goto T., 2006, O'Sullivan M. and Koutsoukis A., 2008).

Analysis of world research demonstrates that questions involving succession (22% of the analyzed pool of 190 articles from the years 1996–2003), company economic results (15%), corporate governance (10%), resources, competitive advantage, and conflicts (6% each), goal and strategy formulation (5%), entrepreneurship and innovation (5%), culture (5%), internationalization (3%), and the professionalization of family businesses (2%) are examined most frequently with respect to family businesses (Chrisman, et al., 2003, in Zahra S. A. and Sharma P., 2004, p. 334).

A successive analysis of world research on family businesses conducted in 2010 by J. H. Astrachan (2010) confirms the growing interest in the above perspectives among inquiry by contemporary researchers. However, it should be stressed that in spite of increasing efforts observed in the exploration of the research field encompassing family businesses, the studies continue to be segmental in character in terms of both examined research problems and received results (Zahra S. A. and Sharma P., 2004, p. 333).

The above–presented data show that the process of internationalization of family businesses remains firmly in the sidelines of researcher interest. This is also confirmed by the work of T. Konitnen and A. Ojala (2010) who analyzed world studies on family business operations on foreign markets. Twenty–five articles made their appearance in peer–review academic journals since the first article in 1991 up to the year 2009.

This relatively weak interest in this subject matter on the part of researchers is somewhat surprising. Major international corporations are no longer the only important players in today's globalization. The fact that activities on international markets are becoming an important dimension for small and medium sized enterprises is reaching both practitioners and researchers with increased impact. With every successive year, these entities are becoming increasingly aware of the fact that if they want to be a party to the market game then they must expand beyond their domestic markets. Family businesses are an important player in the group of small and medium sized enterprises. In line with ASBS statistics, approximately 70% of companies employing from one to nine workers in Great Britain are family businesses, and they account for 62% in the case of small sized enterprises (from 10 to 49 employees). However, their share falls as the organization grows and family businesses account for only 51% of entities in the case of medium sized enterprises, which employ from 50 to 250 (O'Sullivan M. and Koutsoukis A., 2008, p. 14). In the case of Poland, research conducted by the Polish Agency for Enterprise Development (PARP) on such a broad scale for the first time in 2009 shows that from among the 1,610 companies from the small and medium enterprise sector that were investigated, family businesses accounted for 36%. As was the case in Great Britain, the share of family businesses fell as the size of the organization grew. It may be estimated, on the basis of the results of the PARP study, that family businesses belonging to the small and medium sized enterprise sector generate at least 10.4% of Poland's GDP, which is over PLN 120 billion (Kowalewska A., Editor, 2009, p. 23).

Because both the processes of internationalization of small and medium sized enterprises and of family businesses remains a poorly investigated area, the objective of the conducted research was identification of the components of the internationalization process of family businesses active in the small and medium sized enterprise sector in Poland. An interesting dimension of the undertaken studies was the defining of the role of the first and second generations in this process. The second generation aspect is particularly important as it is now that the second generation is accenting its presence in Polish family businesses and is quickly approaching the moment of the first inter–generational changeover on such a major scale (Koładkiewicz I., 2007).

The structure of this paper is as follows: Its initial section provides a characterization of questions related to the process of internationalization of family businesses in the SME sector. Its framework is defined by the Uppsala model. Also discussed are matters relating to the role of the first and second generations in the process of internationalization of family businesses. The second part of the paper encompasses characteristics of the research method as well as the way that the study was conducted. Resultant conclusions as well as indications of limitations stemming from the research process provide the close for this paper.

Internationalization of Small and Medium Sized Enterprises: The Uppsala Model

With respect to small and medium sized enterprises, it is the Uppsala model that is most popular in attempting to explain their internationalization processes (Johanson J. and Wiedersheim–Paul F., 1975, Johanson J. and Vahlne J., 1977, Bell J., et al., 2003). This model assumes that internationalization takes place in phases that differ in the manner of involvement of the company in foreign markets. The authors of this model identify the following four phases (Johanson J. and Wiedersheim–Paul F., 1975):

1. Absence of regular export activity,
2. Exports by way of representatives–agents,
3. Establishing foreign representative offices, and
4. Establishing foreign production centers.

The identified phases show that companies begin the internationalization of their activities with the simplest of forms, such as export operations. With time and as their experience in operating and acting on foreign markets increases, the complexity of forms and methods of internationalization grows—a successive phase of the model.

The Uppsala model particularly stresses aspects of gaining knowledge about new markets and skill in moving within them. It is for this reason that the model's basic assumption is internationalization of activities through operations in countries that are geographically and culturally close (psychic distance). Such a stance fosters the gaining of needed knowledge regarding new markets and decreases the risk of entry into those markets. With the amassing of experience on foreign markets comes the already mentioned growth in complexity of forms of internationalization from simple exports to more complicated ventures (Claver E., et al., 2007, p. 10). This process is also accompanied by the gradual transfer of operations to geographically more distant markets.

A significant dimension of this model is the acceptance of the assumption that international expansion is based on the company's capacity to utilize local advantage on foreign markets. In practice, this means that the stabilization of company position on the domestic market comes first, to be followed by an expansion of operations to encompass foreign markets. Thus, there is a shift in the moment of initiation of exports (Cieślik J. and Kąciak E., 2011).

Factors Determining the Internationalization of Family Businesses

Family businesses are among entities that are characterized by a great variety of definitions. This is the result of the application of diverse criteria in attempts at their defining. Among the most important is the level of ownership by the family, the scope of company control in family hands, possibilities of family influence on the company's direction of development, and the number of generations involved in management. Such criteria match the set of three systems making up a family business as identified by K. E. Gersick et. al., i.e. the ownership axis, the family axis, and the business (company–organization) axis (Gersick K. E., et al., 1997). These systems overlap each other, creating a unique constellation of activities and problems appearing in such entities—e.g. divergent company and family goals, divergent values and needs, and potential conflicts among family members (Ward J., 1998).

Analysis of topical literature on the internationalization of family businesses active in the SME sector indicates that various dimensions of this process were at the center of attention of researchers. Their attention was attracted by factors fostering or impeding the taking up of operations on foreign markets by such entities. Interest in the latter is stimulated by research results on data that indicate that family businesses lag behind companies that are not family owned with respect to activities on international markets (Thomas J. and Grave C., 2005, Fernandez Z. and Nieto M., 2005, p. 83).

Among the most frequently looked into questions in the area of the internationalization of small and medium sized family businesses are (Casillas J. C., Acedo F. J., Moreno A. M, 2007, Konitnen T., Ojala A., 2010, p. 99): •) Family participation in company ownership, •) Management style – leadership,•) Accessibility of resources – human and financial, and •) Continuity in family management – the appearance in the company of successive generations.
Results received to date from analyses of the influence of the share of the family in company ownership is spread in a continuum ranging from "may stimulate" to "may hinder" activity in winning foreign markets. The effects of stimulation are confirmed by research conducted by S. A. Zahra (2003), for example. In their turn, the results of studies by Z. Fernandez and M. Nieto (2005) demonstrate that family ownership does not foster the development of activity on markets outside the family's own country. Studies conducted by S. Sciascia and his team on activities on foreign markets from the perspective of ownership structure indicate that the level of family ownership may both stimulate and hinder such activity. Maximizing this type of activity may occur when family involvement is at a moderate level, while in the event of a higher level of family ownership there is a weakening (Sciascia S., et al., 2010). To a certain extent, the research result they received explains the absence of cohesiveness of results to date.

In light of the responsibility for creating wealth and its subsequent transfer into the hands of the next generation with which they are encumbered, family businesses are seen as entities with a rather traditional management style. A key quality characterizing their style is an aversion to risk (Ward J., 1998). The source of this is a sense of responsibility felt by the generation in power with respect to successive generations. Since entering foreign markets is encumbered by a certain risk, this may weaken the desire of family businesses to mark their presence abroad (Thomas J. and Grave C, 2005, p. 91, Fernandez Z. and Nieto M. J., 2005). Among basic sources of risk in operating on such markets are different languages, cultures, consumer behavior, and legal regulations (Jones, M. V. and Coviello N. E., 2005). Yet another factor impeding involvement in international operations may be reluctance on the part of managing family members to loose control over the company or a fear of its loss (Claver E., Rienda L., and Quer D., 2007, p. 5).

In the case of family businesses active in the SME sector, this is usually a case of entities managed by their founders (representatives of the first generation, where the second generation is just preparing to take power). In Poland, as shown by the most recent research results, only approximately 20% of the examined companies has already undergone an inter–generational transfer (Kowalewska A., Editor, 2009, p. 29).

Company founders are usually disinclined to conduct organizational changes encompassing the professionalization of the management system, including the decentralization of decisions taken (Fernandez Z. and Nieto M. J., 2005, p.79). Moreover, first–generation entrepreneurs may display a low level of flexibility and a disdain for changes in entrepreneurial management, especially as the time approaches for passing the baton to the next generation. This means that they tend to be of an age approaching retirement. This may be overlaid by problems of a psychological, cultural, and political nature (Aronoff C. E., et al., 2003, Fernandez Z. and Nieto

M. J., 2005, p. 768). Such a cocktail may prove to be a major stumbling block in undertaking actions aimed at internationalizing company operations.

Research results indicate that a significant factor impeding development of international activities may also be a lack of managerial skills in the present management for managing company growth processes (Grave C. and Thomas J. 2006, Fernandez Z. and Nieto M. J., 2005). Resultant problems may deepen even more due to an unwillingness to accept outside knowledge (Kontinen T. and Ojala A., 2010, p. 103).

The lower level of family business innovativeness may also limit its potential for marking itself a presence on foreign markets. It is the view of J. Thomas and C. Grave (2005, p.107) that the weight of innovativeness in the internationalization process is a key.

Among major factors restricting the international operations of family companies is the lack of suitable financial resources (Kontinen T. and Ojala A., 2010, p. 103). Family businesses acting in the SME sector, just like other entities in this sector, are oriented at using their own capital resources. To a certain extent, this is brought about by the above–mentioned reluctance on the part of the owner family to loose control over the company. However, such an approach bears fruit in an antipathy for lending from outside sources, which translates into limits on the potential for company operations on both the domestic market and on foreign ones (Kontinen T. and Ojala A., 2010, p. 103).

The family identity of a company is not necessarily a factor hindering the conquest of foreign markets. It may also be a powerhouse fostering the development of operations outside the well–known local market. This is determined by human resources present in the organization, the existing network of relations, and the manner of acquiring information (e.g. Coviello N. and Munro H., 1997). Entry onto foreign markets in the case of a family business may also be facilitated by its characteristic tendency for long–term orientations in activities coupled with an approach aimed at its continuation as well as speed in making decisions.

An important factor fostering internationalization is also the capacity of such entities to utilize the fruits of the information revolution. Family businesses that use modern information technology are characterized by a capacity for innovation and the ability to utilize accessible resources. In practice, this may be the precondition that improves their chances for undertaking operations abroad as compared with those family businesses that lag behind in implementing such technological solutions (Thomas J. and Grave C., 2005, p. 104).

In the case of family businesses, analysis of organizational resources mainly concentrates on family members in the company management. The results of studies by J. Thomas and C. Grave indicate that an individual family member may be a significant driving force in launching operations beyond the domestic market (2005, p. 107). Entering foreign markets may be facilitated by his or her familiarity with foreign languages or travels abroad (Claver E., Rienda L., and Quer D., 2007, p. 5, Okoroafo S. C., 2010, Zucchella A., et al., 2007, p. 275). A significant role is also played by prior experience in selling merchandise and services abroad (Westhead P., et. al., 2001, p. 351). What is interesting is that study results received so far show education as having little weight with respect to commencing export activity (e.g. Thomas J. and Grave C., 2005).

Yet another factor that may significantly facilitate benefiting from the appearance of an opportunity to start operations on the international arena is the network of contacts and business relations held by a family member (Okoroafo S. C., 2010, p. 16). For example, the results of research by S. C. Okoroafo show that for the first generation of owners, relations with business partners were an important factor inspiring them to undertake export activity (Okoroafo S. C., 2010, p. 19).

Research results to date indicate that in a part of the examined family businesses, the process of internationalization is decidedly more dynamic (e.g. in the form of expanding the number of markets on which they are active) following the transfer of authority to the next generation. Such phenomena are often known as “born–again globals” (Bell J., et al., 2003, Kontinen T. and Ojala A., 2010, p. 101). However, due to the type of entity considered for the study, further consideration shall only be given to the input of the first and second generation of the family of owners in the process of internationalization of company activities.

To date, observations accumulated aimed at defining the involvement of the first or second generation in conquering foreign markets by their respective companies demonstrate a smaller share of the first generation in this process. For example, the research results of Z. Fernandez and M. Nieto (2005) indicate that family businesses in the hands of the first generation have a poor presence on international markets (Thomas J. and Grave C., 2005, p. 82). Observations on the behavior of the second generation in the process of internationalization usually show a positive translation of its presence onto this form of company activity. This fits in with the results of studies on entrepreneurial behavior in family businesses. The absence of any desire to enter international markets by the first generation (the owners–founders) may stem from a loss by such persons of entrepreneurial behavior. For example, C. Salvato (2004) demonstrates that there usually comes a moment when the founder looses interest in innovation (where the internationalization process may be treated as such) and it is only the appearance of the second generation or some other reasons that prods a return to entrepreneurship. Similar results relating to entrepreneurial behavior were received by F. W. Kellermanns, et al. (2008). The involvement of successive family generations in the company resulted in an increase in entrepreneurial behavior, which was expressed in the relationship between the involvement of the successive generation and an increase in employment (Kellermanns F. W., et al., 2008, p. 9).

However, it must be added that the first generation is not always the “brakeman” in the process of internationalization. Research results analyzing the share of the first generation in the process of internationalization of the family business also show that resources held by that generation may facilitate it. For example, P. Westhead, et al. (2001) confirmed that the presence of an owner–founder (the first generation) in possession of greater resources, a dense network of business contacts, and access to information sources as well as significant know–how in the realm of management increases the probability that the company will launch export activities. The strong side of the owner–founder is also excellent familiarity with the sector. This knowledge is acquired in line with the commencement of activities and may be successfully used in gaining new foreign markets. Moreover, businesses managed by founders have a wealth of information resources and contact networks, which may also facilitate the commencement of export activities (Westhead P., et al., 2001, Okoroafo S. C., 2010).

Research conducted to date seems to clearly show that the significant factor in increasing the interest of a family business in international markets is involvement in its life by the second generation (Fernandez Z. and Nieto F., 2005, p. 85, Zahra, 2003). This is the result of more knowledge and greater skill held by the younger generation (Thomas J. and Grave C., 2005). For example, representatives of the second generation are more aware of available possibilities of support in export activities as offered by the state. The second generation uses the assistance of government agencies supporting domestic exporters to a greater extent than the first (Okoroafo S. C., 2010). The second generation is also characterized by greater sensitivity to stimulators for undertaking export activity in the company's environment. Due to their age, their tolerance for risk is higher than that of the older generation and this is why they try to take advantage of possibilities for growth that make their appearance. Like the first generation, the second generation also shows that foreign travel has a positive impact on undertaking export activity (Okoroafo S. C., 2010).

An important factor prerequisite to success on foreign markets is skill in acquiring knowledge about them. Developing effective ways of acquiring and accumulating knowledge decreases uncertainty in the process of internationalization. Skills in using modern information and communication technology, especially the Internet, proves particularly useful. The younger generation is usually better at technological novelties than their parents. It is for this reason that their entry into the company signifies an increase in implementation of new technological solutions that may facilitate movement on international markets.

There is no doubt that a factor easing the conquest of foreign markets by a family business is the takeover of a decisive position in the company by the second generation. The combination of resources held by the second generation in the form of knowledge as needed by the organization, better preparedness for managing the company, and greater ease in using modern information and communication technology, as compared with the parent generation (often thanks to a college education in management), with a position allowing the making of decisions, fosters the undertaking of activities on international markets.

In conclusion, it is worth adding that each and every inter–generational change in leadership ushers in changes in the realm of management of the family business. However, such changes may translate into company activities both positively and negatively. Positive effects of inter–generational changes in leadership should be expected in a situation in which the generation taking over the baton is better prepared for managing the company then the departing one. An important dimension is also the cohesiveness of company objectives with family goals, which link both generations. Negative effects may be expected when there is no cohesiveness of aims and the company and family are subjected to various conflicts of interest.

The involvement of several generations in company management not only puts the family in a better position to control the making of decisions and their implementation, but may also be treated as an opportunity to return to entrepreneurial behavior by the company (Kellermanns F. W., et al., 2008, p. 10). Successive generations may be an important driving force for changes in the organization, where one such change may be the expansion of fields of activity by gaining a position on international markets.

METHODOLOGY

The objective of this paper is identification of the role of the first and second generation in the process of internationalization of a family business active in the SME sector in Poland. Due to the specifics of Polish family businesses—seen in their relatively young age, which is the result of the fact that the main impulse for their emergence was the transformation processes that took place in the Polish economy at the start of the nineteen–nineties—the following definition has been used (Kowalewska A., Editor, 2009, p.19): “A family business is any entity in the micro as well as small and medium sized enterprise sector, of any legal form, registered and operating in Poland, where: •) At least two family members work jointly in the company, •) At least one family member has a significant impact on management, and •) Family members have shares in the company.”

This definition was formulated to meet the needs of the first major study on the situation of family businesses in Poland that was conducted by the Polish Agency for Enterprise Development (PARP) in 2009 on a population of 1,610 family businesses.
As to the processes of internationalization, in line with assumptions made in the research study, it was the definition formulated by B. M. Oviatt and P. P. McDougall (2005, p. 540) that was applied for international entrepreneurship: “International entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities—cross–national borders—to create future goods and services.”

Research interest was concentrated on questions such as:

- The process of internationalization of family businesses in the SME sector,
- The role of the first generation in the process of internationalization of family businesses, and
- The role of the second generation—an agent for change or a continuator of family tradition—in the process of internationalization of family businesses.

Conducted research was qualitative in character. It was performed within the framework of the “International Entrepreneurship in Poland” Research Project (N N115 2566 33) as financed by the Ministry of Science and Higher Education over the years 2007–2010.[*] The primary research tool was the unstructured questionnaire–based interview. Interviews were conducted over the years 2008–2009. The group of examined respondents included both the first and second generation.

Criteria for selecting companies for the study may be subdivided into two groups. The first encompassed criteria linked with the family identity of the company, such as:

- Meeting assumptions as found in the applied definition of a family business, and
- The presence of representatives of the second generation among company employees.

[*] The research team included: this information will be added after review

Table No. 1. Study Participants: Company Characteristics

Company Name	**Year Establi-shed**	**Start of Export Operations**	**Industry**	**Historical Pedigree** Who Is in Charge?	**Number of Employees 2007**
Pol–Meat	1992	2005	Operations involving the slaughter of pigs, cattle, and horses. Cold cut production.	The company was established by a married couple, the founders. Currently, they have transferred management into the hands of the second generation. The son is involved in management as the company president	144
Black Glasses	1998	1999	Corrective lenses and eyeglass frames for corrective lenses and sunglasses. The company is involved in trading and provides services.	The company was established by a married couple, the founders. The first generation continues to be involved in management. The second generation is already working in the company.	33
Al–KON	1994	1999	Manufacture of aluminum products for the entertainment and exhibition industries, for manufacturing and construction industries.	The company was established by a representative of the first generation. The first generation continues to be in charge. The second generation, the daughter, is involved in export operations.	48
Coach	1989	1995	Manufacturer of wooden carriages.	The company was established by a representative of the first generation. The first generation continues to be in charge. The second generation, the daughter, is involved in export operations.	n.d.
BOOT Footwear Manufact urer	1989	1991 – A form of indirect export by sales through middlemen. 2003 – Direct exports.	Manufacturer of men's and women's footwear.	The company was established by a representative of the first generation. The first generation continues to be in charge. The second generation, two sons, are already very much involved in the family business.	43
Dewon	1983	1995 – Direct exports. 1990 – Indirect exports as a manufactur er of subassembl ies for exported products.	Two–wheel trucks, garden and construction wheelbarrows, steel structures—scaffolding and garden furniture—space heating furnaces.	The company was established by a representative of the first generation. The first generation continues to be in charge. The second generation, the daughter, is involved in export operations.	247

The “case study” method was used as the research method. Creswell (2007, p. 73) defines it as: “A qualitative approach in which the researcher subjects a bounded system (case) or several bounded systems (cases) to analysis, where: •) The time aspect is taken into account, •) Detailed and in–depth procedures for collecting data from various sources (e.g. observation, interviews, audio–visual materials, documents, and reports) are applied, and •) A description of the case as well as several threads identified on the basis of case–based themes is the result.”

Ultimately, six case studies were developed that demonstrate the experience of Polish exporters—family businesses from the small and medium enterprise sector, whose characteristics may be found in Table No. 1. The cases were prepared on the basis of both primary sources (data received over the course of the interviews) and secondary sources in the form of company materials, the content of company web pages, and press articles. Company names have been coded.

Factors Initiating the Process of Internationalization of the Studied Small and Medium Sized Family Businesses

A good starting point for any presentation of the examined Polish family businesses in the process of internationalization is a defining of the type of vision that accompanied the entrepreneurs at the moment of launching business activities and if operations on foreign markets were taken into account, if at all (this is a particularly interesting question in looking at the phenomena of international entrepreneurship). The examined population of family businesses tended to be dominated by the idea of creating a company operating on a small scale, satisfying the day–to–day needs of the owners (Pol–Meat, Al–KON, Coach, BOOT, and Dewon). Only the owner of one company (Black Glasses) assumed from the very beginning that the company will develop and will expand to a greater scale.

Essentially, export activities were not planned by the owners of the studied companies (Pol–Meat, Al–KON, Coach, Black Glasses). Only BOOT looked to exports supplementing primary domestic sales from the very beginning.

Analysis of the circumstances of the launching of export operations by the organizations indicates that, to a great extent, this was an element of chance rather than considered action by managing members of the family. The case was usually one of “being found” by foreign customers (e.g. Black Glasses and Al–KON). For example, Black Glasses commenced exports as the fruit of the first generation (owner–founders) and its important contacts, albeit of a social character, with potential customers on the Russian market. The source of these contacts consisted of acquaintances of the company owners dating from college, when they studied in the Soviet Union.

Entry onto foreign markets was the result of entry into a completely new field, which was linked with the transformation of offered products and services. This is what the Coach Company experienced. It was initially concerned with the manufacture of assorted wood products for the domestic market. Subsequently, as a result of contacts with the manufacturers of wooden carriages and buggies it began to supply elements needed for their manufacture. This was followed by possibilities for the sale of repair services to foreign markets and the company ultimately started production of complete carriages and their sale to foreign customers. (This transformation process in both the product line and in markets took the company a total of six years.) Export activities developed very quickly as of the moment of commencement of the switchover in fields. This took on added impetus with the start of production of entire carriages that were made in response to the demands of German customers. In this case it was an impulse flowing from the environment that also had significant impact.

Entry onto foreign markets can also be accomplished by indirect means. The products of the BOOT Company, from the first years of its operation, were available at bazaars where merchants from beyond Poland's eastern border bought supplies. It was in this manner that BOOT, a family business, attracted customers from east of Poland. Another example of the implementation of indirect export was also its collaboration with the XY Company of Białystok. XY organized presentations of footwear to which it invited its foreign customers. (Turnover thanks to XY accounted for an additional 5% of total BOOT sales in 2007, where direct export started in 2003 and accounted for 3% of sales at that time.)

The experience of Pol–Meat in internationalization of operations was completely different. In a sense, they took advantage of possibilities that appeared with the conducting of the modernization of their production plant. That modernization was forced by European Union regulations. With modernization and the meeting of European Union standards came the potential for the sale of high–quality products on European Union markets. It was the owner's son, a representative of the second generation, who came up with the idea to benefit from this opportunity. He launched his efforts with the sending of questions regarding the possibility of starting collaboration with foreign partners to Polish consulates and embassies in Western Europe. With time, his efforts were supported by the employment of a professional—a sales director. Internationalization of operations occurred thirteen years after commencement of company operations.

The sample also includes an organization that started its adventure in exports as a component supplier, where it was the final product that found its way onto foreign markets. This is how the Dewon Company functioned initially.

Summing up, the above–characterized experiences of the investigated family businesses demonstrate that the main initiator of internationalization of their operations was primarily that the first generation of owner–founders. It was only in one case that the impulse came from the second generation (Pol–Meat).

An interesting aspect of analysis of factors responsible for the start–up of export activity is the answer to a question regarding the scope to which it required businessmen and their companies to innovate in various spheres of the functioning of the organization—e.g. manufacturing technology, marketing, and management. It is difficult to provide a univocal response on the basis of company experience. However, it is the view of a part of the examined companies that without broadly understood innovation, the realization of sales on foreign markets would have been difficult. To a great extent, their innovativeness involved the management and marketing spheres. Entry onto foreign markets of the studied group of companies was not tied to the introduction of completely new products into their range, although there was a need to adapt those products to the individualized needs of foreign partners. Al–KON was such a company. Innovation was also understood as entering into a completely new field (which was the experience of the above–mentioned Coach).

The First and Second Generation in the Internationalization Process of Family Businesses

The amassed collection of experiences relating to the organization and implementation of export operations makes it possible to identify several approaches and actions taken by the studied population of family businesses. However, prior to any presentation, it should be added that the person watching over this sphere was primarily the owner–founder (representative of the first generation). This is no cause for surprise. The reason behind this is not only the absence of separation of ownership and management, but also the fact that the first decision to undertake sales to foreign partners was made by the owner–founder (with the exception of Pol–Meat). Moreover, the activities of the owner–founder did not end with the taking of such a decision in the initial phase of export activity. The owner–founder was also directly involved in just about every phase of this type of transaction. However, with the passage of time, the owner–founder received support in either the involvement of children or through the employment of professionals such as sales directors or marketing and sales staff members. Currently, the participation of the owner–founder in export transactions is mainly seen on a supervisory level or in the taking of decision. To a lesser extent, it occurs in direct involvement in related operating activities, although there are exceptions.

It was primarily the first generation of owner–founders in the examined population of family businesses that were the main decision–makers in choosing to expand to foreign markets. To a great extent this was determined by business and social contacts. It was only in one company—Pol–Meat—that the decision regarding exports was taken by the son of the founder. That decision was driven by the modernization of the family plant as well as a semester–long stay at a foreign university.

Currently, it is possible to observe something of a withdrawal of the first generation from operations in the area of exports, with a simultaneous transfer of this sphere of activities to the children (e.g. Coach and Dewon). Yet another solution applied in the examined population of companies was the use of the services of professionals—outsiders—in cases in which the second generation had too little business experience. It was only in one company—Pol–Meat—that the representative of the second generation, the company president, was supported by a professional manager.

The results of world studies to date indicate that among factors that are decisive in entering foreign markets are familiarity with foreign languages and experience in moving through those markets (Claver E., Rienda L., and Quer D., 2007, Okoroafo S. C., 2010, Zucchella A., et al., 2007). However, observations gathered during research are somewhat surprising. The experiences of owner–founders indicates that knowing foreign languages is not all that necessary: “What are interpreters for?” In the examined population of entrepreneurs, familiarity with foreign languages breaks down into a continuum from trace knowledge through a level sufficient for communications to very good.

The situation was utterly different in the case of the children. The second generation entering the family business was decidedly better in the area of foreign language skills than their parents. They knew foreign languages on a level ranging from good to very good. Among the most popular languages was English.

The dominant way of gaining of qualifications making possible the execution of export transactions by the managerial staff was, in the case of owner–founders, learning through practice. They acquired their entire knowledge while actually conducting export operations. Characteristic is the fact that they did not use any forms of support such as participation in specialized training or other available forms of education. As was the case with foreign languages, thanks to education their children had a better starting point in export activity as well as in business. This was guaranteed by a college education in management (e.g. the sons of the founders of Pol–Meat and Black Glasses) or language studies (e.g. the daughter of the founder of Al–KON). However, it should be stressed that in the case of export operation, the children, like their parents, gained knowledge mainly through practice.

SUMMARY

Prior to drawing conclusions stemming from the above–presented analysis of experience in the internationalization of Polish small and medium sized family businesses, it should be recalled that the character of the conducted study was a qualitative one. The case study was the research method applied, a method that is very useful in the process of in–depth examination of concrete phenomena and processes taking place within the studied organization, but one with its limits. Data accumulated through its use cannot be generalized onto the whole of the population of companies in the SME sector. They apply only to the research sample, consisting of six Polish family businesses in the SME sector.

However, it is possible to try to indicate practices that are characteristic of the companies in the area of development of export activity as well as the subdivision of roles in these processes between the first and second generation of family members by using their experiences as a basis. The first observation that surfaces in the conducted analysis is that the dominant practice among these exporters (family businesses) was the utilization of chance opportunities by the owner–founder in the form of the coming forward of a foreign customer rather than their application of a considered strategy to find them. However, it should be stressed that they took up the gauntlet thrown by the market in the form of an opportunity for collaboration immediately. What is more, this direction was not ended with the conclusion of the first transaction. It was further developed with greater or lesser success mainly determined by the market. This found expression in an increase in the number of foreign customers or in the modifying of the product portfolio in order to satisfy their needs. The effects of these activities found reflection in the dynamics of exports, expressed in share in total sales. Both growth and drops in sales on foreign markets were observed in the examined population of family businesses.

The managing owner–founder was the main initiator of launching operations on foreign markets. With time, strategic decisions and supervision over the performance of sales transactions abroad remained with the owner–founder, while children were primarily involved in direct operations linked with exports (Pol–Meat was the exception). At this point it is worth stressing that the main source of knowledge and experience vital to conducting export activities for both the owner–founders and their children was their own practice.

One of the more important factors prerequisite to success in expansion onto foreign markets is the development of a good customer portfolio. In the case of participants in this study, its expansion to include new customers primarily took place by way of using recommendations from current customers and web pages. Another popular way of gaining them was through international trade fairs as well as initiating direct contacts with customers.

Also worth adding is that the studied entities were characterized by an orientation very much aimed at independence in performing foreign transactions. Knowledge about export markets was primarily gained at international trade fairs. However, foreign partners and persons or entities acting in the same industry (partners) were also seen as important sources of needed information. Information resources in the Internet were also assigned significant importance. What is interesting is that the studied exporters used available studies and reports on their industries to a significantly lesser extent.

Concluding this summary of experiences relating to the internationalization of the activities of the studied family businesses in the SME sector, worth stressing is their characteristic skill in seeing and utilizing market opportunities and their undertaking of actions aimed at forging market success. To a great extent, this success was defined by the openness of the first generation of owner–founders to knowledge flowing from the market as well as their orientation aimed at innovation and the placing of appropriate weight on building networks of cooperative relations generating added value.

A significant supplement to study results presented up till now is the answer to the following question: “To what extent or degree do the identified practices relating to the process of internationalization of Polish family businesses in the SME sector match research results accumulated to date?” Prior to undertaking an effort at a response to this question, it is necessary to recall that it can only relate to the six Polish exporters—family businesses—taking part in the study.

The basic model used in describing the process of internationalization of entities from the small and medium enterprise sector is the Uppsala model. The conducted analysis of the experiences of the examined companies indicates that for some of them, internationalization of their activities was in line with the components of this model. What happened first was their market stabilization, which was followed by expansion onto foreign markets a few or several years after the commencement of operations. To a great extent, the conquest of foreign markets was characterized by a short perception distance (psychic distance). A significant portion of the studied exporters concentrated their activities on markets to the east of Poland.

However, among the examined population of companies there was one entity whose model of internationalization may be an example of the group of exporters meeting the criteria for a “born global” company (e.g. Bell J., et al., 2003).

In the case of five of the examined family businesses, the role of stimulants flowing from the nearest environs and creating the impulse for their internationalization was particularly interesting. The dominant practice among them in the process of expansion onto foreign markets was the use of an opportunity in the form of being directly approached by a foreign customer. They demonstrated no activity in and of themselves, but when a market opportunity appeared they effectively tried to take advantage of it.

Results received on the role of the first and second generations in the process of family business internationalization matches current research results to only a certain extent. The practice observed in this study stresses the role of the first generation in the process. It was the first generation that was responsible for making decision and undertaking operations in the first phase. With time, that generation kept only decision–related responsibilities. This is not fully in line with the observations of Z. Fernandez and M. Nieto (2005) who stated that the second and successive generations demonstrate greater tendencies for export than the first generation of owner–founders. A certain explanation of this fact may be sought in that the studied companies are active in a developing economy and the owner–founders are particularly open to new opportunities for growth appearing in their companies' surroundings. Out of the studied population, only the experience of Pol–Meat fits in with current world research, where the transfer of authority to the second generation translates into growth in interest in entering foreign markets. Among the examined entities, the second generation tends to continue tradition rather than being an agent of change.

Also interesting are observations provided by analysis of familiarity with foreign languages. The study results show that in terms of languages, the second generation is decidedly better prepared than the first. However, practice demonstrates that even a lower level of language proficiency was not a particular impediment for the owner–founders for expansion onto foreign markets.
Worth stressing is that knowledge concerning export activities is, to a great extent, gained through practice by both the first generation of owner–founders and by their children.

Summarizing, analysis of the identified practices of Polish family businesses in the SME sector confirm the importance of human resources, contact networks, and mechanisms for scanning the market in search of useful information. This is in line with the list of factors determining international entrepreneurship as put together by B. M. Oviatt and P. P. McDougall (2005).

Moreover, in the case of the first generation, their own resources—excellent familiarity with the sector, a wealth of information resources, and a developed network of contacts—were of particular importance in undertaking export activities. This fits in with the current set of research observations indicating the important role in the process of internationalization of such resources in the hands of the owner–founder, the first generation (Westhead, Wright, and Ucbasaran, 2001, Okoroafo S. C., 2010).

In conclusion, it should yet again be underscored that due to their qualitative character, the received results do not provide a basis for generalization, but they do provide valuable comparative material. They allow for an in–depth analysis of the internationalization processes in the examined family businesses that fit in with the various research models (particularly the

Uppsala model, but also the “born global” model). They also make possible the defining of the role of the first and second generations in these processes.

IMPLICATIONS

The phenomenon of family business internationalization continues to be a sphere that calls for the continuous expansion of our knowledge (Casillas J. C., Acedo F. J. Moreno A. M., 2007). The experiences of family businesses in the SME sector seem to be particularly interesting. This is because, as practice shows, they too are becoming active participants in the process of globalization. With time, some of them discover foreign markets, while some enter them as “born global” companies.

On the one hand, the conducted research allows a characterization of the process of internationalization of family businesses in the SME sector in Poland—a country undergoing radical systemic transition. Its large–scale effect is the commencement of the process of creating companies, including family businesses. On the other hand, it makes possible the defining of the role of the second generation in the process of internationalization of family businesses, regardless of whether that generation is a continuator of the initiative of the first generation or is itself the initiator of changes. Worth adding is that research results to date show that Polish family businesses are, to a great extent, first–generation companies. Thus, the involvement of the second generation in export operations may be treated more broadly as a component of the succession process.

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EXPLORING ETHICAL DIMENSIONS OF FAMILY BUSINESSES IN A TRANSITIONAL ECONOMY

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ABSTRACT

The case of Kosovo is used to understand the effect of family business dynamics on the role of ethical attitudes in a transitional economy. A transitional economy provides an interesting opportunity to examine the ethical attitudes of small businesses and family owned businesses because there is significantly more uncertainty about accepted business practices. In this paper a survey of 100 family businesses in Kosovo finds that family businesses do have different ethical attitudes than non-family businesses, although the differences are slight. Conflict among family members is associated with slightly improved ethical attitudes.

INTRODUCTION

The fall of the Soviet Union in the early 1990's gave rise to a number of transitional economies. A transitional economy is one that is changing or transitioning from a controlled or socialist economy to a free-market or capitalist economy, (Cordeiro, 2003). During this transition businesses will undergo a changing set of incentives and constraints, and this has led some to investigate the role of ethics in guiding the behavior of businesses as economies adjust to a market based approach to business (Cooper and Dorfman, 2003; Grbac and Loncaric, 2009; Gyula, Hisrich and Szegedi, 2000). Puffer and McCarthy (1995) compared American ethical attitudes to Russian ethical attitudes and concluded that increasing uncertainty in Russian businesses undergoing a transition have created more confusion about the role of business in Russian society. They argue that favoritism and price fixing, for instance, are examples of business practices that Russians find acceptable, even though they are not considered ethical in the West. In a study comparing the attitudes of Russian and US students on ethical issues of Russian businesses, it was shown that Russian business students were more likely to make decisions that would be considered unethical in the US. The study concluded that this was partly due to the fact that the Russian economy was in transition (Thelen and Zhuplev, 2001).

Several research studies have examined the role of ethical norms in building a transitional economy. In an early paper Bohata (1997) reported on public opinion on the state of ethics in these transitional economies, as well as the state of business ethics. Public opinion is mostly concerned with corruption among political leaders and insufficient morality as expressed in legislation. According to the author, there is widespread concern that a market based system alone will not be enough to guide a transition, because trust, integrity, and responsibility are necessary for a market economy to be effective. He goes on to argue that while surveys indicate that business leaders will take a pragmatic approach to ethical issues in business, economic motives to behave ethically must be augmented by moral education within families as well as institutions. In a more recent study Cordeiro (2003) argued for more research into the role of small businesses in helping to establish ethical norms in a transitional economy. He used the example of the Russian mafia to illustrate that privatization has led to increased corruption and misconduct. Large business organizations have a role to play, and he argues that, although stakeholder theory requires a balancing act among various stakeholders, it is important for multinational enterprises in particular to adhere to minimum moral standards regardless of the practices and norms of the host countries. He concludes by calling for more research on the effects for local entrepreneurs. In an examination of the insurance industry in economies making the transition from centralized to market based, researchers concluded that, while some ethical issues facing a transitional market may diminish over time, there are other ethical issues which are not expected to decline as the economy makes the transition to a market based economy (Cooper and Dorfman, 2003).

The current study will use empirical data that was collected in Kosovo which recently declared its independence from Serbia. The study will examine several aspects of family business dynamics to determine the effect of those relationships on ethical attitudes of small business owner/managers Kosovo is a newly established country in the former Yugoslavia, and the economy of Kosovo is making a transition toward a market based economy and also a transition to a post war economy. Kosovo has particular relevance because research using survey data that was collected from 150 public managers in four countries showed that organizational integrity was lowest in the former Yugoslavian countries of Serbia and Montenegro (Kolthoff, Erakovich, and Lasthuizen, 2010). This is in contrast, however, to the perceptions of 109 managers of small, medium and large firms in Croatia, a former Yugoslavian country with a transitional economy. In a response to a survey of the perceived role of ethics and social responsibility it was concluded that there is a perception of a positive relationship between organizational success and ethics and social responsibility among respondents (Grbac and Loncaric, 2009).

LITERATURE REVIEW

The high profile business scandals of the 1990's and 2000's resulted in greater interest in business ethics at corporate levels, however, academics have been studying business ethics since the 1970's (De George, 2006). In a larger business organization, moral challenges can be particularly acute because individuals are more likely to morally disengage due to the pressures of corporate norms. Moral disengagement occurs when people behave unethically without personal discomfort (Bandura, 1990), and Moore (2008) explains that organizations promote and encourage moral disengagement by focusing on organization goals and incenting corrupt behavior in organizations. Although most studies have focused on ethical concerns in large organizations, there has also been increased study of business ethics in small businesses.

Many studies have compared and contrasted ethical behavior in large and smaller businesses. Several comparison studies, for instance, have focused on corporate giving, Corporate Social Responsibility (CSR), and ethical attitudes of small business owners and managers in large organizations. Despite several studies, the research is mixed. In one comparison study of CSR strategies, small business owners differed from corporate executives. Perrini, Russo, and Tencati (2007) interviewed top executives at large firms and compared them to owner-managers of small firms in Italy, and it was determined that small firms are less likely to have a strategy of Corporate Social Responsibility that would encourage them to meet requirements of relevant stakeholders. However, Peterson and Jun (2006) drew a different conclusion. In a survey of 517 small business owner/managers respondents indicated a high degree of commitment to the idea that they feel a responsibility to society when they manage their business. While the Perrini, et. al. (2007) study may be specific to the economy of Italy, Lepoutre and Heene (2006) reviewed the literature on firm size and CSR and concluded that, although some studies suggest that a country's economic welfare will impact the level of social responsibility among smaller firms, there is not enough evidence to support the idea that the economic environment will affect the social responsibility of a small business. Amato and Amato (2007) used IRS data to show that the charitable giving of small firms is proportional to the charitable giving of large firms. The authors suggest that a connection to the local community may explain why small firms are more charitable than medium sized firms. In an early study comparing small business owners to managers in large organizations Longenecker, McKinney, and Moore (1989) used a survey of 16 hypothetical scenarios to measure perceptions of ethical behaviors among small business owners. They found that small business owner/managers differ from managers in large organizations, but they cannot be described as either more or less ethical. And in a later study of ethical attitudes, Longenecker, Moore, Petty, Palich, and McKinney (2006), used a mail survey to compare ethical attitudes of small business owners to employees in large firms. The survey also used vignettes or situations to determine the extent to which a decision was seen as unethical. They concluded that there was no difference between small business owners and employees in large, publicly traded firms. Finally, a questionnaire examining attitudes toward business ethics and social responsibility was sent to managers in both small and large companies in Hungary. Few differences were found between large and small businesses, although managers in small companies felt more strongly that a market economy would lead to optimal results (Gyula, Hisrich, and Szegedi, 2000).

Some studies have begun to examine the variables that influence the different ethical attitudes of smaller businesses. In one study Humphreys, Robin, Reidenbach, and Donald (1993) used ethical scenarios and a relativism measure to understand ethical attitudes of small business owner/managers. The study not only looked at the extent to which small business owner/managers saw scenarios as ethical, but went on to examine the extent to which the scenarios were seen as culturally or traditionally acceptable. It was found that the relative dimensions were important in understanding the ethical attitudes of small business owner/managers. In a survey of 226 marketing managers working in small businesses respondents were asked to react to marketing ethics scenarios. The authors concluded that one's personal moral philosophy was not influential in determining the extent to which these small business managers reacted to an ethical situation; rather, the specific attitudes of the managers to the situation was more influential (Marta, Singhapakdi, and Kraft, 2008). However, Quinn (1997) administered a questionnaire to 41 small business owner/managers and found that there is a positive correlation between membership in a organization with ethical goals, such as a church, and ethical attitudes. The study concluded that the personal ethics of the owner/manager will influence attitudes toward business ethics. Demographic characteristics can also influence ethical attitudes of small business owners. For instance, Smith and Oakley (1994) surveyed 209 small business owner/managers using the survey of 16 hypothetical scenarios developed by Longenecker, et. al. The study concluded that older small business owner/managers have ethical attitudes that are more aligned with following rules and norms, whereas they are less inclined to use values as a basis for ethical attitudes. In addition, the study concluded that small business owner/managers from urban areas will be more accepting of ethically questionable behaviors than nonurban small business owner/managers.

Some researchers have argued that business ethics practices can assist those businesses that are making a transition from a developing economy to a more modern, Westernized economy. Barclay and Smith (2003), conclude that, given the uncertainties involved, regulations are less effective than the ethical beliefs of business owners and managers. The challenge is to give voice to those ethical beliefs. Another study argues that business ethics in Belarus is often influenced by personal relationships as opposed to laws and regulations. Smaller companies in particular typically use false accounting and give kickbacks, and survival is often a result of knowing who to bribe. The study goes on to point out that different socio-cultural factors are operating in different countries that made up the former Soviet Union, and more empirical research on former soviet states is called for (Rees and Miazhevich, 2009). Finally, a very recent study examined the different meaning that honesty has at home and at the workplace among Russians in transitional economies. It was found that honesty is considered an important value, but that this value did not transfer to the workplace where stealing was considered more acceptable due to the historical nature of public ownership is Russia (Vadi and Jaakson, 2011).

HYPOTHESES

The purpose of this study is to understand the extent to which family businesses in a transitional economy will be less accepting of unethical business practices. Although ethical attitudes among small businesses have been studied in transitional economies, there have been no studies that have examined the effect of family business dynamics on the ethical attitudes of small business owners. This gap is surprising given the studies that have suggested it is the commitment to one's community that can influence the ethical behavior of a small business owner as opposed to a manager who works for a large organization. Likewise, studies have indicated that ethical attitudes in a transitional economy are more influenced by personal relationships than by laws. Those former studies also show that small business owners in transitional economies make a distinction among different kinds of unethical practices. For instance, bribes and kickbacks are more viewed differently than unethical business practices or tax evasion issues. The extent to which a business owner is unable to accept an unethical practice is often relative to the cultural milieu and norms that exists in a transitional economy.

H1a: An owner/manager of a family business in a transitional economy will be less accepting of unethical business practices.

H1b: An owner/manager of a family business in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

Family business dynamics involve a balance between business goals and family goals, and while these two goals overlap they are not congruent. Among those dynamics are the extent to which there is conflict among family members concerning decisions that affect the firm, and whether or not the founder is still active in the firm.

H2a: An owner/manager of a family business with an active founder in a transitional economy will be less accepting of unethical business practices.

H2b: An owner/manager of a family business with an active founder in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

H3a: An owner/manager of a family business that experiences conflict among family members in a transitional economy will be less accepting of unethical business practices.

H3b: An owner/manager of a family business that experiences conflict among family members in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

METHODOLOGY

The hypotheses will be tested with a questionnaire that surveyed 147 small businesses in Kosovo. In order to develop the research methodology, parts of previous surveys on family business dynamics and ethical business practices were used. In particular, the family business questions were an extension of a data base on family business across cultures and across generations (Sonfield and Lussier, 2004; Sonfield and Lussier, 2005). The questions on business ethics practices were adapted from previous work by Longenecker, et. al. (1989), in which unethical scenarios were described and the respondents indicated the extent to which they felt that the practice was unethical. Seven scenarios were described and in each case respondents indicated whether the practice was acceptable to them and whether it was acceptable in Kosovo. The 7 questions were subdivided into three broad unethical business practices: bribery, tax evasion, and unfair business practices. The questions were translated into Albanian, and back translation was used to ensure accuracy. Back translation is the recommended method of translating a questionnaire into a different language (Brislin, 1970). The sample of Kosovo businesses were collected using personal interviews in order to address any translation issues that arose. The businesses were selected based on personal relationships among the interviewers. Of the 147 businesses interviewed, 100 described themselves as family businesses.

RESULTS

In order to test the first hypothesis correlations between the seven ethics questions and family business ownership were examined. The following table shows the correlations:

Is it acceptable to lower reported income?	-.038
Is it acceptable to give the customs officer a bribe?	.022
Is it acceptable to bribe a government official to win a contract?	.043
Is it acceptable to mislead a buyer by claiming a product has higher quality?	.059
Is it acceptable to Import products and not pay custom duties?	.012
Is it acceptable to change the expiration date on a product?	-.090
Is it acceptable to lower prices to drive out competition?	-.024

None of these correlations indicated that there was a significant relationship between being a family business and ethical business attitudes.

The three hypotheses were then tested using correlations, and in each case three ethical measures were developed by combining some of the questions so that there were three broader ethical measures: bribery, tax evasion, and unfair business practices. Bribery combined questions 2 and 3, tax evasion combined questions 1 and 5, and unfair business practices combined questions 4, 6, and 7. The following table shows the correlations:

	Extent to which bribery was not acceptable	Extent to which tax evasion was not acceptable	Extent to which unfair business practices were not acceptable	Extent to which bribery was not acceptable relative to cultural norms	Extent to which tax evasion was not acceptable relative to cultural norms	Extent to which unfair business practices were not acceptable relative to cultural norms
Family Business	.052	.085	.066	.109	.249**	.136
Is the founder active?	.102	-.028	.045	-.059	-.116	-.044
Conflict among family members	.237*	.191	.244*	.255**	.183	.135

* = statistical significance > .05
** = statistical significance > .01

Although the results were generally not significant except for tax evasion, there is some support to indicate that family businesses were less accepting of unethical business practices, Hypothesis 1 received little support, although family businesses are less accepting of tax evasion relative to the cultural norms of Kosovo. The presence of the founder yielded mixed results, although none of them were significant. It is interesting to note that there was a negative correlation between the presence of the founder and the rejection of tax evasion, although this was not significant. Hypothesis 2 was not supported. The presence of conflict among family members over management issues correlated positively with less acceptance of unethical business practices, and the results were significant in the case of bribery and unfair business practices. Hypothesis 3 was confirmed by the data, although some results were weak.

DISCUSSION

Family businesses in Kosovo were studied to examine the relationship between a family business in a transitional economy and the ethical attitudes present in that business. Economies in transition provide an interesting opportunity to observe ethical behavior, especially among small businesses and family owned businesses. An economy in transition generally doesn't have the mechanisms in place to ensure restraint among small businesses that are operating for the first time with the latitude and choices associated with free markets. Even when restraints are in place they are difficult to enforce, and so smaller businesses often have to establish relationships that allow them to operate profitably and within guidelines that are often best described as moral codes. These circumstances present an interesting opportunity to study the relationship between family businesses and ethical attitudes. On the one hand, it's plausible that a family business, driven by the need to establish healthy relationships with other elements in the economy, would operate with an elevated sense of morality in the marketplace. On the other hand, survivability may very well result in a family business becoming an ethical laggard when compared to a non-family business.

The results of this study are mixed. When examining the issue of tax evasion, family businesses were more inclined to find tax evasion an unacceptable business practice, however, the results were not statistically significant. However, compared to the perceived cultural norms, a family business is significantly less inclined to perceive tax evasion as ethically acceptable. It is possible that there is increased acceptance of the role and benefit of government in a transitional economy among family businesses, given the importance of doing business in an environment free of organized crime, which is a serious concern in a transitional economy, and perhaps a more serious concern for a family business. It is also possible that a non family business is more driven by harsh economic realities, and tax evasion may be seen as more of a game to be played as long as the business can avoid detection.

Founders of family businesses are especially influential, and the role of the founder presents an interesting dynamic for analysis. Although the results were insignificant, the presence of a founder does yield a negative correlation on all three ethical constructs when compared to cultural norms. That is to say, although the respondents will view themselves in a more positive ethical light when compared to perceived cultural norms, the presence of a founder moves the business slightly closer to the perceived cultural norms. It can be presumed that a family business with a founder present may reflect ethical attitudes that were established during an earlier economic stage and under different economic circumstances. Thus, the tendency is to be an ethical follower instead of an ethical leader. This is just speculation, of course, and caution is in order since the results were not statistically significant.

Lastly, the presence of conflict within the family over the management decisions that affect the firm does influence the ethical attitudes of the firm in two of the three ethical constructs. The family business with conflict is significantly more likely to perceive bribery as unacceptable both in absolute terms and relative to cultural norms. Since bribery represents a cost of doing business, then a prudent business must assess the cost/benefit ratio of such a practice, and given the conditions of uncertainty that surround such a practice, one can imagine that conflicts over business decisions may lead to an aversion toward risk in general and bribery in particular. The presence of conflict also is associated with decreased acceptance of unfair business practices. Once again, conflict may have a homogenizing affect on business decisions, and this may lead to an avoidance of riskier business strategies. Unfair business practices can be less effective in the long run, and conflict may require a more disciplined and systematic decision process that yields stable and cautious results.

IMPLICATIONS AND CONCLUSIONS

Ethical practices are an important element of business success, both at the firm level and the macroeconomic level. This is especially true in a transitioning economy where laws and regulations are often lax and unenforced. Small business owners often set the ethical tone that guides the business practice of a small enterprise. This can be especially true in a family business that often has to combine and balance family goals alongside of business goals. Small business owners and especially family businesses in transitioning economies can benefit from an understanding of the role of family business in establishing ethical practices. Although the current study did result in some interesting findings, the relationships among the variables were weak even when they were statistically significant. The mixed results raise several questions that require additional study which would include other economies in transition, since the case of Kosovo is unique in terms of its development stage as well as its culture. Because transitional economies provide an interesting opportunity to study ethical attitudes, and because little has been done on the impact of family business dynamics on ethical attitudes in transitional economies, future studies are needed.

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THE ENTREPRENEURIAL ORIENTATION OF FAMILY MICROENTERPRISES IN MALAYSIA

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ABSTRACT

This study explores the entrepreneurial orientation of family-owned and non-family owned microenterprise businesses in Malaysia. Entrepreneurial orientation is evaluated in relation to family business, family microenterprise management, and economic and non-economic goals. Results showed that family-owned microenterprises were more proactive and used different business approaches than non-family owned microenterprises. Family businesses were more risk-averse and less innovative than non-family businesses, although these differences were not statistically significant. However, family businesses tended to outperform non-family businesses. Family businesses also tend to be more aggressive than non-family businesses when faced with insecure decision-making. Implications for future studies and public policy are discussed.
Keywords: Family Business; Microenterprises; Entrepreneurship; Emerging Economies, Malaysia

INTRODUCTION

The prominence and impact of family business on the economy is well recognized, contributing an estimated 70-90 percent of worldwide GDP annually (Family Firm Institute, 2009) and constituting the vast majority of businesses in nearly all nations (Anderson & Reeb, 2003; Astrachan & Shanker, 2003; Cromie, Stephenson, & Montieth, 1995; Donckels & Frölich, 1991; Morck & Steier, 2005; Morck & Yeung, 2004; Westhead & Cowling, 1998). In particular, emerging market economies are predicted to have even a higher percentage of family businesses due to the nature of their socioeconomic and financial structures. Although figures were not available specifically targeting emerging market economies, it is common that all members of a family are able contribute to the business. In general, family business research in emerging economies is sparse. However, in recent years family business research has transformed into a subject that has garnered increasing attention and interest (See Debicki, Matherne, Kellermans, & Chrisman, 2009, for a complete overview of the field). The same sparsity is true of the field of entrepreneurship. The field has only received serious attention in the last 30 years, which has led to a proliferation in growth in interest, programs, and research (Shane, 1997). Entrepreneurial orientation (EO) in family businesses has been examined in a number of studies (Cruz & Nordqvist, forthcoming; Lumpkin, Brigham, & Moss, 2010; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007; Zellweger & Sieger, forthcoming; Rosplock, Welsh, Roure, & Segurado, 2010; among others). However, EO has not been measured in family-owned microenterprises in emerging economies. The purpose of this paper is to measure EO in family-owned microenterprises in one rising emerging market economy-Malaysia.

The purpose of this research was to examine the level of EO in family business microenterprises in the emerging market economy of Malaysia and if business approaches vary in these businesses that could affect their economic goals. A survey was conducted on family and non-family owned microenterprises in Malaysia with 113 family businesses completing the survey. The article proceeds in the following manner: The first section describes the research that has been done on microenterprises, entrepreneurship and the family business as well on microenterprises in emerging countries. The second section of the article describes the methodology used to test our hypotheses. The fourth section describes the results of this analysis. The fifth section discusses conclusions and implications from the study.

THEORETICAL FRAMEWORK

Purpose of the study

To gain an insight into the factors contributing to successful performance in family business microenterprises and to identify how to assist family business microenterprises to grow, this study tested five hypotheses.

The findings enhanced and contributed to building more sustainable family business microenterprises in the country, as well as provide insights to government policy makers and administrators to formulate appropriate plans and policies. By understanding the factors effecting performance, programs to better prepare family business owners could be developed.

Family-Owned Microenterprises and Entrepreneurship

A search of the literature concerning various facets of entrepreneurship in relation to family business reveals a number of articles on the entrepreneurial processes, entrepreneurial opportunities, entrepreneurial orientation, entrepreneurial strategies, governance, founders, innovation, and the role of entrepreneurship in succession. Microenterprise family businesses were not identified as a separate category in a summary of family business research between 2001 and 2007 (Debicki, Matherne, Kellermanns, & Chrisman, 2009) nor in a review of the field by Sharma in 2004. To our knowledge, there has not been a study evaluating microenterprises in relation to the family business and entrepreneurship. Economic v. non-economic goals of the family firms is a topic that identified as sorely lacking (Debicki, Matherne, Kellermans, & Chrisman 2009) and closely tied to microenterprise development. From 2001-2007, their review found only eight studies, five of which considered economic goals. Family business performance was found to be better when attending to governance issues for both family (likely noneconomic goals) and business (economic goals) (Bascom & Rodriguez, 2009). What are the entrepreneurial orientations of family business microenterprises? Understanding the EO of family business microenterprises could have a major impact on public policy, and practice in emerging market economies. Additionally, understanding the economic goals of these family microenterprises could have a wider impact of raising the wealth level overall in emerging market economies.

EFSO Orientation

EO is also linked to the notion of family orientation (FO) and the tendency of owners to focus interest on family issues rather than business, in favor or reaching family goals over individual EO (Moog, Mirabella, & Schlepphorst, 2011). This study highlights the entrepreneurial family strategic orientation (EFSO) which combines the notion of EO for the family as a unit rather than as individuals. Chirico and Nordqvist (2010) focus on this same idea, evaluating the central role family members play within an organization thereby promoting or inhibiting EO and resulting behaviors. The sense of community influences social behaviors and performance, especially in emerging markets (Miller, Lee, Chang, & Breton-Miller, 2009), supporting the EO of family business and future success of the microenterprise business relative to family involvement in the firm (Casillas & Moreno, 2010). This notion of commitment exemplifies itself in the previous survey of small and medium sized Mexican businesses by De Clerq and Belausteguigoitia Rius (2007). In transitioning economies, Russian women-led family business demonstrates both the increased capacity and foundation for growth, renewal and sustainability due to women entrepreneurs and their ability to exploit the richness of resources in their environment while establishing strategies for superior performance of their business (Kickul, 2010).

Review of Literature

A major review of the literature between 1998 to 2008 found 37 articles focusing on entrepreneurship and family business in a variety of countries (Nordqvist & Melin, 2010). This review aims to define terminology within the text and search for understanding of entrepreneurial families and family business. Similarly, Lumpkin et al. (2010), look at the potential long-term orientation of family business. They link entrepreneurship to family business, and call for more empirical research on entrepreneurship within in these family firms and their role in promoting or suppressing entrepreneurship (Lumpkin, et al., 2010).

Entrepreneurial Orientation and the Family Business

In 1994, Hoy and Vesper, as well as Brockhaus, published papers describing entrepreneurship and the family firm as an emerging field of study. They extended Gartner's (1990) framework on entrepreneurship and applied family business to explore future research between the two fields. Four of the major topics have some applicability to our paper: the entrepreneur and the transfer of the founder's vision to the next generation, balancing risk among the next generation, implications of family on the growth v. profits, and strategies for achieving venture growth and family wealth, which would apply to the family office. The same year, Dyer and Handler (1994) also wrote an article on entrepreneurship and the family. These authors were the first that broached the topic of entrepreneurship and family business in the academic literature. Aldrich and Cliff (2003) suggested that the intersection of the family and entrepreneurship merits further research in terms of economic activity. While research has been limited, Steier (2007) found that economic activity is deeply embedded in social relations and that the entrepreneur must first get resources assembled to achieve his or her strategy; many of these resources are found in the family. This study attempts to fill the gap in the literature concerning EO of family businesses microenterprises in an emerging market country - Malaysia.

This study will reflect the thoughts of Habbershon & Pistrui (2002) and Habbershon, Williams, & MacMillan (2003) that stressed the importance of family influence in generating unique resources; and Naldi, Nordqvist, Sjöberg, & Wiklund (2007) highlighting the importance of an Entrepreneurial Orientation (Lumpkin & Dess, 1996) in attaining growth and wealth creation. Entrepreneurial Orientation is based on the strategic choice theory that refers to the processes, practices, and decision-making styles of businesses that act entrepreneurially (Lumpkin & Dess, 1996). For the purposes of this study, family business is defined as one in which the family influences and generates entrepreneurial resources that add value and contribute to generating returns to grow the family business. Additionally, family influence rather than family control has the effect of allowing for better exploitation of market opportunities and growing the family business (Sirmon, Arregle, Hitt, & Webb, 2008).

Entrepreneurship and Family Business in Malaysia

Family controlled firms are a great source of employment in many countries including Malaysia. The businesses play an important role in the economic development of Malaysia, contributing to more than half of the country's Gross Domestic Product (Ngui, 2002), and is perceived as the launch pad for home-grown capitalism, as well as opportunity to create wealth and being one's own boss.

Approximately 70% of Malaysian companies are family controlled (Claessens, Djankov, & Lang, 2000). Names such as Robert Kuok (Kuok Group & Kerry Group) also known as the "Sugar King," Lim Goh Tong (Genting Group Berhad) (now deceased, succeeded by Lim Kok Thay), and Yeoh Tiong Lay (YTL Corporation Bhd) are synonymous with successful family business. Thus, it is unsurprising that Malaysia's richest people listed in the '40 richest Malaysians 2010' as issued by the *Malaysian Business* in February, 2010 edition has ownership of/link to family businesses. Indeed, the list reflects that corporate wealth are in the hands of a few families. The founders of these businesses usually passed their business to their descendants often the son, but often watch from the sidelines as their successor learns the ropes.
Many listed firms in Malaysia are controlled by family and appear to be inherited by their own offspring (Abdul Rahman, 2006). Listed Chinese family businesses continue to achieve high levels of success, with the largest ten families in Malaysia controlling a quarter of the corporate sector. Over 43 percent of the main board companies of the Bursa Malaysia from 1999-2005 (Ibrahim & Samad, 2011) are family firms. Most of the family enterprises start off as small and simple businesses, with the first-generation founder transforming his early `rags' into riches (Ngui, 2002).

Amran and Che Ahmad (2010) study of Malaysia public listed family firms on the Main Board and Second Board of Bursa Malaysia (excluding banking and finance, and insurance sectors) over the period of 2003 to 2007 found that 33.3% of family firms are involved in industrial products, followed by 20% in the consumer products sector. The remaining sectors were properties (12.8%), trading services (12.3%), constructions (10.3%) and plantations (7.7%) while others sectors such as technologies, hotels, properties and infrastructure projects have seen a small involvement by the family firms.

Although the Asian family businesses seldom last beyond three generations (Ngui, 2002), some Malaysian family businesses have endured and successfully withstood the test of time.
Most are Chinese-owned and few are Indian-owned as most native Malays were then engaged in various smallholdings and other agricultural activities. Unlike Chinese-owned businesses, the Indian enterprises have remained basically one-store operations, with little expansion or diversification due to the entrepreneurs' largely conservative and cautious of business expansion. Few Malay family businesses have achieved the size of their non-Bumiputera counterparts.

Family business and performance

Relationship within the family influences business performance positively and significantly although planning and controlling are not at all associated with firm performance (Ismail & Mahfodz, 2009). Family ownership was positively related with firm performance, successors-managed firms have better firm performance than founder-managed firms, and professional manager do enhance firm performance (Amran & Che Ahmad, 2010). The director's education is negatively related with firm performance, while younger successors perform better than older successors (Amran & Che Ahmad, 2010)

In listed companies, the board size was found to contribute positively towards better performance in non-family companies although performance of family controlled businesses has a significant positive correlation with leadership structure and CEO tenure (Amran & Che Ahmad, 2009). Family and non-family businesses are different in terms of leadership structure and in the corporate governance practices (Amran & Che Ahmad, 2009). Family ownership businesses experience a higher firm value than non-family ownership businesses based on ROE (Ibrahim & Samad, 2011). Furthermore, firms that are involved in consumer products, constructions and infrastructure projects do enhance firm value, but trading services sector has a decreasing firm value (Amran & Che Ahmad, 2009).

On the other hand, the *Orang Asli* businesses are often either self-financed or family financed or some resort to loans from the middlemen (Abdul Jamak, Mahari, Saleh, & Abdullah, 2010). Their businesses are very small in scale and relatively uneconomic to be sustained in the long run (Abdul Jamak et al., 2010). Most of them are poorly educated and lack training skills (Abdul Jamak et al., 2010). Although some *Orang Asli* have the idea of expanding their businesses they are unable to do so due to lack of confidence, trust, and feeling inferior (Abdul Jamak et al., 2010).

METHOD

Data Collection

The sampling method employed for this research was an intercept survey whereby the business owners or managers were intercepted at the market, trading places, entrance to markets, and entrance to meeting places. This is the best sampling techniques given that it would be impossible to get a list of all microenterprises in the country. The six states identified for the intercept survey include Kedah, Kelantan, Trengganu, Pahang, Wilayah Persekutuan and Selangor. Sites selected include urban, rural and remote areas, taking into account there might be disparity in wealth, educational level, gender, power and other entrepreneurial factors that might influence the reasons for (1) starting up the business by the business owner, (2) buying or taking over of a business, or (3) other reasons leading to the ownership of a business.

Individuals were asked if they are operating a business, informed about the purpose of the study, and were asked whether they are willing to participate in the survey. Structured, face-to-face interviews were conducted with respondents who agreed to participate in the study so as not to exclude business owners who cannot read or write. Indeed, only a few respondents were comfortable enough to complete the questionnaire by themselves. Probing questions were asked to better understand the business environment and their role in the business. Respondents' name as well as the refusal rate was not recorded. Altogether 151 respondents answered *all* the

questions required for the study. Out of 151 respondents, 56 (37%) lived in urban areas, 53 (35%) lived in rural areas and 42 (28%) lived in remote areas.
In order to fully understand EO, risk taking attitude, performance in family firms, we conducted our field research in person from July 2009 – October 2009. A postal survey was ruled out as Chan (2010) indicated that many microenterprise owners in Malaysia have received little education. Furthermore, unregistered businesses or newly set up businesses would be excluded from a postal survey. Thus, both registered and unregistered microenterprises were included in the study. No maximum number of employees was set since the business must exceed annual sales turnover of more than RM 200,000 a year to be considered a small-and-medium sized business. To cover the differences among the business owners engaged in diverse businesses, male and female business owners or managers were chosen to reflect a good cross-sectional study, although criteria such as age, marital status, social position, and income level were not considered.

A questionnaire consisting of three sections on microenterprise family business and EO was distributed. Part one consists of questions relating to demographics; Part two contains questions on Entrepreneurial Orientation, Risk taking, and Performance in family firms; while Part three contains questions regarding small business factors and microenterprise development. Specifically, questions related to Performance were adapted from Wiklund and Shepherd (2005), while questions related to Heterogeneity were adapted from Miller and Friesen (1982) and questions related to Innovativeness, Proactiveness and Risk Taking were adapted from Covin and Slevin (1989). The questions on Part two were based on a 5-point and 7-point scale while questions relating to management issues in Part three utilized a `0 to 100' scale.

A questionnaire designed by Zinger, LeBrasseur, and Zanibbi (2001) was also utilized to measure microenterprise development in Part Three. It consisted of five sections: background information, financial resources, the utilization of outside assistance and training (both professional and government), a series of questions pertaining to management practice and two self-reported performance items. In order to fully understand the entrepreneurial orientation, risk taking attitude, performance in family firms, and the factors influencing small business success, an empirical survey was conducted.

Sample

Convenience samples of 245 small business people in Malaysia were asked to participate in the survey. The sampling method was an intercept type survey conducted in a number of locations, including markets, trading places, and meeting places in six states in both rural and urban settings. Respondents were screened as currently operating a business. A few respondents completed the survey themselves, but most were completed in personal interviews, as literacy levels varied a great deal. One hundred and fifty one individual completed the entire questionnaire, resulting in a response rate of 61.6%. Of these 151, 113 (75%) indicated they were involved in a family business.
One-hundred and sixteen (76.8%) of the respondents were female and 35 (23.2%) were male. A majority (65.6%) of the microenterprise family business owners were 36-55 years of age. Four (2.6%) were 19-25 years of age, 13 (8.6%) were 26-35 years of age, 29 (19.2%) were 36-45 years of age, 70 (46.4%) were 46-55 years of age, 26 (17.2%) were 56-65 years of age, 8 (5.3%)

were 66-75 years of age, and one (.7%) was older than 75 years of age. In terms of education, 50 (33.1%) had an eighth grade education or less, 93 (61.6%) had a high school or secondary schooling, 2 (1.3%) had special technical school or trade school training, 1 (.7%) had completed some college, and 5 (3.3%) had graduated from a college or university. Fifty-six respondents live in an urban setting, 53 in rural settings, and 42 in remote areas.

In terms of the business, slightly less than fifty percent (49.7%) were not registered business owners at the time of the survey. Slightly more than half (51.7%) had employees working for them. One-hundred thirty-seven of the respondents identified themselves as owners (90.7%), ten as managers (6.6%), three as hourly employees (2%), and one as the general manager (.7%). Years in the present business ranged from six months (1.3%) to 50 years (1.3%). Sixty-two respondents had no employees (41.1%), while 30 (19.9%) had one employee, 22 (14.6%) had two employees, and 12 (7.9%) had three employees. One business had 16 employees. One-hundred thirty-two (87.4%) respondents said that it was their first microenterprise business, while only 19 (12.6%) said it was not.

One-hundred thirteen (74.8%) responded that they were family businesses and 38 (25.2%) said they were not. Thirteen respondents (8.6%) had no immediate family members in the business, 40 (26.5%) had one family member, 51 (33.8%) had two family members, 24 (24%) had three family members, 10 (6.6%) had four family members, 7 (4.6%) had five family members, 2 (1.3%) had six family members, one (.7%) had seven family members, two (1.3%) had eight family members, and one (.7%) had thirteen family members actively involved in the business. Concerning relatives in the business, almost half the respondents (75 or 49.7%) had no relatives in the business. Twenty respondents had one relative involved in the business (13.2%), 24 (15.9%) had two relatives, 14 (9.3%) had three relatives, 5 (3.3%) had four relatives, 4 (2.6%) had five relatives, 4 (2.6%) had six relatives, one (.7%) had eight relatives, two (1.3%) had ten relatives, one (.7%) had 13 relatives, and one (.7%) had 20 relatives involved in the business. First generation family businesses consisted of 112 (74.2%), while 33 (21.9%) were second generation businesses. Six (4%) were third generation businesses.

Measures

The survey consisted of a demographic section and questions concerning Entrepreneurial Orientation, Risk taking, and Performance in family firms. Specifically, questions related to Performance were adapted from Wiklund and Shepherd (2005) while questions related to Heterogeneity were adapted from Miller and Friesen (1982) and questions related to Innovativeness, Proactiveness and Risk Taking were adapted from Covin and Slevin (1989). Answers were based on a 5-point and 7-point scale Likert Scale.

Hypotheses

H_1: Family Business Microenterprises will be more proactive than non- family business Microenterprises.

H_2: Family Business Microenterprises will be less risk taking (more risk adverse) than non-family microenterprises.

H_3: Family Business Microenterprises will be less innovative than non-family Microenterprises.

H_4: Family Business Microenterprises will be higher performing than non-family Microenterprises.

H_5: Family Business Microenterprises will have higher heterogeneity than non-family Microenterprises.

RESULTS

H1: Family Business Microenterprises will be more proactive than non- family business microenterprises

This hypothesis is supported by correlation analysis (See Table 1) and by t-tests for differences between means (See Table 2).
Correlation analysis indicates that family businesses are more highly correlated with Proactiveness than non-family businesses (P<.01). A t-test comparing means of Proactiveness indicates family business Proactiveness means are significantly greater than means of non-family businesses (P<.01). These results support the first hypothesis.

H2: Family Business Microenterprises will be less risk taking (more risk adverse) than non-family microenterprises

Both correlation analysis and t-tests of means were not significant. This hypothesis is not supported, although it is in the hypothesized direction.

H3: Family Business Microenterprises will be less innovative than non-family microenterprises

Both correlation analysis and t-tests of means were not significant. This hypothesis is not supported, although it is in the hypothesized direction.

H4: Family Business Microenterprises will be higher performing than non-family microenterprises

Correlation analysis indicates a positive relationship between Performance and family businesses (P<.05). t-tests of differences between means confirms that family businesses perform higher than non-family businesses (P<.05). This hypothesis is supported.

H5: Family Business Microenterprises will have higher heterogeneity than non-family microenterprises

Correlation analysis of family business with heterogeneity is positive, but not significant. Likewise, family businesses had higher means of heterogeneity than did non-family businesses, but the difference was not significant. This hypothesis is not supported, although it is in the hypothesized direction.

DISCUSSION

Conclusions

An earlier study by Amran and Ahmad (2009) revealed no difference in performance for family-controlled businesses and non-family controlled businesses listed in the stock exchange of Malaysia from 2000 to 2003. In contrast, our study showed that the growth of family-owned microenterprises is positively related to the growth of company compared to non-family business. Additionally, the growth of company is related to the cash flow and sales. This suggests that (1) microenterprises with access to funding can grow at a faster rate than those without financial support; and (2) family-owned microenterprises owners are more committed to grow the business.

There appears to be no correlation between innovativeness because the owners developed the business on a micro or small scale; are very cautious about making safe decisions since cash could be tied to new products that may sit on the shelf for a long time, thus they prefer to carry fast moving (safe) items in their store (which translate to increase cash flow and profit).
Family business owners have the *commitment* to see that the business is in that hands of the next generation, so they have the motivation to expand the business while non-family business do not have that commitment. Non-family businesses faced insecure decision-making situations. One possible reason is that the family-own businesses consult their family and clan members before making the decision reason.

RECOMMENDATIONS FOR FUTURE RESEARCH

Given that this is among the first study on Malaysian family-owned microenterprises, future research in Malaysia is warranted and could include the following:
Worldwide comparisons of family-owned and non-family owned microenterprises in terms of success factors in relation to demographic variables including ethnicity and education level are needed. Specifically for Malaysia, it is commonly known that the Malaysian Government has various supporting mechanism and policies for entrepreneurs, and especially the *Bumiputeras*. It is also common knowledge that the majority of loans for microenterprises were targeted to the *Bumiputeras. (*For instance, the majority of micro-loans beneficiaries in the rural and urban areas are *Bumiputeras* leaving many questions regarding microenterprises development unanswered. The support from agencies includes loans, facilities, training and advice. All these may be absent/harder to access for non-*Bumiputeras*.) Such studies may provide further insights useful in entrepreneurship development in the country.

Decision making process in family-owned and non-family owned microenterprises should be explained. Future researcher may want to compare such process through in-depth personal interviews with the enterprises owners, and in particular, probe questions related to management of finance since the family wealth of the microenterprise owners are closely linked to the enterprise.

Implications

The findings from the survey suggest that: (1) business approaches used by family-owned microenterprises differed to a slight extent from those of non-family owned, (2) family enterprises in Malaysia have shown an entrepreneurial trait relating to proactiveness. It may warrant further study to explore the implications of Entrepreneurial Orientation broader country setting and if the subscales are the same throughout various regions of the country, countries could also be compared and contrasted which could influence assistance and best practices.

TABLES

Entrepreneurial Orientation

Table 1a: Correlations (N=151)

	Family business	**Risk Taking**	**Proactiveness**	**Innovativeness**	**Heterogeneity**	**Performance**
Risk Taking	-.092	1	-.529**	.412**	-.176*	.031
Proactiveness	.224**	-.529**	1	-.433**	.321**	.321**
Innovativeness	-.072	.412**	-.433**	1	-.120	-.140*
Heterogeneity	.040	-.176*	.321**	-.120	1	.147*
Performance	.147*	.031	.321**	-.140*	.147*	1

*P<.05; **P<.01 (one tailed)

Table 1b: t test of Means

	Family business	**N**	**Mean**	**t**	**P***
Risk Taking	No	38	6.0088	1.13	.13
	Yes	113	5.6947		
Proactiveness	No	38	1.9298	-2.81	.00
	Yes	113	2.6578		
Innovativeness	No	38	5.7105	.88	.19
	Yes	113	5.4602		
Heterogeneity	No	38	3.5789	-.48	.31
	Yes	113	3.7080		
Performance	No	38	3.3421	-1.18	.04
	Yes	113	3.6040		

* One tailed

Table 2
Family Business correlations and Entrepreneurial Orientation subscales.

	Q7.Family business	Risk Taking	Proactiveness	Innovativeness	Heterogeneity
Q7.Family business	1				
Risk Taking	-.092	1			
Proactiveness	.224[b]	-.529[b]	1		
Innovativeness	-.072	.412[b]	-.433[b]	1	
Heterogeneity	.040	-.176[a]	.321[b]	-.120	1
Performance	.147	.031	.321[b]	-.140	.147

a) p < .05
b) p<.01

Family businesses were correlated with Proactiveness (p<.01).
Cross Tabs using a median split for Proactiveness (2 and lower =1, >2=2) resulted in the following cross tabulation.

Table 3
Proactiveness Cross-tabulation

Count		Q7.Family business		Total
		No	Yes	
Collapsed	1.00	30	57	87
Proactiveness	2.00	8	56	64
Total		38	113	`151

$X^2 = 9.46$, p=.002
The cross tabs indicate a significant difference between high and low levels of Proactiveness, with more family businesses at the higher end of the scale.

Table 4
Family Business, Profit, Growth and Cash Flow.

	Q7.Family business	Q16.Net profit	Q17.Growth of company	Q18.Cash flow
Q7.Family business	1			
Q16.Net profit	.063	1		
Q17.Growth of company	.184[a]	.750[b]	1	
Q18.Cash flow	.106	.759[b]	.694[b]	1
Q19.Sales	.173[a]	.794[b]	.699[b]	.746[b]

a) p < .05
b) p<.01

In the table above we see that a family business is positively correlated with growth of company, compared to non-family businesses. There are several other significant correlations, as well.

Table 5
Correlations of family business with Heterogeneity items

	Q7.Family business	Q20.Buying behavior	Q21.Competition
Q7.Family business	1		
Q20.Buying behavior	.025	1	
Q21.Competition	.000	.773[b]	1
Q22.market fluctuations	.083	.608[b]	.701[b]

a) $p < .05$
b) $p<.01$

The table above shows no relationship of family business and heterogeneity items.

Table 6`
Correlations of family business with innovativeness items

	Q7.Family business	Q23.Our business prefers	`Q24.New products introduced
Q7.Family business	1		
Q23.Our business prefers	-.078	1	
Q24.New products introduced	-.065	.009	1
Q25.Changes in products	-.067	-.043	.665[b]

a) $p < .05$
b) $p<.01$

Family businesses do not appear to be correlated with Innovativeness items.

Table7
Correlations of family business with Proactiveness items

	Q7.Family business	Q26.Relation toward competitors	Q27.Introduce new products
Q7.Family business	1		
Q26.Relation toward competitors	.216[b]	1	
Q27.Introduce new products	.201[a]	.764[b]	1
Q28.Competitiveness	.173[*]	.591[b]	.596[b]

a) $p < .05$
b) $p<.01$

Family businesses do seem to be correlated with all of the Proactiveness items.

Table 8.
Correlations with Risk Taking items

	Q7.Family business	Q29.Generally our business	Q30.Generally we believe
Q7.Family business	1		
Q29.Generally our business	.095	1	
Q30.Generally we believe	.075	-.223[b]	1
Q31.Insecure decision making	-.209[a]	-.433**	.594**

a) $p < .05$
b) $p<.01$

Family businesses are negatively correlated with Q31. Insecure decision making. This item was coded so that an aggressive position was lower than a cautious position. Thus, family businesses seem to be more aggressive than non-family businesses when faced with insecure decision-making situations.

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SMALL BUSINESS PROCESSES:
THE UTILIZATION OF MANAGEMENT TECHNIQUES AND THEORIES

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ABSTRACT

The purpose of this study was to analyze management techniques, and theories that are more commonly practiced in big businesses, and see how these management techniques, and theories can be carried over to small business structures to benefit in the overall success of the business. The management techniques and theories which were examined include organizational learning processes, development theory, conflict management strategies, knowledge management, organizational transformation, leadership, collaborative learning, innovation evaluation, and the balanced scorecard method. Small business owners of today need to take on a big business mindset in order to gain a competitive edge in the marketplace.

INTRODUCTION

Dan et al. (2010) showed that the small business networks assist in making up the majority of main enterprises in the world. Small businesses take part in the 99% of all enterprises combined worldwide, alongside medium businesses. These two types of business infrastructures generate 55%-95% of the Gross Domestic Product (GDP) in every country, provide jobs for the locals, and generate innovative products. A number of advantages relative to being a small business include, employing a smaller number of people, simple management structures, and the flexibility to change within the external environment with an entrepreneurial flair, allowing for, quicker growth and development, while coincidentally maintaining intense interpersonal relationships with greater connectedness.

This paper will look at several management techniques and theories, and how these techniques and theories apply to the small business sector. The management techniques and theories that will be addressed are organizational learning processes, development theory, conflict management strategies, knowledge management, organizational transformation, leadership, collaborative learning, innovation evaluation, and the balanced scorecard method. Many of these methodologies are practiced widely within large organizations, however, this paper will give practical analysis on how these management techniques and theories can also be applied to small business structures to assist in the day-to-day operations, and for successful long-term growth initiatives. The term success, within this paper, is identified as a small business organization that encourages ideas, and innovation within the products developed, and the employees cultivated and nurtured.

THE ORGANIZATIONAL LEARNING PROCESS AND SMALL BUSINESS

The organizational learning process is comprised of three levels. The first level is single-loop learning. Within this low-level of learning, the organization makes minor adjustments to the company's products and services only at the operational level. Essential factors in the organization, such as, corporate culture and values go unchanged. Typically change at this level is only personified by regulation or stakeholder requests. The second level comprising the double-loop learning process is a procedure which reframes organizational problems, and searches for underlying issues with alternative solutions. This success is further exemplified through impressive bottom-line results. Argyris and Schon (1978, 1996) explained that the double-loop learning process is the ability for organizations to analyze the politics, values, and suppositions internally and to have the means and wherewithal to modify these organizational issues effectively to maximize results. The third level is the triple-loop learning process, or deutero learning. This level takes the organizational learning process towards the highest step of organizational learning. Within the deutero learning process, this type of learning's goal is to improve the organization's learning processes internally from all angles. An organization operating at this learning process level will learn from past business mistakes, and seek out these mistakes, to improve upon current, and future organizational core values, principles, and policies. An organization in an active deutero learning process level has company sustainability in the marketplace as a top priority (www.infed.org; Dan et al., 2010; Siebenhuner and Arnold, 2007).

Start-up organizations face many obstacles on the road to success, and most new start-ups will fail within the first five years, however, higher-order learning organizations pose the best opportunity to thrive and succeed in the marketplace. Learning organizations are continually seeking information, brainstorming for creative product or service ideas, equally reinforcing leadership strategies into the organization for effective employee mentoring, and training endeavors, as well as, developing good quality communication lines to minimize complex barriers (Dan et al., 2010).

The learning process can be broken down further into three key components for today's small businesses. The first component is external sources knowledge acquisition. This is essential when the organization creates effective bonds, and business partnerships throughout the community, which in turn aids in the overall success of the company exponentially. The second component is knowledge transformation. With knowledge transformation the owner will utilize the talents of his/her staff to create lesser dependence on management personnel. This cultivates employee empowerment by way of mentorships, cultivation, and nurturing of the employee base. The final component is knowledge conversion. This refers to businesses exploring new ideas which will allow the company to grow, and succeed, in an ever-changing environment. Human resource development is an additional component that small businesses need to impose, whether with individual training, and development among key personnel, or empowerment, and mentoring strategies to create confidence within each individual's staff role. The development of key constituents in the organization will allow a small business to maintain organizational growth, and meet business goals by cutting down on employee turnover which can be a problem for small businesses (Dan et al., 2010).

DEVELOPMENT THEORY AND SMALL BUSINESS

Development theory can be a utilization tool to analyze different leaders within an organization, as shown by Rooke and Torbert (1999). Development theory acts as a headway model within organizations, and the employees on staff. Each stage has to be successfully reached before moving onto the next stage. The differing stages, in which a manager can be functioning in, from beginning to end, are an opportunist, diplomat, expert, achiever, strategist, and magician/witch/clown. Double-loop learning occurs at the strategist level. Although still not at the highest level of triple-loop learning, or deutero learning, within this level, the manager seeks to create a shared vision, ethical, and fundamental resolutions of conflict, and timely performance of organizational goals. These endeavors are further maximized through creative, double-loop, reframing modes of feedback. Successful learning leaders, and organizations, are continuously in-tune with this transformational process. Today's small businesses have to master this change process through a long-term linkage of funding to the percentage of return on investment that comes through innovative works to allow for greater business opportunities.

Conflict Management Strategies and Small Business

The various conflict management strategies which can be utilized by small businesses are organizational transformation tactics, development theory, collaborative learning efforts, boundary-spanning skills, knowledge management, innovation evaluation, and systems approach. These conflict management strategies lean toward the integrating conflict management style (Rahim, 2011). The integrating style of conflict management has a high concern for self, and others, and is known for promoting problem-solving sessions between parties. It embroiders a win-win approach. The integrating style involves collaborative efforts, openness of ideas, exchanges of information, and examination of differences to reach a reciprocally desirable solution (Talisayon, 2011; Basadur & Gelade, 2006; Rooke & Torbert, 1999; Digenti, 1999; Brazeal & Herbert, 1998). Small business owners need to be particularly wary on the appropriate conflict management style to facilitate in the business. It can make or break an organization's effectiveness across the constituent levels of accommodation. The integrating style is a win-win approach that can be used not only within a large corporation, but also within small businesses of today.

KNOWLEDGE MANAGEMENT AND SMALL BUSINESS

Today's small businesses have to be budget conscious, willing to adapt within a changing environment, and highly flexible in management, and marketing efforts. Basadur and Gelade (2006) argued that organizational effectiveness is derived from three explicit characteristics. These characteristics are efficiency, adaptability, and flexibility. Efficiency allows a business to implement, and follow routines. Adaptability is the ability to change an organization's routine process. Flexibility allows the organization to react swiftly to unforeseen events. Small businesses are highly fixated on how to strategically market their products or services. However, advertising is not cheap, thus managing through efficient means can allow a small business to stay within structured marketing budgets until the business has a bigger cash flow to utilize. Small businesses need to be adaptable, and operate with a thick skin in order to surpass naysayers, and under miners in the community, and the industry at large. Having the courage to be flexible in small business operations is essential to sustaining a community, and industry-wide presence.

Knowledge management is essentially a knowledge sharing component. Knowledge management is converting the knowledge from human capital into explicit knowledge, or electronic information appropriate for storage, and transmission. Three components are critical to knowledge assets. These components are human, structural, and stakeholder capital. Human capital is individual skills, creativeness, work attitudes, and values that are found within each and every employee. Structural capital is databases, libraries, intranet systems, business and work processes, the company vision, its strategy, and the overall organizational culture of the company. Stakeholder capital is customer loyalty, supplier networks, and the company's overall strategic alliances. Knowledge management is dispersing company information in a timely fashion, and positioning team members' ideas, and suggestions into action to advance the underlying organizational performance. Within small businesses, timing is essential in building local relationships and servicing clients, as well as, getting and keeping the word out in the community among business rivals (Basadur & Gelade, 2006; Talisayon, 2011). Technologically, a small business can suffer with minimal funds to operate a high-tech company intranet system. However, it is worth the investment to have modern, up-to-date technology running and operating a small business. It can minimize sales and management complications in both the short- and long-run.

Organizational Transformation and Small Business

Rooke and Torbert (1999) stated that organizational change is not a stress-free endeavor, and a big portion of this change is due to the specific types of leaders that are managing today's small organizations. If managers are not effective leaders in implementing change, even with adaptable and willing employees, the organization is likely to become sluggish in its operations. Strong leadership is even more critical if the change process involves new ideas, norms, or practices. A recent study argued that organizations prosperous at creating the change progression partook in upper executives containing a particular set of traits. These traits included differing ways of reframing particular situations to offer insightful information, voluntary initiative structures to promote creative endeavors, a shared vision with all stakeholders involved, team learning groups, discovery, and transformation, of potential mental models to be used, and the development of staffs' personal, and professional goals. Small business owners need to be aware of the leadership stance they are using to lead the company.

LEADERSHIP AND SMALL BUSINESS

Leadership is a process by which an individual has the ability to influence an individual, or group of individuals, to achieve a common goal (Northouse, 2007). This is so important in today's small businesses. Many small businesses are operating day-to-day, and need effective leadership to catapult the organization into greater heights, and profits. Often times what can happen in small organizations is that managers are too fixated on establishing agendas for staff, setting deadlines for task responsibilities, figuring out how to properly allocate resources, providing structure, hiring and firing of personnel, establishing rules and policies, developing incentives, and taking corrective action as needed. The problem with this strategy is that additional important initiatives may become compromised, such as, creating a clear vision for the followers, collaboratively communicating goals, building teams and coalitions, as well as, inspiring, motivating, and energizing key personnel.

So what is the best leadership approach that a small business owner can actively portray? Northouse (2007) argued that the transformational leadership approach is a highly effective leadership style that contains four main areas. These areas are inspirational motivation, idealized influence, intellectual stimulation, and individualized consideration. All four factors can be used based on a particular situation. Inspirational motivation is a leadership style that communicates high expectations for its followers, which gains commitment, and buy-in, by way of inspiring a shared vision. The idealized influential leadership style describes a leader who acts as a strong role model for the subordinates. These leaders behave with high moral and ethical integrity. An intellectually stimulating leader will challenge the followers' creativity works, and innovative nature, thus allowing for an established pace of proactive production. Lastly, the individualized consideration leadership approach provides a supportive and respectful climate, among the followers, by way of coaching, and mentoring. Small business owners of today need to incorporate transformational leadership approaches, in place of transactional approaches. Northouse (2007) explained that one aspect of the transactional approach to leadership is made up of managing a workforce by simply exchanging a work opportunity with a paycheck. It is a tit for tat approach of leadership in which a follower is basically rewarded by following through with specific requests made by the leader. No common vision is shared; no effective collaboration of goals is communicated, nor is any empowerment endeavors initiated.

Collaborative Learning and Small Business

Collaborative learning is the relations of two or more people involved in value based activities based on improving, practicing, and transferring learning abilities both within the group, the organization, or group of organizations, in which a group is a member, as shown by Digenti (1999). Collaborative learning, generated as a core competency, involves the capacity to coordinate diverse production skills with the assimilation of effective technological systems. Additional identifying core competencies, with respect to collaborative learning, are gaining access to a wide variety of markets, incomparable customer service, and strategically positioning the company making it difficult for competitors to emulate. Within today's small businesses it is more important than ever for the owner, management, and staff to fuel collaborative efforts to keep the business vital and strong.

Virtual reality environments are aspects of collaborative efforts which are changing the look of organizations today. The impacts of technology, and new organizations, are growing through the use of online videoconferencing programs such as with Skype, which assists in creating a virtual home office. This ever-changing technological age is an indispensable component managers can use to promote collaboration in the workplace. It is projected that forging ahead, the average worker will spend a vast portion of the day working from a virtual office environment. This is especially true of small business owners who spend a vast majority of their time conducting business from afar from a home office. Reputable organizations' product strategies, and configurations, will become archaic if managers do not shift the focus from structure, planning, and bureaucratic mechanisms, to the implementation of flexible learning environments. These technological advancements permit employees to communicate faster and effectively, to reach daily goals, and objectives as suggested by Digenti (1999). Although technology implementation can be a major expense for small business, it is imperative towards effective operations. Small businesses do typically turn to more economical measures, such as QuickBooks, email, and the internet to assist in day-to-day operations; however, having the ability to implement technology such as a high-tech point-of-sale (POS) system could easily streamline operations into faster and profitable results.

Collaborative goals within an organization can be assessed by analyzing the company's culture, interviewing team members, and getting opinions regarding the collaboration process used, or not used, within the company. Creating awareness on collaboration strategies can be achieved through internal publications, training sessions, executive presentations, and office gossip. Examining current employee relationships, and analyzing data on specific programs implemented within the organization, can gain a better understanding in areas in need of improvement regarding collaboration, and team-building efforts. A collaborative culture entails:

A set of core values shaping business behavior, including respect for people, honor and integrity, ownership and alignment, consensus, trust-based relationships, taking full responsibility, and accountability of actions with recognition and growth (Digenti, 1999).

Boundary spanning is a skill that supports collaborative learning by the organization developing a shared vocabulary, boundary-crossing skills, and becoming actively engaged in collaborative learning projects. Internally, managers work in multiple boundary-spanning situations every day. A manager's daily agenda can be comprised of meeting with different functional task teams in areas, such as, marketing, financials, operations, or human resources, for example. Within small businesses, the owner could easily be wearing all of these hats at once. Externally, managers need to address the uncertain demands of customers, and suppliers, who today have an avid stake in company operations. Boundary-spanning skills are a utility of the double-loop learning process. Boundary-spanning skills involve organizational learning, acknowledging operative intercultural relationships, negotiation matters, systems thinking, and peer mentoring systems. Systems-thinking is a way of facilitating people in an organization to view company systems from a wide-ranging perspective. This perception includes seeing overall structures, configurations, and cycles engaged in a system, rather than solely seeing unambiguous events happening in the system. This broad view mindset can help an employee detect the real causes of problems in an organization, and know just where to start to overcome these obstacles (Digenti, 1999; www.managementhelp.org). Boundary spanning is an easier skillset to learn within a small business environment due to the size of the operations involved, however awareness of this ability is crucial in the span being implemented and understood effectively.

INNOVATION EVALUATION AND SMALL BUSINESS

A correlation does exist between employee attitudes, and performance, through the use of skunk work operations as suggested by Brazeal and Herbert (1998). This process of reorganized innovation gives employees accountability, and flexibility, on creative efforts, and organizational outcomes. Skunk work operations can be obtained in small business structures. Moreover, the double-loop learning process is used in organizations from top management teams who collectively expedite entrepreneurial activities pursued at lower levels of the organization. Top leadership traits that cultivate creative warehouses include establishing a company culture of opportunists, chancers, evaluators, and innovators. This entrepreneurial spirit is a recognized competitive edge any organization can have in its culture. This is essentially a philosophy of keen innovation, and evaluation of ideas, products, and strategies. Innovation is essential in helping small businesses to grow, prosper, and adapt to the changing needs of their customers.

In small business, new product development is critical to allowing the company to maintain itself, and grow beyond current year statuses. Today’s marketplace is rapidly changing and companies’ are pressured to compete with rivals at high levels, keep up with technological advancements and obsolete measures, shortened product life-cycles, and the need to meet the demands of sophisticated customers as indicated by Liepe and Sakalas (2008). Cultivating new product ideas does not simply start with the submission of an actual idea, but rather, this information has to be relayed within the existing organization in an understandable way. Today’s business environment is a complex apparatus that entails companies being flexible, adaptable, and adept to learning.

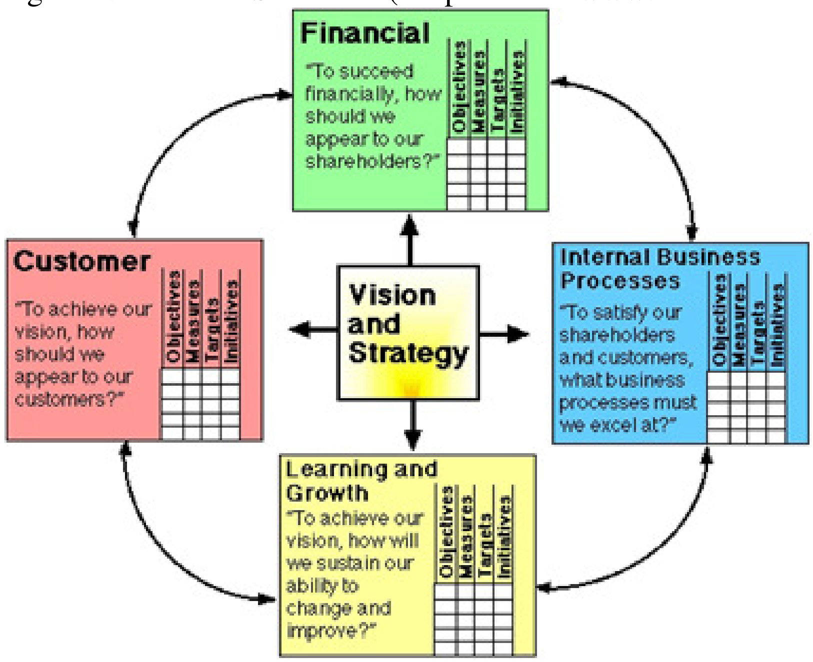
There has already been a linkage proven between organizational learning and new product development as indicated by Liepe and Sakalas (2008). How does organizational learning and the double-loop learning process cultivate new product ideas and innovation? Companies today have to swiftly identify customers’ needs and address those needs and wants with new products and services to stay abreast in the marketplace. Company-based constituents need to have vision and clarity regarding these new product ideas, but more importantly the implementation of these new product ideas which contains communication the vision towards an urgent need to act. Employees who do not have the wherewithal to communicate the vision process will hinder organizational learning, and therefore decrease company-wide effectiveness. It takes a certain skill to create an idea, yet it takes a heightened skill to communicate and implement the idea. Within the double-loop learning process, a keen sense of awareness and reflection is taking place regarding the overall business processes and outcomes involved in the change catalyst. If done correctly, behavioral changes are rectified thereby transforming values, strategies, and corporate culture. Triple-loop or deutero learning is the most advanced style of learning. Within this learning process, organizations can improve upon principles and rules utilizing past experiences as a learning gauge. Within triple-loop learning unceasing opinion is sought and the process emphasizes long-term orientation. Triple-loop learning is more of a strategic mind-set. New product development requires learning and communication on various levels from product idea to product launch and onward to sustainability.

Perrin (2001) stated that a criteria to evaluating innovation is to consider the Pareto Principle, or the 80-20 rule, which states that 80% of the benefits come from 20% of one’s efforts, 20% of projects are responsible for 80% of the problems, 80% of benefits arise from 20% of projects, and 20% of innovative attempts will work out as planned, whereas 80% will fail. Further evaluators include using a systems model approach. A systems approach explores the dynamics of the innovation, and information creation process as a whole. This is particularly helpful when critiquing far-reaching innovations.

THE BALANCED SCORECARD AND SMALL BUSINESS

The balanced scorecard is a framework that helps organizations to implement a vision with strategic bases from a particular criteria set. The criterion includes such focuses as financial, customer, internal business processes, as well as, learning and growth (see figure 1: Balanced Scorecard).

Figure 1: Balanced Scorecard (adopted from www.balancedscorecard.org)



Whereas before the balanced scorecard model was primarily looked at from large corporations, increasingly today, small businesses are utilizing the framework to get a handle on company operations and directives, particularly in small project-based endeavors. Small businesses who utilize the balanced scorecard get clear information on key performance indicators that affect the company's' financials, customer base, internal business processes, as well as, learning and growth initiatives. These four areas are just as critical, if not more, on the smaller scale as companies look for ways to create momentum and sustainability in the marketplace (Rillo, 2005).

IMPLICATIONS

The implications of my research to scholars and practitioners is examining how typical management techniques, and theories, such as, organizational learning processes, development theory, conflict management strategies, knowledge management, organizational transformation, leadership, collaborative learning, innovation evaluation, and the balanced scorecard method, that are more commonly applied to large businesses, can be practiced, and utilized to gain a competitive edge in small business structures of today. This paper has identified several management techniques, and theories, in which future instrumentation methodologies can be created to quantitatively study, and analyze these techniques, and their effectiveness, within the small business sector. Scholars can now further incorporate these management techniques, and theories into entrepreneurship, and small business management courses geared specifically towards the success of the small business's day-to-day operations. Furthermore, practitioners alike can use this information to conduct further research analysis, which will quantify, and challenge research hypotheses, in regards to, these specific management techniques, and theories, as they relate to small business structures.

CONCLUSION

Today's small businesses are faced with many challenges, from meeting the high demands of sophisticated customers, to maintaining funds to sustain in the marketplace. Employee issues are prevalent, leadership issues are prevalent, and growth endeavors are challenged on a daily basis. What are big businesses doing that small businesses can use in order to gain a competitive edge in the industry? Often time's big businesses are on the forefront of research, and analyzing efforts, due to huge gains in the marketplace, and favorable brand equity. For example, the home-based garage company that turned into a multi-billion dollar company almost overnight seems to offer more pizazz and intrigue. The mom and pop store down the street who has had its best year to date does not make the national news, yet the strategies and craftsmanship that was utilized in that organization may have similar overtones as the big Wall Street Journal company that just went public. This paper looked at several different management techniques, and theories that are commonly applied in big business, such as, organizational learning processes, development theory, conflict management strategies, knowledge management, organizational transformation, leadership, collaborative learning, innovation evaluation, and the balanced scorecard method, and researched how these apparatuses can be parleyed into the small business arena for successful gains. Yes, by way of comparison, the employee count is lower, the profits are lower, the square footage on the storefront is lower, but yet there can be similarities in how the owner, or manager, decides to run the business basically on a smaller scale as big business operations. With the incorporation of these management techniques and theories, owners and managers of small businesses have the power to empower and inspire their staff to greater heights, and to maintain sustainability in the marketplace on the way up the industry ladder.

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MICROENTERPRISE MANAGEMENT PRACTICES IN CHINA: AN EXAMINATION OF THE VIABILITY OF NATIONAL MICRO-ENTERPRISE ZONES (MEZO)

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ABSTRACT

Microenterprise development has caught the attention of many governments around the world, as a medium to create jobs, alleviate poverty, and stimulate economic growth. Countries have implemented a diverse set of measures to support and expand microenterprise activity. Through the examination of key challenges and opportunities associated with microenterprise management practices in China, the authors introduce the concept of Microenterprise Zones (MEZO) as a supplemental tool for governments to strengthen microenterprise activity. This study is valuable to government officials, policy makers, non-government organizations and consulting firms as they examine new measures to unleash the economic power of microenterprises.

INTRODUCTION

Microenterprises are an important economic segment of countries. These ventures tend to have gross sales of under $25,000 a year (Tinker, 2000). In the case of many African nations, the combination of micro and small enterprises contribute to about half of all people employed (Chao, Pauly, Szrek, Pereira, Bundred, Cross, & Gow, 2007). In Indonesia, small and medium enterprises, including microenterprises, comprise about 90% of firms outside of the agricultural industry (Tambunan, 2007). Locations such as Mexico have seen an increase in informal microenterprise activity in recent years (Hernandez-Trillo, Pagan, & Paxton, 2005). As an emerging economy, China's economic terrain has a high presence of small and microenterprises. Microenterprises constitute of street vendors, retailers, and traders that sell products or services to build income and expand assets (Eversole, 2004) and these businesses are omnipresent in both urban and rural locations in China.

Cognizant of the economic relevance of microenterprises, some many governments in emerging markets have developed policies to support microenterprise growth and development (Atherton & Fairbanks, 2006). For example, South Africa had directed its policies and efforts in the promotion of small business through the creation of a White Paper on Small Business which formed the macroeconomic framework for small, medium, and microenterprise (SMME) development (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam,& Van Seventer, 2002; Rogerson, 2004). In Nigeria, the Structural Adjustment Programme (SAP) in 1986 paved the way for economic diversification, deregulation, manufacturing focused and export driven initiatives that supported all businesses including microenterprises (Ajibefun & Daramola, 2003). In Mexico, government economic policy has centered on the utilization of microfinance to stimulate microentrepreneurial activities (Hernandez-Trillo, Pagan, & Paxton, 2005).

Aside from government policies, microenterprise programs and initiatives have proliferated in both developed and developing economies. Ssewamala and Sherraden (2004) described Microenterprise Development Programs (MDP's) as the combined set of measures including loans, advise, and training, directed at the poor and unemployed in order to help them start or grow a business. In the US, MDP popularity has allowed these programs to receive bipartisan support (Ssewamala, Lombe, & Curley, 2006). In India, programs such as Self-Help Groups (SHG's) have encouraged rural women to initiate, grow and successfully manage microenterprises (Tamilmani, 2009). In South Africa, programs were established providing financial support through Retail Financial Intermediaries (RFI) and business support through Manufacturing Advice Centers (MAC's) (Rogerson, 2004). In Zimbabwe, the Economic Structural Adjustment Program (ESAP) was launched in 1991 to enhance long-term economic growth paving the way for deregulation, market liberalization, in addition to fiscal and monetary reforms. (Government of Zimbabwe, 1991; Daniels, 2003).

Initiatives geared towards the growth and expansions of microenterprise activity have the potential of transforming societies as they can lead to job creation and revenue generation. Through gathered literature and a survey, this paper examines key challenges confronting microenterprises and introduces the concept of Microenterprise Zones (MEZO). MEZO's are government designated zones that offer business and tax incentives to all operators situated in the zone. In recent years, many governments around the world have established Free Trade Zones (FTZ's), Export Processing Zones (EPZ's) and Technology Parks (TP's) in order to attract foreign investors. The author posits that there are merits in establishing MEZO's where microenterprise activities will be clustered. In addition, an examination of incidence of poverty and high unemployment rate across selected countries are analyzed in order to identify which countries would benefit most from the introduction of MEZO's.

CHARACTERISTICS OF MICROENTERPRISES

There are several defining characteristics of microenterprises. A common perception is that they operate in a small scale and have gross sales of under $25,000 a year (Tinker, 2000). From a business standpoint microenterprises are perceived as:

Owner-operated business endeavors. They are owned and managed by the owner and their families, have few employees, and are constrained by capital (Tezler, 1992; Langer, Orwick & Kays, 1999).

Engaged in diverse entrepreneurial activities. Microenterprises engage in service, manufacturing, and sales initiatives and typically include street vendors, retailers, and traders who are motivated to build income and expand assets (Eversole, 2004; Baumann, 2004).

Organized in several forms. In operating their enterprise, microenterprises typically structure themselves in different ways including sole proprietorship, partnership or family enterprise, and commonly have less than 10 or even less than 5 employees (Storey, 1994; Walls, Dowler, Cordingly, Orslene, & Greer, 2001).

Driven by flexible arrangements and seasonality. Many microenterprises are affected by tough economic times and seasonality, yet manage to survive through flexibility and adaptability. (Piore & Sabel, 1984; Eversole, 2003; Buechler & Buechler, 1992). Many have the ability to respond to market and customer demands in a timely fashion (Herman Trend Alert, 2003).

Require external support to flourish and thrive. Microenterprises are easily started and ended and can be terminated with events such as family ailments and economic challenges (Larson & Shaw, 2001; Eversole, 2003). Many are in the informal sector and badly need capital to survive (Hernandez-Trillo, Pagan, & Paxton, 2005; Eversole, 2004).

Due to their sizeable economic presence and financial fragility, these business units require the attention of both the government and private sectors.

MICROENTERPRISE MANAGEMENT

There is limited literature on successful microenterprise management. Studies suggest that there is an overlap between studies pertaining to small enterprise entrepreneurship and management practices. Small business enterprise growth is influenced by management abilities, such as financial, marketing, human resource and operations management (Kotey & Meredith, 1997). Financial mismanagement is a key contributor to small enterprise failure (Cunningham, 1998).

Small enterprise managers have diverse abilities and intent (Lee & Park, 2006). Abilities of managers are important considerations in SME operations and can impact enterprise performance (Lubatkin, Ling & Veiga, 2006; Goll & Rasheed, 2005). Factors relating to income, work satisfaction, schedule, and flexibility shape motivation success measures for small enterprises (Greenbank, 2001).

Additionally, the need for achievement, internal locus of control and a risk taking propensity are attributes contributing to the success of new business start-ups (Brockhaus, 1982). Entrepreneurs who have the necessary competencies especially in the area of operations, finance, marketing, human resources and management skills are more likely to be successful at startups (Prahalad & Hamel, 1990). Qualities associated with a high need for achievement contribute to the success of new venture (McClelland, 1961). Entrepreneurs with high personal initiative (self-start, proactive attitude and capability to overcoming barriers) contributed to the success and the growth of their companies (Che Rose, Kumar, & Lim, 2006). Entrepreneurs are expected to display more tolerance of ambiguity than others, with innovativeness as the focal point of entrepreneurship and an essential entrepreneur characteristic (Mitton, 1989). In addition to competencies and personality traits, human capital of individual entrepreneurs plays a role in contributing to the success of entrepreneurs (Lussiers & Pfeifer, 2001). Specifically, entrepreneurs with higher education levels, industrial and managerial experience, and business exposure has greater chance of succeeding than people without tertiary education, minimal industrial and managerial experience, and with little or no business exposure (Lussiers & Pfeifer, 2001). Entrepreneur characteristics, such as gender, education, age, managerial skills, experience as well as physical and emotional support from family members are important factors that influence business success (Kallerberg & Leicht, 1991; Rowe, Haynes, & Bentley, 1993; Masuo, Fong, Yanagida, & Cabal, 2001), while business characteristics that affect business success are age, size, and location of business (Kraut & Grambsch, 1987; Kallerberg & Leicht, 1991). An entrepreneurs' informal network, such as friends, relatives, previous employers, and acquaintances can provide support that can be beneficial to the business, social network support is related to the survival and growth of newly founded companies (Bruerderl & Preisendoerfer, 1998). Other studies found that entrepreneurs are significantly more innovative than non-entrepreneurs (Ho & Koh, 1992; Robinson & Sexton, 1994) and the entrepreneurs' personality traits have impact on the organizational performance (Robinson & Sexton, 1994). On the other hand, earlier studies reveal that one of the major reasons for business failure in the formative years is due to managerial problems or shortcomings (Bruno, Leidecker & Harder, 1987). A majority of business failure were due to the lack of management skills or competencies (O'Neill & Duker, 1986; Terpstra & Olson, 1993). Lack of entrepreneurial competencies and the lack of abilities and skills of founder-owner of the SMEs are the two major reasons for the failure of the SMEs (Kiggundu, 2002; Longenecker, Simonetti, & Sharkey, 1999). Rogoff, Lee, & Suh (2004) found that internal and external factors are determinants of business success.

EXTERNAL CHALLENGES CONFRONTING MICROENTERPRISES

Upon extensive review of current literature, the authors have summarized significant external challenges in order to assess the potential for Microenterprise Zones (MEZO).

Poor location. Many microenterprises are disadvantaged by unfavorable geographic location or geographic isolation (Eversole, 2003; Duncombe & Heeks, 2002).

Inadequate infrastructure and transport access. Microenterprises tend to be constrained by poor infrastructure and inaccessibility to suitable modes of transportation (Tamilmani, 2009; Rogerson, 2006).

Absence of trading or working venue. Microenterprises experience difficulties in cultivating their business due to physical space constraints (Ghate, Ballon, & Manalo, 1996).

Lack of social networks. Many small and medium sized enterprises do not have the resources and ability to engage in effective networking and often do not have organizations where they can have a unified voice (Tambunan, 2007; Hulme & Shepherd, 2003).

Low business productivity. Manufacturing inefficiencies and the inability to capture advantages from economies of scope and scale prohibit microenterprises from adding economic value and accumulating capital (Baumann, 2004; Hernandez-Trillo, Pagan & Paxton, 2005).

Poor research and information access. Microenterprises need research assistance and often do not have access to important market information (Goldmark, 2001; Tamilmani, 2009).

Lack of integration. Many microenterprises are not adequately linked to suppliers and key markets (Hulme & Shepherd, 2003; Qualmann, 2000).

Lack of legal, safety, and security protection. Microenterprises face challenges pertaining to contract enforcement as well as property rights issues (Sukiassyan & Nugent, 2008; Tambunan, 2007). In addition, they face losses from theft (Rogerson, 2006).

Lack of business support. Microenterprises need business support such as credit access (Herman Trend Alert, 2003), work resources and technology (Ehlers & Main, 1998), business training and marketing assistance (Goldmark, 2001), and the understanding of quality standards and branding issues (Horn, 2009; Tamilmani, 2009).

Government barriers and bureaucracy. Microenterprise are sometimes constrained by government trade policies and bureaucracy (Herman Trend Alert, 2003; Ghate, Ballon, & Manalo, 1996).

Research suggests that there are in fact several challenges that could inhibit microenterprise growth and development. Eliminating all these challenges does not guarantee microenterprise success. However, through the elimination of some of the identified barriers to development the chances for venture success are improved.

In the following section, the authors introduce the Microenterprise Zone (MEZO) model and how MEZO can potentially address many of the challenges mentioned.

THE MICROENTERPRISE ZONE (MEZO) MODEL

The proposed Microenterprise Zones (MEZO) is special government zones or areas where business operators are entitled to specialized support, incentives, and privileges. They are similar to Export Processing Zones (EPZs) and Technology Parks (TPs) for the following reasons : 1) they are all government endeavors that provide an opportunity for government and private sector collaboration, 2) they aim to create synergistic business clusters in designated geographic locations, 3) they facilitate and support diverse business endeavors and contribute to their success, 4) they offer specialized incentives such as low-rent, access to specialized skills, and tax breaks, and 5) they have the ability to create a national economic boost through job creation, expansion of business activities, and income tax generation.

While there are significant similarities, MEZOs are different from EPZs and TPs in many ways. Firstly, EPZs tend to draw large companies from overseas; MEZOs aim to attract local microenterprises. Secondly, while EPZs and TPs often build on state-of-the art technologies and systems, MEZOs cultivate low-tech grass root ventures that represent a broad segment of the economy. Thirdly, while EPZs and TPs tend to cater to overseas customers, MEZOs serve mostly domestic consumers.

Conceptually, MEZOs are characterized by the following:

Created through a government or government-private collaboration. MEZOs can be created by governments through the designation of an area as a Microenterprise Zone or Microenterprise Park. Business enterprises situated within the MEZO shall be entitled to specialized government business support (i.e. skills training, administrative and marketing support, and financial counseling among others); free or discounted use of space; simplified and expedited business registration process; shared utilities and other operational expenses to take advantage of economies of scale (i.e. common technology center with computer, internet, fax and other business facilities among others); and tax holiday for a specified period of time. In certain instances, MEZOs may also be implemented through a government-private partnership or joint venture.

Strategic geographic location. MEZOs can be situated in depressed communities that need to be re-energized, areas with high potential for the development of a specialized industry or trade (ie, indigenous crafts, seafood processing), areas experiencing very high migration rates, areas with the potential to provide unique support to large industries (ie, skilled labor contract, food processing), and even in locations with high incidence of poverty and unemployment. MEZOs can be applied into different themes and concepts depending on government priorities and goals.

Opportunity for job creation and poverty alleviation. MEZOs can be implemented in several creative ways. It can be a large facility such as a large multi-million microenterprise park that would have its own manufacturing complex, retail facility, and business support center. It can be an unused government building. It may also be a small facility that is specifically tailored to the needs of a community or industry sector. MEZOs present an opportunity to create jobs and help improve the conditions of the poor. It is an opportunity to facilitate the entry of the informal sector into the formal sector.

Productivity improvement. MEZOs provide a hub where microenterprise activities can be combined. Through these clusters, business support initiatives can be more efficiently provided and monitored. As a result, productivity may be improved.

Economic contribution. Initially, a commitment of government resources is necessary to start MEZOs within a country. With efficient management and through strategic partnerships, MEZOs can generate income through future tax collections, rental fees, and the business service fees. Aside from an economic contribution, MEZOs can also help alleviate the condition of the poor, improve health and sanitation, lower crime rate, and help improve the environment through the utilization of green technology and sustainable approaches.

In Table 1, the identified microenterprise challenges are presented along with how MEZOs address these challenges. Unfortunately, the table could not be included due to length restrictions.

From the research gathered, it is evident that MEZOs have the potential to support the growth and expansion of microenterprises.

MEZO APPLIED TO CHINA'S MALL BUSINESS AND MICROENTERPRISE ENVIRONMENT

China had a long history of entrepreneurship where economy was largely based on small businesses' success before 1949 when the communists took power. Between 1949 and 1979, the Chinese communist government advocated a central planning economic system and nationalized all the private businesses into state owned enterprises. As a result, China's economy was on the brink of total collapse in late 1970's. To rescue the collapsing economy, Chinese government started to bring private businesses back into the country in 1980. To ease the transition from the centrally planned economy to a market based economy, in August 1980 the government, for experimental purpose, set up a Special Economic Zone in a small fishing village in Southern China, called Shenzhen Special Economic Zone (SSEZ). Within the zone, private enterprises, especially small businesses/microenterprises were encouraged and market force was in full play, although the rest of the country was still under planned economy. The tremendous success of SSEZ encouraged the government to introduce market economy national wide several years' later. It is truly a miracle that those small businesses and microenterprises have developed the small fishing village of SSEZ into a modern city comparable to Hong Kong in a matter of thirty years.

The evolving landscape has led to the emergence of the private sector and changes in ownership described as a "quiet revolution" in the country (Garnaut, Song, Yao, & Wang, 2001). This environment has been categorized as dynamic and highly competitive (Li, Poppo, & Zhou, 2008).

Within a few decades, the country has experienced rapid transformation. The government's renewed emphasis on trade expansion in the 70's and 80's set the stage for modernization, inward FDI, and private sector business participation (Chow, 2002).

The Chinese economy is booming and expanding in profound ways (Naugton, 2006). This environment has spurred fast economic growth and the emergence of new business models (Hassard, Morris, & Sheehan, 2004). In 2010, the country had a GDP of $10.9 trillion and outperformed all major economies with a GDP growth of 10% (CIA World Factbook, 2011).

Small businesses are an important segment in the Chinese economy. Since 1999, more than 10 million small and medium-sized enterprises were registered in China (Anderson, Li, Harrison, & Robson, 2003). These businesses produce about 60% of gross industrial output (Chunyun, 2003). With globalization and trade liberalization, this number is growing rapidly and the economic impact can be profound. Challenges exists for small businesses including issues such as lack of clarity on government transformations, corruption, poor planning, little regard for shareholder rights, and even market manipulation (Li, 1998; Tam 2002; Chandler, 2004). Lack of access to formal financial channels has also been observed (Wang & Yao, 2002).

METHODOLOGY

A survey of microenterprises in China was conducted in order to identify management operational approaches and support needed to be successful. The intent was to examine if the MEZO model could lend support to microenterprise development.

A questionnaire consisting of three sections on microenterprises and Entrepreneurial Orientation was distributed. Part one consists of questions relating to demographics; Part Two contains questions on Entrepreneurial Orientation, Risk taking, and Performance in family firms; while Part Three contains questions regarding small business factors. Specifically, questions related to

Performance were adapted from Wiklund and Shepherd (2003) while questions related to Heterogeneity were adapted from Miller and Friesen (1982) and questions related to Innovativeness, Proactiveness and Risk Taking were adapted from Covin and Slevin (1989). The questions on Part Two were based on a 5-point and 7-point scale while questions relating to management issues in Part 3 utilized a `0 to 100' scale.

A questionnaire designed by Zinger, LeBrasseur, and Zanibbi (2001) was also utilized. The adapted questionnaire was first designed in English and then translated by one of the authors who are fluent both in English and Chinese. Back translation was also used to make sure that the Chinese version of the questionnaire accurately reflects the original English version. The translated questionnaire was then pretested among twenty micro-enterprises in China to seek further improvement before formal survey.

In order to fully understand the entrepreneurial orientation, risk taking attitude, performance in family firms, and the factors influencing small business success, an empirical survey was conducted. The fieldwork of this research was carried out in 2009.

The questionnaire consisted of five sections: background information, financial resources, the utilization of outside assistance and training (both professional and government), a series of questions pertaining to management practice and two self-reported performance items.

For this study, we also used employee size as a way to determine if the business could be considered a micro-enterprise. By the end of 2009, China's GDP per capita is around $4,000 which is about one third of the threshold for industrialized nations. Using this criterion, a micro-enterprise in China is defined as a business with annual gross receipts of up to one million dollars. In the case of Western Europe and the US one third of businesses is in this category Close examinations of those small firms with one million dollars turnover in China include firms with 50 to 80 employees (except a few high-tech firms). Therefore, we used a definition of micro-enterprise as one having 1 to 80 employees and an annual turnover of one million dollars for this study.

The location of the survey was Changchun, a prosperous industrial city in Northeast China. The local government directory of industry was used for random selection of the survey sample. A total of 300 micro-enterprises were randomly chosen for the study. A telephone call to these 300 chosen firms resulted in 198 firms willing to participate in the survey. A group of six graduate students were recruited to conduct onsite survey; each was responsible for approximately 30 firms. The six graduate students were briefed about the study. About 30 firms did not participate in the interview due to the senior management unavailability at the time of field visit. The survey resulted in a total of 168 completed interviews during the span of one month due to various schedule conflicts and availability of those top managers. Finally, 150 valid interviews were used for analysis as 18 returns were discarded for critical missing information.

HYPOTHESES

This study aims to identify a correlation between the management approaches utilized by microenterprises and their level of success, as measured by profitability. Several of the hypotheses proposed were developed from a study initially developed by Zinger et al. (2001).

- H_1: Microenterprise Performance is related to key management activities.
- H_4: Entrepreneurial Orientation (EO) is related to Management Issues.
- H_7 : Proactiveness and risk taking have an positive impact on sales, net profit and cash flow
- H_8: Innovation and proactiveness have a positive impact on firm growth.
- H_{10}: Management operation has a positive impact on sales, net profit and cash flow.
- H_{11}: General management capability and new product capability have a positive impact on firm growth.
- H_{12}: Staff and technology capability have a positive impact on sales, net profit and cash flow.

RESULTS

Hypothesis 1 is tested by correlation of Performance with Q47d.

With regard to Hypothesis 4, the Management Issues items were factor analyzed, resulting in 3 factors explaining almost 61% of the variance. The factors were labeled General Management, Staff & Technology, and New Products to reflect their primary components. Performance is correlated with: General Management factor and Staff & Technology factor. Heterogeneity is not correlated with management factors. Innovativeness is only correlated with New Products factor. Proactiveness is only correlated with New Products factor. Risk taking is correlated with Staff & Technology factor and with New Products factor. This hypothesis is partially supported.

With regard to Hypothesis 7 Proactiveness and Risk Taking are both correlated with Net Profit, Growth, Cash Flow, and Sales. Proactiveness is related positively to Net Profit, Sales, Cash Flow (and Growth). Risk Taking is related correlated with Net Profit, Sales, Cash Flow (and Growth). The hypothesis is supported.

Hypothesis 8 is confirmed, Innovativeness and Proactiveness are both correlated with firm growth. Both Innovativeness and Proactiveness have statistically significant associations with Growth, supporting the hypothesis.

With regard to Hypothesis 10, the General Management factor was correlated only with growth. The Staff & Technology factor was correlated with net profit, growth, cash flow, and sales. The New Product factor was correlated only with growth. General management capability and new product capability have a positive impact on firm growth (long term capability). This hypothesis is partially supported.

Hypothesis 11 is confirmed partially supported with data showing that general management capability and new product capability have a positive impact on firm growth. General Management does not seem to significantly affect growth, but developing new products has a statistically significant correlation with growth.

Hypothesis 12 is largely supported with data showing that staff and technology capability have a positive impact on sales, net profit ad cash flow (short term capability). Competent staff was positively correlated to Profit, Cash Flow, and Sales. The use of computer technology was related correlated to Net Profit and Cash Flows, but not to Sales.

OVERALL FINDINGS AND DISCUSSION

The overview of China's economic landscape indicates that entrepreneurship is on the rise and there is an emergence of microenterprises in the country.

The microenterprise survey in China suggests that (1) Proactiveness and Innovation has an impact on firm's growth, (2) Management and new product capability positively impact's growth, and (3) Staff and technology capability have a positive impact on sales, net profit and cash flow.

For instance, as indicated in the survey, proactiveness and risk taking have a positive impact on sales, net profit and cash flow. China is still in a transition from planned economy to market economy. The market system is not fully established and regulations tend to be lagging behind. As a result, those who dare to take the risk tend to have early success as first movers. The survey further suggests that innovation and proactiveness have a positive impact on firm growth. Thus, firms are strengthened when they receive support for innovation and a culture of proactiveness is encouraged.

The Microenterprise Zone (MEZO) model provides support to Microenterprise innovation, new product capability, and staff and technology competencies in several ways. The MEZO model (1) enhances government and private sector collaboration (ie, skills training), (2) contributes to productivity enhancement, and (3) provides the foundation for enhanced financial operations and future success.

The MEZO model can be useful in emerging markets such as China. Studies suggest that in locations where there exist combined conditions of high unemployment rate and high incidence of poverty, measures relating to microenterprise development can lead to a favorable impact (Baptista, Ramalho, & da Silva, 2006).

FUTURE IMPLEMENTATION / OPPORTUNITIES

MEZOs may be implemented through several creative approaches. Countries with limited resources can build simple MEZO facilities under a partnership arrangement with local communities, industries, and private corporations. Countries with larger resources can create Microenterprise Parks (MPs) which can integrate several synergistic business components.

This article is a conceptual presentation of MEZOs and there is room for further refinement of the model. Through additional research and field implementation, the strengths and weaknesses associated with the MEZO model can be better understood. It is emphasized that due to diversity of influencing factors, variations of the model and its execution will differ across countries. The author recommends that countries that are considering the use of MEZOs need to develop a Project Team or Committee that will closely collaborate on the research, planning, and execution of the project.

This study suggests that microenterprises in an emerging market such as China need support to spur innovation, enhance management, and facilitate new product development. The MEZO model offers geographic convenience, in-house support and a collaborative setting to further the microenterprise agenda. The model needs to be explored by government officials, policy makers, non-government organizations, consultants, and private corporations as new solutions are sought to alleviate poverty, create jobs, and stimulate economic activity.

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A MODEL FOR PREDICTING SMALL FIRM PERFORMANCE: INCREASING THE PROBABILITY OF ENTREPRENEURIAL SUCCESS

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ABSTRACT

This study develops an Ordered Probit model to explain and predict small business relative performance in South America Chile. The sample includes 403 small businesses classified as: 158 failed, 101 mediocre, and 144 successful firms within all economic sectors. The model variables are: Internet, starting with adequate working capital, managing good financial and accounting records, planning, owner formal education, professional advice, having partners, parents owning a business, and marketing efforts. The model is significant at the .000 level. Improving the probability of success of entrepreneurs and public policy implications in Chile are discussed.

INTRODUCTION

There is no doubt that new business ventures introduce a dynamic element into the economy and can make an important contribution to development (Fritsch, 2008). Entrepreneurship is the way to foster innovation and increase productivity, competitiveness and local and regional development (Reynolds, Storey, & Westhead, 1994). And promoting entrepreneurship is perceived as a way to target unemployment and poverty (Robson, Wijbenga, & Parker, 2009). Thus, entrepreneurs have a relevant function in the economy; they engender employment creation, productivity growth, and produce and commercialize productivity enhancing innovations. However, most firms fail in the first few years, so to increase the probability of creating a successful business is a main issue for those who dare to bear the risk of starting a new venture, and understanding why firms fail and succeed is crucial to the stability and health of the economy (Carter, Williams, & Reynolds, 1997; Pompe & Bilderbeek, 2005). Although there is incomplete information on firm entry and survival, it can be found that each year in the USA there are more than half a million startups, but almost the same number close, although not all closings are failures (Bates, 2005). In Chile, less than 42% of small businesses survive five years and less than 50% survive 10 years (Cabrera, De la Cuadra, Galétovic, y Sanhueza, 2002).

Supporting the need for entrepreneurial research in Chile is the fact that the GEM *Total Entrepreneurial Activity* is only 20.2% (GEM, 2008) and that there is still limited empirical entrepreneurial research. Although entrepreneurship research should be grounded in its national context, it can still be critiqued as almost exclusively focused on North American and European research sites, and research in other economic regions remains extremely limited (Welter & Lasch, 2008). In fact, it has been stated that research in Latin America has been unjustifiably ignored (Bruton, Ahlstrom, & Obloj, 2008) and calls have been made for future enhancement of economic development of regions, including Latin America (West, Banford, & Marsden, 2008). Chile is currently making contributions to the development in the region and further research can guide entrepreneurial activities to continue this development.

Predicting entrepreneurial fate is an important area of research (Pompe & Bilderbeek, 2005) because performance prediction research benefits both the would be and current entrepreneurs; those who assist, train and advise them; those who provide capital for their ventures; their suppliers and creditors; researchers; and public policy makers. Thus, evidence providing insight for government and academic institutions may aid in their efforts to provide resources that may help reduce the incidence of bankruptcy or the fate of poor performance (Carter & Van Auken, 2006). With the need for empirical research in Chile, this study with public policy implications can strengthen the small business sector, which would result in more jobs, better income distribution, a greater social inclusion and eventually it could lead to increased economic development.

Although understanding the causes of business success and failure is a cornerstone of entrepreneurship research (Michael & Combs, 2008), discovering which critical factors or practices lead to business success and measuring these effects is an unfulfilled purpose of small business research (Rogoff, Lee,& Sub, 2004). Thus, scholars seek further research to answer such questions as: Why does one person actually succeed in starting a business, while a second person gives up? Which variables explain success? Which business practices set successful firms apart from others? Which types of resources are most important to entrepreneurial development (West, et al., 2008)? Is there a global robust success vs. failure prediction model (Lussier & Pfeifer, 2001; Lussier & Halabi, 2010)? With so many unanswered questions, public policy cannot easily determine which firms to target in order to increase the odds of entrepreneurship success (Minniti, 2008).

This study adds to the body of work on predicting business performance by addressing some critical research questions. It develops a prediction Ordered Probit model, which improves on the commonly used Binary Probit and Logit models, in that it permits a better understanding of small enterprises accomplishments, as suggested by Hanlon and Saunders (2007). It provides quantifiable implications as to how entrepreneurs can minimize the probability of poor performance and increase the likelihood of business success. It presents public policy with implications for the Chilean institutions to promote entrepreneurship. Finally, it contributes to the literature because, to date, no empirical success versus failure studies have been found that were conducted in Chile.

This article proceeds as follows. The next section provides a literature review of entrepreneurship research in Chile. The third and fourth sections presents the model, followed by the methods and results. The fifth section includes public policy literature and implications in Chile, and the last section explores the limitations, further research, and conclusions.

THE IMPORTANCE OF A COMPARATIVE SMALL BUSINESS STUDY IN CHILE

Chile has 16.5 million people, with a per capita GDP (PPP) of approximately US$14 million (Inter-American Development Bank, 2009) and is the world largest copper producer. Its growth policy has been based on deregulation and free markets in all economic sectors since the mid-seventies. Through entrepreneurship and the development of its firms in an unregulated environment (Cárcamo-Huechante, 2006) this economy grew quickly and became known as the Latin-American Tiger.

Chile started economic and structural reforms one to two decades before other Latin-American countries (Ffrench-Davis, 2002), and it achieved the highest per capita income in the region (Interamerican Development Bank, 2009). However, its pace of growth has slowed in the last 10 years. According to the Central Bank of Chile, the growth rate achieved by each of the four administrations of the democratic governments (1990-2010) has followed a decreasing trend from 7.7% (1990-1994), 5.5% (1994-2000), 4.3% (2000-2006), to less than 3% (2006-2010).

Growth through entrepreneurship and the development of private business was the building block in early growth (Cárcamo-Huechante, 2006). However, the Chilean economy, which was once recognized as the most competitive of Latin America, today is only ranked 55th out of 181 economies, in the "Doing Business Index" of The World Bank (2009) for the "Starting a Business" category. This downward trend goes against the democratic government search for growth-with-equity (Ffrench-Davis, 2002). Therefore, there is a need to reshuffle resources and output from less to more efficient producers (Pavenik, 2002).

Small and medium firms are the main employers in Chile, accounting for over 80% of the labor force. However, this sector faces important challenges for its survival and development (Marshall, 2005). Small firms have a potential that would positively increase the country´s growth and employment. Although supporting and strengthening small business is the desire of all the Chilean political and economic sectors (Marshall, 2005), important differences exist in the concrete proposals. Nevertheless, there is some common agreement among scholars that technology, innovation, entrepreneurship capacity, and education are relevant. It is also admitted that not only public policy is required, but there is also a need to develop a culture where people are willing to start a business, that is, to wake up the entrepreneurship spirit.

To date, research in Chile has focused only on certain economic sectors, or to the use and incorporation of a particular tool as some specific technology. It is also possible to find some studies regarding small firm efficiency and in depth studies regarding their characteristics (Cabrera et al., 2002; Silva, Majluf, & Paredes, 2006), but no reference with regard to the specific causes that lead these companies to succeed and fail could be found.

THE MODEL

There is no generally accepted list of variables distinguishing business success from failure. The literature list of performance variables in this study was based on Lussier (1995), who included the major variables identified in journal articles as contributing to performance. Lussier and Halabi (2008, 2010) updated the literature. See Table 1 for a comparison of 25 studies that support, do not support, or do not mention each of these 15 variables.

Table 1

Comparison of Variables Identified in the Literature as Factors Contributing to Business Success versus Failure

Senior Author	capt	rkfc	inex	maex	plan	prad	educ	staf	psti	ecti	age	part	pent	mior	mrkt
	Independent Variables														
Barsley	F	–	F	F	F	F	–	–	–	–	–	–	–	–	–
Bruno	F	F	–	F	F	–	–	F	F	F	–	–	–	–	F
Cooper 90	F	–	N	N	F	F	N	–	F	F	F	F	–	F	–
Cooper 91	F	–	F	N	–	F	F	–	N	N	N	N	F	F	–
Crawford	–	–	F	–	–	F	F	–	–	N	N	–	–	–	–
D+B St.	F	F	F	F	–	–	–	–	–	F	–	–	–	–	–
Flahvin	F	F	F	F	–	F	–	F	–	–	–	–	–	–	–
Gaskill	N	F	F	F	F	F	N	–	–	N	–	–	–	–	F
Hoad	–	–	F	N	N	F	F	–	–	–	–	–	–	–	–
Kennedy	F	–	–	F	F	–	–	–	–	F	–	–	–	–	–
Lauzen	F	F	–	F	F	–	–	F	–	–	–	–	–	–	–
Lussier 95	N	N	N	N	F	F	F	F	N	N	N	N	F	N	N
Lussier 96a	N	F	N	F	F	F	N	F	N	F	N	F	F	N	F
Lussier 96b	N	F	N	N	F	F	N	N	F	F	F	N	N	N	N
Lussier & C 96	F	F	F	N	F	F	F	F	N	F	N	N	F	F	N
Lussier & Pf 01	N	N	N	N	F	F	F	F	N	N	N	N	N	N	N
McQueen	F	–	F	F	–	–	–	–	–	–	–	–	–	–	F
Reynolds 87	F	F	–	–	F	–	–	N	F	–	–	–	–	–	N
Reynolds 89	F	F	–	–	F	–	N	N	F	–	N	F	–	–	–
Sage	F	–	–	F	–	–	F	–	–	–	–	–	–	–	–
Sommers	–	–	–	F	F	–	–	F	–	–	–	–	–	–	–
Thompson	N	–	–	F	F	–	–	F	F	–	–	–	–	–	F
Vesper	F	F	F	F	N	F	F	–	F	F	–	F	–	–	F
Wight	F	F	–	F	–	F	–	–	–	–	–	–	–	–	–
Wood	–	F	F	F	F	–	F	–	–	–	–	–	–	–	–
Total F	15	13	11	15	16	14	9	9	7	8	2	4	4	3	6
Total N	6	2	5	6	2	0	5	3	5	5	7	5	2	4	5
Total –	4	10	9	3	7	11	11	13	13	12	16	16	19	18	14

F supports variable as a contributing factor
N does not support variable as a contributing factor
- does not mention variable as a contributing factor

1. Capt: working capital
2. Rkfc: record keeping and financial control
3. Inex: industry experience
4. Maex: management experience
5. Plan: planning
6. Prad: professional advice
7. Educ: formal education
8. Staf: staffing
9. Psti: product service timing
10. Ecti: economic activity
11. Age: age
12. Part: partners
13. Pent: parents
14. Mior: minority
15. Mrkt: marketing efforts

Various success and failure (S/F) studies have been conducted (Carter & Van Auken, 2006; Cooper, Dunkelberg, Woo, & Dennis, 1990; Pompe & Bilderbeek, 2005; Reynolds, 1987). The most extensive was the Lussier (1995) model because the study examined the efficacy of the 15 variables identified from the 20 prior studies, including Cooper et al. (1990) and Reynolds (1987). To be included in the Lussier (1995) S/F model, a variable had to have been included in a study that had at least three variables identified as contributing factors to success and failure. It has been used to predict business performance cross-nationally in the USA, Croatia (Lussier & Pfeifer, 2001), and Chile (2010). It is also a nonfinancial model, which is more appropriate than financial models for small business research, particularly due to the lack of reliable information. Other models use sales as a predictor, and are thus not appropriate to use with startup business. Lussier also uses resource-based theory as entrepreneurs make judgments about which resources are more or less important, based on their expectations about the future of the venture (Lichtenstein & Brush, 2001).

To adapt the selected model, some changes were applied. The correlated variables were eliminated to correct for the multicollinearity problems and the variable minority was excluded from the study since it is not relevant in Chile, as there as so few minorities. Finally, since back in the early 1990s, the Internet was not commonly used by small business, this variable was added to update the model as a measure of the use of elementary technology. See Table 2 for an explanation, hypothesis and measures of the independent variables utilized.

METHODOLOGY

Design and Sample

Entrepreneurship journals tend to favor replication studies (Gamboa & Brouthers, 2008). Brush, Manolova, and Edelman (2008) called for the replication of research in other countries. To this end, the primary methodology of this study was to adapt and update the USA Lussier (1995) survey research study in Chile. Survey research, particularly mail surveys, has been a staple in quantitative research on small business and entrepreneurship (Brush et al., 2008; Dennis, 2003). In fact, an examination of four journals (ET&P, ISBJ, JBV, JSBM) revealed that one-third of the articles were based on mail surveys (Newby, Watson, & Woodliff, 2003). The self-reporting questions were obtained from Lussier (1995) to collect data.

The commonly used firm level of analysis was employed with a random sample of 1,800 small businesses selected from the Chile National Chamber of Commerce database, and the survey instrument was emailed to the owner/CEO. There were 430 questionnaires answered and returned, resulting in a response rate of 24%. However, 27 had missing data, resulting in 403 usable questionnaires. All six major economic areas of Chile are included in the sample, making it a national sample. As a test of non-response bias, early and late responders were compared and no significant differences were found.

Measures and the Model

There are various ways of measuring performance. Much of the literature uses a traditional view of success as being related to a positive financial performance. However, there is a recent trend which measures success according to business owners´ own objectives rather than an imposed “one size fits all benchmark” (Castillo & Wakefield, 2006). Brush et al. (2008) also stated that the narrow focus on financial and economic measures should be reconsidered. The dependent variable measures of relative performance was more subjective than financial performance, as in Escribá-Esteve, Sánchez-Peinado, and Sánchez-Peinado (2008), Jennings, Rajaratnam, and Lawrence (2003) and Poon, Ainuddin, and Junit (2006). Small firms are usually reluctant to disclose financial information, thus a more subjective dimension is more feasible to obtain and a more uniform measure between the sample. Previous studies that have used both subjective and objective measurements have found a high correlation between the objective and the subjective magnitudes (Escribá-Esteve et al., 2008).

Assuming that owners manage detailed and accurate information, perception becomes reality with business performance. In addition, when working with privately owned small business, it is very difficult to access their financial statements, since entrepreneurs are not willing to disclose private information. Indeed, with survey research, a high percentage of respondents do not answer the questions regarding their financial performance (Lussier, 1995; Lussier and Halabi, 2008, 2010). Thus, measuring profitability on a Likert scale is commonly used in entrepreneurship research (Wang, 2008).

The dependent variable relative performance was measured on three levels as success, mediocre, or failure. Performance measurement was a two step. The questionnaire asked owners/CEOs to identify their firm’s level of profits compared to industry average. The answer ranked between 1 and 7—1 identifying profits as much lower than, and 7 being much higher than industry average profits. This 1-7 scale is not totally subjective because the scale is a standard objective measure in Chile. One passes a school or university class with greater than 4, and one is only successful with a grade that is greater than 5. To get a “1-3” is poor performance, “4" is a mediocre performance everywhere. A good performance is "5", a very good is "6" and "7" stands for excellent.

As shown in Table 2, eight independent variables are included to explain and predict relative business performance. It also lists the measurement level of each variable and the expected relation with performance. Five of the variables are measured on a 7 point Likert scale and all are ranked 1 low and 7 high: adequate (sufficient) working capital (WC), clear and complete financial and accounting information (INF), specific business planning (PLAN), higher levels of owner education (EDU), and degree of marketing efforts (MRKT). Three of the variables were nominal level measures labeled 1 or 0: 1 = use of Internet (INT) 0 = do not use Internet, 1 = partners (PART) 0 = no partners, and 1 = parents owned a business (PARN) 0 = did not own a business.

Table 2
Explanation, Hypothesis and Measures of Independent Variables in the Probit Model

Internet (INT). Dummy variable that proxies the use of elementary technology by the entrepreneur.
Hypothesis: businesses that use the Internet will have a greater chance of success.
(Nominal level data 1 = used Internet and 0= does not use Internet).

Working Capital (WC). Variable that proxies the degree on which the business was started with sufficient working capital.
Hypothesis: businesses that start with adequate working capital have a greater chance of success than firms that start undercapitalized.
(Likert scale 1 inadequate – 7 adequate capital).

Financial and Accounting Information (INF). Degree of clear and complete financial and accounting information management.
Hypothesis: businesses that keep updated and accurate records with adequate financial controls have a greater chance of success than firms that don't.
(Likert scale 1 poor – 7 good financial and accounting information).

Planning (PLAN). Variable that measures the specific degree of business planning.
Hypothesis: firms that develop specific business plans have a greater chance of success than firms that don't.
(Likert scale 1 no planning – 7 very specific planning).

Education (EDU). Years of owner formal education.
Hypothesis: people who start a business with a higher level of education have a greater chance of success.
(Likert scale 1 elementary – 6 graduate school).

Partners(PART). Dummy variable which asserts whether the business was started with partners.
Hypothesis: a business started by partners has a greater chance of success than a firm started by one person.
(Nominal 1 = started with partners 0 = started without partners).

Parents (PARN). Dummy variable which asserts whether business owners parents own(ed) a business as well. Hypothesis: If they do (did) they have a greater chance of success than owners whose parents did not own a business.
(Nominal 1 = parents owned a business 0 = parents did not own a business).

Marketing (MARK). Variable which describes the owner's sales and marketing efforts. Hypothesis: business owners that make marketing and sales efforts have a greater chance of success than owners than don't.
(Likert scale 1 little marketing - 7 great use of marketing).

Regression is the commonly used statistical analysis of entrepreneur research (Brush, et al., 2008). Most studies use a Bivariate Logistic regression to test the model, as in Lussier (1995, 2001), Cooper et al. (1990), Carter and Van Auken (2006) and Reynolds and Miller (1987; 1989). This study utilizes an Ordered Probit regression analysis. Whereas bivariate logit/probit arbitrarily categorize a firm's result in one of the two groups, thus deviating mediocre performances either to failure or to success, an Ordered model permits one to further classify the dependent variable. In this sense, a Multinomial model would be fine in the same way. However, Multinomial Logit/Probit models have the disadvantage of what is well known as the *Independence of Irrelevant Alternatives* property (Greene, 2000), overestimating the probabilities. Moreover, a Multinomial model ignores that the dependent variable categories have a preferred order, therefore losing efficiency of the estimators. Indeed, if one disregards that the dependent variable categories have an order, the mistake of not utilizing part of the available information is unavoidable and the parameters estimation, still unbiased, will have higher standard errors.
Consequently, an Ordered Probit technique is more appropriate for analyzing this data. The main idea is that under this ordered response there exists a latent random variable continuously distributed, which is represented by these interval values. The distribution parameters of the subjacent latent variable are estimated by Maximum Likelihood methods.

The model to estimate (based on Table 1 variable labels) is

Firm Relative Performance =
$\beta_1 * INT + \beta_2 * WC + \beta_3 * INF + \beta_4 * PLAN + \beta_5 * EDU + \beta_6 * PART + \beta_7 * PARN + \beta_8 * MRKT$

The Maximum Likelihood estimation method accounts for the heteroskedasticity of variance (y/x) since it is based in the distribution conditional to x. With the slope parameters β_i and the threshold parameters κ_i it is possible to estimate the likelihood of a 1, 2 or 3 relative performance.

Regarding the cut point or threshold parameters interpretation, Daykin (2002) suggested that if the dependent variable measure shows that most firms are in either one extreme or the other (for example, very poor relative performance or very good relative performance), one would expect that the threshold would be tightly bunched in the middle of the distribution, very close to one another. If, on the other side, firms appear to be more balanced, it would be expected that the cut point be widely dispersed.

In addition, it could happen that the cut points adjust to the questionnaire wording, in order to obtain the dependent variable, and might be doubtful and hard to understand. If this is the case, one would expect that the middle threshold to be far apart, reflecting an indifference on the part of the respondents who may not understand the question. This is important, as the questionnaire wording can be improved between studies, and a contraction toward the middle might be a sign of improvement.

In addition to Probit regression analysis, descriptive statistics and test of mean and proportion differences between relative successful, mediocre and failed firms were also run.

RESULTS

Control Variables

Control variables that affect relative performance include firm size (number of employees), firm age, and industry (Escribá-Esteve et al., 2008; Lussier & Pfeifer, 2001; Reynolds, 1987). Small firms are more likely than large firms to fail (Reynolds, 1987). In the sample, the average size, as measured by the number of employees, of the failed firms was 17 employees (s.d. 31), of the mediocre firms was 17 (s.d. 25) and 30 (s.d. 51) for successful firms. The sample was based on small businesses and the means of successful, mediocre, and failed firms is not significantly different at the .05 level. Therefore, firm size should not bias the results.

The age of a business also affects relative performance because new firms have a higher probability of experiencing a poor relative performance than established businesses and new businesses often lose money. However, the mean age, with similar medians, of failed businesses were 14.24 (s.d. 11.3) years, 15.2 (s.d. 13.7) years for mediocre firms and 15.16 (s.d. 13) for successful companies. Therefore, all groups are mature and the mean difference is not significant at the .05 level. Thus, age should not bias the results.

Industry can also affect success, as service and retail firms tend to have higher failure rates (Lussier, 1996a, 1996b). However, all industry sectors were included in the sample; Chi-square testing found no significant differences between the successful, mediocre, and failed businesses by industry. Thus, there are relatively equal numbers of firms that performed well, mediocre or poorly by industry, and industry should not bias the results.

Descriptive Statistics and Test of Differences

In addition to testing the model, the 8 variables in the model were tested for statistical differences. Table 3 provides the descriptive statistics for each variable. To test for differences, success, mediocre, and failed relative performance were used as the independent variable and each of the 8 variables in the model were used as the dependent variables. Chi-square was run for the three variables with dummy values. The one-way ANOVA was run to compare mean differences between the successful, mediocre, and failed firms for the other five interval level variables. The results of the test of differences between the successful, mediocre, and failed businesses supports the model. In all but three of the variables (education, partners, and parents) the mean or proportion percentage differences were significant, as seen in Table 3. The successful firms had a higher proportion using the Internet, they started with more working capital, they kept updated and accurate financial and accounting information, they developed more detailed plans, and they pursued marketing efforts.

Table 3
Descriptive Statistics and Test of Differences

Model Variables (N = 403)	**F Failed** Performance Mean/ [Percentage %] (n = 158)	**Failed** s.d.	**M Mediocre** Performance Mean/ [Percentage %]] (n = 101)	**Mediocre** s.d.	**S Success** Performance Mean/ [Percentage %]] (n = 144)	**Success** s.d.
1. Use of Internet	42.41% (F-S)*		48.51%		63.89% (S-F)*	
2. Working capital (1 - 7 adequate)	3.72 (F-S)*	1.48	3.94 (M-S)*	1.59	4.42 (S-F)*, (S-M)*	1.60
3. Financial and accounting info (1 - 7 good)	3.24 (F-M)*, (F-S)*	1.72	3.72 (M-F)*,(M-S)*	1.61	4.26 (S-F)*, (S-M)*	1.75
4. Planning (1 – 7 specific)	3.19 (F-S)*	1.87	3.41 (M-S)*	1.90	4.34 (S-F)*, (S-M)*	1.86
5. Education (1 elementary to 6 graduate)	3.89 (F-S)	1.18	4.02	1.19	4.29 (S-F)	1.19
6. Partners	44.94%		42.57%		40.97%	
7. Parents owned a business	37.97%		39.60%		33.33%	
8. Marketing (1 - 7 used)	3.38 (F-S)*	1.92	3.75 (M-S)*	1.84	4.51 (S-F)*, (S-M)*	1.87

* mean difference/proportion is significant at the .05 level.

Although not statistically different, the successful business owners have a higher level of education. The lack of significant difference may be due to the fact that there is no straight correlation between entrepreneurship and education. This finding is consisting with Escribá-Esteve et al. (2008), in contrast with most literature, did not find a moderator effect of the educational level of the owner or manager on the performance relationship.

Examining the descriptive statistics, the sampled entrepreneurs had an average of 2.9 years of college when starting a business. Most respondents have undertaken entrepreneur and management activities before starting their new venture. Those who worked at the employee level previously did so for an average of 8.5 years before starting their own business at the age of 34. Education variability among entrepreneurs is high. Some start a business with just an elementary school education, whereas others have completed graduate studies. Because there are exceptions with low levels of education, does not mean that education is not important. Further research is required on this point.

Ordered Probit Regression Model Test Results

Ordered Probit regression model test results are presented in Table 4. As shown, the model is significant and all the parameter estimates beta coefficients, except for education, are significant, being 5 of the 8 variables significant at the .01 level. The Ordered Probit regression result testing the model (LL test) was -805.15 and the Chi-square was 66.65, with the model significance level at $p = 0.000$.

The classification results show that, for a typical firm, which adopts sample mean values for all the exogenous variables X vector, the expected probability of relative success is 34%, the odds of showing a mediocre relative performance are 28%, and those of pursuing an unsuccessful venture are 38%. The model is also useful at predicting the probability of success of any firm. For example, if one takes the sample median values for the X vector, instead of taking the mean values, the estimated probabilities are, respectively, 52%, 26% and 22%.

From the Ordered Probit Regression results one can obtain the marginal effects of the interval and dummy explanatory variables. Results are shown on Table 5.

A view of these tables indicates, for example, that as planning increases by one point, probabilities of obtaining a failed performance are expected to drop 2.2%, the probability of showing a mediocre performance would drop 1.7%, and the probability of successful performance would increase 3.9%. Boosting the amount of working capital would diminish the probability of failing 3.6%, would decrease the odds of a mediocre performance 2.6%, and would increase the likelihood of a successful venture by 6.2%. The same analysis has to be done for the rest of the interval variables. A complete set of calculations of these values is available upon request. Marginal effects on dummy variables are shown as well. A firm that uses the Internet will increase the probability of succeeding by 4.7% and will decrease the risk of failing by 5.4%.

Table 4
Ordered Probit Regression Model Test Results

Model Parameter Estimates [1] Variables (N=403)	**β**	**SE**[3]
1. Internet	0.364	(0.135)***
2. Working capital	0.094	(0.041)***
3. Financial and accounting info	0.087	(0.039)***
4. Planning	0.059	(0.037)*
5. Education	0.059	(0.056)
6. Partners	-0.317	(0.131)***
7. Parents	-0.238	(0.125)**
8. Marketing	0.086	(0.038)***
Threshold Parameters		
K1	1.140	(0.264)***
K2	1.857	(0.269)***
Model Test Results		
-2 Log Likelihood	805.15	
LR (zero slopes)	66.653	
Model p value	0.000	
Classification Results		
P(y=1/X)	37.9%	Failure
P(y=2/X)	27.9%	Mediocre
P(y=3/X)	34.2%	Success

[1] Coefficient significance levels are denoted by * (.10) ** (.05) *** (.01).
[2] *The scaled R-squared is a measure of goodness of fit relative to a model with only a constant term, computed as a nonlinear transformation of the LR test for zero slopes.
[3] QML (Huber/White) standard errors and covariance

Table 5
Marginal Effects

Marginal Effects on Interval Variables

	Failed relative performance	Mediocre relative performance	Successful relative performance
Working Capital	-0.036	-0.026	0.062
Financial and Accounting Information	-0.033	-0.024	0.057
Planning	-0.022	-0.017	0.039
Education	-0.022	-0.016	0.038
Marketing	-0.033	-0.024	0.057

Marginal Effects on Dummy Variables

Internet

	Does not use Internet 0	Uses Internet 1	Change
P(y=1) Failed	0.471	0.416	-0.054
P(y=2) Mediocre	0.269	0.277	0.008
P(y=3) Successful	0.260	0.307	0.047

Partners

	Did not have partner(s) 0	Did have partner(s) 1	Change
P(y=1) Failed	0.410	0.485	0.075
P(y=2) Mediocre	0.278	0.267	-0.011
P(y=3) Successful	0.312	0.248	-0.064

Parents

	Parents did not own a business 0	Parents owned a business 1	Change
P(y=1) Failed	0.428	0.489	0.061
P(y=2) Mediocre	0.276	0.266	-0.010
P(y=3) Successful	0.296	0.245	-0.051

The model coefficient signs reveals that engaging in business planning activity, accessing adequate amounts of working capital, increasing marketing efforts and keeping clear and complete financial records and control can increase the probability of higher levels of relative performance. In particular, results confirm the association between planning activity and relative performance that is evident in most of the literature, as in Gibson and Cassar (2005) and Woods and Joyce (2003), as well as the need for adequate working capital and good financial records and control (Carter & Van Auken, 2006).

Even though there is a generalized use of Internet in corporate environments, the extent of Internet use still varies among small firms. Thus, a more current finding is the support for the need to use the Internet to succeed in all size business ventures. This is consistent with Carter and Van Auken (2006) finding that bankrupt firms are less likely to use the Internet in their business operations and with Forth and Mason (2006) findings that skill shortages in information and communication technology have an indirect negative impact on relative performance. There is a enormous potential benefit for the use of Internet in the small business sector. Indeed, their small size enables them to be more adaptable and responsive to changing conditions than larger organizations and to further benefit from the speed and flexibility that the electronic environment offers (Simmons, Gillian, & Durkin, 2008).

Two unexpected findings were “partners” and “parents who owned a business” having a significant negative effect (rather than positive) on the business venture. These two variables were not significant in the Lussier (1995), Lussier and Pfeifer (2000) U.S.A. and Croatia studies, and Lussier and Halabi (2010). The differences might be due to the development level of the country, but more research is needed to answer this question. On the one side, having partners can be helpful to a new business, and 41% of successful firms did have partners. But having partners in Chile could be a source of potential conflicts.

A third of the sample’s parents owned a business and could have been good or poor role models. Some of the parents may have been poor examples, such as not engaging in planning, or the heirs may have taken over the failing business from their parents, with little chance of making the business a success. Plus, entrepreneurs have no control over their parents owning a business. So in any case, these variables are less important than the others.

IMPLICATIONS

Some Public Policy Implications

This study adds to the existing entrepreneurship literature in understanding which variables to target in order to increase the odds of new ventures success. Some important contributions to the new business research are brought about: critical variables for business success can be summarized in two groups. First, it is a necessary condition to obtain an adequate amount of working capital, and secondly, to possess entrepreneurial skills and management tools. These findings have relevant implications for managers or owner-managers, as well as for policy makers. A discussion of the main findings and their policy implications follows.

Public Policy and the Macro Environment

Public policy is recognized as a key tool that governments use to foster entrepreneurship and economic prosperity (Sousa & Bradley, 2009). In a summary of the literature, Minniti (2008) stated that it is clear that government policy shapes the institutional environment in which entrepreneurial decisions are made. However, despite much research, we still don't know for sure what policies are more conducive to productive entrepreneurship, but it is clear that government influence is not always necessarily desirable and that one size does not fit all (Sousa & Bradley, 2009). According to Robson et al. (2009), these macroeconomic factors tend to have an impact on entrepreneurial intentions or activity.

Although policies needed vary across countries, two policies are critical for promoting growth in any country. First, policies should protect commercial freedom, property rights, and enforceable contracts. Second, given the vulnerability for monopolization, fostering opportunities for grassroots entrepreneurship is important through an active supply-side competition policy, emphasizing access to essential business services and other required local inputs (Minniti, 2008).

Small firms can contribute in demonopolizing industry structures (Doern, 2009). Chile policies do protect free enterprise and its antimonopoly institutions work effectively. But there are still considerable barriers to entrepreneurship and many of its policies have helped discriminatively large business, thus preventing the small business sector from achieving its potential. Therefore, public policy should be further developed to foster entrepreneurship and small business.

Barriers to Entrepreneurship

This study results show that working capital is a necessary condition for success. Indeed, it is important to develop and apply key resources to ensure business success, and it is even more important for small firms because they have resource constraints that put them at a disadvantage when competing with large businesses as they often have difficulty obtaining access to resources (Hanlon & Saunders, 2007).

Even though the Chilean legal and regulatory environment has improved substantially in recent years, the time and costs of starting a business in Chile are still high. Nine procedures must be followed to start a business, which take an average of 27 days, as compared to an average of 6 procedures and 15 days for the OECD countries (Djankov, La Porta, López-de-Silanes, & Shleifer, 2002). This cost, as a percentage of the Gross National per Capita Income, constitutes 8.6% in Chile, as compared to a lower 5% in the OECD countries.

It is often the case that the need for working capital forces an entrepreneur to turn to partners which, according to this study's results, seems not to always be in the firm's best interest. Reducing the time and costs would provide incentives for the creation of new ventures and would release resources that could be used to boost working capital, thus increasing the probability of success.

Any agency providing funding for new ventures or for the expansion of the existing ones require a business plan. Banks, venture capitalists and business angels need business plans before considering investment (Richbell, Watts, & Wardle, 2006). There are some public resources available for new ventures in Chile, but the targeted small businesses should be provided assistance in developing proper business plans, which would also help to make the venture more successful. It is critical to simplify the information needed to be eligible for these benefits, and to reduce the paperwork required to obtain the funds.

Best Practices

This study demonstrates that there are some managerial practices shown to increase the odds of success, which should orient entrepreneurship public policy strategy. While most agree on the benefits of entrepreneurship, the understanding of how and when governments intervene to assist entrepreneurs, as well as which, if any, entrepreneurs should receive assistance still has substantial knowledge gaps, and remains controversial (Robson et al., 2009).

Commonly used government policies include financing, taxation, regulations on trade, and encouragement of innovation activities. Among the most effective policies are providing risk capital, education and research, the development of entrepreneurial training programs, linkages between universities and entrepreneurs, incubators, chambers of commerce, networking, and most of all, science, technology, and research parks (Minniti, 2008).

Note that Internet use by small firms is still low in Chile. Only 51% use the Web to expand business opportunities, which means that there is still room to improve the use of this technology. Therefore, it is of particular relevance that public policy of Chile help small business by offering incentives to develop and use the Internet and other technologies. Research supports that middle-income countries should focus on increasing human capital, upgrading technology availability, and promoting enterprise development (Acs & Szerb, 2007). Thus, when calling for bids regarding technology development funds, policy makers should inform the community, simplify the complex paperwork, and increase these resources to promising entrepreneurs.

Most of the literature examined reveal that entrepreneurs need to engage in planning, as new ventures experience significant difficulties in finding a viable business model, and they often need to adapt their initial business plans (Andries & Debackere, 2007). Woods and Joyce (2003) found that those firms that were growing fast used more planning tools than those who were not, and the declining firms used the fewest. But there is also a need to provide training to improve the chances of business success. There is a the lack of knowledge that is the obstacle in using the planning tools and not the value that the small firm managers place on the tool they have not hear about (Woods & Joyce, 2003).

Easier access to working capital would aid new ventures. However, working capital without adequate planning and administration of good accounting information and financial control would be a waste of resources. Thus, the government could supply more professional advice to small business at low or no cost to entrepreneurs through courses and advisors who can provide an understanding of the capital needs to start a business, how to keep records, and financial controls. Management training should include how to develop a business plan, how to conduct ongoing strategic planning, and how to market the small business. Unlike large firms, small firms tend to be reactive rather than proactive with respect to the labor pool, and are not likely to signal which specific skills they require giving little priority in providing formal within-firm skills. Lack of appropriate skilled workers holds back investment, innovation and productivity (Bryan, 2006).

Finally, it is important to emphasize that the degree of clear and complete financial and accounting information was a critical variable in small business performance. In order to give businesses incentives to manage better financial and accounting information, thereby increasing the probability of success, public policy makers should align the requirements of tax information to the management needs of the firm. In Chile, firms provide the least information needed to comply with the requirements of the Internal Tax Revenue Service. A financial improvement would be for businesses to adopt the international financial reporting standards (IFRS) as a gradual substitute of the current generally accepted accounting principles (GAAP).

LIMITATIONS AND FURTHER RESEARCH

The results provide some insight into the area of entrepreneurial theories of market competition that leads to success. The current study supports the Lussier (1995) success vs. failure prediction model because it uses the model variables and is also significant in Chile. However, the current model is more robust because it extends the Lussier logistic regression model (success or failure) to an ordered probit regression model (failed, mediocre, or successful), and the model has been updated to include the use of the Internet. The model can be used to assess a firm's potential for success, and society can benefit in direct and indirect ways via the reallocation of limited resources toward higher potential businesses. However, there are other variables that may influence business performance that are not in the model, thus further research is needed to increase the explanatory power of the model, which could also increase its predictive power.

Since mostly subjective data was utilized for many key variables due to lack of objective trustable information, the study may suffer some weaknesses associated with the use of perceptual data. In particular, in future studies the subjective measures of relative performance could be combined with some objective measures, such as accounting information.

With the trend toward increasing globalization, international global business performance prediction models become more valuable. However, the model needs to be tested in other countries to further validate the predictor variables on a global scale.

Prediction models are an aid, not a replacement for, existing business venture decision-making techniques. Also, the model does not provide numerical guidelines for variables distinguishing success from failure. For example, how much working capital is enough to improve the probability of success, and how detailed should plans be. Indeed, business planning can take a variety of forms, from the informal to formalized and carefully prepared plans (Richbell et al., 2006). This study has utilized the variable planning, not specifying its form. It would be relevant to further assess the impact of formal written plans or business plans on relative performance.

Judgment is needed when applying the model. When the business is strong on some variables and weak on others, the judgmental assignment of a probability of success is more subjective. With mixed strengths and weaknesses among the variables, the other decision criteria previously used by entrepreneurs, managers, investors, lenders, and suppliers become increasingly important when they assign a probability of success or failure to a business. Thus, further research that uses the model variables with more objective measures can improve the variables' ability to predict performance. Researches can continue to further develop the model.

CONCLUSIONS

In conclusion, the Probit Ordered model is significant and the model variables do in fact predict relative performance. Thus, an entrepreneur can use the model to better understand which resources are needed to increase the probability of success and those that advise entrepreneurs can help them use the model. Investors and creditors can use the model to better assess a firm's potential for success. Public policy makers can use the model to assist entrepreneurial ventures so that society can benefit in direct and indirect ways via the allocation of limited resources toward higher potential businesses. Entrepreneur and small business educators can show the model variables to influence future business leaders, public policy makers, and their practices.

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SURVIVAL RATES OF NEW FIRMS IN NEW JERSEY: AN OBSERVATION

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ABSTRACT

This study examines the survival patterns of new firms that were created in New Jersey during difficult economic times (2009-2011), and how these rates might compare to earlier research, given that we used a more inclusive measure of births. Our findings indicate a similar survival pattern compared to previous studies for the first year of a firm's existence but a significantly worse rate for the second year. We discuss the implications of this finding in light of our more inclusive sample and the current macro economic climate.

INTRODUCTION

In these difficult economic times, the media, researchers, policy makers, and the general public have focused on job creation and venture creation. The overall macro growth rate in the numbers of businesses and jobs in the US is essentially a function of four activities: openings, closings, expansions and contractions of firms (Knaup, 2005). Openings typically consist of births and businesses that are reopening, including seasonal (Knaup and Piazza, 2007).

In the literature, survival rates of new firms have proven to be remarkably consistent across a number of studies, even if the time frames studied are different and the numbers must be adjusted accordingly to be comparable. For example, Knaup and Piazza (2007) found that in year one, 19 percent of the firms in their study went out of business. Geroski, Mata and Portugal (2010) also noted a similar pattern in that 21 percent of firms in their sample failed in the first year. Other researchers have looked only at longer survival rates, i.e., how many firms are still around after 4 or 5 years (or the reverse- how many firms have exited the market in that time frame). Dunne, Robertson and Samuelson (1988) found a five year exit rate of 52 percent which translated into a similar survival pattern as Knaup's 2005 study. Survival rates have also been looked at by industry sector and scholars too have reported a remarkable similarity in these rates across different types of businesses (Knaup and Piazza, 2007; Knaup 2005). Even in industries like restaurants (part of the leisure and hospitality industry) that conventional wisdom suggests are exceptionally risky ventures, their failure rates do not reflect a difference from the national average (Knaup, 2005). In general, these studies suggest about 19-22 percent of firms exit the market in their first year of existence.

Of course, economic impact is not measured by firm survival only: growth also matters. Some of the industry sectors experience higher growth rates among their survivors, which can lead to a greater overall economic impact, despite that industry losing more firms than other sectors. For example, employment growth was stronger in the information sector than in education, despite the fact that the information sector experienced a lower survival rate (Knaup and Pizza, 2007).

Our interest was in the survival rates of new businesses in difficult economic times (2009-2011) and how these rates might compare to other studies that were generally conducted when the macro economic climate was more favorable. Another issue we were interested in was whether there were any differences between studies of previous survival rates and our study because we were using a more inclusive measure of births than some of these earlier investigations. For example, the Knaup (1995) and the Knaup and Piazza (1997) studies use Business Employment Dynamics (BED) data from the Bureau of Labor Statistics (BLS). These data sets draw "from state employment insurance tax databases and collect information from approximately 98% of nonfarm-payroll business in the US (Knaup, 2005, p50)." The total number of businesses cited by Knaup and Piazza (2007) in the US in 2007 was 8.9 million. However, the BED data does not capture all of the new business entities created in that time frame. What is missing from the BED data is the solo business entity that does not have employees. The United States Small Business Administration (SBA) employs a broader measure of the number of firms that exist, determined by if a business tax form was filed that shows some business activity. According to the SBA, in 2008, that number of businesses was 29.6 million in the US (Small Business Administration, 2011). In contrast to the Knaupp and Piazza study, our sample would capture not only the BED data but would also include solo enterprises. While the BED data captures firms with employees and who are subject to state employee tax reporting requirements, our sample is broader but still requires enterprises to have a business location, as we excluded home-based businesses.

METHODS

Our data came from the New Businesses database that is part of ReferenceUSA, a commercial firm that offers listings of new and existing businesses, and, as mentioned, we were interested in the survival patterns of new firms over time. We chose counties from New Jersey as our geographic focus. When accessing this database, we also specified businesses that were started in a commercial space and were full-time (versus a home-based business and/or part-time venture). Given the expense to rent a separate business location, we believed that these firms would tend to be more substantial than a home-based venture because potentially more money was at risk, and the likelihood that employees would be utilized would also be greater. Since the information in the New Businesses database is gathered from a number of sources but has not been vetted by ReferenceUSA prior to its inclusion in the database, (B. Zielinski, personal communication, 7/18/2011), we also wanted firms in our sample that would have an better chance of being legitimate firms when we contacted them. Further, as only about 70 percent of the firms in this database have phone numbers, we also only took firms with phone numbers as we would be making calls to our sample to check on the accuracy of the information we were using.

When using ReferenceUSA's New Businesses database, lists of these firms can be generated using a number of criteria, including date of creation. We downloaded information on New Jersey firms that were created over a twelve month period from June 2009 to June 2010. We selected a random sample from this list and took every fifth firm in three categories: firms that were 1 month old, 6 months old, and 1 year old.

Given the nature of this database, and previous experience with ReferenceUSA, we checked the accuracy of the sample. We made calls to all firms in our sample and experienced a number of different responses which we categorized as follows: the phone number was no longer valid, we reached an answering machine for the business, we talked to an employee (non-owner), or we reached the owner. We found that a number of these phone numbers were not working numbers, even in the newest group (1 month old firms).

As we were making these calls, we also wanted to verify the accuracy of the ReferenceUSA database's stated number of employees, as employee growth is often used to reflect economic well being, particularly in circumstances where sales and/or profit data is not available. Further, since this data was going to be used for a time series, having accurate starting data was critical. To check the number of employees, we asked two simple data points when we were verifying the firm's existence: the current number of fulltime employees, and the number of fulltime employees at the time the business opened.

Specifically, the sample size was 730 New Jersey firms that were started between June 2009 and June 2010. It consisted of 244 firms that were one month old, 246 that were six months old, and 240 that were 12 months old. Each business was called to verify its existence. We identified firms as still in business by whether or not they still had a working phone number when they were called. If we spoke to the owner, employee, or reached a business answering machine, we considered them in business. Bad numbers were considered out-of-business. Phone calls were completed by early August, 2010. At that time, 271 firms were unable to be contacted and were deemed out of business.

The results of these phones calls were as follows:

TABLE 1- AUGUST 2010 RESULTS

	Frequency	Percent	Cumulative Percent
Interviewed owner	26	3.6	3.6
Talked to employee	258	35.3	38.9
Answering machine	175	24.0	62.9
Bad number	271	37.1	100.0
Total	730	100.0	

What we could not determine was the cause of failure of these 271 firms. Did they try the marketplace and were unsuccessful, or was there an accuracy problem in the ReferenceUSA database and we have a "garbage in, garbage out" issue? ReferenceUSA's promotional literature for the New Businesses database states that they identify these businesses from public documents and startup milestones like arranging for utilities (ReferenceUSA, 2004). However, since conversations with a ReferenceUSA representative after these phone calls revealed that these firms are not checked for accuracy when they are entered in the New Businesses database, a fair number of these 271 "failures" may be from data error. What we are sure of is that in August 2010, 459 firms in our dataset were still in business and these firms ranged in age from 1 month to 1 year in age. Specifically, they consisted of 146 firms that were 1 month old, 161 that were 6 months old, and 152 that were 12 months old. Going forward, our sample had approximately equal numbers in each group, just like the original 730 firms, leading us to believe that whatever the reasons were for the 271 firms to be missing, the initial data problems were evenly distributed among the remaining 459 firms in our sample.

These 459 firms were contacted again in July 2011 to measure their survival rate. We used the same methodology as before: if we spoke to the owner, employee, or reached a business answering machine, we considered them in business. Bad numbers were considered out of business. Of these 459 firms, 103 were out of business, leaving 356 survivors. The results of these phone calls are as follows:

TABLE 2- JULY 2011 RESULTS

	Frequency	Percent	Cumulative Percent
Interviewed owner	21	4.6	4.6
Talked to employee	180	39.2	43.8
Answering machine	155	33.8	77.6
Bad number	103	22.4	100.0
Total	459	100.0	

When they were contacted again in 2011, the surviving firms could be between 13 months and 24 months old. Therefore, part of this sample was already approximately 2 years old and would provide a useful comparison on survival rates.

HYPOTHESES

We were interested in seeing if the survival rate for the 1 year old firms was different than the survival rate for 2 year old firms. Previous studies indicated that the longer a firm survived, the less likely that they would fail in the succeeding year. Or, to look at it another way, the failure rates are the highest in the 1st year of a firm's existence, and then diminish over time. For example, Knaup and Piazza (2007) found that in year one, 19 percent of the firms in their study went out of business. In year two, another 15 percent went out of business. In year three, it was 12 more percent. Geroski, Mata and Portugal (2010) also noted a similar pattern in that 21 percent of firms in their sample failed in the first year, and then another 11 percent failed in the second year. As noted by Knaup (2005), other studies like Dunne, Roberts and Samuelson (1998) had 5 year survival rates of 38 percent, which translated into a similar survival pattern.

Accordingly, we expected to find that the survival rate for firms who were one year old and survived to the second year would be higher than firms who were new and survived to their first year, and tested the following hypothesis:

H1: Firms that were one month old would have a higher failure rate as they aged to one year old than firms who are one year old and aged to two years old.

We were also interested in learning if the survival/failure rates of the sample would vary for firms based on the number of employees they had. Previous studies suggested that the number of employees a firm has suggests a more substantive venture (Geroski, Mata, and Portugal, 2010; Knaup, 2005). In small, privately held ventures, sales and profitability data is often not available. Hence, number of employees and employee growth is often used as a proxy for business success (Longenecker, Moore, Petty, and Palich, 2011). In the summer of 2010, we asked the number of employees a firm had when we called the firms to verify their existence. We were successful in getting an employee number on 86 of these 459 firms (the others either refused to answer the question or we reached an answering machine when we called). We believed that firms with a larger number of employees would be more resilient and would be less likely to fail in the next year, and, therefore, tested the following hypothesis:

H2: Firms with a larger number of employees would have a lower failure rate than firms with a smaller number of employees

Our sample included manufacturing and non-manufacturing firms. Generally, manufacturing is considered a more complex business operation and requires more capital and planning to start than a venture in the service sector. Previous research suggested that the manufacturing sector would experience a lower failure rate than other sectors of the economy (Knaup, 2005). Therefore, we were interested in learning if startup manufacturing firms in NJ had a better survival rate than new non-manufacturing firms, and tested the following hypothesis:

H3: Manufacturing firms would have a lower failure rate than non-manufacturing firms.

FINDINGS

Descriptive Statistics- We were interested to see if the survival rates for a broader sample like ours were similar to BED firms, as discussed in the Knaup (2005) and Knaup and Piazza (2007) studies. The survival rate for all firms in the sample from the summer of 2010 to summer 2011 was 77.6 percent. By summer of 2011, our sample consisted of firms that ranged in age from 13 months to 24 months, with the average age of 18 months. However, the survival rate for firms in our sample is lower than new firms with employees, as discussed in the earlier studies using BED data. Nationally, from the BED data studies, the survival rate for firms in their first year of existence was approximately 80 percent (Knaup, 2005; Knaup and Piazza, 2007). Although there were some variations based on industry sectors, previous research does show a remarkable consistency (Dunne, Roberts, and Samuelson, 1988; Geroski, Mata, and Portugal, 2010). As noted earlier, in these studies, year two survival rates were better than year one in that about 20 percent of new firms failed in the first year, whereas only about 15 percent of those left failed in the second year (please note that this 15 percent is a marginal difference and cumulatively, about

35 percent of the firms failed over two years). When we looked at our firms that would have been one year old in 2011, about 24 percent failed in during that first year, which is not that much different than the BED data. However, when looking at our firms that are 2 years old, the failure rate for firms that aged from one year to two years old was 23.7 percent, or almost the same as the failure rate for firms in their first year of existence. This is where our data differs from the previous studies, which showed a failure rate of 15 percent for firms that were the same age as our sample.

Hypothesis one- Dividing our sample into the age cohorts revealed no differences in survival rates based on whether the firms in the sample were 13 months old or 24 months old. Of the 459 businesses that were still in business in the summer of 2010, 146 of them would have been 13 months old and 152 of them would have been 24 months old if they all survived when they were contacted again in the summer of 2011 (161 would have been 18 months old). Comparing the survival rates of these 1 year old firms vs. 2 year old firms, 76 percent of the 1 year old firms made it through their first year (24 percent failure- 111 out of 152), but what was surprising was that a very similar percentage of firms, 76.3, made it from their first year of existence to their second year, for a 23.7 percent failure rate (116 out of 152). Using a Chi-Square test, there was no difference between these two survival rates (p=.953) and, therefore, hypothesis one was rejected. This finding is clearly different than previous research which showed failure rates decreasing as firms' age. In our study, firms continued to fail at approximately the same frequency as they aged from year one to year two. Further analysis of this finding will be in the discussion session.

Hypothesis Two- We compared the survival rates of firms that had more employees to firms that had less employees. In the summer 2010, we had confirmed employment data on 86 firms. After the followup calls in the summer of 2011, we looked at the number of employees in firms that survived versus firms that failed. Using a t-test to compare the mean difference of the number of employees between firms that survived and those that failed, the average number of employees in the firms that survived was 8.64 versus 5.42 for the firms that failed. However, this different was not significant (p=.287) and, therefore, the hypothesis was rejected.

Hypothesis Three- As of July 2011, the 356 surviving firms consisted of 26 manufacturing firms and 330 non-manufacturing firms. The 103 who went out of business between the summer of 2010 and the summer of 2011 consisting of 3 manufacturing firms and 100 non-manufacturing firms. The results from a Chi-Square test do show a difference between these two groups but it was too weak to be significant at the 95 percent confidence level (p=.107). Hence, hypothesis three was rejected.

DISCUSSION/CONCLUSION

Looking first at the type of business, manufacturing firms appear to have a greater survival capability than non-manufacturing firms. However, the difficulty in determining this fact in our study is the small number of manufacturing firms in our sample. As this sample is from New Jersey, the most densely populated state in the country (Wu, 2011), manufacturing, while important, is not a major segment in the state's economy (State of New Jersey business portal, 2009-2011). Hence, while there was a difference in survivability, the numbers were too low for the difference to be significant.

A similar result was seen when looking at the number of employees. While there was a difference in the number of employees in firms that survived versus failed, the difference was not significant. This may be a function of the fact that we were only able to confirm employee size in a sample of our firms, as we did not get that information from any firms if we reached an answering machine or in some cases, if we reached an employee who did not cooperate. Even through the previous studies cited noted that employee size is a factor in firm survival, it is also possible that the number of employees difference here - over three- is simply a random variation.

However, what we found as the most interesting is the difference in survival rates. Compared to other studies of new firm survival rates that used BED data, our study is more robust as it included a sample of all firms who started a non-home-based business in the time frame indicated, not just those firms who had employees and, therefore, reported to a state employment insurance tax database. This difference seems to manifest itself in a poorer survival rate as the business ages and becomes two years old. Our study revealed that the odds of a firm surviving from year one to year two to be no better than the odds of them surviving from inception to year one.

We think that this finding is related to the uniqueness of our sample. As mentioned, compared to previous studies, our data includes non-payroll businesses and, therefore, would tend to be smaller and possibly less fiscally sound than businesses with employees. However, since we did eliminate home-based businesses, our sample would theoretically have at least some initial capital, enough to rent a business address. The information that came from the ReferenceUSA database on firm size was limited to number of employees, and while we confirmed that whenever possible during our phone calls, a number of times we reached an answering machine or an employee who refused to give us that information. However, the fact that we reached an answering machine in over 43 percent calls to surviving firms suggests that there were no employees and the owner was otherwise engaged and unable to take the call.

Another possibility for the increased failure rate is the potential risk factor if a firm shuts down. For example, if an owner tries a venture and is able to minimizes his/her startup costs and has no employees, running the venture may become a “heads I win, tails I don’t lose much” scenario, and the decision to exit the venture could be easier than in a firm with more at stake. While these ventures would often require more capital than a home-based venture, having no employees does remove one level of difficulty when closing.

The macro-economic conditions can also come into play here too. The earlier studies cited all looked at data from before the economic crisis in 2008. In the current difficult economic times, firms may continue to experience trouble remaining viable and, therefore, are as much in danger of closing in year two of their life as in year one. However, the macro economic conditions would also impact the one year old firms in our study and one would also expect to see a spike in year one failures too, when compared to previous studies. Further, Headd and Kirchoff (2009) found that survival rates were not affected by macro-economic conditions and that they remained stable in a recovery period, in the beginning of a downturn and even during a period of rapid expansion (p.545). In fact, the year one failure rate of our sample was very similar to previous research and it was only in year two that it diverged. An interesting area for further research would be to continue to track this sample of firms as they age to see the pattern of business survival over a longer time frame. It is possible that if other studies start to examine survival rates across a broader measure of business creation than BED data, they too will reveal a survival pattern closer to what our sample has experienced so far rather than the pattern revealed by earlier studies, which used the subsector composed of payroll businesses.

Finally, the current economic conditions (slow growth/sluggish recovery) does appear to be different than recoveries from previous recessions and perhaps has changed the impact of the macro-economic conditions on firm survival rates. Further research here would help determine this possibility.

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AMERICA'S LARGEST BLACK-OWNED COMPANIES: A THIRTY-FIVE-YEAR LONGITUDINAL ANALYSIS

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ABSTRACT

This paper presents data on America's largest black-owned companies over a thirty-five-year period, from 1974 to 2009. Trends with regard to industry categories and survival rates are analyzed within the context of changing social, demographic, economic and legal factors. The resulting analysis provides conclusions and implications which should be of interest and value to current and aspiring minority business owners, to consultants to minority business, and to researchers in the field of minority business.

INTRODUCTION

This paper presents a thirty-year longitudinal analysis of the largest black-owned businesses in the United States, from 1974 through 2009. As explained later in this paper, this analysis provides data, information and resultant implications which should be both of interest and of value to: a) minority businesspeople, b) researchers in the area of minority business, and c) consultants to minority business.

African American-owned and -managed businesses have existed in America since Colonial times. Prior to the Civil War, both slaves and freed blacks engaged in a variety of commercial and entrepreneurial endeavors, with both black and white customers (Walker, 1998, 1999). After the Civil War, with the growth of segregation, most black-owned business moved into a separate sub-economy, primarily serving black customers only (Sonfield, 1979).

Since the early 1970's the magazine *Black Enterprise* (BE) has published an annual listing of the largest African American businesses. Originally limited to the one-hundred largest black companies and labeled the "*BE 100*," the compilations have expanded into several different listings in more recent years, but are still collectively referred to as the "*BE 100*." Eligibility for these listings requires black ownership of greater than 50% of the company's voting class stock. Over the years, various economic, demographic and political trends have impacted the makeup and character of these lists, but they have always remained an excellent measure of the nature of black business activity and success in this country. The analysis, building upon earlier analyses, presented in this paper reorganizes the *BE 100* data, relates this data to other relevant data, and investigates the character and development of these listings over this time period (Sonfield, 2007).

METHODOLOGY

Working backward in five-year increments from the most recent (2009) data, this paper analyses the *BE 100* lists for the years 1974, 1979, 1984, 1989, 1994, 1999, 2004, and 2009. Until 1988, most non-financial businesses were included in one listing, but in that year, and in most subsequent years, this primary listing was separated into an "Industrial/Service" listing and a separate "Automobile Dealership" listing, due to the preponderance of auto dealers on the original single list. For this current analysis, these two listings since 1988 have been combined, with a single "Top 100" listing generated. This allows a consistent analysis over the entire thirty-year time period. This combined *BE 100* listing has been examined for industry categories, trends, and survival rates, for the entire thirty-five-year period.

Black Enterprise has for many years also compiled various listings of the largest black-owned financial and insurance companies. Because a comparison of the "sales volumes" of such companies to the sales volumes of the industrial, service and auto dealer companies in the *BE 100* listings would be fallacious and misleading, these other listings were always kept separate from the *BE 100* listings. For this same reason, this current longitudinal analysis focuses only on the primary *BE 100* industrial/service/auto dealers listings.

Also, to improve the soundness and validity of the analysis, one company in the 1994 listing was deleted from this study. For several years in the mid-1990s the largest black-owned company in America was *TLC Beatrice International Holdings*, a large international food processor and distributor, which the late Reginald Lewis acquired through a leveraged buy-out. (Mr. Lewis [1942-1993] has been called "the Wealthiest Black Man in History" and was a highly successful Wall Street deal maker.) *TLC Beatrice* was an anomaly in the *BE 100* listings during those years, with sales around four times as large as the second largest company in each of those years. In the late 1990s the company was dismantled and lost its black-owned status. To make this paper's analysis more useful, and especially to allow the aggregate data to be representative of the remaining 99 firms, TLC Beatrice has been removed from the 1994 listing and not included in any of the analyses.

DATA

Table 1 shows the compositions of the *BE 100* listings for 1974-2009, categorized by type of business. The number of companies in each category are shown, along with the percentage of the total sales in each category.

Table 2 lists the *BE 100* companies in the 1974 listings, and shows the number that survived one, two, three, and three-and-one-half decades (to the 1984, 1994, 2004, and 2009 *BE 100* lists). These survival rates are categorized by 1974 decile and by industry group.

Table 1

Black Enterprise 100 Listings by Industry

	1974	**1979**	**1984**	**1989**	**1994**	**1999**	**2004**	**2009**
Auto Dealerships	24 18%	32 24%	44 32%	55 46%	50 50%	48 44%	41 34%	24 18%
Food/Beverage Wholesale/Retail	19 22%	15 14%	8 7%	8 12%	9 10%	7 9%	11 9%	14 12%
Misc. Manufacturing	12 7%	13 10%	8 6%	10 8%	10 9%	12 10%	11 12%	6 3%
Construction/ Contracting	18 16%	8 9%	9 12%	3 5%	2 3%	0 0%	2 2%	7 4%
Media	7 9%	7 9%	5 9%	5 9%	8 12%	6 9%	6 7%	5 5%
Misc. Services/ Distribution	12 10%	9 11%	3 2%	9 8%	8 6%	21 21%	17 16%	22 28%
Energy	3 3%	9 12%	9 10%	0 0%	2 2%	1 1%	1 5%	3 7%
Health Care/ Cosmetics	2 5%	3 4%	6 8%	4 4%	3 3%	1 1%	0 0%	3 2%
Entertainment/ Hotels	3 10%	3 5%	6 7%	2 4%	0 0%	2 1%	0 0%	4 5%
Technology	0 0%	3 2%	6 6%	4 4%	8 8%	2 5%	11 15%	12 16%
Total Companies Total Sales ($ millions)	100 $686	100 $1,244	100 $2,562	100 $3,615	100 $7,432	100 $12,511	100 $19,169	100 $20,519

Top number = number of companies (total = 100)
Bottom number = percent of total *BE 100* $ sales (total = 100%)

Table 2
Black Enterprise 100 Survival Rates

	1974-1984	**1974-1994**	**1974-2004**	**2004-2009**
Decile				
1-10	6	1	1	1
11-20	3	1	1	1
21-30	1	1	0	0
31-40	2	0	0	0
41-50	1	0	0	0
51-60	2	0	0	0
61-70	2	2	0	0
71-80	1	0	0	0
81-90	2	0	0	0
91-100	1	0	0	0
Total	21	5	2	2
Industry (number of companies in 1974)				
Auto dealers (24)	8	1	0	0
Food/Beverage (19)	3	0	0	0
Construction/Contracting(18)	3	2	1	1
Misc. Manufacturing (12)	0	0	0	0
Services/Distribution (12)	0	0	0	0
Media/Publishing (7)	3	2	1	1
Entertainment (3)	1	0	0	0
Fuel Oil/Energy (3)	2	0	0	0
Healthcare/Cosmetics (2)	1	0	0	0
Technology (0)	0	0	0	0
Total (100)	21	5	2	2

ANALYSIS

An analysis of this data provides a variety of conclusions. The strength of America's top 100 black-owned companies has grown significantly over the past three decades. The *total* combined sales volumes of these 100 companies has increased from $686 million in 1974 to more than $20 billion in 2009, an increase of almost 3000%. Yet while this seems impressive, it should be recognized that even the largest black-owned companies in this country are very small in comparison to America's largest mainstream companies. Motown Industries, the largest *BE 100* company in 1974 had sales of only $45 million; the #100 company, Yonkers (NY) Plate Glass, had sales of $2.5 million. In 2009, the largest *BE 100* firm was World Wide Technology (a St. Louis, MO information technology company), with sales of $2.2 billion, and the #100 company was The Client Base Funding Group, a software and equipment leasing company headquartered in Los Angeles, with about $48 million in sales. In comparison, according to the *Fortune 500* listings, the largest mainstream company in the United States in 1974 was Exxon, with sales of $42 billion, while the number 100 company was Raytheon, with sales of $1.9 billion. In 2009 the number one company was Exxon-Mobil, with sales of $443 billion and the number one-hundred firm was Rite-Aid, with sales of $24.4 billion. Thus even the 100th largest American mainstream companies have had sales greater than the one hundred largest black-owned companies combined.

Company Sales

		BE 100	*Fortune 500*
1974	#1	$45 million	$42 billion
	#100	$2.5 million	$1.9 billion
2009	#1	$2.2 billion	$443 billion
	#100	$48 million	$24.4 billion

The relative insignificance of the *BE 100* firms is also demonstrated by their survival rates in the past thirty years. Only 21 of the 1974 *BE 100* companies survived onto the 1984 listing, only five continued to the 1994 listing, only two continued to the 2004 listing, and these two continued on to the most current 2009 listing. There are three basic reasons for these low survival rates. First, the majority of the 1974 companies simply went out of business. Second, some of the companies on the earlier *BE 100* listings fell below the #100 position in later listings, as larger and faster-growing firms passed them by. And third, some of the most successful and largest *BE 100* firms were acquired by mainstream majority-owned companies and thus lost their black-owned status. (For example, 1974's #1 *BE 100* company, *Motown Industries*, was acquired in 1993 by *Universal Music Group*, a leader in the music industry and owner of the largest group of record labels in the world. Recent examples of other large and well-known *BE 100* companies that were bought by majority-owned mainstream companies include the publisher of *Essence Magazine* and the network *Black Entertainment Television*.) In contrast, the vast majority of the 1974 *Fortune 500* companies are still household names, and although many have been acquired by, or merged with, other companies over the years, only a few of the businesses no longer exist at all.

An examination of the data in Table 1 indicates several trends worthy of discussion. Black-owned auto dealerships have grew significantly as a segment of the *BE 100* listings from the early listings, peaking in the mid-1990s and dropping significantly in recent years. The original 20-year rise was the result of both demographic changes and efforts made by the American automobile manufacturers (and subsequently foreign automobile manufacturers) to increase the number of minority-owned dealerships. As a highly visible component of the U.S. economy, and under social, ethical and political pressures from various sources, in the 1970's and 1980's automobile manufacturers established formal programs to increase the number of their minority-owned franchisees. At the same time, as whites moved out of urban areas, white auto dealers abandoned these locations for new suburban locations, and African American and other minority-owned dealers moved in to fill the void.

Also, typical prices of cars and trucks have risen by a factor of almost ten over the past thirty-five years, while unit sales about doubled from 1974 to 2004 and then, responding to the overall economy, dropped almost 40% to 2009 (Consumer Reports, 1974, 2004; Statistical Abstract, 1974, 2004, 2009). Yet, in spite of the relative strength of this *BE 100* sector, survival rates for black-owned auto dealers have been no better than in smaller *BE 100* sectors. As Japanese, Korean and German car sales rose over the years, many black-owned dealers of American car brands either went out of business or remained in business but were pushed off the *BE 100* listings by black-owned *foreign* car dealers. It was the on-going efforts on the part of the American and foreign automobile manufacturers to foster new minority franchisees over the decades that kept the number of sizable black-owned auto dealers relatively constant from the mid-1980s to the mid-2000s, even as most of the dealers of the 1970's and 1980's dropped from the *BE 100* listing.

A second significant trend in the *BE 100* listings is the decline in the Construction/Contracting and the Energy segments from 1984 to 1999 and then a rise since then. These two groups constituted about 20% of the total listings' companies and sales in the 1970's, dropped to a very minor factor in the 1999 listing, and more recently have strengthened again. Central to these trends is the changing nature of governmental set-aside procurement and contract programs over this time period. In the 1970's, federal, state and local governments established and expanded set-aide procurement and contract programs specifically aimed at minority-owned businesses. Black-owned construction and contracting companies were awarded parts of various construction projects, and black-owned fuel oil and coal suppliers were awarded contracts to supply a variety of federal and municipal building complexes and facilities. Black entrepreneurs recognized these opportunities and started and grew companies to take advantage of these contracts. But in the 1990's several U.S. Supreme Court rulings set tough new eligibility standards for federal, state and local set-aside programs, and many of these programs have been constrained or ended (Kirk et. al., 1996; Sonfield, 1997). As a result, many of the *BE 100* companies in these areas lost a major portion of their business and dropped off the listings since these court rulings. However, with the recent economic downturn and recession in the late 2000s, other types of business have suffered greater sales declines than those companies with ties to governmental construction and energy needs. Thus, while the construction/contracting and energy segments of the *BE100* have not flourished in recent years, sales in these two segments have declined at a lesser rate than most of the other segments..

The Food/Beverage Wholesale/Retail segment of the *BE 100* also declined from 1974 to 2004, and then rose somewhat to 2009. Here the explanation involves the changing nature of these industries. Like the auto industry, the fast food industry responded to various pressures in the late 1960's and 1970's by formalizing the development of minority-owned franchisees. Companies such as McDonald's and Burger King actively recruited qualified minority franchisee candidates and assisted them with financing and site development. Similarly, these and other fast food franchisors sought out minority-owned suppliers for the food and beverage products sold by their franchised retail outlets. The strength of this segment in the 1970's *BE 100* listings is an indication of these corporate efforts. But in more recent years, the trend in the fast food industry has been for large corporations to reduce the number of franchise owners they have to deal with by fostering the rise of multiple-unit franchisees. Typical franchisees now have large geographic franchises with dozens of store units. At the same time, fast food franchisors (and large corporations in general) have similarly moved to reduce the number of their suppliers and now buy from fewer and larger companies. Minority franchisees and suppliers of food and beverages were hurt by these changes in corporate strategies, and this is reflected in the 1974-2004 data. The rise from 2004 to 2009 again is a reflection of larger economic trends. Certain industries have fared better in the recent recession than have others, and the fast-food industry has performed much better than most industries (Roy, 2009).

One other trend in the *BE 100* listings is the rise of the Technology sector. Both home and business computers, and the range of industries related to them, were in their infancy in 1974. Today this is a major segment of the combined U.S. and world economies, and the rise from zero in the *BE 100* listings to a sizable segment is consistent with this technical and economic revolution.

The 1974-2009 movements in the other categories of the *BE 100* listings can be largely explained by the more significant trends in the previously-discussed categories, and by the economic recession of the late 2000s. With a set number of one hundred total companies, any major trends in some of the categories necessarily must be offset by increases or decreases in the other categories. And as some business segments have suffered to a greater degree from the recession and have lost their share of the *BE100*, other segments have therefore increased their shares.

IMPLICATIONS

It is important for current and aspiring minority business owners to understand this history of America's largest black-owned companies. If these individuals understand the nature of these companies and the various reasons and factors which led to success and failure in achieving and maintaining such business stature, then they will be more likely to achieve success for their own companies as well.

First of all, the *largest* black-owned companies are in fact relatively *small*. Almost all of these *BE 100* companies are privately-owned and thus dwarfed by *Fortune 500* companies and other companies whose equity consists of publicly-traded stock. To be "black-owned" requires that at least 51% of the company be owned by blacks (or at least 51% of the *voting* shares of stock), and thus being "black-owned" and also truly "large" is simply not possible. With this point understood, then factors relating to success and failure can be considered.

Perhaps the most significant factors in the success and failure of *BE 100* companies are governmental and private-sector programs targeted toward minority businesses. The majority of the *BE 100* companies throughout the thirty-five-plus years of the listings have been recipients of procurement and other contracts from either large corporations or from federal, state or local government agencies which were specifically set aside for minority companies (Spruell, 2005). Automobile manufacturers have supported new minority-owned auto dealers and minority-owned suppliers of components used in auto manufacture. Fast-food chains have supported minority-owned franchisees and suppliers of food to their franchisees. And government agencies at all levels have set aside contracts for minority-owned firms providing all types of goods and services. While it is certainly possible for a minority-owned company to be successful without such minority-targeted contracts, these contracts do allow a small firm to compete against older, larger and more-established competitors, and also to survive major economic downturns (Smith et. al., 2004).

Another major and related factor leading to the success or failure of *BE 100* companies over the years has been their reliance upon other larger mainstream companies' strategies and performances. As foreign brand automobiles and trucks have taken market share from American brands, black-owned auto dealers have risen and fallen with these sales trends (Hocker, 2005). As large mainstream American corporations have moved to reduce the number of their suppliers, the biggest and strongest *BE 100* companies have benefited and grown, while other *BE 100* firms have lost sales and withered. As federal, state and local government agencies have responded to U.S. Supreme Court rulings, the selection processes for set-aside contracts have been tightened, to the benefit of some *BE 100* companies and to the detriment of others.

Similarly, as some business segments of our economy have survived through economic downturns, those *BE100* companies fortunate enough to be in those segments have also fared better.

And still another important factor is the significant number of high-ranked *BE 100* companies over the years that have agreed to be bought by larger mainstream companies (Dingle, 2005). Some of the best-known *BE 100* names and brands have been acquired by *Fortune 500* companies and dropped from the *BE 100* listings.

There are a number of implications for current and aspiring black minority businesspeople (which also apply to other minorities and to women business owners as well). Those who consult to minority businesses and those who conduct research in this aspect of the business world should also understand these implications.

Since corporate and government minority-targeted contracts have been central to the growth and success of so many *BE 100* companies, then black, other minority, and women business owners should know how to identify these contract opportunities and increase their chances to obtaining such contracts. The National Minority Supplier Development Council (NMSDC) is the primary link between minority businesses and corporate America. The NMSDC has currently certified

16,000 businesses as "minority-owned" or "minority-controlled" and its 3500 corporate members purchased $100.5 billion worth of goods and services from these minority businesses in 2008 (NMSDC, 2011; Sonfield, 2005). Although corporate procurement offices can be contacted directly, the NMSDC is the most efficient path for private-sector minority-targeted procurement opportunities.

Similarly, although agencies and offices at all levels of government can be contacted for possible minority-targeted contract opportunities, the U.S. Small Business Administration's "8(a)" Business Development program is the largest and best-known of these public-sector programs. In recent years, small disadvantaged minority and women-owned businesses have received around $5-7 billion a year in set-aside contracts (SBA, 2011). A central information source for other federal government contract opportunities (beyond the 8(a) program) is http://www.fedbizopps.gov/, the Federal Business Opportunities website. Most state and larger local governments have similar programs, with information usually available on their web sites.

Since most U.S. corporations' current procurement strategies involve reducing the number of suppliers and providing larger contracts to those suppliers utilized, minority businesses have a greater chance of securing contracts if they are larger or can demonstrate their ability to meet large contract responsibilities. This is often the case for governmental contract opportunities as well. Thus, the top-ranked *BE 100* companies' chances for long-term success seem stronger than for those firms at the lower end of the rankings. Yet, for both private and public-sector procurement, smaller minority businesses can sometimes increase their contract opportunities if they form a strategic alliance or joint venture with another minority company, or with a majority-owned company, so that their combined supplier or contractor strength may better meet the needs of the procuring company or agency. Many successful *BE 100* firms have used this strategy to obtain contracts. (The U.S. Small Business Administration has encouraged such alliances via their "Mentor-Protégé" program, in which a mid- or large-sized non-minority company can serve as a "mentor" company in partnership with a smaller minority-owned "protégé" company and be eligible to bid together for minority-targeted federal contracts (Sonfield, 2005).)

A final implication deriving from this analysis involves the pressure upon the most successful *BE 100* companies to sell their businesses to larger mainstream companies. Certainly one of the rewards of business success is the opportunity to sell and reap the financial prize, but minority business owners should understand the alternatives. Some of the most successful *BE 100* business owners have chosen to sell off segments of their companies and then continue to grow the remaining units. The result is both a financial gain and the ability to continue at the helm of a successful minority business and obtain the satisfaction of doing so.

CONCLUSIONS

The thirty-five-year history of America's largest black-owned businesses analyzed in this paper is a story of successes and of failures. *BE100* companies have risen and fallen over these years, sometimes due to their own management and strategies, and sometimes due to external economic or industry trends. This study has brought together data not previously combined or organized in this manner. Thus, the data and analysis presented in this paper provide important implications for practitioners, consultants and researchers.

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AN EXAMINATION OF SMALL BUSINESS CONTRACTORS TO A LARGE GOVERNMENT AGENCY

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ABSTRACT

The current study examines contracts awarded by a large federal enterprise in an effort to better understand the degree to which Minority Business Enterprises (MBE) were associated with specific industrial categories when compared with non-minority enterprises. Using NAICS code categories, findings indicated that MBEs are more-likely to serve as contractors within Construction (NA23), Administrative, Support, and Waste Management (NA56), and Educational Services (NA61). Within these NAICS codes, Socially Disadvantaged Businesses (SDB) were significantly more likely to be Construction (NA23) and Administrative, Support, and Waste Management (NA56) firms than were the other minority groups. Women Owned Businesses (WOB) were the most likely providers of Educational Services (NA61). Metal Manufacturing (NA33) is characterized by significantly more non-minority-owned small businesses contractors.

INTRODUCTION

As is frequently noted, entrepreneurship plays a significant role in the economy of the United States. It is known to be a powerful source of economic growth and innovation (Reynolds & White, 1997) and as a result, we all have a vested interest in promoting the success of small business enterprise. By providing job growth, technological innovation, increasing economic diversity, providing for increased local spending and loyalty, small businesses play a seminal role in local, regional, and the national economy (Luke, Ventriss, Reed, & Reed, 1988). According to the Small Business Administration (SBA) Office of Advocacy, more than 99% of all current employers are classified as small businesses, and that much of the new job growth necessary for economic recovery will come from the small business sector (SBA Office of Advocacy, 2010). The current study aims to examine the categories of small business contractors to a large government agency.

BACKGROUND

Despite the many virtues of small businesses, significant obstacles to their long term success exist. One way that small businesses seek to survive and prosper is by seeking out government agencies as customers – acting as federal contractors. Given the significant role that small business plays in our economy, the responsibility to ensure their success extends to the government as well. In fact, Section 2(a) of the Small Business Act states that:

> "…security (of our Nation) and wellbeing cannot be realized unless the actual and potential capacity of small business is encouraged and developed…" (Jenkins, 2009).

This acknowledgement underscores the myriad special programs that assist small business; from start-up resources to ongoing customer relationships, the government and other institutions are intertwined with small business enterprise. Specifically, included in SBA's mission is the mandate to increase Federal prime and subcontracting opportunities for small businesses in general, as well as specifically women-owned, services-disabled veteran-owned, small businesses owned by socially and economically disadvantaged individuals, and small businesses located in Historical Underutilized Business Zones (HUBZone).

Mandate to Government Agencies

In order to meet its mission with regard to small businesses, the federal government utilizes several procurement preference programs for small businesses, including: Small Business Set-asides, which restrict procurements to small businesses, and the Small Disadvantaged Business Program, which favors certified SDBs in prime and subcontracting activities (United States Department of Labor, 2011). The goals of these preferential procurement policies are to stimulate and equalize opportunities for minority owned businesses. The federal government focuses procurement efforts on small businesses out of recognition of the significant economic impact and job creation typical of small ventures. Current guidelines from the federal government set targets for federal direct procurement contracts awards for small business. This target has grown since inception and currently sits at 23% of direct procurement (Reardon, Nicosia, and Moore, 2007). The system is having a large impact. From Fiscal Year (FY) 2000 through FY 2007, total Federal procurement increased from approximately \$200 billion to more than \$378 billion. During this time period, the small business share almost doubled, increasing from \$44.7 billion to \$83.3 billion. Subcontracting dollars going to small business in FY 2007 totaled \$64 billion. For that same period, contract awards to: small disadvantaged businesses increased from \$7.3 billion to \$24.9 billion, women-owned small businesses from \$4.6 billion to \$12.9 billion, HUBZone certified businesses from \$663 million to \$8.5 billion, and service-disabled veteran-owned small businesses from \$554 million to \$3.8 billion. Of the top 100 firms awarded small-business contracts in FY 2010, 39 were small businesses according to an analysis by the American Small Business League. These firms received nearly 40% of the \$14 billion that went to the top 100 companies, ASBL reports (Chacko, 2011).

CATEGORIES OF SMALL BUSINESS CONTRACTORS

The Small Business Administration (SBA) provides the definitions of the various categories of small business and also manages the certification of the special categorical programs. In order to be designated as a "small business" an organization typically must meet a "size" standard; the SBA uses both number of employees and annual sales revenues for this purpose. Categorization also depends on an organization's North American Industry Classification System (NAICS) code. Depending on NAICS classification, a firm is considered small if its sales are under \$12 million. However, for some industries (such as construction or technical/scientific) this threshold is higher. The employee metric utilized is typically that organizations must have fewer than 500 employees, although this may also vary somewhat based upon industry. Organizations are considered "large businesses" if they do not meet the qualifications of a "small business" as described herein.

Within the small business category exists several sub-categories of business contractors. These categories were formed to identify historical under-representation, challenges in terms of capital acquisition, and propensity toward innovation. The government also identifies rules and targets for each category related to the distribution of federally awarded contracts and, in some instances, provides for additional support mechanisms such as mentoring. The six major small business set-aside designations include: minority business enterprises (MBE), women owned businesses (WOB), veteran, disabled veteran, HUB, and socially disadvantaged/8a businesses (SDB). Each of these requires that the business meet the definition of "small" and also provide documentation of 51% ownership by a member of the group identified. Socially disadvantaged/8a businesses require an additionally certification process that includes at least two years of business tenure and a lengthy application process.

The current study focuses on MBE, WOB, and SDB firms. An overview of each is provided next.

MBE. Minority business enterprises are self-designated as meeting the parameters set forth by the SBA. Although a growing segment of the small business category, between 1997 and 2002, the number of minority firms grew by 30%, surpassing the growth rate in number of all U.S. firms and of the minority population during the same period, MBEs are known to face many obstacles.

Despite the tremendous growth rate, average gross receipts of minority firms declined by 14% between 1997 and 2002, compared to a decline of 2% for non-minority firms during the same period. According to a study by the U.S. Small Business Administration (SBA), minority-owned firms had lower survival rates compared to non-minority firms. The study included firms that were operating in 1997 through 2001 based on a special tabulation from the Census. The survival rate for all minority businesses was 69% compared to 72.6% for all non-minority firms during the same period. Of these firms, African American firms had the lowest survival rate at 61%, followed by American Indian and Native Alaskan firms, 67%; Hispanic, 68.6%; and Asian and Pacific Islander, 72.1%. (Lowrey, 2004).

Past research suggests that Caucasian business owners often have a resource advantage; minorities are faced with more obstacles in the entrepreneurial process, such as less education and business experience, limited resources, and fewer mentors and advisors (Kourilsky and Esfandiari, 1997; Heilman and Chen, 2003). In addition, minorities have greater difficulty obtaining traditional financing for their business endeavors (Verheul & Thurik, 2001; Coleman, 2002) and are more likely to have shorter, or inadequate, credit history (Shaw, Carter & Brierton, 2001). As a result of this, minority entrepreneurs were more likely to use more expensive sources of capital, such as credit cards, and less likely to use lower-cost capital, such as bank loans, to start or acquire a business compared to non-minority entrepreneurs. Minorities were also less likely to use bank loans to finance the expansion or capital improvement of the business compared to non-minorities. The higher cost of capital places an additional burden on minority entrepreneurs who were trying to grow their businesses.

Research has also indicated that minorities are less interested in starting a business (Matthews & Moser, 1995; Kourilsky & Walstad, 1997). When minorities do choose to start a small business, it tends to be smaller and is frequently within the retail or service sectors (Perry, 2002), where failure rates are much higher than other business sectors (Brush & Chaganti, 1999). Robb (2002) and Marlow and Patton (2005) suggests that this occupational segregation may result from the capital restraints faced by many minority entrepreneurs.

WOB. The SBA defines a firm as woman owned if it meets the parameters for a small business and if a 51% ownership position is held by a woman. Federal procurement procedures provide preferential selection practices towards firms who are woman-owned and additional preferential programs are available for firms whose minority owner is woman owned and economically disadvantaged (Reardon et al., 2007).

Women owners comprise a significant percentage of small businesses. Facing slow gains in employment opportunities and inequality in larger firms, women increasingly turn to self-employment. White females (8.3%) are the fourth highest demographic likely to own or operate their own business (following white males (14.4%), Asians (10.2%) and Hispanics (8.5%)) (Blanchflower, 2009). Through 1997, the growth of women owned businesses was roughly three times that of male owned businesses and the magnitude of change is projected to increase (Daniel, 2004).

While Robb (2002) reports mortality rates for women owned businesses as 2-3% more prevalent than male owned counterparts, other evidence suggests that these mortalities may not represent firm failures. Indeed, discontinued firms with female ownership are substantially less likely to have entered bankruptcy than their male owned counterparts (Robinson, 2007), suggesting that this difference is driven by higher risk-aversion in female entrepreneurs. While Robinson concludes that lower risk of firm failure should result in favorable capital access, women owned firms have historically proven less likely to receive financing and receive lower financing amounts from institutional sources (Treichel & Scott, 2006).

There are other issues that face women owned businesses including less early startup capital (Carter & Rosa, 1998), more difficulty securing loans (Verheul, Risseeuw, & Bartelse, 2002), and less credit history (Shaw, Carter, & Brierton, 2001). In addition, many women owned businesses also have less managerial and technical experience (Chaganti & Parasuraman, 1996) which may play a role in the higher mortality rate as indicated above. When these constraints are coupled with the fact that women owned businesses are more likely to enter industry sectors with higher failure rates (Carter & Williams, 1997), it is easy to see why problems may exist.

In terms of federal procurement awards, woman owned businesses are targeted for 5% of all contracts. However, Reardon et al. (2007) cautions that this target has never been realized and women owned businesses actually receive approximately 3.5% of all federal contracts. They additionally note that women typically receive fewer and smaller awards than their male counterparts. Additionally, women owned businesses are significantly underrepresented in virtually all industry categories when examining contracts awarded. Some of these findings may be the result of women owned businesses not having the capital nor being able to secure the financing necessary to win these contracts.

SDB. The SBA classifies socially disadvantaged businesses as unconditionally owned by U.S. citizens from socially and economically disadvantaged groups. Under current classification, this includes (but may not be limited to) Black Americans, Hispanic Americans, Native Americans, and Asian Pacific Americans. Groups receiving this classification are deemed socially and

economically disadvantaged because of historical discrimination in capital and credit opportunities.
Robb (2002) notes that small businesses with ownership from SDB categories have significantly higher mortality rates. Blanchflower (2009) further notes that black owned businesses are significantly underrepresented in virtually every industry and only notes a growth in construction - and this following roughly a decade of contraction in the construction industry as a whole. He reports substantial differences in access to capital sources, with minority owners facing systematically lower opportunities for funding. These findings are consistent with other evidence that black entrepreneurs face higher denial rates than white counterparts (Cavalluzzo, Cavalluzzo, & Wolken, 2002).

Unlike some other programs (e.g. SBIR), SDB's are allowed to enter into partnerships and joint ventures with non-disadvantaged owners in a mentor-protégé relationship (Abramowicz & Sparks, 2007). The program sets a 10% funding goal for any federal agency awarding contracts in excess of $250,000. While this establishes favorable evaluation of disadvantaged and 8(a) disadvantaged firms, judicial requirements mandate that distribution of awards must be race neutral in order to minimize discrimination against white owned small businesses and other non-disadvantaged businesses (Myers Jr & Ha, 2009). The 8(a) program additionally extends to sub-contracting relationships. Under this program, large primary contractors receive bonus payments if they subcontract with 8(a) disadvantaged firms (Abramowicz & Sparks, 2007).

Industry Categories of Small Business Contractors

In addition to helping define the concept of "small" for SBA designation purposes, the NAICS codes identify the nature of the business product or service that a small business provides to a government entity. A NAICS code is actually a two- through six-digit hierarchical classification system, offering five levels of detail. Each digit in the code is part of a series of progressively narrower categories, and the more digits in the code signify greater classification detail. For example NA23 refers to the construction industry; however within the NA23 designation exists 72 more detailed components of the industry that separate categories of construction related of residential, commercial, highway, etc. Below in Table 1 are the NAICS categories utilized for the current study, along with a brief description of each:

Table 1. NAICS Category Descriptions

Code	Industry	Description
NA23	Construction	The construction sector comprises establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Construction work done may include new work, additions, alterations, or maintenance and repairs. Activities of these establishments generally are managed at a fixed place of business, but they usually perform construction activities at multiple project sites.
NA32	Wood Product Manufacturing	Industries in the Wood Product Manufacturing subsector manufacture wood products, such as lumber, plywood, veneers, wood containers, wood flooring, wood trusses, manufactured homes

		(i.e., mobile homes), and prefabricated wood buildings.
NA33	Metal Manufacturing	Industries in the Primary Metal Manufacturing subsector smelt and/or refine ferrous and nonferrous metals from ore, pig or scrap, using electrometallurgical and other process metallurgical techniques.
NA44	Retail	The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are, therefore, organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.
NA48	Transportation and Warehousing	The Transportation and Warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Establishments in these industries use transportation equipment or transportation related facilities as a productive asset. The type of equipment depends on the mode of transportation. The modes of transportation are air, rail, water, road, and pipeline.
NA54	Professional, Scientific, and Technical Services	The Professional, Scientific, and Technical Services sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. The establishments in this sector specialize according to expertise and provide these services to clients in a variety of industries and, in some cases, to households. Activities performed include: legal advice and representation; accounting, bookkeeping, and payroll services; architectural, engineering, and specialized design services; computer services; consulting services; research services; advertising services; photographic services; translation and interpretation services; veterinary services; and other professional, scientific, and technical services.
NA56	Administrative, Support, and Waste Management	The Administrative and Support and Waste Management and Remediation Services sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. These essential activities are often undertaken in-house by establishments in many sectors of the economy. The establishments in this sector specialize in one or more of these support activities and provide these services to clients in a variety of industries and, in some cases, to households. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.

NA61	Educational Services	The Educational Services sector comprises establishments that provide instruction and training in a wide variety of subjects. This instruction and training is provided by specialized establishments, such as schools, colleges, universities, and training centers. These establishments may be privately owned and operated for profit or not for profit, or they may be publicly owned and operated. They may also offer food and/or accommodation services to their students

Current Study

The current study examines the nature of the contracts awarded by a large federal enterprise; we examine all of the contracts awarded by Johnson Space Center (JSC), a NASA directorate located in Houston, TX, between the years of 2005 and 2007. JSC engages in a number of public-private partnerships with both large and small firms. This includes funding for ongoing projects such as Space Station Freedom, emerging R&D and general facilities development and management. The purpose of this study is to determine if specific subcategories of small business contractors dominate specific types (by industry designation) of contractual awards.

Capital-intensive industries generally require organizations with more formal processes that provide the necessary operational support. The more successful small business owners understand the importance of adopting strategic practices that allow them to become viable providers of products and services to governmental agencies. These internal practices and processes needed for success require critical resources to ensure the business relationship is mutually beneficial.

As suggested by Fairlie and Robb (2008), much is still unknown about why some minority groups are more successful than others. However, previous research indicates that because of real or perceived obstacles, minorities often operate in a segregated environment where they are highly dependent on minority customers for survival (Sriram, Mersha, & Herron, 2007). For example, African American entrepreneurs are often located in urban areas that are plagued by serious financial constraints and socio-economic concerns. The inability to penetrate more traditional markets often forces African Americans to be involved in micro enterprises in industries with low capital requirements and higher failure rates (Sriram, Mersha, & Herron, 2007).

A 2009 study entitled *The Economic Impact of Women-Owned Businesses in the United States,* published by the Center for Women's Business Research, reported that women-owned businesses created or maintained 23 million jobs and added approximately $3 trillion to the national economy. Categories of women-owned businesses with the highest revenues are professional, scientific and technical services; retail, and business services; communication, media; and administrative, support, and remediation (Pordeli, Wynkoop, & Martin, 2009). While these service-related industries require important skills and credentials, they tend to require minimal capital and equipment investments.

Boden and Nucci (2000) argue that start-up and survival rates for minorities may be due to differences in human and financial capital initially brought to such new ventures. Similarly, Kepler and Shane (2007) found that several factors, including differing expectations, reasons for starting a business, motivations, types of business started, do vary by gender and ethnicity.

Based on different motivations, expectations and resource capabilities denoted in past studies, we offer the following propositions for exploration:

1. Minority business enterprises (those that are designated as MBE, WOB, or SDB) are more likely to be found in service-intensive industries.

2. Non-minority owned small businesses are more likely to characterize capital-intensive industries.

METHODOLOGY

Sample

Primary contractual data is available online through the NASA Acquisition Internet Service (NAIS). This website allows for ad-hoc queries on all direct relationships between NASA (and its directorates) and the various organizations it awards funding. This includes for-profits, not for-profits, NGO's, educational institutions, along with state and municipal governments. For purposes of our study, we omit contracts awarded to educational and governmental institutions. Further, in our examination of small business performance, we also omit not-for profits and NGO's.

NAIS provides categorization data for small businesses. Beginning in 2005, this information was uniformly reported to include designation for woman-owned businesses, disadvantaged businesses, 8(a) disadvantaged businesses, SBIR firms, thereby allowing examination of various combinations of categories (e.g. minority versus not, woman-owned, disadvantaged businesses, etc.). Table 2 characterizes the sample utilized for the current study.

ANALYSIS

In order to examine the propositions put forth, a one-way analysis of variance was conducted. Given the nature of the propositions, the categories of small businesses were dichotomized to reflect the minority business status of organizations.

RESULTS

The first proposition posited that MBEs would most-likely serve as contractors within those industries characterized as service-intensive. This was found to be the case in that Construction (NA23), Administrative, Support, and Waste Management (NA56), and Educational Services (NA61) were all more likely to be minority-owned firms. Within these NAICS codes, firms holding the designations of SDB were significantly more likely to be Construction (NA23) and Administrative, Support, and Waste Management (NA56) firms than were the other minority groups. Women owned businesses (WOB) were the most likely providers of Educational Services (NA61). All differences were statistically significant at the $p < .05$ level.

Similarly, and in partial support of our second proposition, Metal Manufacturing (NA33) had significantly more non-minority-owned small businesses among its contractors ($p < .05$). No other significant differences existed in terms of firm-ownership for the NAICS codes examined here.

Table 2. NAICS Category by SBA Business Category

		SBA Business Category				
		Large Business	Non-Minority Owned Small Business	Woman Owned Small Business	Socially Disadvantaged Small Business	Total
NAICS Category	NA54	70	201	22	21	314
	NA23	5	10	2	13	30
	NA33	107	255	29	16	407
	NA56	3	3	0	10	16
	NA48	7	1	0	0	8
	NA42	11	33	6	7	57
	NA51	22	35	3	5	65
	NA81	6	9	1	0	16
	NA44	18	27	0	2	47
	NA61	9	11	13	3	36
	NA31	1	6	1	0	8
	NA32	17	18	1	3	39
	Other NA	205	432	83	17	737
Total		481	1041	161	97	1780

DISCUSSION AND IMPLICATIONS

Prior research has highlighted the challenges encountered by minority business owners. As previously stated, some of these substantive differences include resource constraints, less access to capital and credit, and fewer mentors and business networks (Coleman, 2002; Heilman & Chen, 2003; Marlow & Patton, 2005). These obstacles have often forced minority business owners to focus on industries with less capital and equipment requirements and lower entry barriers. Our results offer additional support to these claims, as minority firms were more prevalent in service industries, while Caucasian-owned contracting firms were more involved in the manufacturing sector.

Because of such difficulties for minority entrepreneurs, research suggests that government intervention may also be able to assist with the possible effects of inequity and provide mechanisms that allow for greater access to start-up resources (Bowen & Hisrich, 1986). Examples of such assistance programs for disadvantaged businesses include certain prequalification loan programs and training and counseling services offered by organizations such as the SBA and Small Business Development Centers (Dolinsky, Caputo, Pasumarty, & Quazi, 1993). These government initiatives can help provide needed networking opportunities and the formation of business alliances that can possibly offset financial and equipment restrictions. Such programs can help minorities better compete in the more capital intensive manufacturing sector.

Future studies should focus on identifying the best initiatives for assisting minority business owners and replicating these programs at the state and local level. Although minorities are still underrepresented in the small business sector, the growth rate of these businesses is on the rise (Martin, Wech, Sandefur & Pan, 2006). Interestingly, research has shown that minority business owners can be reluctant to seek help and advice from business support agencies (Dyer & Ross, 2007); but these programs can play an important role in helping prepare minorities for business success and open new avenues for resource allocation. Effective assistance programs can not only help minorities recognize entrepreneurship as a viable career choice, but also provide them with a better understanding of venture creation and sustainability. If prospective entrepreneurs are given a better skill set then perhaps future help from small business assistance programs can be more targeted and have even greater impact.

CONCLUSIONS

There has been a call for additional research to better understand the business practices of minority small business owners. A more detailed understanding of their needs can offer important practical implications for policy makers and service providers (Mazzarol, Reboud & Soutar, 2009; Ruynan, Huddleston & Swinney, 2006). In addition to any outside assistance from federal, state or local programs, Sandberg (2003) suggests that minority business owners adopt a long-term strategic approach to business development and expansion. While minorities have often focused on intangible resources, such as informal networks and connections, to offset financial constraints (Runyan, Huddleston & Swinney, 2006), they need to also consider developing strategic alliances in order to acquire the necessary resources for entrance into more capital-intensive business opportunities, particularly the manufacturing sector. Mazzarol, Reboud and Soutar (2009) argue that small business development is directly related to the blending of an owner's strategic planning skills and resource availability. Governmental programs can offer the necessary assistance for aspiring minority business owners to grow in both areas.

The federal government needs to continue to offer small business opportunities to minority contractors via specialized programs. Targeted programs such as the Small Disadvantaged Business Program can help stimulate opportunities for minority owned businesses. Sriram, Mersha, and Herron (2007) found that minority groups are now more motivated to consider business ownership due to limited options in the mainstream labor market; however, to date it seems that many of these opportunities are in the service and retail sectors. The next step for minority business owners is to broaden their efforts to grow their business through government contracting while identifying the resources necessary to gain a stronger foothold in the more resource intensive industry sectors.

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MINORITY AND WOMEN BUSINESS ENTERPRISES: CULTIVATING B2G BUSINESS PROSPECTS

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ABSTRACT

This study provides an initial overview of ways to foster business-to-government (B2G) sales revenue for minority and women business enterprises (M/WBE). The General Services Administration, the FedBizOpps.gov, the Minority Business Development Agency, the Small Business Administration's 8(a) program, and the Procurement Technical Assistance Centers are discussed to represent distinct facilitators of B2G trade. The controversy of preferential procurement programs is developed to debate whether these targeted programs are making minority and women business enterprises competitive. We conclude with the experiences of one WBE, Pertzsch Design, Incorporated and the how this entrepreneur cultivated B2G opportunities to survive during the recession.

INTRODUCTION

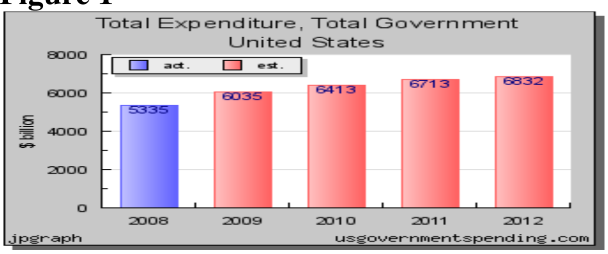
In the wake of the financial crisis small business owners were facing a daunting task of keeping their businesses solvent in the face of a further credit crunch. On September 19, 2008 the *Wall Street Journal* proclaimed that the recent financial crisis that tumbled finance and insurance giants such as Lehman Brothers and AIG would trickle down into more mainstream businesses. The article in the *Wall Street Journal* stated that, "One reason the economy isn't in worse shape is because credit-worthy businesses on Main Street have, for the most part, continued to get loans to build facilities and buy new equipment." On July 12, 2010, Federal Reserve Chairman Ben Bernanke pleaded with banks and regulators to make "credit accessible to sound small businesses is crucial to our economic recovery and so should be front and center among our current policy challenges," ("Bernanke Urges Small-Business Lending, *The Wall Street Journal,* July 12, 2010). On September 16, 2011, Forbes reports a more circular argument to the credit crunch as small business owners, banks and regulators debated their positions at a recent symposium held at the Office of Advocacy for the U.S. Small Business Administration as (Small Business Credit Crunch: A Supply or Demand Problem? ¶ 4-5):

> Small business owners say they need capital now more than ever but can't manage to squeeze a dime out of the banks. Banks meanwhile say there is not enough demand from quality borrowers and that approving loans is more difficult because regulators are demanding that they be stricter. Regulators say they're asking banks to make rational decisions about the loans they approve, and to approve where appropriate.

In September 2011, President Barack Obama outlined the proposed the American Jobs Act in which he stated, "The purpose of the American Jobs Act is simple: to put more people back to work and more money in the pockets of those who are working" (http://www.whitehouse.gov/jobsact#sub1-tab). The overview of the American Jobs Act outlines how proposed tax cuts will help small businesses employ more people and experience growth by cutting the payroll tax cut in half for 98 percent of businesses; providing a complete tax holiday for additional employees and higher wages; encouraging small firms to make investments by extending 100% business expensing into 2012; and assisting entrepreneurs and small businesses tapping into capital by increasing Small Business Administration backed loan limits, decreasing bureaucracy, and reforming the patent system (Tax Cuts to Help America's Small Business Hire and Grow, September 2011).

While facing the recession, a better understanding of a framework to navigate the various ways to sell to the government (business to government or B2G) is a key business question facing both large and small businesses. Figure 1 illustrates the sheer magnitude of government spending forecasted through 2012 (http://usgovernmentspending.com/).

Figure 1



In 2011, the three large areas that consume government expenditures are defense (25%), health care (23%), and pensions (21%). But, the key question in the B2G arena is not the aggregate numbers, but how his/her firm can capture a part of the insatiable appetite of federal, state and local governments to provide an array of services to its constituents. The B2G Institute website claims that $327 billion of government contracts will be available to business and that approximately $70 billion will be reserved for small businesses (www.b2gintsititue.com, ¶2). This training institute's website claims that the 5 myths that prevent small business owners from entering the B2G market center on these incorrect assumptions (http://www.b2ginstitute.com/myths.aspx):

- My firm is too small and the contracts are too big;
- The government does not buy my product or service;
- There is too much competition for government contracts;
- The paperwork will have me tearing my hair out; and
- My company must be in Washington, D.C. to get a contract.

A quick perusal of the largest recipients of government contracts in 2011 and compared to small business contracts in 2007 is given in Table 1. Clearly, the defense industry dominates lists for non-small business owners with Lockheed Martin, Northrop Grumman, and the like. The contract revenues for GTSI, categorized as a small business, stem from defense contracts also.

Table 1
Top Federal Contractors
Comparison of Large vs. Small Business Company Revenue

Large Businesses	**2011 Contract Revenue**	**Small Businesses**	**2007 Contract Revenue***
Lockheed Martin	$17,344,133,000	GTSI	$411,140,380
Northrop Grumman	$10,800,453,000	Nana Regional Corporation	$322,528,981
Boeing Co	$8,400,155,000	RS Information Systems	$327,677,852
Raytheon	$6,206,515,000	Chenega Corporation	$313,059,297

Source: www.washingtontechnology.com
* Figures not available for 2011 small businesses

Unfortunately, the website no longer gives the top government contractors for small businesses, but now reports its Fast 50 list where in 2011 the site ranked the 50 fastest growing small businesses in the government market, such as SAVA Workforce Solutions and Octo Consulting Group with compound annual growth rates of 326.05% and 227.75% respectively (Fast 50, Washington Technology, 2011). The Washington Technology website has a 'teaser' titled, "Hey, small businesses: Uncle Sam wants you!" at their site to report how the American Recovery and Reinvestment Act, the SBA administrator Karen Mills and Commerce Secretary Gary Locke plan to promote small business contracting, especially to minority, women and veteran business groups (http://washingtontechnology.com/articles/2009/08/31/small-biz-trends.aspx).

RESEARCH PROBLEM

This research will provide a synopsis of the myriad of government agencies to provide an *initial* overview of the network of programs offered to minority and women business owners that want to sell to the government. The study will also summarize the few academic studies that have investigated the outcome of these types of government programs in terms of whether giving preferential treatment to M/WBEs actually makes the firm a key player in the competitive business environment.

BACKGROUND

Definitions of M/WBE

A broad definition of a minority business enterprise (MBE) and Women Business Enterprise (WBE) is given as follows (https://supplier.intel.com/stt/Definitions.aspx, ¶ 3):

MBE:A business, regardless of size, which is owned, operated and controlled by minority group members. "Minority group members" are United States citizens who are African-American, Hispanic, Native American, or Asian. Ownership by minority individuals means the business is not less than 51% owned by one or more such individuals or, in the case of a publicly owned business, not less than 51% of the stock. Further, those minority group members control the management and daily operations of the business.

WBE:A business that is not less than 51% owned by one or more women; or in the case of any publicly owned business, not less than 51% of the stock must be owned by one or more women, and whose management and daily operations are controlled by one or more women.

The key metric used is the 51% ownership criteria for a firm to qualify as an MBE and/or WBE [we collapse the acronyms to M/WBE]. Sonfield (2001) reports that the ownership criteria for MBE were changed in 2000 by the National Minority Supplier Development Council (NMSDC) to 30%. However, the 51% threshold for both minority and female-owned businesses appears to hold for many governments procurement agencies. We realize that there are many other categories of disadvantaged firms, such as the HUBZone companies that operate in underdeveloped business zones, but for the purposes of this paper, we limit the scope to address programs that will help minority and/or women business enterprises (M/WBE).

Estimated Size of the MBEs

In Table 2, the Minority Business Development Agency (MBDA) of the U.S. Department of Commerce in its FY2007-2010 Strategic Plan outlines the growth of minority-owned businesses using U.S. Census data.

Table 2
Ethnic Distribution of Minority Firms (Census SBO data for 2002 and 2007)

Ethnic Group	2002 Total Firms	2007 Total Firms	Percent Increase in Firms	Total Gross Receipts 2002	Total Gross Receipts 2007	Percent Increase In Gross Receipts
Hispanic	1,574,000	3,958,000	151.5%	$226.5 Billion	$345.2 Billion	52.4%
African American	1,198,000	1,921,881	60.4%	$92.7 Billion	$137.5 Billion	48.3%
Asian	1,104,000	1,552,505	40.6%	$343.3 Billion	$507.6 Billion	47.9%
American Indian & Alaska Native	201,000	236,967	17.9%	$26.4 Billion	$34.4 Billion	30.3%
Hawaiian / Pacific Islander	29,000	37,957	30.9%	$5.2 Billion	$6.5 Billion	25.0%
Minority Totals	4,116,000	5,762,940	40.0%	$694.1 Billion	$1.0 Trillion	44.1%
Total US Firms	22,977,000	27,097,236	17.9%	$22.6 Trillion	$30.0 Trillion	32.7%

Source: www.mbda.gov

A 2011 event sponsored by the MBDA on "Doing Business with the Federal Government," focused on ("Doing Business with the Federal Government," 2011):

- Federal government resources available to the business community;
- Advantages of certification for various federal government procurement preference programs;
- How to get in the door to do business with the federal government;
- Sources for prime and subcontracting opportunities;
- What to keep in mind when submitting a bid;
- Where the federal government spends contracting dollars;
- Products and services purchased by the federal agencies;
- Overall better understanding of the procurement process

Concentration of MBEs by Sector

One of the key issues facing MBEs is that they may be underrepresented in key sectors that cater to government procurement business, such as defense. Thus, Table 3 illustrates the concentration of minority groups compared to the general U.S. business population.

Estimated Size of the WBEs

The Center for Women's Business Research claims that there are currently 7.2 million firms that have at least a majority of ownership (51%) that employ 7.3 people with projected sales of $1.1 trillion in 2008 (www.nfwbo.org/facts/index.php8, ¶ 3). Like the data presented above for the MBEs, the 2002 U.S. Census data captures a very detailed view of this segment of the business population and a comprehensive report is located at:
http://www.census.gov/prod/ec02/sb0200cswmn.pdf. In addition, the U.S. Census is released its findings from the 2007 survey of small business owners at:
http://www.census.gov/econ/sbo/get07sof.html?12. The major highlights of this report are listed below:

- Women owned 7.8 million nonfarm U.S. businesses operating in the fifty states and the District of Columbia in 2007, an increase of 20.1 percent from 2002.
- These women-owned firms accounted for 28.7 percent of all nonfarm businesses in the United States.
- Women-owned firms employed 7.6 million persons (6.4 percent of total employment) and generated $1.2 trillion in receipts (3.9 percent of all receipts).

Table 3
Percent Distribution of Firms by Industry Sector

Industry	All U.S. Firms	All Minority Groups	African American	American Indian and Alaska Native	Asian	Hispanic	Native Hawaiian and Other Pacific Islander
Agriculture, Forestry, Fishing, and Hunting	1.1%	0.6%	0.3%	2.2%	0.6%	0.6%	1.7%
Mining	0.4%	0.1%	0.0%	0.5%	0.0%	0.1%	S
Utilities	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	S
Construction	12.1%	8.8%	6.3%	16.0%	3.5%	13.5%	10.0%
Manufacturing	2.6%	1.7%	0.8%	2.9%	2.1%	2.0%	1.1%
Wholesale Trade	3.1%	2.4%	1.0%	2.1%	4.2%	2.2%	1.3%
Retail Trade	11.2%	10.4%	8.5%	10.1%	13.7%	9.6%	12.0%
Transportation and Warehousing	4.2%	7.0%	8.3%	5.0%	4.7%	8.0%	6.8%
Information	1.3%	1.1%	1.2%	1.3%	1.1%	0.9%	1.1%
Finance and Insurance	3.9%	2.4%	2.4%	2.4%	2.7%	2.1%	1.8%
Real Estate and Rental and Leasing	9..3%	5.0%	4.4%	4.6%	6.8%	4.4%	6.1%
Professional, Scientific, and Technical Services	14.2%	10.5%	9.7%	10.9%	13.9%	8.8%	10.1%
Management of Companies and Enterprises	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Administrative Support, Waste Management, and Remediation Services	6.8%	9.8%	10.1%	8.0%	4.8%	13.2%	11.3%
Educational Services	1.8%	1.6%	2.1%	1.8%	1.4%	1.2%	1.4%
Health Care and Social Assistance	8.8%	14.1%	20.5%	12.2%	11.1%	11.5%	14.3%
Arts, Entertainment, and Recreation	4.2%	3.3%	4.5%	4.5%	2.4%	2.8%	5.3%
Accommodation and Food Services	2.9%	4.4%	2.1%	1.7%	9.4%	3.0%	1.8%
Other Services	11.6%	16.5%	17.6%	13.3%	17.0%	15.8%	13.0%
Unclassified	0.4%	0.3%	0.2%	0.3%	0.5%	0.3%	S

Concentration of WBEs by Sector

Women-owned firms are clearly underrepresented in industry sectors that target the B2G sector, such as defense and construction. In 2010, the U.S. Census Bureau, 2007 Survey of Business Owners, reported women-owned firms in the repair and maintenance/personal and laundry services (16.1%); health care and social assistance (15.8%); professional, scientific, and technical (14.1%); retail trade (11.8%); adiministrative and support (10.1%); and other (32.2%) NAICS sectors.. This lack of business experience in certain sectors will be addressed again with studies that have looked at whether WBEs have been discriminated against in both the B2B and B2G marketplaces. On May 17, 2010, Sharon G. Hadary, former Executive Director and Founder of the Center for Women's Business Research summarize her views in her article in *The Wall Street Journal*, "Why are Women-Owned Firms Smaller than Men-Owned Ones?" (http://online.wsj.com). Hadary states the main issues holding back women business owners are:

> I have spent decades conducting research, studying the data and interacting with all the players involved—entrepreneurs, researchers, educators, bankers and others. And I am convinced that the problem is twofold. First, you have women's own self-limiting vies of themselves, their businesses and the opportunities available to them. But equally problematic are the stereotypes, perceptions and expectations of business and government leaders (Hadary 2010, ¶ 5).

FEDERAL PROGRAMS

A synopsis of federal programs is given to depict just a few of the layers of agencies that solicit business from M/WBEs. We acknowledge that there are several more agencies that could have been discussed in this section, but, the goal is to *briefly* discuss some of the more prevalent programs.

General Services Administration/FedBizOpps

The U.S. General Services Administration (GSA) describes itself as the "business manager, buyer, real estate developer, telecommunications manager and IT solutions provider" for the federal government (How to Sell to the Government, ¶1). The GSA offers contracts to businesses in the following broad categories:

- General-purpose supplies, equipment and services,
- Building construction, repair, and maintenance, and
- Information technology and network services.

The federal agency will also buy or lease office space, real estate and/or vehicles for federal agencies (Selling to the Government, ¶3). Under the GSA jurisdiction, government contracts over $25,000 are listed in its FedBizOpps at www.gsa.gov/fedbizopps. A guidebook for potential vendors, *FBO.GOV Vendor Guide 1.6* is linked to this government site and offers a 65-page resource for companies on how to actually set up an online account, provide company information and the like (see www.fbo.gov/downloads/FBO_Vendor_Guide.pdf). This website links to the Minority Business Development Agency (MBDA) in the U.S. Department of Commerce.

U.S. Department of Commerce Minority Business Development Agency

The Minority Business Development Agency (MBDA) proclaims itself to be the *only* federal agency designed to foster the growth of minority-owned business. Its mission statement is simple and straightforward, "The Minority Business Development Agency mission is to enhance the growth and expansion of minority business enterprises" (www.mdba.gov). The agency works with MBEs through its network of Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs) and Business Resource Centers (BRCs). The agency has five distinct regions located throughout the U.S. in Atlanta, Chicago, Dallas, New York and San Francisco. So, if the MBE is located in Wisconsin, the firm can click on the site for the Chicago region and is directed to one of the Minority Business Opportunity Centers (MBOCs) located in Milwaukee, Wisconsin. Under its business development initiative, the MBDA provides basic information ranging from 'beginners essentials' to 'marketing' for this type of firm.

Small Business Administration's 8(a) Program

A 15-minute web tutorial can be viewed at the Small Business Administration (SBA) website on its 8(a) program that illustrates the key initiatives designed to help disadvantaged firms develop their B2G selling opportunities. Three key points noted in this web tutorial include that the program was 1) created to help small disadvantaged businesses compete in the marketplace, 2) designed to provide business development support, and 3) devised to *prepare* small disadvantaged firms for procurement and other business opportunities (http://training.sba.gov:8000/insight2). The program highlights are also found at this SBA website www.sbda.com/sba_8(a).htm. To qualify for eligibility for the program, the criteria centers on the net worth of the individual (in general, he/she should have a net worth less than $250,000—that excludes equity in his/her personal residence and business), the ethnic origin of the business owner, gender, and the size of the business.

In general, to qualify for the 8(a) program, the government considers the following ethnic groups to be socially disadvantaged (www.sbda.com/sba_8(a).htm, ¶ 6):

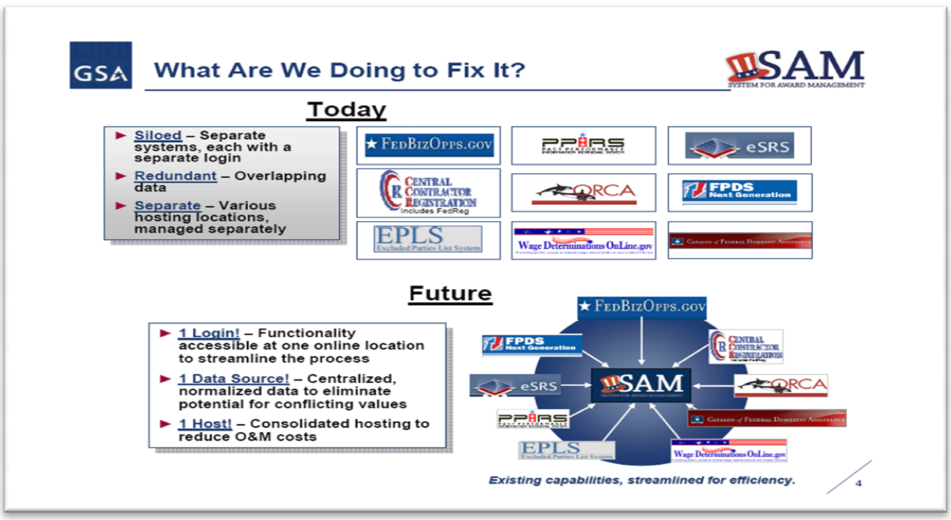
- ***Black Americans***;
- ***Hispanic Americans*** (persons with origins from Latin America, South America, Portugal and Spain);
- ***Native Americans*** (American Indians, Eskimos, Aleuts, and Native Hawaiians);
- ***Asian Pacific Americans*** (persons with origins from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, U.S. Trust Territory of the Pacific Islands [Republic of Palau], Commonwealth of the Northern Mariana Islands, Laos, Cambodia [Kampuchea], Taiwan, Burma, Thailand, Malaysia, Indonesia, Singapore, Brunei, Republic of the Marshall Islands, Federated States of Micronesia, Macao, Hong Kong, Fiji, Tonga, Kiribati, Tuvalu, or Nauru);
- ***Subcontinent Asian Americans*** (persons with origins from India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands or Nepal);
- And members of other groups designated from time to time by the SBA.

If a female small business owner does not fall into one of these groups, she can still apply for the SBA 8(a) program by proving that some type of discriminatory treatment has discouraged her business in the competitive marketplace.

After reviewing the web tutorial for the SBA 8(a) program, a company should immediately follow through with two key recommendations: register his/her firm with the Central Contract

Registration and contact the nearest Procurement Technical Assistance Centers. First, a small business owner must register with the Central Contract Registration site (https://www.bpn.gov/ccr/) to initiate a profile of the company in both the CCR and the Dynamic Small Business Search (DSBS). For example, the Small Business Administration's DSBS will give company information to contractors and the public. In 2012, a new System for Award Management (SAM) will take over eight federal procurement systems (including CCR) and the Catalogue of Federal Domestic Assistance into this streamlined agency. Information on SAM can be accessed at https://acquisition.gov/SAM/sam.html and a succinct PowerPoint presentation on this new centralized agency at https://acquisition.gov/SAM/SAM%20Overview%20-%20July%202011%20v3.pdf. Figure 2 below shows a clear visual of the one-stop process that the U.S. government is proclaiming for SAM.

Figure 2
System for Award Management



Source: System for Award Management (SAM), July 2011
https://acquisition.gov/SAM/SAM%20Overview%20-%20July%202011%20v3.pdf

Succinct Overview of Studies on M/WBEs

Some studies address the controversy of preferential government procurement that center on both legal and/or data collection issues related prove discrimination for these the government-led programs. Overall, there have been limited studies that have actually attempted to measure the success (or failure) of targeted M/WBE procurement goals to foster competitive firms. In addition, one report given by the General Accounting Office (GAO) on the SBA's 8(a) program is briefly examined.

Debate on Preferential Procurement Programs

The Supreme Court decision of *Richmond v. Croson* in 1989 overruled a minority set-aside program in the city of Richmond, Virginia and set legal guidelines for future cases in terms of how preferential government procurement can be effectively used and implemented. Gray and

Peery (1990) discuss some of the costs of securing tenders from disadvantaged businesses that include:

- Locating the MBE, especially if geographic limitations are unrestricted;
- Acquiring the large percent of set-aside for MBEs, such as 30%, can be burdensome for the prime contractor;
- Finding an experienced MBE to work with the lead contractor; and
- Incurring flaws in the government oversight of the process, such as the rebid in the city of Richmond due to their refusal to accept a waiver for the MBE work.

Martin et al. (2007) debate the issues related to the problems of government oversight of these targeted procurement programs by examining the legal cases that question the data requirements of substantiating these programs. The researchers' overview of court rulings yields the following list of their recommendations to guard against future legal challenges (p. 516):

- ***Tracking appropriate data*—**government officials must scrutinize how they come up with the number of minority firms that are both *qualified* and *willing* to work with government contracts;
- ***Using local information*—**government officials need to develop better proxy measures using current data—for example is 2002 U.S. Census Data appropriate for the 2008 time frame?
- ***Generalizing data segments*—**government officials need to delineate between primary contractors and subcontractors.
- ***Combining inconsistent sources of information*—**government officials must validate their statistical measures. For example, some governments have incorrectly combined distinct data bases to generate their statistical analysis.
- ***Inconsistently defining the expression of minority*—**government officials need to ensure that the targeted firm (e.g., 51% minority-owned) matches the statistical data used to define a minority firm in their jurisdiction.
- ***Linking discrimination to disparity*—**government officials require more sophisticated regression techniques to adequately prove discrimination as an explanatory variable.

Bates and Williams (2001) performed data analysis of MBE's from 1987-1991 to answer these two research questions: 1) Are MBEs that sell to government more likely to go out of business, other factors constant, than are other MBEs? 2) Are MBEs heavily reliant upon sales to government more likely to go out of business than others? (p. 295) To test these research questions, Bates and Williams conducted a regression analysis with longitudinal data (1987-1991) where the dependent variable was whether the firm was still active in 1991 and the independent variables were level of education, managerial experience, labor input of owner, firm capitalization, marital status, and market entry timing. The researcher's ran separate regression analyses for three distinct groups: 1) MBEs that had no government contract work; 2) MBEs with 25% or more of their sales derived from government work; and 3) MBEs with total sales obtained through government contracts. The major outcome of their statistical analysis was that MBEs with no government contracts performed relatively the same in terms of their survival prospects as MBEs with some government-related sales revenue. However, MBEs with total reliance on government-based contracts experience a lower survival rate. Thus, the researchers' question the validity of targeted procurement programs to make this type of government-dependent MBE competitive in the general business environment.

In another study, Bates (2002) questions whether WBEs face discrimination in the B2G marketplace. For example, does a female business owner have a creditability issue with government procurement officers? Bates (2002) investigated the following research question: Among firms of the same size and age that operate in the same industry, does the owner gender trait, by itself, increase or decrease the likelihood of selling to nontraditional clients? (p. 314) A key fact raised in this study is that women business owners are underrepresented in industry sectors that cater to government procurement, such as manufacturing and construction. As previously discussed, the women-owned businesses are primarily in the service sector, such as health care and social assistance. Thus, it was not surprising for Bates to uncover in his regression analysis that the lack of WBEs in these industry sectors was a major drawback in terms of selling to the government and/or business. Overall, the researcher found that WBEs had less market access to selling to businesses (as opposed to governments) when compared to male-owned firms. Bates suggests that preferential procurement programs that target WBEs should increase sales to the government and allow this type of firm to change its focus from B2B to B2G in order to overcome the credibility issues they face in the business environment.

2000 GAO Report on SBA 8(a) Program

In July 2000, the GAO issued a 124-page report, *Small Business: SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts* that gives a detailed analysis of this government-sponsored program. The GAO surveyed 1,200 firms from the SBA's database of 5,432 active 8(a) firms (as of 9/1999) to garner perceptions from these types of small businesses. First, the respondents revealed that the primary reasons for joining the SBA 8(a) program were to obtain 8(a) contracts (86%); broaden customer base to the federal government (80%); overcome barriers of discrimination (69%); increase net income (68%); improve chances of obtaining contracts outside of the 8(a) programs (48%); to make it easier to be awarded state and local contracts (39%); have access to training offered to 8(a) firms (34%); improve access to credit/financing (33%); and learn more about managing business (22%). An interesting finding of this report is presented in Table 4 since both minority and non-minority women strongly believed that the 8(a) program offered them an improved way to conquer discrimination.

Table 4
Percentage of Minority and Disadvantaged Groups That Considered Overcoming Discrimination as a Major Reason for Joining the 8(a) Program

Minority/Disadvantaged Group	Percentage
Minority Women	81
Nonminority Women	78
African American	78
Native American	64
Asian American	63

Hispanic American	58

Source: SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts, p. 17

The GAO also explored major reasons for whether the firms were satisfied or dissatisfied with the program and found mixed results in terms of the amount of 8(a) contract opportunities (56% satisfied; 24% dissatisfied), level of effort to find the right person at a federal agency to discuss potential 8(a) contracts (51% satisfied; 26% dissatisfied); amount of individual assistance SBA provides 8(a) firms (44% satisfied; 33% dissatisfied); level of interest that federal agencies show for working with 8(a) firms (43% satisfied; 33% dissatisfied); number of opportunities to develop new lines of business (41% satisfied; 30% dissatisfied); amount of paperwork SBA requires (36% satisfied; 31% dissatisfied); and match between the training 8(a) program offers and what firm needs (31% satisfied; 26% dissatisfied) (p. 18). [Note: percentages are for anchor responses only and will not add to 100%]. One of the GAO major conclusions (as the title of the report suggests) is that the SBA needs to refocus its efforts on assistance with obtaining contracts from the federal government, especially in terms of developing contacts at federal agencies and assisting firms with the contract negotiations.

IMPLICATIONS—SO WHAT?

The basic idea for this paper originated from correspondence with the owner of an entrepreneurial small firm that was recently certified as a disadvantaged firm in order to seek government contracts to expand its revenue base. The owner of the WBE was overwhelmed with the labyrinth of government agencies, conferences, web information, certification procedures, requests for proposals, and the like. Thus, the primary objective (So What?) for performing this descriptive study of the B2G market for M/WBEs was to assess the distinct government agencies that these resource-constrained firms need to explore to initiate preferential procurement contracts. How can this type of firm effectively navigate various agencies to secure government—based sales? We have also included a short narrative of her experiences entering this market by focusing on government bids that required her design work for army reserve centers. This study is a first attempt to provide guidance for practitioners, academics, and policymakers to better understand the B2G marketplace for M/WBEs and the debate surrounding their privileged treatment.

Personal B2G Experiences of Pertzsch Design, Inc.

Pertzsch Design, Inc., a leading provider of professional interior design services, creates interiors of distinction. The firm specialized in government, education, healthcare, retail, civic, and corporate environments. Their website at http://www.pertzschdesign.com/ shows the diversity of their designs ranging from education to corporate clients. The process of procuring work with federal contracts was initiated by Pertzsch Design, Inc. completing the NCIDQ (National Council for Interior Design Qualification) certification in 2007. Upon certification, a requirement of the government for Interior Designers, we were able to team up with a larger design/build corporation to bid on contracts. In addition to the owner's NCIDQ certification, her firm also fulfills the 5% Small Business Set-Aside component for bidding on federal projects. To date, the firm is a certified as a Women-Owned Business Enterprise (WBE), HubZONE

(SBA certification) and a Disadvantage Business Enterprise (DBE with the Wisconsin Department of Transportation). These certifications ultimately allow the firm to collaborate as a sub-consultant to the design/build corporation who is awarded the contract and then builds the project.

Collaboration with other larger firms is a key component to award winning RFP (Request for Proposal) submittals for a small firm. The owner quickly learned that she was unable to successfully obtain work without teaming up with a significantly larger firm. Team history is also a significant component: once you have a track record with a team you are able to show successful past projects. On FedBizOpps.gov, there can be well over fifty small, set-aside firms competing for the same work. Several times these projects that are for interior design services only are infrequent and appear less than every two years. Currently we have bid on interior design services with design/build firms for over fifty projects nationwide, and have secured twenty. The types of projects are determined by the design/build firms and their track record. Typically we have been working on Army Reserve Centers, Brigade Headquarters, Battalion Headquarters, and Tactical Equipment Maintenance Facilities. The projects ranged in size from 25,000 sq. ft. to 100,000 sq. ft. and between $5 million to $50 million in overall construction costs for each site.

The owner's experience has been very diverse varying from base to base and she has reiterated about how the government customer base represents its own unique subculture to understand in terms of understanding the bidding process to interacting with the military hierarchy at each project. As the owner, Kate Pertzsch states,

> "Each military base tends to have its own set of standards that we need to adhere to both architecturally and with their preferences for interior finishes. Even within the military framework, we learned that their design style preferences vary by region and are very complex. A traditional atmosphere required in New York may be viewed inappropriate for a small Air Force base in Oklahoma. The overall chain of command in each military site also varies within each project and we have learned to deal with these different leadership hierarchies" (Personal interview, September 2010).

The company's first awarded project for the government in 2008 was for an Armed Forces Reserve Center, located in Niagara Falls, NY. Pertzsch Design, Inc. worked as a subcontractor for a larger architectural firm, TCI, who was awarded the construction contract for the 600-member Armed Forces Reserve Center in Niagara Falls. The $23 million facility includes three separate buildings that are located on the Niagara Falls Air Reserve Station.

After more than two years of planning and coordination with the design/build firm, Army Corps of Engineers, the Army, and the Air Force entities, this project is opened its doors to a two-story 86,000-square-foot facility in 2010. The facility includes office and training space, weapons simulators, and a maintenance shop.

CONCLUSION—THE NEED FOR FUTURE EMPIRICAL RESEARCH

Based on the literature review conducted for this study, there is currently a lack of rigorous data analysis that either supports or refutes the success or failure of the programs that target M/WBEs and it appears that actual research on this type of minority-owned firm is a mosaic of different studies. Puryear et al. (2008) highlight the lack of research on the "understudied entrepreneurial experience" for minority business owners in the following categories (pp. 423-426):

1. The prevalence of business ownership among minority groups has not been well established. Relatedly, the characteristics of minority-owned ventures remain undefined.
2. The interaction of family and business issues among minority populations has scarcely been studied.
3. Few studies have compared the goals, strategies, and operation issues of minority business owners with those of non-minority business owners.

One 2010 study, "Start-up Motivations and Growth Intentions of Minority Nascent Entrepreneurs," published in the *Journal of Small Business Management* appears to address the third concern listed above by researching the differences between black and white entrepreneurs both in initiating and cultivating their new ventures (p. 174). Coleman (2007) provides another comparative study that examines the differences between women-owned versus men-owned firms in terms of human capital (e.g. education and experience) and financial capital (e.g., a firm's ability to secure external debt capital and its willingness to apply for it). Coleman did uncover differences and one of her main conclusion centers on the assertion that "variables representing human capital were more important in determining profitability for women, whereas variables representing financial capital were more important for men" (p. 316). We found a few regression analyses that were conducted using 2002 and 2007 U.S. Census Bureau data. The recent empirical study of Mick and Greene (2004) using network theory and personal interviews with firms that had participated in either 8(a) or PTAC programs is an initial start to validate the effectiveness of these governments—led programs. The *Journal of Small Business Management* offers a few recent publications that review the motivations for self-employment of Hispanic entrepreneurs in Las Vegas (Shinnar and Young, 2008).

We are concerned with the lack of B2G theory in the marketing and entrepreneurship literature--several of our search queries in traditional data sources, such as ABI Proquest Direct and Business Source Premier were unsuccessful—why is there a gap in academic studies in this area? Furthermore, a perusal of the few studies on M/WBEs raises further empirical questions, such as whether women (in 2010) still feel they lack the credibility to succeed in a B2G sales environment (see Brush 1992 for further research ideas on women entrepreneurs and Hadary 2010 in *The Wall Street Journal*).

The literature has addressed some of the legal and discriminatory practices that govern targeted preferential procurement policies by federal, state and local governments. However, the field is wide-open for academic studies, especially those that develop theory with empirical data to discern whether these minority set-aside government procurement programs have actually fostered successful M/WBEs that are not heavily reliant on the B2G sector. One 2006 study prepared by the Office of Advocacy of the SBA, *The Government's Role in Aiding Small Business Federal Subcontracting Programs in the United States* leaves many research questions unanswered and the researchers' assert some of the basic problems are finding better ways to measure (beyond actual procurement data) whether previous discrimination has actually been reduced or eliminated through these myriad of government programs?

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STARTING A NEW BUSINESS: FRANCHISING vs. NEW VENTURE

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ABSTRACT

Many individuals consider starting a small business, for practical reasons like they wish to be their own boss or more personally fulfilling ones like the desire to follow a long-time dream. There are a series of decisions that need to be made at the beginning of any entrepreneurial implementation process. This paper will look at some of the aspects of becoming a franchisee versus the starting up of a new business venture and some of the considerations that accompany each venture.

FRANCHISOR'S AGREEMENT

Most franchisers have performed the bulk of the marketing tests and market research prior to fielding applications from potential franchisees. Some aspects of the business are required and followed by all of the company's franchisees. That is how consistent service is maintained for franchises, no matter the locale in which the business is placed.

Cheeseburgers from McDonald's will taste identically regardless of the locale, and customer will be able to rely on this standard. It is very important that the product is standard and that it must be the same in every McDonald's restaurant that a customer patronizes. The McDonalds Company does not set menu prices, but it is very important and strongly encouraged that all of the franchisers support the same ideals and value-meal strategies (York, 2008).

The International Franchise Association (IFA) hosts conventions in which franchisees gather to exchange ideas and sharpen their skills. It is also a great opportunity for the franchisees to network with their peers, and includes new franchisers as well as franchisers that are more experienced and have been in the system for an extended period of time. The franchisers can collaborate on ways to strategize and form ideas on ways to expand their company's brand (Shay, 2008).

At these conventions, the franchise owners and operators work side by side in developing business plans and that impact each of the individual franchises. In this way, the business owners have input into the decision making process, and have some say in how they run their individual businesses.

The business owners have the ability to run their businesses the way that they wish, although there are some aspects that are non-negotiable, unless the owners and franchisors agree – across the board -- to the changes.

The degree of assistance offered by the separate franchise organizations differ from one company to the next. Some franchises offer financial assistance while others do not. Enclosed below is an example of a few franchises and the amenities that are available through them. Note that all offer training and support, though not all offer financial assistance.

The training and support assistance ensures that all like franchises are producing or offering products that are of the same standard as the next like franchise. Some franchises require that potential franchisees have a certain net worth as well, in addition to the prerequisite franchising fee.

The Super Coups franchise, for example, is a franchise that requires a net worth of $100,000 and a franchising fee of $17,000 - $26,000, in addition to the liquid capital and total investment requirements. As shown in the table below, not all franchises require a large investment.

Business Name	Liquid Capital Required	Total Investment	Finance Assistance	Training
Blind Brokers (blinds, shades)	$10,000	$3,995	No	Yes
Super Coups (direct mail)	$17,500 - $26,000	$46,000 - $66,000	No	Yes
Pizza Hut	$360,000	$500,000	Yes	Yes
Arby's	$500,000	$500,000 - $2,434,400	No	Yes

Those interested in acquiring a new franchise should be sure to research all facets of the parent company's requirements before making a decision as to what franchise contract to enter into. The franchisee and franchisor must be able to work towards the same goals with minimum conflict. Preserving harmony within the ranks between the franchisor and all of the franchisees' is vital, if the business brand is going to continue to thrive.

Constant training to maintain value and to ensure that all franchisees' are kept current on new information and ways to improve their businesses benefits the individual owners in addition to the franchisors.

It is essential that parent companies holding the franchisees' responsible for meeting their goals for growth and profitability. Also, making sure that the franchisees' are maintaining the standards and values agreed upon and set by the franchisor cannot be stressed enough (Boswell, Burnett, Helgerson, & Mowery, 2008).

All franchisees' have a vested interest in setting and sustaining the high standards and values that represent their businesses. The franchise as a whole benefits from a positive brand image, but the same mechanism can also force the franchise to suffer if standards are not executed properly.

Franchisors must have instituted a successful program by which to recognize the positive efforts of the individual franchisees and their employees. Recognizing the hard work and dedication of

the franchisees and their employees builds morale, motivates, staff, and gives all of the employees a sense of ownership in the organization or business (Mailloux, 2008).
It is essential that the franchisors recognize the franchise owners. The owners' commitment and loyalty to the business should be positively acknowledged, and should be communicated to the other franchise owners. Kristie Mailloux (2008, 37) says,

> "…franchisees are a franchise system's most valuable asset. By recognizing franchisees as such, it shows respect and appreciation to those owners who are an integral part of the system. Whether it's a lifetime or a year's worth of hard work, acknowledging and sharing in the success of others is a perfect example of the benefits of a franchise system: A group of people working together toward a greater good."

When the entrepreneur enters into a contract with a franchiser, the entrepreneur has chose to go into business for them and also joins a larger network of business owners. Each franchisee benefits from the collective branding performed by each franchisee.

Most franchisors will provide ongoing training and support in order to help each owner succeed in their venture, which translates into profits for all. The parent company is usually responsible for marketing and promoting the product or services of the brand, with a flat fee provided by the franchisees.

New entrepreneurial venture (Small Business Proposal)

Embarking on an entrepreneurial venture is not easy, whether the strategy is as a franchisee or new business owner. The entrepreneur assumes all of the risks and bills, and the realization of how impossible sick days or leaves of absence are sinks in quickly.

Alternatively, the individual now has a say in the strategy and direction implemented to execute their objectives and develop the business of their dreams—more so if they are entering into a small venture of their own entrepreneurial spirit.

The small business owner can make the rules and can utilize their skills and talents as they see fit. It is important that the SBO realize that profit may not be possible for a period of time, and any employees may have to be paid out of their own pockets (Hogshead, 2007). This particular circumstance applies mostly to new SBO's, because most franchisors require new franchisees to have a prerequisite sum of funds in order to pay employees.

The consideration of where and how to obtain funding is another important consideration when embarking on an entrepreneurial venture. The entrepreneur may request assistance through the Small Business Association (SBA, which provides a multitude of services to help with startups of new small businesses. Among the services the SBA provides:

Counseling and assistance

- ❖ Free online training
- ❖ Assistance with budgets and strategic plans
- ❖ Assistance with managing business credit

- ❖ Assessment tools to help in determining if they are ready to start a business
- ❖ Videos which feature entrepreneurs that have used SBA programs and services
- ❖ A wealth of information to help get them started on their new venture

The SBA does not make loans or grants, but may guarantee a loan. While a viable source of funds for new entrepreneurs, the SBA is not the only option available.

Many entrepreneurs use their own savings and investments to fund a new business ventures. If the individuals utilize an IRA as a source of funds, 10% of their balance will be lost due to penalties, and taxes must be paid on any funds that are withdrawn. For these reasons, cashing in an IRA is not the most attractive or the best choice; neither is draining one or multiple savings accounts.

An additional option would be to seek out loans or capital from family or friends. This option may not be acceptable, attractive or practical. Instead, securing a loan from a bank or credit union may be the better choice (Fisher, 2007).

Several things need to be considered before entering into a new business venture or a franchise agreement:

- ➢ Costs – startup costs, franchise fees, costs of merchandise or equipment, insurance, other fees
- ➢ Skills – knowledge and/or expertise of the field of business, ability to operate the business
- ➢ Goals –dedication to the new business, expansion plans, profit targets
- ➢ Interest – appropriate background, training for type of business, researched business and produced a solid business plan and strategy

Choosing the appropriate business venture to enter into is paramount to the success of the venture. Becoming an entrepreneur of any sort is a substantial investment of time and resources, and the fit between business owner and the potential business type must be precise. The new business venture will work best if the business fits the entrepreneurs' interests, skills, knowledge and training. It also is important that the new business venture evokes a sense of passion in the new business owner.

The success of the business is not always determined by the entrepreneur's experience or education. Research, determination, and motivation could be the overall factors that establish the success of the new business venture.

Starting a new business venture requires a copious amount research invested on the part of the entrepreneur. Unlike with the franchise, the market research, SWOT analysis, business plan, and strategic plan must be prepared by the entrepreneur.

There are numerous websites on the internet that can provide assistance to the new business owner. Zommerang.com, Vovici.com and Advancesurvey.com are examples of websites that synthesize data from surveys and market analysis that can be used to create reports that will help the entrepreneur assess the market.

In a new small business venture, the organizational support and training base is not in place as in a franchisor's agreement with franchises. The new business owner is solely responsible for all aspects of training and education. There are support groups that entrepreneurs can join that provide an invaluable means of support for the new business owners. Some of the business associations that provide assistance to small business owners are:

- SCORE – a nonprofit association for entrepreneurs and small business owners
- American Small Business Association – advocacy and education for business owners 50 years of age and older
- United States Small Business Association (SBA) – offers a multitude of services for entrepreneurs and small business owners
- National Small Business Association – provides information, benefits and advocacy tools for entrepreneurs and small business owners

In addition, trade shows, conventions or local business association meetings are other avenues for gathering information on your potential industry.

There is plenty of information and assistance available for entrepreneurs that are seeking the support and assistance of other knowledgeable business owners and business professionals. It is be strongly encouraged that new business owners take advantage of the assistance provided by these types of organizations. The insights that these experienced professionals provide can help to prevent costly missteps on the part of the new business owners.

Recognizing an opportunity is a vital part of beginning the entrepreneurial process. If one is to be successful in their new business venture, one must know what to look for when searching for new business opportunities. It is important that when the necessary research is performed, it must be appropriate and pertinent to the particular focus market. Prior work and business experience could provide the knowledge base needed for the business to be a successful venture (Baron, 2007).

Entrepreneurs with previous experience in the chosen market know what the needs of the customer are and how they can be filled, and are best able to provide them with the desired products and services. This knowledge gives these business owners a strategic advantage over any inexperienced competitors.

The entrepreneur must stay abreast of customer needs. Producing a great product that is no longer needed is a sure way to become obsolete. For a business to be and remain successful, it must continuously research and collect information on present and potential markets (Baron, 2007).

It is a smart business owner that seeks to serve a market niche. The entrepreneur should strategize to their strengths and offer something that is not currently offered or is being under served in the current marketplace. That will ensure a better chance of survival for the business.

If the entrepreneur is going to sell baby clothes, the business must integrate a distinct capability of their strategy that other competitors cannot. One idea would be to offer baby shower items--

e.g. Games--along with particular brands of baby outfits and other items that coordinate with each other.

According to the January 2008 edition of Essence Magazine, a business idea was implemented by a woman who had to move her mother, a senior citizen. Once the woman observed that senior citizens required additional services when moving--i.e., disposition of household furnishings or personal items-- the woman framed her business around this concept. Thus, a niche strategy was born: relocating senior citizens. This business remains strong and profitable.

New business ventures are an integral part of any strong and dynamic economy because of the number of new jobs that are created by the development of new business ventures. Many new business ventures are created each year, but many of them do not survive, and end up failing within a few years time (Teal & Hofer, 2003).

Entering the market at the right time may have a direct bearing on the success or failure of that business. Embarking on a new business venture requires the ability to grasp the coming challenges and bear the shortcomings that oftentimes accompany with the venture prior to reaching the point of being able to enjoy the fruits of labor (Busch, 2006). Starting up a new business is not for the faint-of-heart.

Everyday, former salaried employees depart their somewhat secure employment to become an entrepreneur. New business owners may find it worthwhile to try to encourage innovation through their employees, by investing in these ideas as internal ventures. This is mostly unlikely while the business is in the startup phase. But as the business grows, internal implementation of entrepreneurial ideas may be a viable option and help to keep the business current, profitable, relevant and modern (Hellman, 2007).

There is a population of entrepreneurs that have repeatedly started new ventures. Some of these new ventures go global from their inception, where it used to take several years.

Google started out as a new business venture in 1998, evolved to an IPO in 2004, and has since grown to become worth $50 billion. The new business owner should decide on whether the business is to be a local, national or international business, but by virtue of the type of business, these options may or may not be practical or possible.

There are many benefits to becoming a new venture business entrepreneur. Being one's own supervisor, being responsible for all of the decision-making, supervising all of the other employees are all desirable circumstances. But the most important benefit is the ability to put vision into practice, all while building a secure future for oneself and their family.

Many of those same positive attributes apply to becoming a franchise entrepreneur. In addition, there is the support and training that the franchisor offers, the benefits of previously conducted market research is, test markets have been implemented, the franchise has brand recognition, and the target markets have already been established.

This paper is not advocating one business model over the other, but points out the benefits of each. The decision to become a franchisee or a new venture business owner has everything to do with what the entrepreneur desires out of the business.
The goals that the entrepreneur has in mind will dictate which business model will best suit them. Entrepreneurs endeavor to start new venture businesses for varying reasons. Some feel underappreciated in their current or old jobs, some fail to feel a sense of fulfillment and some are driven to venture out and attempt to fulfill a lifelong dream.

Whether it is the quality of the products or of the services provided, the entrepreneur must know what makes their business relevant and special. The entrepreneur must keep their eyes on marketing and promoting their product. The business opportunities provided by entrepreneurship are limited only by one’s imagination. There are at least hundreds, if not thousands of franchise options, and the number of potential new business ventures is endless.

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NEW MARKET ENTRIES IN THE COMPETITIVE LOCAL EXCHANGE CARRIER INDUSTRY: A STUDY OF IMITATION BY START-UPS

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ABSTRACT

Institutional theory contends firms imitate other firms with ideal traits, whereas the strategic groups literature on imitation suggests firms imitate similar firms. We address this debate by studying 1067 market entries by founder managed start-ups in the US Competitive Local Exchange Carrier (CLEC) industry from 1996-2004. In support of the strategic groups literature, start-ups imitate entry decisions of and gravitate toward markets that are densely populated by other start-ups. Interestingly, while start-ups avoid markets already densely populated by corporate firms, they imitate the market entries of corporate firms. Our discussion of these findings provides insights for start-ups navigating new industries.
Keywords
Imitation, Market Entry, Start-ups

INTRODUCTION

Entry into new markets (e.g., geographies where the firm has no operating history) is a fundamental aspect of entrepreneurship (Sharma and Chrisman 1999). In 2010 alone, 110 million entrepreneurs around the globe founded new businesses (Kelley, Bosma, and Amorós 2011), and each of these start-ups included entry into at least one new market. When making new market entry decisions, entrepreneurs must weigh the potential merits of alternative economies and geographies, assess the competition, prepare appropriate products, and consider resource constraints, as well as the timing of the proposed entry or entries (Lévesque and Shepherd 2004).

Uncertainty and risk are inherent in new market entry decisions, particularly when the start-up is participating in a new industry. New industries are the result of changes in government regulations (e.g., deregulation, tax incentives), scientific breakthroughs, or the development of new technologies (Sine, Haveman, and Tolbert 2005). New industries are vital to economic growth; but, because of their newness, businesses operating in these industries commonly lack relevant experience, which might otherwise improve their odds of survival (Baum and Ingram 1998; West and Noel 2009). Such firms face substantial uncertainty insofar as new industries can evolve quickly and often lack established business models that are known to reliably generate profits. This uncertainty complicates new market entries by start-up firms into new industries.

In view of this uncertainty and the importance of new market entries to economic growth, their antecedents warrant attention. The institutional theory (DiMaggio and Powell 1983) and strategic groups literatures (Schendel and Hofer 1979) offer insights into such entries. They both support the idea that imitation of other firms can help a firm to address the bounded rationality of its own managers, facilitate complex decisions, prompt strategic actions (e.g., new market entries), and enhance its legitimacy, which can facilitate access to resources that drive performance (Meyer and Rowan 1977; Peteraf and Shanley 1997). Interestingly, these perspectives differ on which firms are worthy of imitation. Institutional theory emphasizes imitation of actions that are enacted by firms with ideal traits (e.g., large, prestigious firms) (Haveman, 1993), whereas the strategic groups literature reasons that firms model themselves after similar firms (e.g., those they resemble) when considering their competitive strategies (Porac, *et al.* 1995).

In this paper, we contribute to this debate by examining the new market entries of 81 founder managed start-up firms in the Competitive Local Exchange Carrier (CLEC) industry. In order to distinguish between new market entrants with different "origins" (i.e., different managerial and ownership support), we differentiate between "corporate firms" (i.e., firms launched as a result of corporate venturing and run by professional managers) and "start-up firms" (i.e., founder managed firms launched by independent entrepreneurs without equity from established corporations). In a sample of 1067 market entries by start-up firms, we find that entries by others and market density are both significantly associated with entries by start-ups. We find that start-ups follow other start-ups, but largely avoid imitating corporate firms. These findings are interesting in light of prior research, which finds that small firms are more likely to imitate established firms, rather than other small firms (Haunschild and Miner 1997). Our results extend predictions rooted in institutional theory and offer support for the strategic groups view of imitation. They prompt relevant insights into the decision-making of start-up firms.

The Drivers of Imitation in Organizations

Numerous foundational research studies have enabled scholars to consider imitation (of resources, practices, and strategies) within and across organizations (e.g., Dimaggio and Powell 1983; Hannan and Freeman 1977; Pfeffer and Salancik 1978). Scholars observe that imitation influences organizations' choice of market positions (Greve 1998), product strategies (Brouthers, *et al.* 2005), and use of technological innovations (Abrahamson 1991). Of great interest, are findings that reveal imitation drives the opening of branches in market niches (Greve 2000), choice of market locations (Baum and Haveman 1997), international market entry (Fernhaber and Li 2010), and rates of market entry (Haveman 1993).

Institutional theory offers one of the prevailing explanations for the prevalence of mimetic tendencies among organizations (Dimaggio and Powell 1983). It argues that adopting institutionally accepted norms and behaviors helps organizations to be more efficient decision-makers and assists them in navigating uncertainty (Meyer and Rowan 1977). These benefits prompt companies to imitate other companies in order to gain legitimacy, resources, stability, and ultimately to enhance their survival prospects (Deephouse 1996). Though imitation does not uniformly improve firm performance (Greve 2011), it can assist firms facing complex problems.

For example, a start-up firm may find it difficult to make effective new market entry decisions alone. New market entries are complex, involving analysis of alternative market opportunities, assessment of the environment, and consideration of the competition (Levesque and Shepherd 2004). This creates a need for market research and analysis; yet most start-ups have limited resources to devote to such efforts. Thus, new market entry entails significant uncertainty and risk for start-ups (Haveman 1993).

In order to navigate this uncertainty and reduce the risk of costly failures, a start-up firm seeking to enter new market(s) may benefit by considering the market entries of other companies. For example, if other companies find a market attractive, the start-up firm seems likely to benefit from entering it as well, provided the benefits of entering don't decrease with imitation (e.g., provided the market is not over-populated) (Greve 2000). Thus, from the vantage point of institutional theory (DiMaggio and Powell 1983; Meyer and Rowan 1977), a start-up that engages in imitative market entries is likely to be recognized as a legitimate player in the industry and obtain access to needed resources (e.g., from investors, customers, suppliers, or other constituents in the new market), thereby enhancing its odds of success.

From an institutional theory perspective organizations are prone to imitate frequent actions and the actions of firms with attractive firm-level traits, particularly when the outcomes of actions being considered are difficult to observe. For example, researchers find firms are prone to imitating the actions of large firms (Haunschild and Miner 1997), since these firms are socially prominent, easily observable, and have often achieved the success that smaller firms are trying to achieve. Empirical tests also reveal firms seek the legitimizing effects of imitating the actions of profitable firms (Haveman 1993), innovative firms (Semadeni and Anderson 2010), and those generating higher returns on equity (Haunschild and Miner 1997). Conversely, scholars find that it is unlikely for firms to imitate the actions of small firms, with the notable exception of actions that not only benefited small firms, but appear likely to contribute even greater benefits in large scale operations (Terlaak and King 2007). In general, institutional research largely supports the idea that firms adopt frequently observed behaviors, practices, and strategies from others, and those which are enacted by firms with prestigious or "ideal" traits. Notwithstanding the empirical support for institutional theory, one of the limitations of this logic is that even when the actions of large, prestigious, or well-established firms generate positive results for them, this does not guarantee that smaller, lesser-known firms (e.g., new start-ups) will have the capabilities to successfully replicate such actions.

In contrast to ideal trait imitation, another stream of research argues firms tend to focus more on imitating the actions of "similar" firms. The strategic groups literature, for example, which has deep roots in the field of strategic management (Schendel and Hofer 1979) finds that firms consider the actions of others with similar strategic profiles (e.g., firms of similar size, owners, target markets, resources and capabilities) when formulating their own strategies (Porac, *et al.* 1995). Scholars applying this literature to the study of imitation (e.g., Nohria and Garcia-Pont 1991) argue that if a comparable firm is pursuing a course of action, the focal firm is likely to be able to implement and benefit by taking a similar course of action. Scholars espousing this view of imitation find empirical support for the idea that firms emulate the strategies of other firms from their own strategic group (Peng, Tan, and Tong 2004). For example, acquisition behaviors (Baum, Li, and Usher 2000), alliance formations (Garcia-Pont and Nohria 2002), governance (Lee and Pennings 2002), foreign market entry strategies (Xia, *et al.* 2008), and other actions undertaken by firms are all positively associated with like actions among similar firms.

In sum, there is considerable empirical support for the strategic groups perspective on imitation (e.g., that firms tend to imitate the actions of similar firms) *and* for the institutional perspective on imitation (e.g., that firms imitate actions undertaken by firms with ideal traits). Both perspectives agree that imitation can be helpful to firms faced with complex and uncertain situations (DiMaggio and Powell 1983; Peteraf and Shanley 1997). However, they differ considerably when it comes to their observations regarding which firms are likely to be imitated. To begin to address this difference, we test the value of each of these perspectives in the context of start-up firms making market entry decisions in the CLEC industry.

Predictors of Market Entry by Start-up Firms

Market entry is costly on at least two fronts. First, start-ups must gather information, weigh the array of available market alternatives, and make sound decisions as to where and when to enter (West and Noel 2009). Second, they must rally the resources required to enter their chosen market(s), set up their operations, advertise their presence, promote their products, and establish distribution channels. Compounding these demands, there can also be a great deal of uncertainty surrounding the actual preferences of customers and which sales and marketing strategies will be effective in the new market (Folta and O'Brien 2004). While factors such as these pose challenges for many firms pioneering new industries, they are particularly acute for start-ups given limited managerial capacity and other resource constraints (Bhidé 1992).

Start-ups seeking to manage the uncertainty and complexity associated with new market entry are likely to seek examples from other firms (Haveman 1993). From an institutional perspective, imitation of market entry decisions is desirable because it increases the efficiency of decision-making and strengthens the legitimacy of new market entry decisions, which facilitates efforts to garner support from environmental constituents (DiMaggio and Powell 1983; Meyer and Rowan 1977). Insofar as it seems unlikely for several firms to reach the same erroneous conclusions about the merits of a market, a start-up that enters a densely populated market or follows several other firms into a market, tends to be making an acceptable or legitimate choice since the market is demonstrably attractive to so many others[1]. Accordingly, we propose:

Hypothesis 1a (H1a). Market density of all firms will increase the likelihood of entry into a new market by start-up firms.

Hypothesis 1b (H1b). Market entry of all firms will increase the likelihood of entry into a new market by start-up firms.

Though these hypotheses may help us to determine whether start-ups engage in imitation, they offer little detail on the specific types of firms start-ups emulate in making new market entries.

During the emergence of a new industry, both start-ups and corporate firms can be observed entering new markets. Corporate firms (i.e., firms that result from corporate venturing) often enjoy the backing of well-funded corporations seeking to explore new opportunities, invest in promising new firms, or diversify their operations (Zahra 1996). Many such corporations have

[1] We acknowledge limits to this institutional theory argument, since a market that is over-populated may be inhospitable to additional entrants. However, as this observation is in keeping with population ecology (Greve 2000; Hannan and Freeman 1977) and seems more relevant in mature industries, we build our arguments upon the framework of institutional theory.

close ties to banks, strong reputations, and access to high caliber managers (Dalziel 2005), benefits that may not be enjoyed by start-ups founded by individual entrepreneurs (Keil 2000). Despite such benefits, the logic of institutional theory is that firms seek legitimacy by imitating other firms they perceive to be "legitimate" (DiMaggio and Powell 1983: 152); "higher status organizations" that possess observable traits like "large size and success" (Haunschild and Miner 1997: 475), and are less likely to imitate peer and lesser-known firms (Haveman 1993). While corporate firms entering a new industry may have easier access to some resources than start-ups, they are still new firms playing a new game and must establish reputations or risk remaining lesser-known (Fombrun and Shanley 1990). Like others, they have no guarantee of success. They must overcome the "liability of newness" (Stinchcombe 1965), manage their resources effectively, and learn to obtain and create value for customers and shareholders (Sirmon, Hitt, and Ireland 2007). In fact, research suggests that in some cases connection to corporate parents (e.g., corporations that suffer from bureaucracy, exert rigid control, and have conservative cultures) may even dampen their likelihood of success (Covin and Slevin 1988). In sum, despite the benefits corporate firms have, they may not yet possess the ideal traits (e.g., success, size, prestige) needed to make them sought-after role models in their own right. Thus, start-ups may not be particularly attracted toward markets that are densely populated by, or into which, many corporate firms are entering.

In fact, owing to start-up firms' relatively limited resources (Bhidé 1992) they seem unlikely to be able to afford entry into the same number of markets entered by corporate firms. Accordingly, they may not be able to reap the same synergies, which are available to firms that operate in many markets (Greve 1998). Even if start-ups are able to match some of the market entries made by corporate firms, thereafter they must also sustain and grow a presence in the new market(s) by competing against those same corporate firms, who have the backing of at least one if not multiple established corporations. Given firms are known to consider their competitors when evaluating new market entries (Gimeno, Hoskisson, Beal, and Wan 2005), it seems unlikely that start-up firms would consciously seek out opportunities to battle competitors with ready access to extensive resources. In view of the above, we predict:

Hypothesis 2a (H2a): Market density of corporate firms will decrease the likelihood of entry into a new market by start-up firms.

Hypothesis 2b (H2b): Market entry of corporate firms will decrease the likelihood of entry into a new market by start-up firms.

While this logic supports the view that start-ups entering markets in new industries are unlikely to follow corporate firms, it offers little insight into which firms they do imitate. To address this question, we turn to strategic groups reasoning, which suggests that, faced with uncertainty, firms identify with and imitate the actions of other firms with similar profiles to their own (e.g., firms of similar size, owners, target markets, resources and capabilities, and strategic tactics) (Peng, Tan, and Tong 2004).

Start-up firms within the same industry often have similar strategic profiles. They tend to have few assets and human resources (e.g., small numbers of employees). They have similar owners including founders, angel investors, and venture capitalists. They have limited resources

(Bradley, Wiklund, and Shepherd 2011) and are run by individuals, whose work in the start-up goes beyond merely earning a living and shapes their personal identity as "entrepreneurs" (Farmer, Yao, and Kung-Mcintyre 2009). In their struggle to survive, they commonly employ similar strategic tactics including bootstrapping and guerilla marketing (Bhidé 1992). These and other similarities among start-ups make them likely peers.

From a strategic groups perspective, when firms are similar in attributes and context, they rely upon each other as a reference group in navigating complex and uncertain decisions (Peng, Tan, and Tong 2004). The strategic groups reasoning is that if many similar firms have chosen or are choosing a given pursuit, that pursuit is more likely to be valid and has the potential to produce positive outcomes for others in the same group (Pereira-Moliner, Claver-Cortés, and Molina-Azorín 2011; Xia, Tan, and Tan 2008). In light of this reasoning, we submit markets that are densely populated by or into which many start-ups are entering will be more attractive to a start-up weighing alternative market options. Formally stated,

Hypothesis 3a (H3a). Market density of start-up firms will increase the likelihood of entry into a market by other start-up firms.

Hypothesis 3b (H3b). Market entry by start-up firms will increase the likelihood of entry into a market by other start-up firms.

Context for Testing Predictions

Having discussed predictors of market entry by start-up firms, we now turn our attention to the context in which our hypotheses can be tested. When studying an imitation phenomenon like geographic market entry, it is important to choose a context in which the market actions of competitors are frequent and visible, so that firms have many actions to consider and can choose to imitate almost any firm in the population (Greve 2000). It is also important for uncertainty and complexity to exist as they are likely to promote mimetic action (Folta and O'Brien 2004). For these reasons, new industries often make suitable contexts for studying imitation.

We selected the emergence of the Competitive Local Exchange Carrier (CLEC) industry as the context for this study. With the formation and growth of so many new firms in the industry, hundreds of (geographic) market entries occurred. These entries into new markets were visible to others as they were recorded nightly in the nationwide database used to route telephone calls, the LERG tables. Firms in the industry had to grapple with complex market entry choices that involved comparing hundreds of newly-opened markets and a rapidly changing competitive landscape. Without an established precedent, new firms experienced substantial uncertainty regarding whether and how they would generate profits in these new markets. These factors made the CLEC industry well-suited to the study of mimetic actions by start-up firms.

Emergence of the CLEC Industry

In the early 1990's, US states began lifting legal barriers to telecommunications competition and subsequently federal congress passed the 1996 Telecommunications Act, which opened the door to local and long distance phone competition and gave rise to the CLEC industry. The passage of this national legislation, investor interest, and technological advancements, resulted in the rapid expansion of the CLEC industry, which grew to 212 firms in its first two years alone (Federal Communications Commission 2004).

Both start-up firms and corporate firms flocked to the industry. All of them were drawn by the allure of newly-opened markets, but given the prior monopoly of the Baby Bells these new firms generally lacked in-depth knowledge of the telecommunications industry and had little direct experience operating telephone networks (McDermott 2002). Unlike the start-ups, however, corporate firms entering the CLEC industry were founded by established corporations with proven records of success and significant resources. Many of these established corporations (e.g., cable providers, electric utilities) possessed experience (e.g., providing sophisticated client services and billing operations, investing in infrastructure in order to generate future revenues) that could enhance a new corporate firms' odds of success in the new industry.

Despite such advantages, both corporate firms and start-up firms entering the CLEC industry faced significant uncertainty. There was no one established business model that consistently generated profits (most entrants subsequently failed) and technology was changing rapidly in this period. As in other industries that have faced uncertain times (Sine, *et al.* 2005; Haveman 1993), the emergence of the CLEC industry is a context where imitation was likely.

SAMPLE AND METHODS

To study this context we obtained data from New Paradigm Research Group (NPRG) annual reports. We used NPRG reports because of their comprehensive coverage of the US CLEC industry, which includes all firms that called themselves CLECS during the study's timeframe, and their established record of prior usage in research (e.g., Greenstein and Mazzeo 2006). Data was available on 245 firms involved in the CLEC industry between 1996 and 2004, of which 101 were start-ups. Given that government regulations can influence market entries, we focused on market entries that occurred after the Telecommunications Act of 1996, thereby ensuring a uniform regulatory environment. After aggregating subsidiary firms to avoid double counting, and removing firms that did not enter any new markets, or were missing data, we conducted our analysis on 81 of the 101 start-up firms listed in the reports (80 percent of the population) across eight years and across 269 potential markets. Our analyses consisted of 59,746 potential start-up firm entry events within which we observed 1067 market entries.

Measurement of Variables

Hundreds of new start-up and corporate CLECs were formed during the study period (1996-2004). We collected information about these firms in the year they entered our sample using Lexis Nexis, web searches, company documents, and phone calls to them. This allowed us to distinguish start-ups (e.g., founder managed firms launched by independent entrepreneurs without investment by established corporations) from corporate firms (e.g., corporate ventures launched by hired professionals with investments from established corporations).

Dependent Variables. In keeping with extant CLEC industry research (e.g., Greenstein and Mazzeo 2006), an *Entry* into a new market by a start-up firm was counted each time a start-up firm provided services in a metropolitan service area it had not previously served.
Independent Variables. In order to test H2a, and H3a, we generated two measures of *Market Density* using a count of the number of the competitors of each origin (i.e., corporate firms and start-up firms, respectively) in each focal market. To test H1a, we summed these measures, thereby generating a measure of market density for all firms in the sample. Similarly, to test H2b, and H3b, we generated two measures of *Market Entry* using a count of the number of markets entered by corporate firms, and by start-up firms. We summed these measures to create a measure of market entries by all firms, used to test H1b. Consistent with recommendations in prior imitation research (e.g., Haunschild 1993), all independent variables were captured in the year prior to the dependent variable.

Control Variables. We control for the potential size of each market in terms of potential customers. To do so, we derived data on *total employment* (i.e., number of full and part-time employees), *population density* (i.e., total residents), *business establishments* (i.e., count of physical locations at which services are rendered or business operations are performed), and *payroll* (i.e., total annual compensation to all employees including salaries, wages, bonuses, etc.) from the annual US Survey of Country Level Business Patterns data provided by the Census Bureau. Individually, each of these variables seemed to be an important indicator of a market's potential size, but they were highly correlated and caused problematic multicollinearity. To address this issue, we combined these four measures using factor analysis. Our *Market Size* measure is the shared factor of total employment, business establishments, population density, and payroll for each market. The single factor had an Eigenvalue of 2.99 (the next lowest factor to emerge had an eigenvalue of 0.02) and no variable cross-loaded higher than 0.2.

In addition to considering the size of a market, it is also important to control for its growth (i.e., the change in market size). We attempted to measure market growth as year-to-year changes in total employment, number of business establishments, population density, and payroll). This approach yielded problematic multicollinearity. Accordingly, we used factor analysis. Our *Market Growth* measure is the shared variance between growth in total employment, business establishments, population density, and payroll for each market for each year. The single factor had an Eigenvalue of 1.22 (the next lowest factor to emerge was not positive) and no variable cross-loaded higher than 0.3 onto a second factor. We also ran separate models with each of the component variables and got similar results. Because it can be harder and more costly to service a more expansive market, we include the log of the total square miles of each market as a control variable in our models (*Log(Market Geographic Size)*) .

We control for competitive conditions in each market using two measures captured in year 't-1' for each year of the study. To arrive at a measure of firm size relative to incumbents, we counted the markets in which each incumbent competed and subtracted the markets in which the focal start-up competed. We then averaged these values to derive the A*verage Size Difference with Market Incumbents* variable. We squared this variable to create *Squared Size Difference with Market Incumbents.*

In addition, geographic proximity may also be associated with market entry and so we control for *Distance to Focal Firm's Markets* and *Distance to Other Start-up Firms*. As some of the start-ups in our sample existed prior to the study period and entered our sample as they diversified into the CLEC industry, we control for *Firm Age*, calculated as the number of years since a start-up firm was founded. We control for *Firm Size,* calculated as the number of markets in which the start-up firm competed.

MODEL

Consistent with prior research (Folta and O'Brien 2004), we employed a logit model in STATA 11 to describe entry into new markets. Standard errors were clustered around each firm to adjust for potential correlation across observations. Model 1 is a control model, while Models 2 and 3 test our hypotheses. All models have variation inflation factors (VIFs) <10 indicating multicollinearity was not an issue. All models include fixed effects for each year, with 1996 as the base year. The year coefficients have been suppressed in the tables included here, for brevity.

RESULTS

Table I displays the correlations and means for the sample. The average start-up entered roughly eight new markets during the period of the study. As anticipated the means for *Market Size* and *Market Growth* were close to zero as these were factor scores.

Table II contains our models. Model 2 contains the tests of H1a and H1b. The findings support both hypotheses as *Market Density of all firms* (p<0.001) and *Market Entry of all firms* (p<0.01) were both positively associated with *Entry* by start-ups into that same market. Model 3 reports findings related to H2a, H2b, H3a and H3b. Our prediction (H2a) that the *Market Density of corporate firms* in a market would be negatively associated with *Entry* by start-ups was supported (p<0.001). Surprisingly, *Market Entry by corporate firms* was positively associated with *Entry* by start-ups (p<0.05). Thus H2b was not supported. Conversely, we received full support for H3a (p<0.001) and partial support for H3b (p<0.1), implying that both *Market Density of start-up firms* and *Market Entry of start-up firms* were associated with *Entry* by other start-up firms. These findings lend support to both institutional theory and strategic groups logic.

Table I
Summary Statistics and Correlations[a]

1	Entry (Dependent Variable)	0.02	0.13															
2	Market Density (all firms)	3.50	5.44	0.20														
3	Market Density (of start-up firms)	1.97	3.09	0.22	0.96													
4	Market Density (of corporate firms)	1.53	2.58	0.17	0.94	0.83												
5	Market Entry (of all firms)	1.17	2.43	0.23	0.84	0.84	0.78											
6	Entry (of start-up firms)	0.62	1.56	0.24	0.78	0.82	0.65	0.92										
7	Entry (of corporate firms)	0.55	1.15	0.17	0.72	0.65	0.75	0.85	0.59									
8	Distance (to focal firm's other markets)	1047.04	525.76	-0.06	0.04	0.02	0.06	0.03	0.00	0.06								
9	Distance (to other firms with similar origin)	977.54	328.03	0.01	0.05	0.02	0.09	0.06	0.02	0.09	0.60							
10	Squared Size Difference with Market Incumbents	803.38	2037.13	0.01	0.07	0.05	0.08	0.06	0.04	0.07	0.02	0.05						
11	Average Size Difference with Market Incumbents	9.30	23.45	0.00	0.15	0.14	0.14	0.13	0.13	0.11	0.02	0.01	0.86					
12	Log(Market Geographic Size)	10.56	1.22	0.10	0.58	0.50	0.61	0.43	0.34	0.43	0.19	0.29	0.14	0.16				
13	Market Growth	0.01	0.42	0.00	0.00	-0.01	-0.01	-0.01	-0.01	-0.02	-0.04	-0.08	-0.04	-0.03	-0.03			
14	Market Size	-0.02	0.92	0.05	0.31	0.27	0.32	0.22	0.19	0.21	0.10	0.13	0.00	0.01	0.33	0.00		
15	Firm Age	3.25	2.74	0.04	-0.04	-0.04	-0.04	-0.03	-0.03	-0.02	0.02	0.00	-0.07	-0.19	-0.01	0.01	-0.01	
16	Firms Size	8.90	12.08	0.06	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.04	0.00	-0.11	-0.35	-0.02	0.02	-0.01	0.58

[a] With n=59,746 over 81 firms, correlations with an absolute value of 0.01 or more are significant at $p < 0.05$

Table II
Logistic Regression Models of Market Entry[a]

	Model 1		Model 2		Model 3	
Market Density (of all firms)			0.06	***		
			(0.01)			
Market Density (of start-up firms)					0.18	***
					(0.02)	
Market Density (of corporate firms)					-0.12	***
					(0.03)	
Market Entry (of all firms)			0.07	**		
			(0.02)			
Market Entry (of start-up firms)					0.06	†
					(0.03)	
Market Entry (of corporate firms)					0.11	*
					(0.04)	
Distance to Focal Firm's Markets	0.00	***	0.00	***	0.00	***
	(0.00)		(0.00)		(0.00)	
Distance to Other Start-up Firms	0.00	***	0.00	***	0.00	***
	(0.00)		(0.00)		(0.00)	
Squared Size Difference with Market Incumbents	0.00		0.00		0.00	
	(0.00)		(0.00)		(0.00)	
Average Size Difference with Market Incumbents	0.00		0.00		0.00	
	(0.00)		(0.00)		(0.00)	
Log(Market Geographic Size)	0.64	***	0.22	***	0.28	***
	(0.03)		(0.04)		(0.04)	
Market Growth	-0.08		-0.07		-0.07	
	(0.07)		(0.07)		(0.06)	
Market Size	0.02		0.00		0.00	
	(0.02)		(0.02)		(0.02)	
Firm Age	0.06	***	0.06	***	0.06	***
	(0.01)		(0.01)		(0.02)	
Firms Size	0.03	***	0.03	***	0.03	***
	(0.00)		(0.00)		(0.00)	
Constant	-10.64	***	-6.93	***	-7.60	***
	(0.33)		(0.39)		(0.38)	
Chi-Squared	2547.01	***	2900.25	***	2908.44	***
Log PsuedoLikelihood	-4284.95		-4089.11		-4054.33	
LL Ratio Test[b]			391.67	***	461.25	***
McFadden's Psuedo R-Squared	0.20		0.24		0.24	
N	59746		59746		59746	
Firms	81		81		81	

† *p* <0.1; * *p*< 0.05; ** *p* <0.01; *** *p* <0.001

a. Year indicator variables have been suppressed to save space. Robust standard errors in parentheses. The tables display regression coefficients, not odds ratios.

b. The Likelihood Ratio test examines whether the change in the likelihood ratio is significant from Model 1 to Model 2 and from Model 2 to Model 3.

DISCUSSION

In this study we began by developing arguments rooted in institutional theory suggesting that start-up firms selecting markets in a new industry would be challenged by uncertainty and resort to imitation in order to legitimize their decisions. Consistent with this prediction, we received support for our hypotheses (H1a, H1b) that start-ups tend to be influenced by the entries and presence (i.e., density) of other firms generally. However, we also found support for the idea that start-ups are discriminating in their selection of role models.

For example, while markets that are densely populated by start-up firms are positively associated with start-up entry in those markets, markets with high numbers of corporate firms are negatively associated with start-up entry (H2a). Though we are careful not to certify causality given the cross-sectional nature of our models, it appears that start-ups may be avoiding corporate firms, while being attracted into markets by the presence of other start-ups.

In light of the above, it is interesting to note that market entry by corporate firms is found to be positively associated with market entry by start-ups (H2b). This finding contributes to the institutional theory literature on trait imitation. This literature (e.g., Haveman 1993) suggests that large, successful firms are more likely to be imitated by others. The fact that market entry by corporate firms is a significant predictor of entry by start-ups suggests that start-ups are imitating the entry actions of corporate firms. Yet, since they are new entities formed through corporate venturing, these corporate firms are not yet large, established, or successful in their own right. Thus, our research expands institutional logic and suggests that being selected as a role model for mimetic action, may not only be about having ideal traits (e.g., size, success), but is also about being connected to others who possess such traits (e.g., an established corporate investor).

Finally, our findings that both market density and entry by start-ups are positively associated with entries by start-ups (H3a, H3b) contribute support to the strategic groups literature on imitation. These findings validate research that suggests firms model their strategies after similar firms (Peng, Tan, and Tong 2004). Insofar as we found less consistent evidence about start-ups modeling their actions after corporate firms, our findings also provide support for the cognition literature (e.g., Baron 1998), which suggests that entrepreneurs running start-ups think and act differently than managers running corporate firms.

While our paper focuses on start-ups that have received limited attention in the imitation literature and addresses debates regarding which firms are selected as models for imitation, it is not without limitations. Despite the benefits of a national sample, which standardized regulatory effects on market entry, imitation also occurs between countries (Xia, Tan, and Tan 2008), so examining imitation among start-ups operating across borders may provide a worthy avenue for future study. Scholars might also employ survey data to capture the cognitive models that distinguish start-ups from corporate firms in the minds of managers. Nonetheless this initial study provides relevant insights for practitioners.

IMPLICATIONS

For start-ups wishing to legitimize their market entry choices, there appears to be a strong precedent for imitating other start-ups. Because start-ups were found to readily imitate the entry choices of other start-ups, a focal start-up that wishes to avoid competing with other start-ups should consciously avoid this tendency toward in-group imitation if it does not want to risk joining the bandwagon. The finding that start-ups tend to avoid markets which have been densely populated by corporate firms is also actionable. Though start-ups may be able to derive efficiencies or legitimacy from considering the entries of others, it is also important for them to bear in mind the presence of well-funded incumbents (e.g., corporate firms).

CONCLUSION

In this study, we relied upon institutional and strategic groups reasoning to predict imitation by start-ups. Our findings confirmed start-ups choosing new markets in a new industry are prone to imitation in general. Specifically, we found start-ups imitate the entry decisions of other start-ups, while avoiding markets that are densely populated by corporate firms. Interestingly, our results also revealed that start-ups imitate the entry choices of corporate firms entering new markets. This finding extends trait imitation research by suggesting firms not only imitate ideal corporations, but also pattern themselves after firms that are related to such corporations.

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A MATTER OF SIZE: REGULATORY AGENCIES BULLYING SMALL BUSINESSES INTO COMPLIANCE—The Protracted Consequences of *Arbaugh v. Y & H Corporation*

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ABSTRACT

Since a 2006 United States Supreme Court ruling (*Arbaugh v. Y & H Corp*., 546 U.S. 500), small and entrepreneurial organizations have a daunting burden to define their status under Title VII of the Civil Rights Act of 1964. These firms must document whether they meet the 15-employee threshold for coverage under the act. At the same time, they must be prepared to provide evidence of their status under other legislation and deal with federal regulatory agencies who may take action to make them comply under this act or other related legislation, even though they are below the required employee threshold. This paper provides background on the original case, its implications, and potential resource costs for small organizations.

INTRODUCTION

In 2003 a female bartender and waitress brought a federal lawsuit against her former employer, the Moonlight Cafe, a small restaurant in New Orleans, Louisiana. In her suit, the employee alleged that she had been sexually harassed by one of the owners in violation of the Civil Rights Act of 1964. Eventually the case was heard in the Federal District Court for the Eastern District of Louisiana. In the subsequent trial, a jury awarded the employee $40,000 in punitive and compensatory damages (*Arbaugh*, 2003).

After the jury verdict, the employer's attorney realized that the Moonlight Cafe did not employ the requisite number of employees to be covered under Title VII and appealed the case to the U.S. Court of Appeals for the Fifth Circuit. This court concluded that the restaurant did not qualify as an "employer" as defined under Title VII (*Arbaugh*, 2004) because it did not employ the requisite 15 or more employees as specified in the Act (42 U.S.C.S. § 2000e(b)). The employee then appealed the case to the Supreme Court of the United States which ruled, in a unanimous decision, that even though The Moonlight Cafe did not employ the necessary 15 or more employees, once a jury renders a verdict against an employer, the verdict stands (*Arbaugh*, 2006). By failing to raise the issue in a timely manner, the Moonlight Cafe forfeited its ability to claim that it was not a Title VII employer, and therefore the lower court ruling was enforceable.
The key concern for small businesses is not the merits of this particular case (after all, good cases often make bad law), but that the *Arbaugh* decision has created a door through which federal enforcement agencies and courts may now attempt to regulate businesses which a specific statute initially excluded from regulation. Why is concern over this issue relevant to small business? A 2011 Gallup poll revealed that complying with government regulations was listed by their sample as the most important problem facing small business in the United States (Jacobe, 2011). At a point in time in which even the President acknowledges that government regulation hampers economic growth (Lesonky, 2011), it seems disconcerting that a Supreme Court decision may actually stimulate more regulation.

If an employer is assiduous in knowing that it is under the minimum employee threshold, it can avoid liability under Title VII, provided such notification is made in a timely manner. This is occurred in a recent New Jersey case, *Exantus v. Racquets Club of Short Hills* (2010), in which a federal district court concluded that no Title VII cause of action existed when a racquet club was identified as not meeting Title VII's employee numerosity requirement. It must be noted that this occurred early in the litigation process, before a jury verdict was rendered (*Exantus v. Racquets Club of Short Hills*, 2010). In this instance, the lawyer for the racquet club correctly advocated and demonstrated that the organization clearly did not meet the numerosity requirement outlined in the statute.

The important issue is that, in a post-*Arbaugh* legal environment, the burden of identifying employee numerosity deficiencies is placed upon the small business defendant. In effect, small businesses are increasingly at risk for potential EEO litigation even though they may not even meet the minimum employee threshold for a given act, and it is their responsibility to know this.
This paper explores the subsequent ramifications that the Supreme Court's *Arbaugh* decision bodes for small and entrepreneurial businesses. The ambiguity created by this decision puts on small businesses an impressive burden to define at all times their status under Title VII of the Civil Rights Act of 1964 and creates a concern that regulatory agencies, particularly the Equal Employment Opportunity Commission (EEOC), could use this decision as a means to force businesses under the 15-employee threshold to comply with the act rather than contest the investigation in court. The discussion will investigate the changing application of Title VII jurisdiction and other federal employment laws and regulations to below-threshold employers, those with fewer than 15 employees. Also addressed will be the decision's ominous requirement that the employer, not the regulatory agency or the courts, is responsible for knowing whether or not it is an entity covered by the statute in question. Finally, discussion will be devoted to the consequences that this ruling, and its resultant application, portends for small and entrepreneurial businesses in terms of resource costs.

Employee Thresholds and Employment Laws

There are a number of federal equal employment and fair labor standards laws which, when enacted, were intended to exclude very small businesses (see Figure 1). This exclusion is accomplished by setting a minimum employee threshold (sometimes referred to as an employee numerosity requirement) below which the given statute would not apply. Any business entity which meets or exceeds this minimum threshold is subject to the full compliance requirements of the act. It is, therefore, critical for small business owners and entrepreneurs to know where this threshold lies, and whether it obligates them to comply with a particular employment law. It is important to remember three things when trying to establish if a small or entrepreneurial organization has crossed the threshold into a particular statute's jurisdiction: (1) which individuals working for the business are "employees" defined under the specific act, (2) the time frame in which the threshold has to be maintained, and (3) what individuals are exempted from the tally.

Figure 1
Employee Thresholds by Statute

Statute	No. of Employees	Employee Status
FMLA-Family Medical Leave Act of 1993	50	Full-time and part-time
ADEA-Age Discrimination in Employment Act of 1967	20	Full-time and part-time
COBRA-Consolidated Omnibus Budget Reconciliation Act of 1986	20	Full-time/ Full-time equivalent
OWBPA-Older Worker Benefit Protection Act of 1991	20	Full-time and part-time
ADA-Americans with Disabilities Act of 1990	15	Full-time and part-time
GINA-Genetic Information Nondiscrimination Act of 2008	15	Full-time and part-time
PDA- Pregnancy Discrimination Act of 1978	15	Full-time and part-time
Title VII, Civil Rights Act of 1964	15	Full-time and part-time

Who is an Employee?

As for the first point, which individuals working for the business are "employees" defined under the specific act? Each act contains a section defining "employee" for the purpose of determining who is specifically protected by the act's provisions, as well as who can be counted in determining its numerosity requirement. For example, Title VII states, "[t]he term "employee" means an individual employed by an employer . . ." (42 U.S.C. § 2000e(f)). As a consequence, all employees are counted when determining the threshold; full-time or part-time status does not matter. Consequently, an employer with three employees working 20 hours per week, three working 10 hours per week, and nine working 40 hours crosses the threshold in the same measure as an employer with 15 full-time (40-hour) employees.

Complicating matters, in the case of the Consolidated Omnibus Budget Reconciliation Act (1986), only full-time employees are counted, or "tolled," when determining whether the threshold is met. A full-time employee is calculated at 40 hours per week for each week in a given year (Matthews, 2005). Under this finding, an individual part-time employee would count as a fraction of a full-time employee (Employee Benefits Security Administration, 2005). The "fraction" is calculated as being equal to the number of hours that the part-time employee worked divided by the number of hours necessary to be full time (Employee Benefits Security Administration, 2011). A part-time employee working 20 hours per week is counted as .5 a full-time equivalent (FTE); one working 10 hours would be a .25 FTE; an employee working only 5 hours would be a .125 FTE, etc.

For example under the FTE arrangement, a small firm with three employees working 20 hours per week, three working 10 hours per week, and nine working 40 hours would have 11.25 FTE. This is calculated as:

3 part-time employees working 10 hours in a work week	3 X 10 = 30
3 part-time employees working 20 hours in a work week	3 X 20 = 60
9 full-time employees working 40 hours in a work week	9 X 40 = 360
	450/40 = 11.25 FTE

Additionally, an employer needs to have records and be able to account not only for what might easily be 30 employees (all working 20 hours) at any one time but also be very careful that those employees do not run over their FTE allotment. Employers who do not employ more than 15 FTE employees are not considered employers under the act.

What is the Time Frame in which the Threshold is Relevant?

In addition to having the requisite number of employees, the next question to be answered is whether the business had them on the payroll for a sufficient period of time. All the federal laws have a period of time in which the minimum employee threshold must be maintained. For Title VII, Genetic Information Nondiscrimination Act (GINA),[2] Pregnancy Discrimination Act (PDA),[1] and Americans with Disabilities Act (ADA), the small business must have employed " . . . fifteen or more employees for each working day in each of *twenty or more calendar weeks in the current or preceding calendar year* . . ." (42 U.S.C. § 2000e(b); 42 U.S.C. §12111(5)(a)). Under the Age Discrimination in Employment Act (ADEA), the same time provisions apply, except its minimum employee threshold is " . . . twenty or more employees for each working day in each of *twenty or more calendar weeks in the current or preceding calendar year* . . ." (29 U.S.C. § 630(b)). It is, therefore, not sufficient that the minimum employee threshold was met; it must have been met for a sufficient period of time in order to assure employer coverage (*Turner/Ozanne v. Hyman/Power*, 1997).

As an example, take a small retailer employing 10 full-time employees who routinely hires six part-time employees to help with the annual Christmas retail season from Thanksgiving to Christmas Eve (typically a period of approximately five weeks). Even though the retailer has over 15 employees during this five-week period, it does not meet the threshold requirement under the law of 15 or more employees for each working day in each of *twenty or more calendar weeks.* These calendar weeks do not need to be contiguous and can occur at any point during the year. They may be intermittent throughout the current or the previous calendar year. It is the employer's responsibility to be aware that the organization is not a Title VII employer, not the court's, and to notify the court of this fact before a verdict is rendered (*Arbaugh*, 2006; . *EEOC v. J.H. Hein Corp.*, 2009; *Sheriff v. Midwest Health Partners, P.C.,* 2010)

And where do the regulatory agencies get the information for determining time sufficiency? The regulatory agencies calculate the employee time sufficiency requirement from the small or entrepreneurial organization's employee payroll records (*McNeal v. David Zerkel Sales,* 2011).

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[2] GINA and PDA are technically amendments to Title VII; as a result, its minimum employee threshold applies to them.

Who is Not an Employee?

There are individuals who are exempted from the count for calculation purposes. In virtually all cases, federal laws do not count spouses, children, or parents as employees for statutory purposes. Additionally, independent contractors are not covered (*Alexander v. Rush N. Shore Medical Center*, 1997).

The explanation for this is relatively simple. An independent contractor already receives legal protection under contract law and is, therefore, not counted as a common law employee (Barton, 2002). The mere existence of a formal contract between an individual and the employer is insufficient, by itself, to establish that the individual is indeed an independent contractor rather than an "employee" protected by a given act. The rationale that a written document is not sufficient to establish independent contractor status is rooted in the possibility that it may merely be a ruse to evade a particular employment requirement (*Devine v. Stone, Leyton & Gershman*, 1996). Several instances exist of common law employees being classified as "independent contractors" in order to avoid providing them certain employment benefits (*Hughes v. Microsoft,* 2001).

Figure 2 **The Internal Revenue Service's Twenty-Factor Control Test to Determine Independent Contractor Status**
The Internal Revenue Service, building on the common law test, has set forth a more detailed test for determining whether an individual is an independent contractor for purposes of paying employment tax and withholding. These factors and their applications are as follows: 1. An individual who is required to follow instructions is more likely to be considered an employee. 2. The greater the amount of training needed for the individual to complete an assigned task, the greater the likelihood that the individual will be considered an employee. 3. Where an individual is integrated into the employer's business to a great extent, the individual is more likely to be considered an employee. 4. The fact that an individual personally renders services will weigh in favor of employee status. 5. The fact that the individual hires, fires, and pays assistants, and the employer has no right to do so, indicates independent contractor status. 6. The existence of a continuing relationship is indicative of employee status. 7. The establishment of a set amount of work hours suggests employee status. 8. An individual whose time is substantially devoted to the job is more likely to be considered an employee.

9. The fact that an individual works on the employer’s premises suggests employee status. 10. An individual who works according to a sequence set by the employer will more likely be deemed an employee. 11. The fact that an individual submits regular or written reports to the employer will weigh in favor of employee status. 12. An individual who is paid by the project, rather than by the hours, or other period of time, will more likely be considered an independent contractor. 13. An individual who is reimbursed for expenses is more likely an employee. 14. An individual who furnishes the necessary tools and materials for the job is more likely an independent contractor. 15. That an individual makes an investment in the facilities in which he or she works weights in favor of independent contractor status. 16. The fact that an individual’s work results in the possible realization of a profit or the risk of a loss suggests independent contractor status. 17. An individual who works for more than one firm at a time is more likely to be an independent contractor. 18. An individual who makes his or her services available to the general public is more likely to be considered an independent contractor. 19. The fact that the employer has the right to discharge the individual suggests an employment relationship (independent contractor relationships are more likely to be contractual). 20. The fact that the individual has the right to terminate the relationship also suggests an employment relationship because independent contractors are usually bound by a contract.
Source: IRS Publication 15A, Employer's Supplemental Tax Guide.

The legal standard for establishing that an employee truly is a *bona fide* independent contractor is actually provided in the tax code by the Internal Revenue Service (IRS Code § 1706). In its *Twenty-Factor Control Test to Determine Independent Contractor Status*, the IRS provides 20 criteria which must be met if an individual is to be an independent contractor for tax purposes (McDermott, 1999; see Figure 2). In 1996, when Congress passed the Small Business Job Protection Act (26 U.S.C. § 3401), the IRS subdivided those 20 criteria into three basic categories: behavioral control, financial control, and the relationship of the employee to the business (Internal Revenue Service, 2011). For a more detailed explanation of this change, please refer to Figure 3.

Figure 3 **IRS Topic 762 - Independent Contractor vs. Employee**
Behavioral Control covers facts that show whether the business has a right to direct or control how the work is done, through instructions, training, or other means.
Financial Control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job. This includes: • The extent to which the worker has unreimbursed business expenses • The extent of the worker's investment in the facilities used in performing services • The extent to which the worker makes his or her services available to the relevant market • How the business pays the worker, and • The extent to which the worker can realize a profit or incur a loss
Type of Relationship covers facts that show how the parties perceive their relationship. This includes: • Written contracts describing the relationship the parties intended to create • The extent to which the worker is available to perform services for other, similar businesses • Whether the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay • The permanency of the relationship, and • The extent to which services performed by the worker are a key aspect of the regular business of the company
Source: Internal Revenue Service (2011). Topic 762 - Independent Contractor vs. Employee (Last updated: March 01, 2011). http://www.irs.gov/taxtopics/tc762.html.

This standard has since been adopted by many state and federal courts as a benchmark for determining independent contractor status for statutory purposes (In re FedEx Ground Package Systems, 2010). Failure to recognize the difference between an independent contractor and a common law employee may have unpleasant consequences. For example, realty companies may believe that individual realtors are independent contractors, but when considering the employer's control of the most important aspects of their work, realtors usually are common law employees (*Swift v. Realty Executives Nevada's Choice,* 2006). Hence many such companies think they are below the threshold when, in fact, they are not.

It should be noted that *supervisors/managers are considered to be employees* for totaling purposes (Smith v. Castaways Family Diner, 2006). Confusion often occurs as supervisors/managers are excluded from protection under some federal laws (Fair Labor Standards Act and National Labor Relations Act, e.g.), but are treated as employees for the purpose of establishing minimum thresholds.

Other Federal Laws to which Arbaugh has been Extended

Arbaugh held that Title VII's minimum threshold requirement of 15 employees did not bar a federal court from exercising jurisdiction over an alleged Title VII violation. It was merely a matter of time before this logic was applied to other employment laws. Because the language in the ADEA is so very similar to that of Title VII, it was not surprising when a terminated office manager was able to file suit against her employer who employed fewer than the requisite 20 employees (*Simons v. Harrison Waldrop & Uhereck, L.L.P*., 2006). This case also demonstrated the underlying problem for small employers posed by *Arbaugh;* cases are now going to court in which the arguments focus on whether the employer had the requisite number of employees to begin with (*Guy v. Colonial Bank*, 2006). Small and entrepreneurial business owners are now coming to court trying to prove that they were never an 'employer" under the ADEA.
Moreover, the *Arbaugh* doctrine was used to extend subject matter jurisdiction to the Americans with Disabilities Act *(De Jesus v. LTT Card Services*, 2007). It has even been applied to the Fair Labor Standards Act's annual revenue threshold (*Chao v. Hotel Oasis, Inc*., 2007).

Perhaps the most disquieting example of a statute which has been adapted based on the *Arbaugh* scheme is the Family Medical Leave Act (FMLA). Unlike the previously referenced laws, the FMLA has two issues which must be addressed. First, there is employer coverage. An "employer" under the FMLA is any person who is engaged in commerce or in any industry or activity affecting commerce and employs *50 or more employees* for each working day during each of 20 or more calendar workweeks in the current or preceding calendar year (29 U.S.C § 2611(4)(A)(i)).

The second issue involves whether an employee in question is eligible for the benefits provided under the Act: 12 weeks of unpaid leave, health insurance coverage during the leave, and the employee is allowed to return to his/her previous (or equivalent) job. In order to be entitled to these benefits, an "eligible employee" must: (1) have worked for a covered employer (one who employs the aforementioned 50 or more employees); (2) have worked for that employer for a total of at least 12 months; (3) have worked at least 1,250 hours over the previous 12 months (approximately 31.25 work weeks or 7.5 months of work for a full-time employee at 40 hours per week); and (4) worked at a location in the United States or one of its territories or possessions where at least 50 employees are employed by the employer within 75 miles of the facility(29 C.F.R. § 825.111(b)).

As work continues to become allocated among independent agents and telecommuters, an employer is likely to find itself needing to not only monitor whom it employs but how far those employees are from one another. For example, a medical records employer (a common work-from-home business) employing 100 people working in the same city might find itself subject to family and medical leave even though those employees do not come into a physical building at any point.

A number of other courts in other circuits quickly followed suit and applied this standard to both the issues of who is an eligible employee as well as who is a covered employer (*Cobb v. Contract Transp., Inc*., 2006; *Myers v. Tursso Co.* 2007; *Minard v. ITC Deltacom Communications., Inc*., 2006; *Hackworth v. Progressive Cas. Ins. Co*., 2006). For very small businesses, the question of who is and who isn't an employee is the difference between being a covered employer or not.

The Danger of Overzealous Enforcement

Though regulatory agencies are expected to vigorously enforce the statute which empowers them, sometimes they may exceed their authority. In *EEOC v. Agro Distribution, LLC* (2009, p. 473), a federal judge admonished the EEOC that when enforcing the Americans with Disabilities Act and ensuring its protections to affected workers. The EEOC also owes duties to employers: "a duty to reasonably investigate charges, a duty to conciliate in good faith, and a duty to cease enforcement attempts after learning that an action lacks merit. In this case, the EEOC abandoned its duties and pursued a groundless action with exorbitant demands."

There have been a number of instances involving a federal enforcement agency pursuing small and entrepreneurial businesses by attempting to force compliance even though the enterprise in question was a below-threshold employer. In one incident in Mississippi, the EEOC pursued an employer for racial discrimination even though it did not meet the statutory definition of employer under Title VII (*EEOC v. Eagle Quick Stop, Inc.,* 2007). In the resulting trial, the employer incurred court costs and attorney's fees because of the EEOC's insistence on litigating the issue even though it was aware that the enterprise was not a Title VII employer. On three occasions, employees from Eagle Quick Stop testified before the EEOC that the store had fewer than 15 employees, and the judge ruled that at least two pieces of evidence from the initial investigation indicated that the store did not meet the employee threshold. Ultimately, this ended well for the small business in question as the judge ruled, "in its discretion, award attorney fees to a prevailing defendant in a Title VII case upon a finding that the plaintiff's action was frivolous, unreasonable, or without foundation, even though not brought in subjective bad faith" (*EEOC v. Eagle Quick Stop, Inc*., 2007, p. *4).

Federal courts have intervened in situations resulting from the EEOC trying to force employers into conciliation. Conciliation is that phase of an EEOC investigation which occurs after the agency has found reasonable cause that the employer may have violated Title VII (or the ADA, or the ADEA). In essence, the EEOC attempts to get the employer and the aggrieved employee to sit down and work out an out-of-court solution to the discrimination. In some cases the EEOC has been attempting to force below threshold employers into agreeing to these out-of-court arrangements (*EEOC v. Eagle Quick Stop, Inc*., 2007). When these questionable conciliations were attempted, the courts have stayed the proceedings to allow for conciliation or dismissed the case entirely (*EEOC v. Timeless Investments, Inc*., 2010).

There are already a number of cases in which below-threshold employers have incurred the expense of litigation by enforcement agencies. In Alabama, a suit involving a racial discrimination allegation was dismissed when it was established that the employer was below the threshold for Title VII (*Faulkner v. Woods Transp., Inc*., 2006). In North Carolina, a case involving allegations of sex discrimination and unlawful retaliation under Title VII was dismissed when it was again proven in court that the employer did not satisfy the 15 employee threshold to be a Title VII employer (*Burnette v. Austin Medical, Inc.,* 2011, p *14). In both of these instances, the employers, though they prevailed, were still subject to court costs and attorney expenses.

Knowledge is Power

In light of some regulatory agencies deploying their enforcement recourses on small businesses, there are examples where enterprises have avoided liability or expensive conciliation by a timely challenge that they do not meet the minimum employee threshold for coverage under the statute in question. A Missouri employer never had more than 15 employees (*Mason v. Invision,* 2009) and won a quick dismissal of a complaint, although even this complaint was appealed to the United States Supreme Court. How then is a small business to take these rules seriously if even a pre-trial dismissal will entail expensive legal defenses through three levels of the judiciary?

It is important to remember that the complaining party is under no obligation to establish that the employer is covered. This responsibility falls on the employer, who must be prepared to prove that the business is not covered by the statute in question (*Rodriguez v. Diego's Restaurant, Inc*., 2009, p. 1350). Again, if the employer fails to raise the issue of numerosity before the close of the trial, then the outcome of the case will hinge on its merits as though the minimum employee threshold had been satisfied (*Thomas v. Alabama Home Construction*, 2008). As a result, there is not only a heavy burden on the fraught lawyers to ensure that they are up to date on the latest small business regulations, there is an onerous burden on employers to ensure that they do not cross above the regulated threshold before they can document their employment practices.

Additionally, employers are increasingly at risk of running afoul of enforcement agencies because of the myriad guidelines and restrictions associated with the definitions of employers, employees, and full-time employees. Indeed, the website for the IRS states that “There is no “magic” or set number of factors that “makes” the worker an employee or an independent contractor.” (IRS.gov, reviewed on September 16, 2011). If the rule-making body refuses to set a brightline standard, it is left up to debate. Debate is central to the American system of governance, but small and entrepreneurial businesses must pay considerable amounts of money in these debates and have very little ability to resolve anything, especially in the face of aggressive regulatory agencies.

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A MODEL PEDAGOGY FOR SMALL BUSINESS CONSULTANTS AND EDUCATORS USING LEGAL INSIGHT DECISION MAKING [LIDM]

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ABSTRACT

This paper illustrates the use of a theoretical model, Legal Insight Decision Making [**LIDM**] to educate small business consultants, small business owners, and small business strategists. Annual use of LIDM in a legal audit improves decision-making of the small enterprise and permits the small enterprise to become more competitive by using legal strategic theory to improve their firm's performance. The paper proposes that educators integrate law into the decision making process using LIDM.

INTRODUCTION AND LITERATURE REVIEW

Use of legal strategy improves performance and reduces unnecessary risk. Legal strategy, is a underutilized component of competitiveness according to most legal scholars (Bird 2010); yet few would disagree that business planning, including legal planning, has a positive effect on business success (Allred, Addams and Chakraborty 2007). Whether we are speaking of international entrepreneurship and transnational corporations (Butler, Doktor and Lins 2010; Rondinelli 2007; Mendoza 2007), or planning and control in small businesses in the US (Hodges and Kent 2006/2007) there is strong evidence that planning and performance (Ensley, Carland and Carland 2003; Allred et al 2007) is an essential aspect of business strategy and business success, especially within the entrepreneurial organization (Brigham, DeCastro and Shepherd 2007).

Each year, brand new United States Supreme Court decisions reveal the ultimate current legal viewpoint; these decisions generally apply to all businesses operating in the US [as well as certain foreign-based businesses]. These court decisions provide guidance to small businesses ONLY if the small business recognizes and interprets the decision. Small business consultants and educators can use this legal knowledge as an innovative advantage, as noted by Hodges and Kent (2006/2007), Heriot and Huneycutt (2001) and others.

If we believe that entrepreneurship education and small business consulting are related we may more readily accept innovation according to the serious inquiries of many scholars (von Graevenitz, Harhoff and Weber 2010; Heck, Hoy, Poutziouris and Steier 2008; Shepherd, McMullen and Jennings 2007; Groves and Vance 2009; Kuratko 2005; Steier and Ward 2006). If indeed, we accept multiple approaches to decision making, as proposed by Cunha (2007) and others (Bardwell 2009; Bagley 2010; Eddleson, Otondo and Kellermanns 2008) we can learn to integrate every discipline, including law, into the decision making process.

Law is frequently seen as being on the outskirts of strategic thinking. As observed by Bird, the gulf between lawyer and strategist remains wide (Bird 2010). Noted legal scholar Bagley confirms that legal loopholes could be managed strategically and she investigates and describes important compliance processes to improve management (Bagley 2010). Nonetheless, there is a piecemeal approach to the cohesive integration of legal thinking and legal studies into classic business studies; unfortunately, each academic may prefer his or her own discipline, perceiving it as the best approach to solve business related issues (Heriot and Huneycutt 2001; Cutler 2003; DiMatteo 2010).

The academic in legal studies is likely to isolate legal topics according to subject matter (Malach, Robinson and Radcliffe 2006; Heriot, Thomson and Bardwell 2008)) or use an evaluation approach (Palmer, Andaleeb and Joyner 2006) to rate or rank performance. The desire to provide systematic quantitative analysis is more often seen in non-legal evaluative academic research (Van Auken 2003; Lussier 1995; Rausch, Frese and Utsch 2005; Gumbus and Lussier 2006; Gaskill, Van Auken and Manning 1993; Sitkin and Weingart 1995; Fiore and Lussier 2007).
For some, there is a perceived nexus between law and ethics; for others the two words together [Law-Ethics] are nothing short of a humorous oxymoron. For recognized experts in the field of ethics and decision-making (Hornsby, Kuratko, Naffzinger, LaFollette and Hodgetts 1994; Longenecker, Moore, Petty, Palich and McKinney 2006) we see a concerted effort to conceptually define ethics and ethical decision making. Decision making that is based on ethics always includes motive and corporate social responsibility as noted by Hemingway and MacIagan (2004). Some models for thinking, understanding, teaching or performance are likely to be too cumbersome as predicted by Morris et al (Morris, Schindehutte, Richardson and Allen 2006); but some models, though not explicitly statistically based, are both evaluative and systematic. The LIDM model is an evaluative and systematic model; it is not cumbersome and can be easily used by educators and consultants.

Silverman and Hohler, in their recent treatise on a metric for rule-of-law analysis (Silverman and Hohler 2010) capture the spirit of most academics trained in the law; we are detail-oriented alternative thinkers who generally avoid the quantitative in favor of the qualitative approach. Nonetheless, a structured, repeatable, confirmable theory which conforms to the standards of qualitative studies can influence thinking and development. The LIDM pedagogy proposes that legal insight decision making is an appropriate tool for analysis and understanding of significant court cases; in theory it can improve the performance of firms and enhance teaching of business legal studies and business-related court cases (Bardwell 2010).

METHODOLOGY

Table 1 describes the exact steps in Legal Insight Decision Making [LIDM]. It is a multi-step theory and process first proposed and described by an academic involved in business consultation through the national Small Business Institute® program. (Bardwell, 2010). The purpose of LIDM is to provide a clean and simple pedagogy to educators who teach legal and economic principles; and consequently, to improve performance of even small firms by providing a simple tool that can be utilized in business consulting. The process of selection and analysis of court uttered legal information is called Legal Insight Decision Making [LIDM] (Bardwell 2009) and it can be effectively researched at lower levels of the judiciary and in multiple judicial forums and venues. LIDM is a process that directs small business strategic thinking and practice in the legal arena. The value of LIDM theory is the ease of integration into classic strategic theories; there is an added bonus of timeliness, currency and relevance.

TABLE 1- Legal Insight Decision Making [LIDM] Process	
STEP and Sequence	**Description of Action**
Step 1: Select Hot Circuits	Identify recalcitrant Circuits and include the circuit in which your business interests reside.
Step 2: Select Hot Legislative Change Topics	Identify legislative changes and add two years to permit the appeals process to mature
Step 3: Select Hot Economic Topics	a. Identify topics covered in multiple issues in the WSJ, NYT, LAT, WP related to industry performance and add 6 months to one year for trickledown effect upon small business/entrepreneurs b. Identify topics funded by SBA over past 2 years
Step 4: Select Hot Public Topics	Identify abusive ethical or professional breach behaviors covered in popular media and determine if federal regulations govern such behaviors and add 6 months to 1 year for resultant civil or criminal prosecutions
Step 5: Map the Intersection of steps 1-4 to plot future problems	Economic issues and Social issues are often in the vanguard of legislative issues.
Step 6: Select USSC cases related to Step 5 and that have been granted cert. to monitor	Use the Slip Opinions posted on the official USSC website to read latest case decisions-organize by topic related to business
Step 7: Review USSC case opinions	a. Recognize Overt issues which will surface again: often split decisions and dissents can ID these issues b. Unambiguous decisions –per curium or unanimous where no controversy exists among USSC jurists c. Track remands- what happens after case is send back for reconsideration?
Step 8: Extract key lessons from Step 7 and apply to business/educational/entrepreneurial interests	Use USSC decisions to: a. inform business strategy decisions and alter any illegal behavior of firms in consulting work. b.Minimize risk by conforming to legal analysis c. Use these current cases as teaching cases d. Select discipline specific cases to inform Biz professionals

LIDM requires the creation of an annual audit for upcoming legal issues which should coincide with the US Supreme Court term; i.e. the LIDM process adopts a convenient "Legal Year" of October to October. Information necessary to determine which cases are significant and might be granted certiorari is eventually made public and is available through several methods. The author's preferred method is described for the sake of simplicity in Table 1- The LIDM Process. The LIDM process is a simplistic eight step exercise; each step in the process requires annual review for optimal effectiveness. The entire 8 Step process is described in Table 1; however, the final steps of the process [Steps 6, 7 and 8] require review and analysis of the current United States Supreme Court decisions; therefore, Steps 6, 7 and 8 are the particular focus of this paper. The highlights of these particular steps are: **Step 6**: Select those USSC cases with opinions related to business **Step 7**: Review USSC case opinions related to business and **Step 8**: Extract key lessons from Step 7 and apply to business/educational/entrepreneurial interests .

LIDM USE AS AN ANNUAL AUDIT

There are 85 decisions issued by the United States Supreme Court in the term under review of this paper. Of those 85 decisions, only 10 were per curiam. Table 2 refers to the most recent decisions and identifies those slip opinion decisions relating to business issues pertinent to the LIDM model. Table 2 identifies the date of the opinion, name of the case, author of the opinion, whether the case addresses business related issues directly or marginally, identifies the business-related topic, the circuit or State to which certiorari was granted, and the number of justices in dissent.

The slip opinions collected here are those issued during October Term 2010 (October 4, 2010, through October 1, 2011). A "slip" opinion refers to the corrected version of a previously issued decision; the slip opinion becomes the published or official version of the decision. Of the several opinions issued by the USSC in the most recent term, this current term [2010-2011] is typical in the number of cases involving business issues. As seen in Table 2, as usual, only a few relate to specific business interests, issues or problems. These select opinions are essential and necessary to analyze and provide important decision-making insight for educators and practitioners. The review and analysis of these select cases are the backbone of LIDM theory [See Table 2, column 6].

Due to space constraints of this submission, the full analysis is reduced to only two cases; for a complete detailed analysis of ALL cases, please contact the author.

For ease of understanding the significance of certain legal phrases, it is necessary to know that Per Curiam (PC) decisions are decisions issued by the bench without dissent, and usually without naming an individual author of the opinion. The phrase, Original Case Decrees (D) refers to those cases reaching the USSC in which there have been no underlying court decisions; that is, the USSC is the court of origination of the case or controversy, not some lower court. These are rare.

TABLES TWO- All 85 USSC DECISIONS w. NOTED BUSINESS RELATED

R-	Date	USSC Case Name	J.	BIZ Issue	TOPICS	Circuit	DISSENT
85	7/7/2011	Leal Garcia v. Texas	PC	no			
84	6/27/2011	United States v. Juvenile Male	PC	no			
83	6/27/2011	Goodyear Dunlop Tires Operations, S. A. v. Brown	G	Marginal	Jurisdiction for Product Liability	NC	
82	6/27/2011	J. McIntyre Machinery, Ltd. v. Nicastro	K	Marginal	Jurisdiction for Product Liability	NJ	3
81	6/27/2011	Brown v. Entertainment Merchants Assn.	AS	No-BUT…	Violent videos to minors OK	9th/CA	
80	6/27/2011	Arizona Free Enterprise Club's Freedom Club PAC v. Bennett	R	no			
79	6/23/2011	CSX Transp., Inc. v. McBride	G	Marginal	Federal Employers' Liability Act (FELA)	7th/ILL	4
78	6/23/2011	Bullcoming v. New Mexico	G	no			
77	6/23/2011	PLIVA, Inc. v. Mensing	T	Marginal	Drug side effect-tardive dyskinesia	8th	4
76	6/23/2011	Sorrell v. IMS Health Inc.	K	Marginal	Vt. Law limited use of lists used to market drugs to Docs	2nd/VT	3
75	6/23/2011	Freeman v. United States	K	No			
74	6/23/2011	Stern v. Marshall	R	No			
73	6/20/2011	Turner v. Rogers	B	No			
72	6/20/2011	American Elec. Power Co. v. Connecticut	G	Marginal	States may abate air water pollution by other States or out-of-state industry	2nd /CT & NY	
71	6/20/2011	Borough of Duryea v. Guarnieri	K	Marginal	1stAmendt protects "the right of the people . . . to petition	3rd/PA	
70	6/20/2011	Wal-Mart Stores, Inc. v. Dukes	AS	Yes	3 females cannot rep. Class of of 1.5 million	9th/CA	4
69	6/16/2011	Tapia v. United States	EK	no			
68	6/16/2011	Smith v. Bayer Corp.	EK	no			
67	6/16/2011	J. D. B. v. North Carolina	SS	no			
66	6/16/2011	Davis v. United States	A	no			
65	6/16/2011	Bond v. United States	K	no			
64	6/13/2011	Flores-Villar v. United States	PC	no			
63	6/13/2011	United States v. Jicarilla Apache Nation	A	no		Fed Circuit	
62	6/13/2011	Janus Capital Group, Inc. v. First Derivative Traders	T	Yes	Rule 10b–5 liability for "maker" of false prospectus stmt	4th/NY	4
61	6/13/2011	Nevada Comm'n on Ethics v. Carrigan	AS	no		Spm. Ct of NV	
60	6/9/2011	Microsoft Corp. v. i4i Ltd. Partnership	SS	Yes		Fed Circuit	
59	6/9/2011	DePierre v. United States	SS	no			
58	6/9/2011	Talk America, Inc. v. Michigan Bell Telephone Co.	T	Marginal	ATT must provide Access to competitors at cost	6th	
57	6/9/2011	Sykes v. United States	K	no			
56	6/6/2011	Fox v. Vice	EK	Marginal		5th	
55	6/6/2011	McNeill v. United States	T	no			
54	6/6/2011	Erica P. John Fund, Inc. v. Halliburton Co.	R	Yes	Securities fraud Ps get class cert. w/o loss causation	Fed Circuit	
53	6/6/2011	Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc.	R	Marginal	University and professors' patent rights		2
52	5/31/2011	Global-Tech Appliances, Inc. v. SEB S. A.	A	Yes	Patent willful blindness = infringement	Fed Circuit	1
51	5/31/2011	Ashcroft v. al-Kidd	AS	no			
50	5/26/2011	Camreta v. Greene	EK	no			
49	5/26/2011	Fowler v. United States	B	no			
48	5/26/2011	United States v. Tinklenberg	B	no			
47	5/26/2011	Chamber of Commerce of United States of America v. Whiting	R	Yes	E-Verify and LAWA	9th/AZ	3
46	5/23/2011	Brown v. Plata	K	no			
45	5/23/2011	General Dynamics Corp. v. United States	AS	Yes	Govt K default and stealth aircraft	Fed Circuit	0
44	5/16/2011	Kentucky v. King	A	no			

43	5/16/2011	CIGNA Corp. v. Amara	B	Yes	ERISA rules for Pension benefits	2nd	0
42	5/16/2011	Schindler Elevator Corp. v. United States ex rel. Kirk	T	Marginal	QUI tam [whistleblower] Lawsuits vs govt K'er	2nd	3
41	5/2/2011	Bobby v. Mitts	PC	no			
40	5/2/2011	Montana v. Wyoming	T	no			
39	4/27/2011	AT&T Mobility LLC v. Concepcion	AS	Yes	CA rule class arbitration of Discover Bank is challenged	9th	4
38	4/26/2011	United States v. Tohono O'odham Nation	K	no			
37	4/20/2011	Sossamon v. Texas	T	no			
36	4/19/2011	Virginia Office for Protection and Advocacy v. Stewart	AS	no			
35	4/4/2011	Cullen v. Pinholster	T	no			
34	4/4/2011	Arizona Christian School Tuition Organization v. Winn	K	no			
33	3/29/2011	Tolentino v. New York	PC	no			
32	3/29/2011	Astra USA, Inc. v. Santa Clara County	G	no			
31	3/29/2011	Connick v. Thompson	T	no			
30	3/22/2011	Matrixx Initiatives, Inc. v. Siracusano	SS	Marginal	Material omission if fail to reveal ZICAM related to loss of smell		0
29	3/22/2011	Kasten v. Saint-Gobain Performance Plastics Corp.	B	Yes	Anti-retaliation clause includes Oral complaints	7th	2
28	3/21/2011	Felkner v. Jackson	PC	no			
27	3/7/2011	Milner v. Department of Navy	EK	no			
26	3/7/2011	Wall v. Kholi	A	no			
25	3/7/2011	Skinner v. Switzer	G	no			
24	3/2/2011	Pepper v. United States	SS	no			
23	3/2/2011	Snyder v. Phelps	R	no			
22	3/1/2011	Henderson v. Shinseki	A	no			
21	3/1/2011	Staub v. Proctor Hospital	AS	YES	USERRA protection	7th	

63	6/13/2011	United States v. Jicarilla Apache Nation	A	no		Fed Circuit	
62	6/13/2011	Janus Capital Group, Inc. v. First Derivative Traders	T	Yes	Rule 10b–5 liability for "maker" of false prospectus stmt	4th/NY	4
61	6/13/2011	Nevada Comm'n on Ethics v. Carrigan	AS	no		Spm. Ct of NV	
60	6/9/2011	Microsoft Corp. v. i4i Ltd. Partnership	SS	Yes		Fed Circuit	
59	6/9/2011	DePierre v. United States	SS	no			
58	6/9/2011	Talk America, Inc. v. Michigan Bell Telephone Co.	T	Marginal	ATT must provide Access to competitors at cost	6th	
57	6/9/2011	Sykes v. United States	K	no			
56	6/6/2011	Fox v. Vice	EK	Marginal		5th	
55	6/6/2011	McNeill v. United States	T	no			
54	6/6/2011	Erica P. John Fund, Inc. v. Halliburton Co.	R	Yes	Securities fraud Ps get class cert. w/o loss causation	Fed Circuit	
53	6/6/2011	Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc.	R	Marginal	University and professors' patent rights		2
52	5/31/2011	Global-Tech Appliances, Inc. v. SEB S. A.	A	Yes	Patent willful blindness = infringement	Fed Circuit	1
51	5/31/2011	Ashcroft v. al-Kidd	AS	no			
50	5/26/2011	Camreta v. Greene	EK	no			
49	5/26/2011	Fowler v. United States	B	no			
48	5/26/2011	United States v. Tinklenberg	B	no			
47	5/26/2011	Chamber of Commerce of United States of America v. Whiting	R	Yes	E-Verify and LAWA	9th/AZ	3
46	5/23/2011	Brown v. Plata	K	no			
45	5/23/2011	General Dynamics Corp. v. United States	AS	Yes	Govt K default and stealth aircraft	Fed Circuit	0
44	5/16/2011	Kentucky v. King	A	no			

20	3/1/2011	FCC v. AT&T Inc.	R	Marginal	Corps have no "personal" privacy exemption in FOIA	3rd/PA	0
19	2/28/2011	Michigan v. Bryant	SS	no			
18	2/23/2011	Williamson v. Mazda Motor of America, Inc.	B	no			
17	2/23/2011	Walker v. Martin	G	no			
16	2/22/2011	CSX Transportation, Inc. v. Alabama Dept. of Revenue	EK	Marginal	State Diesel fuel tax on RR but not on ships or trucks violates Fed. Law	11th	2
15	2/22/2011	Bruesewitz v. Wyeth LLC	AS	no	Tort limitation via Federal Act		
14	1/24/2011	Swarthout v. Cooke	PC	no			
13	1/24/2011	Chase Bank USA, N. A. v. McCoy	SS	yes	retroactive rate increases	9th	
12	1/24/2011	Ortiz v. Jordan	G	no		6th	
11	1/24/2011	Thompson v. North American Stainless, LP	AS	yes	fiance retaliatory firing claim ok	6th	
10	1/19/2011	NASA v. Nelson	A	Marginal	Govt Background checks reasonable	9th	*
9	1/19/2011	Premo v. Moore	K	no			
8	1/19/2011	Harrington v. Richter	K	no		9th	
7	1/11/2011	Ransom v. FIA Card Services, N. A.	EK	Marginal	debtors ability to pay creditors using IRS Tables	9th	*
6	1/11/2011	Mayo Foundation for Medical Ed. and Research v. United States	R	YES	Student resident doctors are not tax exempt as students	8th	0
5	1/10/2011	Madison County v. Oneida Indian Nation of N. Y.	PC	no		2nd	
4	12/13/2010	Costco Wholesale Corp. v. Omega, S. A.	PC	Marginal	4-4=affirmed!		
3	11/30/2010	Los Angeles County v. Humphries	B	no		9th	
2	11/15/2010	Abbott v. United States	G	no		3rd	
1	11/8/2010	Wilson v. Corcoran	PC	no		7th	

In Table 2-Column J represents the Justice who wrote the principal opinion in the case, or an unsigned per curiam opinion or decree: The Justices' last [sometimes with first] initials are used for convenience:

A: Associate Justice Samuel A. Alito, Jr.
AS: Associate Justice Antonin Scalia
B: Associate Justice Stephen G. Breyer
D: Decree in Original Case
EK: Associate Justice Elena Kagan
G: Associate Justice Ruth Bader Ginsburg
K: Associate Justice Anthony M. Kennedy
PC: Unsigned Per Curiam Opinion
R: Chief Justice John G. Roberts, Jr.
SS: Associate Justice Sonia Sotomayor
T: Associate Justice Clarence Thomas

FINDINGS

The hard work of reviewing every opinion issued by the USSC each year can nonetheless produce benefits. Knowledge of the current status of legal issues can be beneficial to corporate decision-makers, students of law and business, entrepreneurs involved in innovation and legal commercial rights and duties, financial advisors, small business owners, and others.

Those with basic legal savvy have an advantage over those with no legal savvy. The availability of cutting-edge legal information from the Supreme Court ranks at the top of the food chain for legal and economic analysts yet is still in its infancy phase for others.

Therefore, the LIDM process was employed to construct a filter to select key cases relating to business. All 85 cases were read and reviewed by the author. The results of the LIDM Steps 1,2,3 and 4 led to Step 5, a mapping of those cases. The intersection of the mapped cases produced more than one dozen KEY business cases for this current USSC term. Each case is analyzed and key lessons are extracted. [This paper cannot present all findings due to space constraints.-see author for all results.]

LIDM RESULTS FOR SMALL BUSINESS WITH KEY LESSONS INVOLVING TAXES, BANKRUPTCY, FIRING, PRIVACY, USERRA AND THE SMALL BUSINESS PATENT PROCEDURES ACT

TAXES

Mayo Foundation for Medical Ed. and Research v. United States 562 U. S. ____ (2011)

On cert. from 8th circuit, CJ Roberts authored this opinion stating that, “nearly all Americans who work for wages pay taxes on those wages under the Federal Insurance Contributions Act (FICA), which Congress enacted to collect funds for Social Security. The question presented in this case is whether doctors who serve as medical residents are properly viewed as “student[s]” whose service Congress has exempted from FICA taxes under 26 U. S. C. §3121(b)(10).”. The ultimate decision made by the USSC is that these residents are NOT entitled to exempt status as students; their wages ARE subject to taxation and remittance to the IRS. Failure to perform this obligation is NOT recommended.

KEY LESSON: Taxes, and the proper collection of taxes, affect all employees and employers, regardless of business type. The failure to properly collect taxes owed to the federal government, such as the FICA taxes which are the subject of this case, can have serious consequences including fines and jail; there is strict liability for the employer, the employer’s designated employee responsible for the collection of the taxes as well as the employee herself. Small Business must collect and remit taxes to the IRS.

BANKRUPTCY

Ransom v. FIA Card Services, N. A 562 U. S. ____ (2011)

On cert. from 9th circuit, EK authored this opinion about debtors' duties under Chapter 13 of the Bankruptcy Code. In this case, the USSC looked at a statutory formula called the "Means Test" employed by the Bankruptcy Court to assess how much debt a debtor claiming relief under Chapter 13 should be expected to pay to his creditors. The issue concerned an ironic feature of the so called "Means Test". The "Means Test" averages permitted "expenses" of debtors; for example, if a debtor "owns" a car with car payments, the "Means Test" will calculate the average car payment based upon geographic local and other factors. This expense will then become part of a formula to determine how much the debtor should repay [what percentage of the debt] to her creditors. In this instant case, an example of a debtor who owned a car outright [without any debt due to car dealer or bank] arguably showed that debtor was at a disadvantage; the car becomes an asset and there is no reduction in the overall debt owed by the Chapter 13 bankrupt.

Chapter 13 of the Bankruptcy Code enables an individual to obtain a discharge of his debts if he pays his creditors a portion of his monthly income in accordance with a court-approved plan. 11 U. S. C. §1301 *et seq*. To determine how much income the debtor is capable of paying, Chapter 13 uses a statutory formula known as the "means test." §§707(b)(2) (2006 ed. and Supp. III), 1325(b)(3)(A) (2006 ed.). The means test instructs a debtor to deduct specified expenses from his current monthly income. The result is his "disposable income"—the amount he has available to reimburse creditors. §1325(b)(2).

When petitioner Ransom filed for Chapter 13 bankruptcy relief, he listed respondent (FIA) as an unsecured creditor. Among his assets, Ransom reported a car that he owns free of any debt. In determining his monthly expenses, he nonetheless claimed a car-ownership deduction of $471, the full amount specified in the "Ownership Costs" table, as well as a separate $388 deduction for car-operating costs. Based on his means-test calculations, Ransom proposed a bankruptcy plan that would result in repayment of approximately 25% of his unsecured debt. FIA objected on the ground that the plan did not direct all of Ransom's disposable income to unsecured creditors. FIA contended that Ransom should not have claimed the car-ownership allowance because he does not make loan or lease payments on his car. Agreeing, the Bankruptcy Court denied confirmation of the plan. The Ninth Circuit Bankruptcy Appellate Panel and the Ninth Circuit affirmed. The USSC agreed; therefore, a debtor who does not make loan or lease payments may not take the car-ownership deduction.

KEY LESSON: The lesson in this case applies to all potential creditors who MUST be aware of their collection rights when and if their debtors seek Bankruptcy protection. The applied formulas in the "Means Test" are for the protection of creditors as well as the bankrupt. Small business owners must capture their rights as creditors using this approved means test.

<u>FIRING EMPLOYEES IN A RELATIONSHIP and RETALIATORY CLAIMS:</u>

<u>Thompson v. North American Stainless, LP</u> 562 U. S. ____ (2011)

Authored by Anton Scalia, on cert. from the 6th circuit, this case concerns the question of retaliatory firing. After petitioner Thompson's fiancée, Miriam Regalado, filed a sex discrimination charge with the Equal Employment Opportunity Commission (EEOC) against their employer, respondent North American Stainless (NAS), NAS fired Thompson. He filed his own charge and a subsequent suit under Title VII of the Civil Rights Act, claiming that NAS fired him to retaliate against Regalado for filing her charge.

Scalia framed the issues: "This case therefore presents two questions: First, did NAS's firing of Thompson constitute unlawful retaliation? And second, if it did, does Title VII grant Thompson a cause of action?"

Retaliatory firing...as explained in *Burlington*, 548 U. S., at 69, "will often depend upon the particular circumstances." Given the broad statutory text and the variety of workplace contexts in which retaliation may occur, Title VII's anti retaliation provision is simply not reducible to a comprehensive set of clear rules. When there are no clear rules, the matter can be examined on a case by case basis, but always in light of accepted regulatory and judicial principles. In the instant case, Title VII grants Thompson a cause of action for retaliatory firing.

In a concurring opinion, Justices Ginsburg joined by Breyer, wrote:
"I join the Court's opinion, and add a fortifying observation: Today's decision accords with the longstanding views of the Equal Employment Opportunity Commission (EEOC), the federal agency that administers Title VII. In its Compliance Manual, the EEOC counsels that Title VII "prohibit[s] retaliation against someone so closely related to or associated with the person exercising his or her statutory rights that it would discourage or prevent the person from pursuing those rights."

KEY LESSON: The extraordinary lesson of this case is the effect of STATUS of the parties involved in the lawsuit. This is not a husband and wife who endured illegal discrimination [via retaliatory firing], but they were "closely related" as "affianced" persons. Is this case an expansion and extension of claims based on status? When an employer fires [terminates] an employee, can repercussions ensue from the fiancé? What is the engagement is casual, not official, not announced...will these issues arise as we determine secondary discrimination to X by method of initial discrimination to Y?

DOES A [SMALL] BUSINESS HAVE PERSONAL PRIVACY RIGHTS UNDER THE CONSTITUTION?

Federal Communications Commission et al. *v*. AT&T Inc. et al 562 U. S. ____ (2011).

In an opinion authored by Chief Justice Roberts, with no dissents, on cert. to the 3rd circuit, the opinion held that Corporations do not have "personal privacy" for the purposes of Exemption under section 7(C) under the Freedom of Information Act (FOIA). The Freedom of Information

Act requires federal agencies to make records and documents publicly available upon request, subject to several statutory exemptions. One of those exemptions, Exemption 7(C), covers law enforcement records the disclosure of which "could reasonably be expected to constitute an unwarranted invasion of personal privacy." 5 U. S. C. §552(b)(7)(C).

CompTel, a trade association, submitted a FOIA request for documents AT&T had provided to the Federal Communications Commission Enforcement Bureau during an investigation of that company. The Bureau found that Exemption 7(C) applied to individuals identified in AT&T's submissions but not to the company itself; they concluded that corporations do not have "personal privacy" interests as required by the exemption. The FCC agreed with the Bureau, but the Court of Appeals for the Third Circuit did not. It held that Exemption 7(C) extends to the "personal privacy" of corporations, reasoning that "personal" is the adjective form of the term "person," which Congress has defined, as applicable here, to include corporations, §551(2).

As Chief Justice Roberts clearly posed the issue in this case, "The Freedom of Information Act requires federal agencies to make records and documents publicly available upon request, unless they fall within one of several statutory exemptions. One of those exemptions covers law enforcement records, the disclosure of which "could reasonably be expected to constitute an unwarranted invasion of personal privacy." 5 U. S. C. §552(b)(7)(C). The question presented here is whether corporations have "personal privacy" for the purposes of this exemption."*Held:* Corporations do not have "personal privacy" for the purposes of Exemption 7(C). Pp. 3–12.

It is difficult to resist making a side bar comment on Chief Justice Roberts' charming judicial humor. After a long review of the history and etymology of the legal meaning of "personal", Roberts quips in his last paragraph in this ruling against AT&T... "We reject the argument that because "person" is defined for purposes of FOIA to include a corporation, the phrase "personal privacy" in Exemption 7(C) reaches corporations as well. The protection in FOIA against disclosure of law enforcement information on the ground that it would constitute an unwarranted invasion of personal privacy does not extend to corporations. <u>We trust that AT&T will not take it personally</u>. The judgment of the Court of Appeals is reversed. *It is so ordered."*

KEY LESSON: The lesson in this case is that understanding the legal concept "personal Privacy" is essential to business owners; they must grasp the difference between personal rights and business rights. More are accorded to the former than the latter; this might influence the practice of small businesses in keeping those things "personal" separate from those things "business". Many a small business owner has carelessly comingled these distinctly different concepts, to her later chagrin. This case emphasises that corporations [and other business forms] do NOT enjoy "personal Privacy" rights under the law.

USERRA AND RIGHTS OF EMPLOYEES of EVEN SMALL BUSINESSES

Staub v. Proctor Hospital 562 U. S. ____ (2011)

JUSTICE SCALIA delivered the opinion of the Court in this case On Cert. to the 7th circuit. The case was based upon and interpretation of the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), which forbids an employer to deny “employment, reemployment, retention in employment, promotion, or any benefit of employment” based on a person’s “membership” in or “obligation to perform service in a uniformed service,” 38 U. S. C. §4311(a), and provides that liability is established “if the person’s membership . . . is a motivating factor in the employer’s action,” §4311(c). Staub was employed as a technician in a hospital while serving in the member of the United States Army Reserve. Both his immediate supervisor (Mulally) and Mulally’s supervisor (Korenchuk) were hostile to his military obligations. Mulally gave Staub disciplinary warnings which included a directive requiring Staub to report to her or Korenchuk when his cases were completed. After receiving a report from Korenchuk that Staub had violated the Corrective Action, Proctor’s vice president of human resources (Buck) reviewed Staub’s personnel file and decided to fire him; Staub then sued Proctor Hospital under USERRA.

The issue before the court was to determine the circumstances under which an employer may be held liable for employment discrimination based on the discriminatory animus of an employee who influenced, but did not make, the ultimate employment decision. The USSC concluded that if a supervisor performs an act motivated by antimilitary animus that is intended by the supervisor to cause an adverse employment action, and if that act is a proximate cause of the ultimate employment action, then the employer is liable under USERRA.

KEY LESSON: The lesson in this case confirms that USERRA is a potent employee protection for military employees and **small businesses**, as well as large businesses **MUST comply with its governing principles**.

RETALIATORY FIRING OF EMPLOYEES

Kasten v. Saint-Gobain Performance Plastics Corp. 563 U. S. ____ (2011)

This case was on cert. to the 7th circuit. JUSTICE BREYER delivered the opinion of the Court and there were 2 dissenters. Petitioner Kasten brought an anti-retaliation suit against his former employer, respondent (Saint-Gobain), under the Fair Labor Standards Act of 1938 (FLSA or Act), which provides minimum wage, maximum hour, and overtime pay rules; and which forbids employers “to discharge . . . any employee because such employee has filed any complaint” alleging a violation of the Act, 29 U. S. C. §215(a)(3).

In a related suit, the District Court found that Saint-Gobain violated the FLSA by placing time clocks in a location that prevented workers from receiving credit for the time they spent donning and doffing work related protective gear. In this suit, Kasten claims that he was discharged because he orally complained to company officials about the time clocks. The District Court granted Saint-Gobain summary judgment, concluding that the Act’s anti-retaliation provision did not cover oral complaints. The Seventh Circuit affirmed. Therefore the issue before the USSC was to determine whether oral complaints are the equivalent of “filing” a complaint and the question to decide is whether the statutory term “filed any complaint” includes oral as well as written complaints within its scope. As Justice Breyer stated, “We conclude that it does.”

Therefore, this case stands for the principle that the scope of an exact statutory term “filed any complaint” includes oral, as well as written, complaints.

The Fair Labor Standards Act of 1938 (Act) sets forth employment rules concerning minimum wages, maximum hours, and overtime pay. 52 Stat. 1060, 29 U. S. C. §201 et seq. The Act contains an anti-retaliation provision that forbids employers "to discharge or in any other manner discriminate against any employee because such employee has filed any complaint or instituted or caused to be instituted any proceeding under or related to [the Act], or has testified or is about to testify in such proceeding, or has served or is about to serve on an industry committee."§215(a)(3)."

In this suit Kasten claims unlawful retaliation. He says that Saint-Gobain discharged him because he orally complained to Saint-Gobain officials about the time clocks. In particular, Kasten says that he repeatedly called the unlawful time clock location to Saint-Gobain's attention— in accordance with Saint-Gobain's own internal grievance resolution procedure.

Importantly, the employer's own internal Ethics guide placed an affirmative duty on its employees to report illegal conditions and actions using a stated procedure. The brief to the court stated, (quoting) Saint-Gobain's Code of Ethics and Business Conduct as imposing upon every employee "the responsibility to report . . . suspected violations of . . . any applicable law of which he or she becomes aware".

Prior to this decision, there was discord among the several federal circuits on the issue of whether oral complaints were covered under the anti-retaliation clause. For example, as is noted in the opinion, the 5th, 9th, 2nd and 10th circuits disagreed about oral complaints.

KEY LESSON: The lesson in this case affects many. This decision clarifies and settles conflicts within the many circuits that indeed, the FLSA law's anti-retaliation clause includes Oral complaints; and to take advantage of the anti- retaliation clause, there is now NO requirement that only written complaints are protected. Small businesses who terminate employees should be certain to comply with the Fair Labor Standards Act [FLSA] to avoid claims of retaliatory termination.

The Dissent in this case is interesting. Note that two justices dissented in this decision- It is their interpretation that the law actually requires a higher standard of meaning of the phrase "filing a complaint". Justice Scalia, joined by Justice Thomas, wrote his dissent based on his belief that the plain meaning of the critical phrase and the context in which it appears, make clear that the retaliation provision requires an official grievance filed with a court or an agency, not oral complaints—or even formal, written complaints—from an employee to an employer. In this case, the dissent may spark future clarification by Congress via an amendment to the FLSA. As noted in the LIDM process, a caveat is warranted when the decision has 4 strong dissenters! This case is a prime example of, "it ain't over 'til it's over". [Berra, 1993]

SMALL BUSINESS PATENT PROCEDURES ACT

Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc.
563 U. S. ____ (2011)
Roberts, C. J., delivered the opinion of the Court, in which Scalia, Kennedy, Thomas, Alito, Sotomayor, and Kagan, JJ., joined. Sotomayor, J., filed a concurring opinion. Breyer, J., filed a dissenting opinion, in which Ginsburg, J., joined.

This case involves the University and Small Business Patent Procedures Act of 1980 (Bayh-Dole Act or Act) which allocates rights in federally funded "subject invention[s]" between the Federal Government and federal contractors. 35 U.S.C. §§201(e),(c),202(a). The Act defines "subject invention" as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement," §201(e), and provides that contractors may "elect to <u>retain</u> title to any subject invention," §202(a). The Bayh-Dole Act does <u>not</u> automatically vest title to federally funded inventions in federal contractors or authorize contractors to unilaterally take title to such inventions. Finally, this USSC opinion clarifies that <u>absent an agreement to the contrary, an employer does not</u> have rights in an invention "which is the original conception of the employee alone," *id.,* at 189; an inventor must expressly grant those rights to his employer, see *id.*, at 187. Pp. 6–8.

CJ Roberts clearly states the issue and outcome in his opening salvo of the opinion:
"Since 1790, the patent law has operated on the premise that rights in an invention belong to the inventor. The question here is whether the University and Small Business Patent Procedures Act of 1980—commonly referred to as the Bayh-Dole Act—displaces that norm and automatically vests title to federally funded inventions in federal contractors. We hold that it does <u>not</u>."
Roberts' summary of the legal history of this case is very instructive. [Since this pertains to all universities engaged in sponsored research as well as small businesses and non-profits who may partner in such research, it is discussed here.]

In 1988, Cetus, a small California research firm working on blood-related scientific testing, began to collaborate with scientists at Stanford University's Department of Infectious Diseases to test the efficacy of new AIDS drugs. Dr. Mark Holodniy joined Stanford as a research fellow in the department around that time. When he did so, he signed a Copyright and Patent Agreement (CPA) stating that he "agree[d] to assign" to Stanford his "right, title and interest in" inventions resulting from his employment at the University. Shortly thereafter, Dr. Holodniy was asked to conduct his research at the Cetus facility and they in turn asked him to sign a VCA [Visitor's Confidentiality Agreement]. Importantly, that VCA included an assignment of rights to any of his inventions to Cetus. After nine months at Cetus, Dr. Holodniy returned to Stanford's labs and continued his HIV measurement process research, along with other lab employees. All of these employees assigned their rights of invention to Stanford.

In the meantime, Stanford secured three patents to the HIV measurement process developed by Dr. Holodniy and other; and Cetus sold its assets related to the HIV measurement process, including Dr. Holodniy's assignment of rights, to Roche Molecular Systems. Roche conducted clinical tests and successfully commercialized the HIV testing process. Roche kits now "are used in hospitals and AIDS clinics worldwide".

With this complex background of over-lapping assigned rights of invention, the key provisions of the Bayh-Dole Act regarding invention rights should be highlighted for closer inspection. The federal Bayh-Dole Act states: To be able to retain title, a contractor must fulfill a number of obligations imposed by the statute. The contractor must "disclose each subject invention to the [relevant] Federal agency within a reasonable time"; it must "make a written election within two years after disclosure" stating that the contractor opts to retain title to the invention; and the contractor must "file a patent application prior to any statutory bar date". If these behaviors do not occur, then the federal government may assert an interest in the invention; that is, the government may receive title.

Some of Stanford's research related to the HIV measurement technique was funded by the National Institutes of Health (NIH), thereby subjecting the invention to the Bayh-Dole Act. Accordingly, Stanford disclosed the invention, conferred on the Government a nonexclusive, non transferable, paid-up license to use the patented procedure, and formally notified NIH that it elected to retain title to the invention.

In 2005, Stanford sued Roche claiming patent infringement. The Board of Trustees of Stanford University filed suit against Roche Molecular Systems, Inc., Roche Diagnostics Corporation, and Roche Diagnostics Operations, Inc. (collectively Roche), contending that Roche's HIV test kits infringed Stanford's patents.

Roche responded claiming they had the inventor's [Dr. Holodniy's assignment of inventor] rights and thus Stanford had no standing to sue. Stanford countered that Holodniy had no rights to assign since Dr. H's rights were already owned by Stanford.

The District Court held that the "VCA [Visitor's Confidentiality Agreement] effectively assigned any rights that [Professor] Holodniy had in the patented invention to Cetus," and thus to Roche. *Id.,* at 1117. But because of the operation of the Bayh-Dole Act, "Holodniy had no interest to assign." *Id.*, at 1117,1119. The court concluded that the Bayh-Dole Act "provides that the individual inventor may obtain title" to a federally funded invention "only after the government and the contracting party have declined to do so." *Id.*, at 1118.

The Court of Appeals for the Federal Circuit disagreed. First, the court concluded that Holodniy's initial agreement with Stanford in the Copyright and Patent Agreement constituted a mere promise to assign rights in the future, unlike Holodniy's agreement with Cetus in the Visitor's Confidentiality Agreement, which itself assigned Holodniy's rights in the invention to Cetus. See 583 F. 3d 832, 841–842 (2009). Therefore, as a matter of contract law, Cetus obtained Holodniy's rights in the HIV quantification technique through the VCA.[2] Next, the court explained that the Bayh-Dole Act "does not automatically void ab initio the inventors' rights in government-funded inventions" and that the "statutory scheme did not automatically void the patent rights that Cetus received from Holodniy." *Id.*, at 844–845. The court held that "Roche possesse[d] an ownership interest in the patents-in-suit that was not extinguished by the Bayh-Dole Act, "depriv[ing] Stanford of standing." *Id.*, at 836–837. The Court of Appeals then remanded the case with instructions to dismiss Stanford's infringement claim. *Id.,* at 849. We granted certiorari. 562 U. S. ___ (2010)."

Roberts', through his exquisitely clear writing, beautifully conducts a tour through US Patent background and history and he emphasizes the constant principle of the Patent law; that the patent belongs to the inventor. "Although much in intellectual property law has changed in the 220 years since the first Patent Act, the basic idea that inventors have the right to patent their inventions has not [changed]".

Under the law in its current form, "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter . . . may obtain a patent therefor." 35 U. S. C. §101. The inventor must attest that "he believes himself to be the original and first inventor of the [invention] for which he solicits a patent."

It is equally well established that an inventor can assign his rights in an invention to a third party; and although others may acquire an interest in an invention, any such interest—as a general rule—must trace back to the inventor.

Nowhere in the Bayh-Dole Act is title expressly vested in contractors or anyone else; nowhere in the Act are inventors expressly deprived of their interest in federally funded inventions. Instead, the Act provides that contractors may "elect to retain title to any subject invention." 35 U. S. C. §202(a). A "subject invention" is defined as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement." §201(e). And, in the clear lingo of CJ Roberts, "You cannot retain something unless you already have it."

Roberts' opinion concludes "As just noted, universities typically enter into agreements with their employees requiring the assignment to the university of rights in inventions. With an effective assignment, those inventions—if federally funded—become "subject inventions" under the Act, and the statute as a practical matter works pretty much the way Stanford says it should. The only significant difference is that it does so without violence to the basic principle of patent law that inventors own their inventions. The judgment of the Court of Appeals for the Federal Circuit is affirmed."

KEY LESSON: The lesson in this case is one for Universities, professors, and contractors both small and large- follow the law and write contractual agreements which clearly define in meaning and terms, the exact quid pro quo. Many professors unwittingly sign away valuable future rights to their own inventions. If this is done, the professor should receive some quid pro quo and that is a matter for another article. This case also provides a lesson lesson for all multiple party arrangements including small businesses; the lesson is that parties should know what rights they are actually transferring, receiving and or waiving.

CONCLUSION AND IMPLICATIONS

Legal problems affect businesses of all sizes especially small business. But the small business enterprise typically omits annual legal audits, ignores cutting edge legal trends and may even omit this valuable tool called LIDM [Legal Insight Decision Making]. Legal risk can be minimized by regular planned use of an annual legal audit using LIDM to select key cases and report the consequential impact upon the SME. The use of LIDM could be a revolutionary

improvement to the arsenal of tools available to small business consultants and educators. For the first time, a simple annual legal 'audit" called LIDM could inform small businesses about cutting legal issues and suggest how to alter behavior to avoid lawsuits.
Educators and practitioners (as well as consultants) can use LIDM methods to learn how to identify, analyze and apply the legal information gleaned from the approximately 65-90 opinions issued each year by the United States Supreme Court. The LIDM Model provides a simple, useful tool to harvest important information about business behavior. It can place the small business on equal intellectual footing with large corporate decision-makers and improve business performance.

LIDM can be employed annually like an audit. Each year is unique; the topics can range from Accounting to Contracts to Hiring and Firing and every business issue is subject to the rule of law pronounced by the nine jurists on the US Supreme Court. Each year, the published court decisions reveal essential points of view and standards of behavior for employers, employees, investors, consumers, regulators and everyone interested in business practices. Business strategic planning and thinking should include legal audits using LIDM.

For example, this year, out of 85 cases, there are only one dozen business related cases with explicit business-related issues. As noted in Table 2, I have included several cases marginally related to business issues for their significance as game-changers or for their lucidity on an important business-related issue. This small number of cases has advantages; there is no data overload at the USSC level. If the cases are finite and public, then the published legal decisions and dicta can be gathered, analyzed and formulated into an effective part of all business strategy models using the LIDM model.

Recognizing the significance of these cases and interpreting the results of the cases at question is an essential part of strategic planning for large firms; as a strategy of war, this knowledge permits enhanced tactics and strategies only to those businesses aware of the consequences of judicial pronouncements.

Finally, these USSC decisions also provide a competitive advantage to small businesses, entrepreneurs, owners, consultants and educators. Legal Insight Decision Making proposes a nuanced change in the attitudes of entrepreneurs and educators towards the lessons found within the court's words. It is time to recognize the value of polishing the insights gleaned from these select gems and incorporating these lessons to entrepreneurial and small business strategic models. For the small business consultant, use of the LIDM process is efficient and frugal; LIDM can serve to provide a relative competitive advantage enjoyed by large corporations which utilize legal departments, general counsel or other related legal and economic strategic thinkers to improve performance and minimize risk.

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THE INFLUENCE OF COMMUNICATION AND INFORMATION QUALITY ON TRUST IN THE SMALL BUSINESS SUPPLY CHAIN

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ABSTRACT

This study examines the influence of communication and information quality on organizational trust in the small business supply chain. It was expected that these two information exchanging variables would have a positive relationship with trust in the relationship between both the vendor and the primary organization. The results support these hypotheses indicating that indeed more communication between these organizations and higher levels of the quality of information received does result in a higher level of trust between these organizations in their working relationships. These results are important for both continued research into small business as well as for practitioners.

INTRODUCTION

It is recognized that organizations use alliances and partnerships to leverage performance vis-à-vis environmental uncertainty. Indeed, an emerging body of research focuses on partnerships undertaken by small businesses (Beekman and Robinson, 2004; Gelinas and Bigras, 2004; Richter, 2004). We know, for instance, that partnering with small firms offers benefits to incumbent firms (Afuah, 2001). However, while we understand the legitimacy benefits small firms obtain through such partnerships, we know less about the specific processes by which small-business partnerships improve the quality of their collaborations.

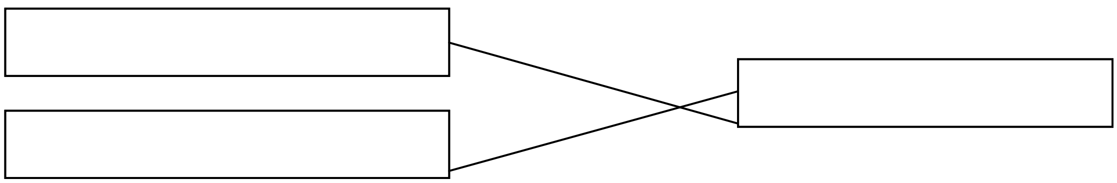
Indeed, the question of the processes and performance, regardless of size, within alliances remains an unresolved challenge. We have moved forward from Gulati's (1998) challenge to unravel the "interesting yet vexing" problem of alliance performance. We know that partner-specific skills accumulate over time leading to improved performance over the duration of an alliance (Lavie and Rosenkopf, 2006; Soda et al. 2004) and that the embeddedness obtained through trusted, deep partnerships enhances performance (Andersson et al. 2002). However, despite this repository of research, a great many alliances fail (Gulati, Sytch and Mehrota, 2008) and a great many alliances persist despite failing to produce desired benefits (Inkpen and Ross, 2001). Improving the quality of such alliances is often attributed to improvements in trust, information sharing and communication.

Even so, a great deal of our research on alliances emphasizes outcomes specific to larger, publicly traded firms. This bias in the strategy literature related to performance manifests because performance measures for such firms are more readily available than are such measures for small firms. Small firms are often left unstudied (or perhaps under-studied) in strategic research. While understandable, this lack of focus may generate findings regarding firm-alliance performance relationships that do not, in fact, generalize to small businesses. We know, in general, that small businesses often lack the managerial expertise of larger counterparts

(Chaganti and Parasuraman, 1996) and we know that small businesses typically lack resource endowments which might enable them to coast during periods of uncertainty (Porter, 1991). We further recognize the importance of partnerships and alliances for small businesses, both for the resources they bring, but also for the legitimacy they confer (Lerner, 1999). We do not, however, know how small business managers and owners utilize communication and information sharing as a conduit to developing more trusting partnerships.

Taken together, these things suggest the importance of examining the characteristics of trust, communication and information quality for small businesses. Lacking the resources their larger partners have, small businesses find themselves highly reliant on the quality and trustworthiness of their larger partners. In this study we seek to examine how small business managers rely on communication patterns and information quality as correlates to trust (see Figure 1).

Figure 1: Communication, Information Quality and Trust in the Small Business Supply Chain



The remaining sections proceed through four areas. First, we discuss the relevance of a small business emphasis in research. Second, we examine extant literature and detail a theory-grounded model specifying an expected relationship between communication, information quality and emergent trust in partnerships. We then proceed to details of the study at hand. Finally, we conclude this with a discussion of our findings and discuss future research directions.

LITERATURE REVIEW

Small Business

The existence and performance of small businesses are critical to the economic health of a nation. Current research provides evidence that small businesses provide flexibility (Gelinas and Bigras, 2004), learning opportunities (Beekman and Robinson, 2004), and job creation (Audretsch, 2003) along with innovation and rapid sales growth possibilities (Connell, 2009; Lerner, 1999). Indeed, research suggests that small businesses comprise the plurality of employment and businesses in the United States (Shah, 2010). Considering the size and impact of small business, it is unsurprising that researchers increasingly turn their attention to the strategies and performance of such firms.

Despite the relevance of small business, significant institutional challenges persist for small business entrepreneurs. Mortality rates for small businesses are quite high and these rates increase for minority business owners (Robb, 2002). Small businesses often face significant challenges obtaining capital (Carter and Rosa, 1998; Verheul, Risseeuw and Bartelse, 2002). Further, small businesses often lack the technical and managerial expertise found in larger businesses (Chaganti and Parasuraman, 1996). In part because of these factors, and to some extent exacerbating these factors, small businesses often face a struggle to establish legitimacy (Lerner, 1999; Connel, 2009).

While strategy researchers often focuses on large firms, Porter (1991) contends that strategic focus is even more critical for small firms given their lack of resources and resulting inability to weather business cycle interruptions. While trust in business partners manifests as crucial for firms of all size, smaller firms lack equitable ability to scan for trustworthy partners. Further, their smaller resource endowments suggest that smaller firms have less negotiating power prior to partnering, leaving them vulnerable to adverse selection and opportunism from unscrupulous larger partners. Since small business owner-managers operate from a weaker starting point prior to partnering, it becomes incumbent upon such firms to utilize their within partnership competencies to cultivate and fortify trustworthy partnerships.

Trust

Trust is an important aspect of the relationship between organizations. Previous research has demonstrated that there is a relationship between trust and performance within organizations (McAllister, 1995), and it continues to be an area of research for those examining small businesses. Trust within interorganizational relationships has even been touted as one of the most “fragile and tenuous” aspects of relationship management because of the potential for trouble between the collaborating actors (Handfield & Nichols, 1999: p. 10). Trust can be defined as the expectation that the other party’s performance will be as expected and beneficial and that the treatment by the other party will be fair and reasonable, and it is composed of two parts. The first part, the cognitive aspect, is determined by the perceived fulfillment of the expected performance (Deutsch, 1958; McAllister, 1995). The second part, the affective aspect, is the intrinsic value or the genuine care or concern between the actors (Lewis & Weigart, 1985; McAllister, 1995).

Much of the previous research has been focused on how trust affects the relationships between the organizational actors, not just on how it affects performance (Johnston et al., 2004). This research has found that organizations that have greater trusting relationships are able to efficiently and effectively cooperate for success (Johnston, McCutcheon, Stuart, & Kerwood, 2004), are able respond to changes or problems and, therefore, can more easily solve problems (Uzzi ,1997), and have higher performance and satisfaction among member firms (Benton & Maloni,2005). Thus, trust is an important aspect of interorganizational networks.

While trust has been shown to be important for organizations and their continued success, an area that needs continued examination is just what leads these organizations to perceive that the relationship between organizations is in fact a trusting relationship. Again, if trust is defined as a cognitive aspect, the fulfillment of expected performance, and the affective aspect, the genuine care between the actors (Deutsch, 1958; Lewis & Weigart, 1985; McAllister, 1995), then it should be expected that organizations that demonstrate actions and behaviors that support these areas will be perceived as trustworthy. The following sections cover two constructs examined in small business and examine these in light of interorganizational trust in small businesses.

Communication

There has been considerable research on communication and its importance within interorganizational relationships. Communication is defined as "the formal as well as informal sharing of meaningful and timely information between firms" (Anderson & Narus, 1990: p. 44). Four categories of communication are defined as part of this definition. These include information content, medium, feedback, and frequency (Mohr & Nevin, 1990). In their study on supply chain relationships, Ellram and Hendrick (1995) find that partnering organizations continually share information needed for mutual understanding, operational information necessary for smooth operations, and information regarding high corporate-level issues important for good coordination. In addition, Anderson and Narus (1990) in their examination of supply chain partnerships found that the sharing of information is very important for interorganizational relationships.

Communication can be such a vital link to organizational success that it is proposed as a method to revive stalling or failing interorganizational relationships. Zeng and Chen (2003) indicate that, in some instances, organizational actors working within an interorganizational relationship may make decisions that are individually benefiting, yet not beneficial to the relationship or the other partners in the relationship. It is because of this they indicate that a potential solution is to take steps to improve the communication within the relationship.

One problem with this potential solution, however, is that research suggests that communication is better with lower control and less integration (Morh et al., 1996). In this scenario, the importance must be put on generating more communication without trying to regulate it through more controls or integration. What is necessary is a norm of information exchange between member firms where information that might be useful or helpful is given and received frequently and openly (Heide & John, 1992) rather than simply because of controls that try to force information exchange.

Similar to trust, communication has been found to be a predictor of greater performance (Benton & Maloni, 2005). Prahinski and Benton (2004), however, found that the effect of communication on performance is influenced by the commitment of the supplier. In essence, if a supplier is not committed to the relationship or to the buyer firm within this supplier partnership, the communication strategies employed will not be effective. The communication strategy must reside within a supportive supplier partnership climate (Mohr & Nevin, 1990).

Good communication between the supplier and the buyer within the supply chain indicates a determination by both parties involved to provide the necessary information for continued working relationships. Building on the idea that both parties within the supply chain desire high performance, the idea is posited that greater levels of communication will contribute to greater levels of the expected performance. Path-goal theory (House, 1971) forwards the notion that in order for a leader to move a follower on to performance, there must be communication by the leader to the follower of exactly what is expected. Thus, the buyer not only communicates what is expected, but by ensuring that that communication occurs in a meaningful and timely way, buyers are expressing a genuine concern that their supplier receives the communication necessary in order to perform as expected. Consequently, it is expected that higher levels of communication will lead to higher levels of trust within the relationship. See Figure 1 for the research model.

Hypothesis 1: There is a positive relationship between communication and trust in the small business supply chain relationship.

Information Quality

Good information, or information quality, is vital to organizational success (Huber & Daft, 1987). Information quality is defined as the degree to which the information the individual organization receives from the other organization is accurate, timely, adequate, complete, and credible (Daft & Lengal, 1986; Huber & Daft, 1987; Monczka et al., 1998). Information is a vital component of collaboration through cooperation, and it must be systematically available for the effective completion of required tasks (Guetzkow, 1965). Not only is information exchange necessary for performance, but Schuler (1979) finds support for increases in satisfaction when information is systematically available within an organization. In examining collaborative relationships, Devlin and Bleackley (1988) found that the exchange of quality information predicts the success of a partnership.

Better information flows have important benefits for interorganizational relationships such as reducing costs and efficient resource utilization (Martin, 1995). It is because of this that organizations are developing better methods for transferring important information (Gopal & Cypress, 1993). Higher quality information flows between organizations allow these organizations to plan more strategically and respond more successfully to the demands of the partner. This greater information exchange creates a better and more efficient chain which benefits both parties (Chapman & Carter, 1990; Raturi, Meredith, McCutcheon, & Camm, 1990).

In their study on supply chain relationships, Ellram and Hendrick (1995) found that partnering organizations continually share information needed for mutual understanding, operational information necessary for smooth operations, and information regarding high corporate level issues important for good coordination. In addition, Anderson and Narus (1990) in their examination of supply chain partnerships find that the sharing of information is very important for interorganizational relationships. What is necessary is a norm of information exchange between member firms where information that might be useful or helpful is given and received frequently and openly (Heide & John, 1992) rather than simply because of controls that try to force information exchange.

The question now concerns what is the relationship of this information quality to trust. Again, if trust is composed of the two parts, expectations and concern, it should be anticipated that greater levels of information quality should lead to higher trust. When organizations receive information that is timely, accurate, adequate, complete, and credible, it indicates that the buyer is informing the supplier of what is necessary for performance; this indicates a level of clearly denoted expectations. In addition, by fully communicating this necessary information, the behaviors and actions by the buyer confirm that they do, indeed, desire for the supplier to perform well in servicing their needs. Thus, both dimensions of the trusting relationship are satisfied.

Consequently, it is hypothesized that greater levels of information quality will lead to greater levels of trust within the relationship.

Hypothesis 2: There is a positive relationship between information quality and trust in the small business supply chain relationship.

METHODOLOGY

Sample

Through email, the data collected for this study was obtained through an electronic survey of approved vendors for a large university in the southwestern United States. A total of 156 surveys were completed out of 498 administered, indicating a 31% response rate. There were 139 usable surveys after removing those one with incomplete information.

MEASURES

In order to determine the size of the supplier organization, the primary contact individual was first asked to specify the size of the organization by giving the number of employees (Kimberly & Evanisko, 1981). As has been mentioned earlier, the size of the organization can impact the relationship between the supplier and the buyer (Redondo & Cambra Fierro, 2007). In this study, the average size of the organization was 34 employees. To assess the degree of institutionalization, which can potentially affect the vendor's ability to respond to customer demands (Dimaggio & Powell, 1983), the duration of the relationship was asked. The average length of service working with the university was 6.39 years. In addition, the length of service within the vendor's organization can indicate the person's tendency to observe, accept, and adopt the values and norms of the organization (Chao, O'Leary-Kelly, Wolf, Klein & Gardner, 1994). The primary contact had an average of 9.44 years of employment with the vendor firm.

The level of organizational trust was measured using Morgan and Hunt's (1994) six item scale examining the confidence of the vendor in the university as the buyer. This measure reflects the reliability of the buyer to the supplier in this vendor relationship. Trust (previous $\alpha = .949$) is examined using a seven point Likert type scale with responses ranging from strongly disagree (1) to strongly agree (7). These items include "In our relationship with this buyer, our major buyer is always honest and truthful… our buyer can be counted on to do what is right…we have confidence in our buyer…we can count on them to have high integrity…we can count on them to be reliable…we can count on them to be trustworthy."

Communication is measured using Heide and John's (1992) four questions on communication. It was measured using a seven point Likert type scale with responses ranging from strongly disagree (1) to strongly agree (7). The questions included "Exchange of information in this relationship takes place frequently and informally, and not according to s pre-specified agreement…in this relationship, any information that might help the other party will be provided for them…both parties in the relationship will provide proprietary information if it can help the other party… both parties keep each other informed about events or changes that may affect the other party."

Information quality was examined using five dimensions of information. These include accuracy, timeliness, adequacy, completeness and credibility (Daft & Lengal, 1986; Huber & Daft, 1987; Moczka et al., 1998). Using Mohr and Spekman's (1994) five questions on information quality (previous α = .910) respondents indicated their level of trust on a seven point Likert type scale ranging from (1) not timely (accurate, adequate, etc.) to (7) very timely (accurate, adequate, etc.).

Data and Scale Analysis

The data were screened and prepared using Kline's (1997) recommended procedures. After a full analysis, cases with missing data points and outliers identified with the frequency distribution of standard scores were removed. Univariate normality was assesed by examining each item for skewness and kurtosis. The test showed a normal distribution. Cronbach's alpha was used to establish the reliability of the scales (Nunnally & Bernstein, 1994; Henson, 2001). The coefficient alpha for each scale was well above Nunnally and Bernstein's (1994) suggested reliability coefficient of .70. These reliability estimates can be found in Table 1.

Table 1. Factor Pattern/Structure Coefficient for All Constructs

Variable Item #	Trust		Communication		Information Quality	
	Factor	h^2	Factor	h^2	Factor	h^2
1	.932	.868	.733	.537	.847	.717
2	.966	.933	.857	.734	.964	.929
3	.967	.935	.702	.493	.930	.865
4	.969	.939	.849	.721	.958	.918
5	.960	.921	*n/a*	*n/a*	.906	.821
6	.982	.963	*n/a*	*n/a*	*n/a*	*n/a*
Total Variance Explained	92.156		72.300		84.911	
Initial Eigenvalue	5.560		2.486		4.250	
Second Eigenvalue	.175		.702		.357	
Alpha	α = .984		α = .794		α = .955	

The item scores were assessed to evaluate the consistencies of the measurement items with construct validity. A confirmatory factor analysis (Ahire & Deveraj, 2001) using LISREL examined the latent variable with its corresponding items. The latent constructs were analyzed using principle components factor analysis to extract the analysis pattern. Using the K1 rule (Kaiser, 1960), each item extracted only one factor. Therefore, there is only one latent construct per list of variables (Hattie, 1985). The factor pattern/structure coefficients as well as the communalities, eigenvalues, and Cronbach's alphas are presented in Table 2. In addition, the overall means, standard deviations, Cronbach's alphas, and correlations of the latent variables are found in Table 2.

Table 2. Means, Standard Deviations, Cronbach's Alphas, and Correlations

Construct	Means	S.D.	1	2	3	4	5
Trust	6.013	1.119	(.984)				
Communication	5.322	1.185	.722*	(.794)			
Information Quality	5.804	1.062	.678*	.572*	(.955)		

Note. * Correlations are significant at the 0.01 level (2-tailed).
Reliability coefficients are presented on the diagonal.

RESULTS

This study examined the relationship of communication and information quality with trust in small businesses. The first hypothesis stated that there is a positive relationship between communication and trust in the small business supply chain relationship. In addition, hypothesis two stated that there is a positive relationship between information quality and trust in the small business chain relationship. These hypotheses were tested using a two step regression analysis with the size of the organization, the length of tenure as a manager and the length of tenure with the organization as control variables. Step two included the two predictor variables communication and information quality.

Model one with only the control variables regressed onto trust resulted in an ANOVA with an F statistic of .947 that was not statistically significant at the $p < .05$ level. The second model, which included the control variables with communication and information quality resulted in an ANOVA with an F statistic of 45.010 that was statistically significant at the $p < .01$ level. Model one indicated an R^2 of .020 and model two indicated an R^2 of .627 with an adjusted R^2 of .613 and a ΔR^2 of .606 that was statistically significant at ($p < .01$). The hypothesized relationships of both communication and information quality with trust were examined using standardized and unstandardized coefficients, statistical significance, and confidence intervals. The results of the regression analysis indicates that both communication and information quality are statistically significantly related to trust in the small business supply chain ($p < .01$); thus giving support to both hypotheses one and two. The results of this regression analysis can be seen in Table 3.

DISCUSSION AND PRACTICAL IMPLICATIONS

Alliances and partnerships remain crucial for the survival and adaptation of organizations. While research seems fairly consistent supporting the importance of trust in organizations, specific conduits through which small businesses develop trust in their partners remains somewhat less studied. Because small businesses lack the resource endowments of large firms, they may not have access to the partner screening and alliance management functions of larger organizations. Additionally small business owners and managers, on average, lack the formal business education and training to draw upon in screening and selecting potential partners. Finally, in order to survive, small businesses may often find themselves as partner takers, not partner makers.

Table 3. Results of Simultaneous Regression Analysis for Prediction of Trust in the Small Business Supply Chain

Variable	*B*	*SE B*	β	95% CI Lower	95% CI Upper	VIF
Step 1:						
# of Employees	.000	.000	-.040	-.001	.001	1.011
# Years as Manager	.002	.013	.015	-.023	.027	1.055
# Years with Company	.022	.014	.134	-.006	.051	1.045
Step 2:						
# of Employees	.000	.000	-.024	-.001	.000	1.012
# Years as Manager	.007	.008	.049	-.008	.023	1.067
# Years with Company	.005	.009	.033	-.012	.023	1.066
Communication	.503	.065	.499*	.374	.631	1.492
Information Quality	.428	.072	.386*	.286	.570	1.505

Note. R^2 for first model = .020 R^2 for second model = .627 ΔR^2 = .606
*p < .01 N = 139 Two-tailed tests.

Taken together, this suggests that small business managers and owners are more likely to have partners of necessity and less likely, therefore, to start their relations with a high level of trust in their partners. Nevertheless, developing trusting relations remains crucial and so the small business owner or manager needs to utilize in-partnership (as opposed to pre-partnership) managerial techniques to develop trust. Whereas a large business can screen out risk, the small business must learn and adapt on the fly.

The present study has explored communication and information quality as correlates to trusting partnerships. Extant theory informs on the importance of these concepts and our study demonstrates that the expected relationship manifests in a small business sample. In this study, informal and freely exchanged communication is present in trusting partnerships. Additionally, trusting partnerships were also more likely to report the presence of high quality information exchange. While our study is cross-sectional, and thus not conducive to claims of causality, existing theory suggests that communication and high quality information are signaling techniques through which partners develop cognitive and affective trust. Our evidence supports these theorized interactions.

Four important practitioner implications emerge from our study. First, small business owners and managers should carefully evaluate the communication patterns present in their partnerships. Where communication is either infrequent or non-voluntary (e.g. only occurring within the parameters of established contracts), small business owners and managers should endeavor to improve the quality and quantity of communication. Second, these business owners and managers should scrutinize the quality of information exchange from their partners. When information is inaccurate, late, insufficient or not credible, immediate attempts should be made to improve the quality of information flows. Third, communication and information quality are two-way streets. In addition to scrutinizing the partner's communication and information quality, the small business owner should diagnose his or her own organization's information exchange performance. Indeed, poor communication from a business partner may be affected by poor initial communication from the small business. Finally, small business owners must recognize that when communication and information quality cannot be improved, the partnership may indeed be a low-trust partnership. Given this, the small business operator must carefully assess the value of such a low-trust partnership in the firm's partnership portfolio.

CONCLUSION

Our study supports the theorized relationship between information quality, informal communication and trusting partnerships. However, given the exploratory nature of our study and the challenges inherent in studying small business, there are notions in our study that should be investigated and extended in future research. First, we primarily emphasized informal and voluntary communication as they are most clearly linked with cognitive and affective trust formation. However, we also find information quality correlates positively with trusting partnerships and it seems reasonable that both informal and formal communication play a role in establishing information quality. Indeed, if information quality requires timeliness, accuracy and completeness, it stands to reason that some pre-established norms for such communication might be useful. To that end, we believe future studies should explore the presence of formal and informal communication, not only for their direct impact on trust but also for the potential indirect impact on information quality.

A related second future direction involves not just the type of communication, but also the medium(s) utilized for communication. It is well established in organizational behavior theory that certain channels for communication prove more useful in communicating data, while others are more efficacious in communicating information or context. Since information quality shapes cognitive and affective components of trust, and given that poor medium selection creates unnecessary message noise, future researchers should examine the role of medium (verbal, written, electronic, etc.) alongside message (data or information) as antecedents to information quality and thereby development of trust.

Communication is a two-way street. However, in our study we focused on the small business operator's general perception of communication patterns and information quality. In reality, communication can be highly symmetric (relatively even from both parties) or highly asymmetric (one side communicates far differently than the other). Extending research towards dyadic examination of perceived communication might offer insights into communication patterns more (or less) conducive to emergent trust.

Research has shown that the supply chain management function can be affected by numerous variables, regardless of organizational size and resources. As suggested by Beekman and Robinson (2004), SMEs should focus on developing mutually beneficial relationships to ensure sustainability and growth. Our results indicate that communication and information quality are significant factors in establishing trust in organizational relationships, which can serve as a foundation for successful partnerships. Effective supply chain management can lead to a strategic advantage for small business owners; therefore it is important that we have a thorough understanding of the best practices that promote more advantageous, sustainable and long-term relationships.

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TRANSACTIONAL AND TRANSFORMATIONAL LEADERSHIP STYLE IMPACT ON SMALL SINGLE-OWNER BUSINESS

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ABSTRACT

Transactional Leadership is perceived as less effective than transformational leadership. Within many management training programs, transactional leadership is viewed as cause possible damage to workforce moral. This paper discusses differences in transactional and transformational leadership and results in management of small, single-owner organizations. An assessment is presented on the most effective leadership style for positive workforce morale in the small single-owner organization.

INTRODUCTION

Leadership has many definitions and scholarly research makes use of multiple theories. A common link in most leadership definitions involves interaction between at two or more persons in pursuit of a goal (Yukl, 1989). Many individuals have leadership traits but not all implement leadership in the same style. For small organizations growth may depend upon the how leadership is implemented with the group. The manner of leadership implementation comprises the bulk of scholarly research (Frank, 1993). Many recent scholarly studies on large organizations discuss transactional and transformational leadership (Bass, 1990, 1998, 1999; Dhar, & Mishar, 2001; Frank, 1993; Kuhnert, & Lewis, 1987; Murrell, 1997; Wheatley, 1994; Wofford, Goodwin, & Whittington, 1998). Seminal work introducing differences between transactional and transformational leadership concepts presented by Burns (1978) is over 30 years old. However, there is minimal research on leadership styles within small, single-owner organizations. Within the small, single-owner organization, the leader-follower paradigm is highly sensitive to the needs of both groups: the leader's (owner) personal goals are bound to strategic business goals and dependent upon workers to carry out tasks; and followers (workers/employees) are dependent upon single decision-makers and influenced by external-of-work personal goals (Feltham, Feltham & Barnet, 2005). Work-life balance for owners and employees of small, single-owner organizations is less formal and allows owners to adapt leadership styles to increase morale (Yasbek, 2004). The effectiveness of leadership style used within the small firm is dependent upon the owner's understanding of situational aspects that may affect personal goals. Situational aspects may change the relationship between owner (leader) and employee (follower).

This paper discusses transactional and transformational leadership styles and its impact within small, single-owner organizations. The use of transformational leader concepts in small, single-owner organizations is most effective for increasing employee morale.

Transactional and transformational leadership styles

Leaders may use both styles in daily operations, yet the evaluation of situation would provide for an appropriate style to increase effectiveness. Burns and Bass primarily view transactional leadership as a means for controlling follower's behavior by offering rewards for work accomplished and reducing effects of problems through adjusting the transaction details between the leader and subordinate. In contrast, transformational leadership is an attempt to inspire followers through communication of a vision. Leaders ask followers to look beyond their self-interests for the good of the company. (Burns, 1978, Bass, 1985, 1998)

If a person has followers, they are a leader. There exists a situational basis for why a person would become a follower. The situation may be one of fear, authority, title, charisma, and vanguard (Nicholls, 1985). Within a small, single-owner organization, leaders also provide task management. To accomplish a task using the manager-employee relationship an interaction must take place. The basic start of an interaction is the manager communicating what needs accomplishing and the compensation received if the employee fulfills the requirements. The transactional leadership concept posits the employer as a leader and the employee as the follower. The base for evaluating the effectiveness of the transactional leader is on the success of the employee accomplishing the task.

This basic transactional scenario does not describe the situation of the employee and the purposes for why they agree to accomplish the tasks. Initial thought suggests that the employee performed the task only to acquire the stated compensation. The employee may not consider the manager a leader, and participate only as a means to acquire desired compensation. During day-to-day business activity, the transactional leader monitors the activities of the follower to ensure compliance and if not meeting expectations then taking corrective actions. While effective, the transactional relationship may cause stress if there is a conflict in expectations or changes occur during the task process (Bass, 1999).

Leaders correlate their expectations of followers to effective task performance. After evaluating present situations, a leader considers the attributes of followers before attempting to apply a leadership style. In a transactional relationship, leaders expect followers to have initiative towards goals, expectancy of rewards, and expectancy of goal attainment. Leaders also expect followers to have a need for role clarity (House, & Mitchell, 1974). Transformational leaders expect followers to be self-reliant, have initiative, and innovativeness (Bass, 1985, Conger & Kanungo, 1987; House, 1977). Expectations of transformational leaders include the attributes of the transactional relationship (Wofford et al., 1998).

Consequently, leader views of themselves and followers will guide behavior interaction with workers. Specifically, transformational leaders may view themselves as charismatic and capable of inspiring follower behavior towards the organization's vision while invigorating the initiative of the follower at the same time. Transactional leaders see themselves as leaders who control rewards for successful worker performance which in turn control behavior and processes as required, and who ensure proper activity in performance of tasks and goals (Bass, 1999). The transformational leader will have incorporated the transactional views within their persona but the transformational views will be predominant. Transactional leaders will not have access to transformational behavior because they have not learned this additional level of leadership understanding into their cognitive knowledge (Wofford, et al., 1998).

Transactional leadership may be effective and satisfying in certain industries but transformational leadership within small business adds substantially to the impact of transactional relationships (Bass, 1999). Bass (1985) viewed the transformational leadership style as complimentary to the transactional style. The transformational style is likely to be ineffective if there is no transactional relationship between leader and followers (Bass, Avolio, & Goodheim, 1987). Transformational leadership goes beyond the initial fulfillment of a transaction. In transformational leadership, the leader elevates the follower to view the potential of achieving higher levels of accomplishment.

The transformational leader needs to be more involved with the relationship by setting examples through higher standards of performance, determination and confidence. Followers look towards this leader for inspiration and identify with the leader's effort. The transformational relationship includes the potential for intellectual stimulation through leader support of innovation and creativity for task accomplishment (Bass, 1999). Followers tend to respect the transformational leader who provides individualized consideration for the development needs of the followers. Avolio & Bass (1999) found that leaders who are more satisfying to followers, and more effective as leaders, tend to be more transformational than transactional.

The concept that most distinguishes transformational leadership from transactional leadership is the act of inspiring a follower to go beyond their own self-interest. Consistent with Burns (1978), an element missing from Maslow's (1954) hierarchy of needs is a top level beyond the self-oriented concern as presented by Handy:

> "There should be a stage beyond self-realization, a stage of … idealization, the pursuit of an ideal or cause that is more than oneself. It is this extra state that would redeem the self-centered tone of Maslow's thesis, which for all that it rings true of much of our experience, has a rather bitter aftertaste." (1994, p275)

Burns (1978) and Bass (1999) handle this missing element using the concept of transformational leaders as a force that help move followers through the stages and transcend their own self-interests. Bass (1999) uses the term, "idealized influence" (pg. 11) in describing transformational leader as using ideals to influences followers. These leadership ideals consist of selfless ideals in which the leader and follower may dedicate themselves.

Managing small organizations

Small organizations represent the most prevalent form of enterprise in the United States operating more than 90 percent of the 15 million companies (Daily & Dollinger, 1993; Feltham, Feltham, & Barnett, 2005, Ward, & Aronoff, 1990). d'Amboise and Muldowney (1998) analyzed organizations using three perspectives: the task environment, organizational orientation, and managerial characteristics. Task environment includes aspects of the business relevant to particular industry and direct decision-making of goals and tasks required to reach those goals. Organizational orientation refers to the strategic structure of the organization. Managerial characteristics involve the objectives and motivations to carry out operational details of managing the organization.

Small organizations are generally more vulnerable to changes within their environment (d'Amboise, & Muldowney, 1988). Vulnerability requires small organizations to manage close control over short-term daily activities and yet they must still be flexible in adjusting resources to adapt with environment changes. Close control requires clear lines of communication and technology change has increased internal communications, allowing owners to have a more rapid dialogue with employees. While owner goals and ambitions for profit are relatively unchanged over time, both the business environment and workers have changed. The business environment has become much more competitive through the growth of a global market and advances in communication technology. The complexity of operating small business has dramatically increased a need for managing the task environment.

To remain competitive in a growth mode, small business needs to become more knowledgeable, creative and flexible. Transactional leadership styles restrict employee motivation to the basic task-reward concept. If a manager is required to increase workload or adjust task activity, the worker may respond with poor performance. Many small firms have turned to providing educational opportunities for employees to make up for needed changes in task work. This option is risky if financial incentives remain static since employees with more education are in higher demand within a growth market. If owners use transactional style of leadership, employees with no loyalty to the owner may find work elsewhere if higher financial compensation is available.

Workers available to small business owners have changed their attitudes and behaviors over the past three decades. The needs, wants and desires of the workforce have drastically changed from supportive to satisfaction-demanding followers (Bass, 1999). There has been a shift from workers wanting job security and giving loyalty to the organization towards workers demanding self-worth and total job satisfaction. When a worker in a small firm wants something from leadership, a direct request is made of the business owner. Many small organization owners will hire professional management to separate themselves from the workers requests for more compensation. This management buffer may allow the owner to remain a transformational leader while the professional manager functions as the transactional leader.

The management of a small, single-owner organization is central to the livelihood of the owner. Two prominent types of management forms used by small, single-owner organizations are owner-managed, and professionally managed (Daily & Dollinger, 1993). The leadership style used in the operations of either type of small, single-owner organization will depend on the knowledge and skills of the owner and the agent-principle relationship. Agency theory helps explain the behavior of ownership rights (Jensen & Meckling 1976). In an agent-principal relationship, the principle (owner) engages an agent (manager) to manage services allowing for decision making in organization operations. The term professional manager distinguishes the owner-manager from the non-owner manager. This does not imply that an owner-manager is any less capable than the non-owner management.

Agency theory, with transactional oriented managers, posits potential problems for the small, single-owner organization when professional managers exploit information or resources for their own benefit rather than for the owner (Miller, & Le Breton-Miller, 2006). Aligning interests and identity between manager and owner can mitigate this potential cost. Stewardship theory is another perspective to view leadership in small businesses. Stewardship theory proposes that leaders seek higher purpose from their work and not simply act in self-serving behavior, but work towards the benefit of the organization and its owners (Davis, Schoorman, & Donaldson, 1997; Donaldson, & Davis, 1991; Fox, & Hamilton, 1994). Development of an emotional link exists through efforts of the owner to instill transformational leadership practices within the organization.

Organizational orientation refers to the strategic structure of the organization. Small organizations are rarely formalized and have personalized interdependencies between owner and employees (d'Amboise, & Muldowney, 1988). The strategic orientation of small, single-owner organizations will vary depending on the use of owner-manager or professional manager format. A small, single-owner organization utilizing a professional manager is presenting a vision of professionalism to the employees of the organization. Many organization owners do not have the skills or abilities to manage day-to-day operational activities of a business, thus they hire professional management.

While perceived as professional, the leadership strategies are more transactional when employed through agency management. This is due to agency manager's tactic business training and lack of vested interest in the organization. Professional managers, unless with an owner for a long period of time, usually do not behave in the same manner (McEachern, 1975; Schein, 1968). Professional managers are rarely loyal to any one organization and adopt a utilitarian aspect to their leadership focusing on immediate rewards and personal gain for their efforts, the classical purpose for transactional leader relationships. Daily and Dollinger (1993) found professionally managed organizations to have reactor type strategic orientation (Miles & Snow, 1978). Reactor strategy organizations have low performance and this may be due to the transactional leadership style of the non-owner management (Miles & Snow, 1978). A professional manager separates the owner from the workers and limits initiating transformational leadership relationships. Without relationships between owner and worker, the impact and potential benefits usually provided by an owner are reduced or negligible.

Today's workers are no longer committed to any organization and are constantly looking for greener pastures. Higgins, Duxbury and Irving (1992) found that conflict between work and home or lifestyle roles reduce worker perceptions of the organization environment's quality of life. This is especially true for the small firm that expects long worker involvement and is unable to compete with large firms in providing top compensation for required work. A highly educated or skilled workforce expects compensation that may be beyond the resources of most small organizations. Every dollar paid to an employee of a small firm represents a dollar removed from owner's family income. To increase personal income goals, single-owner organization leadership must achieve more production from current resources. A positive relationship between owner and employee allows the owner-leader to evaluate the employee's situation. The Higgins et al. (1992) has indicated "the structure of work has a strong influence on family life and suggests that there should be recognition on the part of employers that the family consequences of work environment decisions are real and that they need to be considered" (p.71). Since transactional leadership alone will not provide the follower demand for self-worth and job satisfaction more is required. Transformational leadership, which supports autonomy and increasing work challenges, has become increasingly important in small firm management practices to meet the changing needs of followers (Bass 1999).

Small, single-owner organization morale

Transformational leadership employed effectively within a small, single-owner organization increases workforce morale. Yasbek (2004) stated that transformational leadership provides increased morale, productivity and employee satisfaction. Parker and Kleemeir (1951) suggested that positive group morale is formed through attitudes held by various individual members of a group putting achievement of group goals ahead of the achievement of personal goals. Pestonjee (1973, p.86) defined morale as: "a general attitude of workers based upon their faith in fairness of employer's policies and behavior, adequacy of immediate leadership, a sense of participation in the organization and an overall believe that the organization is worth working for." Moral within the small, single-owner organization is dependent upon the ability of the owner to develop transformational concepts.

For small, single-owner organizations, the minimal measure for leader effectiveness is the extent to which the organization carries out tasks asked of by the owner and reaches the owners goals (Dahr, & Mishra, 2001). If this were the only need of the owner then transactional leadership style alone could effectively manage operations. Most small business owners continue operations for the principal purpose of furthering personal goals (Feltham, Feltham & Barnette, 2005). The small, single-owner business is usually the owner's only source of income, and consumes a majority of the owner's time, effort and resources. A small, single-owner organization is an extension of the owner's behavior and operations are intricately bound between both the owner's personal and family needs and desires (d'Amboise, & Muldowney, 1988). The organization culture is reflective of the personality and attitudes of the owner. Aligning the values of an owner with an organization itself can increase job satisfaction and morale (Sullivan, Sullivan, & Bufton, 2002).

Establishing alignment of owner values with an organization requires trust in the leader-follower relationship (Yasbek, 2004). Trust in leadership allows workers to identify with the owner and organization and to internalize the same values as the owner. This may occur as the employee identifies with the owner or within the alignment of an owner's personality and the organization. A psychological agreement evolves between the owner and worker (Rousseau, 2001). Due to the added involvement of an owner in relationship development, the concept of leader effectiveness changes to include the relationship between leader and follower. Leadership effectiveness now includes the actions of the leader towards attainment of organizational goals and vision, and the employee's satisfaction. Follower effectiveness includes the actions of the worker toward reaching the goals and visions of the owner and the organization (Wofford, Goodwin, & Wittington, 1998).

Transactional leadership, while required for small business to function, increases the overall stress for the worker. The use of transformational leadership style, which attempts to understand the individual and give personal attention, will support the owner in understanding the impact of stress on followers. Having knowledge of work-stress impact on followers is a factor in developing positive employer/employee relationships resulting long-term productivity and morale (Bass, 1999). It is much easier for small organizations to initiate a work-life balance, as the costs and bureaucracy of change is less than in larger firms. Literature shows that a work-life balance within an organization will improve morale and satisfaction (Dex, & Scheibl, 1999; Galinsky, & Johnson, 1998; Comfort, Johnson, & Wallace, 2003). Transformational leadership works in favor of the owner due to having a personal stake in the survivability of the organization. Keeping employees satisfied reduces tu6rnover and increases productivity, both of which are high priorities for owners to achieve (Steers, Mowday, & Shapiro, 2004). Fosam, Grimsley & Wisher (1998) proposed gaining employee satisfaction through three indicators: job satisfaction, employee morale and morale of colleagues. Job satisfaction relates positively with organizational citizenship behavior in which an employee adopts characteristics desired by the organization (Organ, 1988). Fosam et al, found that worker perceptions of what others thought of them had a direct impact on employee satisfaction. Transformational leadership in small firms encourages leaders' interest in the needs of followers, thus providing the worker with a perception that they are valuable to the organization and to the owner. In small, single-owner organizations, owner-managers provide leadership focused on the human side of the organization and nurtures interpersonal relationships to improve morale and performance (Mintzeberg, 1973).

Interpersonal relationships built through use of transformational leadership offer a stronger psychological contract between the owner and employee. Either leader or follower may alter perceived obligations inherent to psychological contracts by observance of behavior and performance (Robinson, Kraatz, & Rousseau, 1994). The daily proximity of owners with employees has a direct affect on the leader-follower relationship. Performance of managerial duties is in view of, and in association with workers. Technology's impact on communications increases communication obligations in which feedback and an open exchange of ideas is encouraged (Rudnick, 1996). This close working environment influences the internal motivations of workers based on self-worth and a desire to have others think highly of their efforts (Haugh, & McKee, 2004).

Workers tend to model their own behavior after those of the owner. Thus if owners are displaying transformational behavior, more workers will be likely to act as transformational leaders in their activities (Bass, 1990). Engaging follower self-concepts may awaken non-conscious motives for achievement and affiliation. These seemingly stable motives have strong and lasting behavioral consequences (Bass, 1999). Through transformational leadership, workers are motivated to increase engagement with the owners and provide more self-monitoring and self-evaluation. Increasing transformational motivations of workers cause many self-interests of the individual to take secondary purpose following: leader-inspired moral commitment; identification with, sense of obligation to, and loyalty towards the owner; and perceived benefits gained though the success, well-being and survival of the organization (Kuhnert, & Lewis, 1987).

IMPLICATIONS

Owner managers and agent managers should utilize transformational leadership styles within small business to achieve continuity and growth. Transactional leadership must be present to carry out functions of a business yet employee development and company growth need behaviors that encourage followers to exceed expectations derived through transactional relationships.

Transformational leadership may be learned and it would be prudent to encourage more educational training programs to adopt a dual leadership training methodology.

CONCLUSION

Further research is required to verify quantitatively the relationships between transformational leaders and employee satisfaction. In addition further research is needed to verify that transformational leadership is key to increasing the rate of organizational growth and employee retention.

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UNIVERSITY SEED FUNDS: A DICHOTOMY OF TERMS AND THE INVESTMENT STAGE OF 28 HIGH PROFILE FUNDS

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ABSTRACT

This paper will attempt to shed some light upon the earliest stages of venture funding. The University of Arkansas for Medical Sciences is assessing the formation of a University-based seed fund. In its due diligence, a survey of 28 University- based, or affiliated, investment funds was performed to assess 26 quantitative and qualitative variables. Generally, the survey only targeted funds that demonstrated a direct affiliation, or strong investment relationship,with major research universities in the areas of bioscience or healthcare. This paper is a preliminary examination of the first variable: the stage of investment of the fund.

INTRODUCTION

One of the first observations someone entering the realm of seed funding[3] is a lack of consistent terminology in defining a very early stage investment. Words like pre-seed, seed, and proof of concept are often bantered around in a seemingly interchangeable, and somewhat confusing fashion.[4] It is important to understand that differences in timing or company stage can dramatically affect the amount of perceived risk that exists and the corresponding investment terms associated with a particular investment.

In general, the authors assumed that the introduction of University-based seed funds is an attempt to provide very early bench research, or its equivalent, with small levels of funding, generally \$25,000 - \$100,000, in an attempt to make the research more appealing to outside investors or possible licensees. The authors also assumed that seed funding may refer to funding used to increase the commercial viability of the research or technology.

1980: When it all changed

Technology transfer is a term used to describe a formal transfer of rights to use and commercialize new discoveries and innovations resulting from scientific research to another party. Universities typically transfer technology through protecting (using patents and copyrights), then licensing new innovations. The major steps in this process include the disclosure of innovations, patenting the innovation concurrent with publication of scientific research and licensing the rights to innovations to industry for commercial development. (www.autm.net/FAQs/2186.htm)

The success in university technology transfer and the resulting economic and health benefits, is the direct result of the passage of the1980 Bayh-Dole Act. Co-sponsored by Senators Birch Bayh

[3] The terms "seed fund" or "seed funding" are used generically throughout the paper to reference pre-seed, seed and proof of concept funds, unless specifically referenced otherwise.
[4] The term "early" is also used but will be addressed later in the paper.

and Robert Dole, the Bayh-Dole Act enabled universities, nonprofit research institutions and small businesses to own and patent inventions developed under federally funded research programs. Before the passage of this legislation, new discoveries resulting from federally sponsored research passed immediately into the public domain. The provisions of the act, however, provided an incentive for universities to protect their innovations and, therefore, for industry to make high-risk investments resulting in products made from those innovations. (www.autm.net/FAQs/2186.htm) The ultimate goal became commercialization of high risk, high return technologies. Without intellectual property protection and the passage of Bayh-Dole, there would have been no motivation on the part of the investment community to advance university-based research.

For a university technology transfer office (TTO), early numerical measures include the number of patents filed, license agreements executed and new companies formed. Since universities can retain "profit" from license agreements associated with university licensed research, later numerical measures include revenues from license fees, royalties and cash from equity investments paid to the academic institutions and the numbers of products successfully introduced to the market. (www.autm.net/FAQs/2186.htm) This perceived windfall[5] from the Bayh-Dole legislation would seem to be highly motivating and would seem to incent universities to push for to maximize the value of their research, and in turn, universities, considering the investment communities' aversion to very stage investment, would be highly motivated to create or influence the creation of their own seed funds.

As an aside, many, if not all, universities are motivated by the impact their research has on the overall economy or health benefits to society. In this case, success is also demonstrated by the impact the products have on our lives. Academic technology transfer - the licensing of innovations by universities, teaching hospitals, research institutes and patent management firms - adds billions of dollars to the U.S. economy and supports hundreds of thousands of jobs. It contributes to the spawning of new businesses, creating new industries and opening new markets. Most important, technology transfer from universities to the commercial sector has led to new products and services that improve our quality of life. From new cancer treatments to faster modems, from environmentally friendly metal processing to beautiful flowering plants, technology transfer from academic institutions is advancing the way we live and work. (www.autm.net/FAQs/2186.htm)

Other non-numerical - but equally important - results of technology transfer include a university's ability to retain entrepreneurial faculty, attract outstanding graduate students, contribute to the institutional reputation for innovation, augment its research program through interaction with the private sector and enhance its reputation for providing highly trained students for the industrial work force. Academic institutions have seen a significant increase in technology transfer activity. For example, before 1980, fewer than 250 patents were issued to U.S. universities each year and discoveries were seldom commercialized for the public's benefit. In contrast, in FY 2002, AUTM members reported that 5,327 new license agreements were signed. Between FY 1991 and FY 2004, annual invention disclosures increased more than 290

[5] Even today, nearly 40-50% of TTOs do not operate profitably. (Boettiger and Bennett, 2006)

percent (to 18,178), new patents filed increased nearly 450 percent (to 11,089) and new licenses and options executed increased about 510 percent (to 5,329). (www.autm.net/FAQs/2186.htm)

Allen (2010) implies that by funding early university research, it can significantly add value to that research, and in the process, increase the commercial viability of the technology or research and reduce some follow-on investment and market risk.

In other words, by creating greater viability in the research, universities can benefit in two ways. First, some technologies that would remain undeveloped due to a lack of funding could gain economic viability and in the process, attract follow-on investment. This in turn directly increases the number of licensable technologies a university has to offer. Second, the more developed a technology, the more commercial viability, or in other words, the greater the value of the technology. This reduces the perceived risk associated with the technology and offers a greater overall return to the university in the form of more favorable licensing terms.

What follows is a discussion regarding the timing or stage of university fund investments. First, there is a discussion covering three terms of art regarding the timing of the investment, followed by the survey results of how the 28 universities define their stage of investment.

Funds: A Dichotomy of Terms

"Pre-Seed Fund"

The pre-seed stage might also be referred to as the bootstrapping stage. This is a point in time in the life of a venture that is when the venture was very limited or unable to attract outside investment (Bell, 2007). Two of the 28 funds selected identified themselves as "pre-seed". The Rochester Institute of Technology (RIT) and Purdue University both identified their funds as pre-seed.

The Rochester Institute of Technology's Trillium Fund is a pre-seed fund dedicated to companies that relate to innovations, intellectual property, and entrepreneurial aspirations taking place in and around RIT. The Fund's primary focus is on assisting companies in the pre-seed stage that are creating business opportunities based on RIT's core technical competencies. RIT defines the pre-seed stage as within the venture's first six months. The typical investment is in the range of $25,000 to $100,000 in return for a defined amount of equity, but this amount must be matched by funds from other sources such as personal funds, angels, or venture capitalists. (www.rit.edu/research/vc/funding_sources)

At Purdue University The Trask Fund's objective is to support short-term projects that will enhance the commercial value of Purdue University intellectual property assets. Financial support is designed to provide an individual technology portfolio up to $50,000 for a period of six months. The Fund does not support basic research but instead provides funds to reduce inventions to practice, provide critical additional data, or develop prototypes, which make the technology more marketable. Award recipients may reapply in subsequent rounds, up to a maximum of three (3) times, for support of the same technology (e.g., as a second phase, for example), not to exceed an aggregate cap of $150,000 per technology. (http://www.prf.org/otc/trask_fund.asp)

Another fund, not fitting the survey profile, BioGenerator's Pre-Seed Spark Fund[6] was launched in 2010 to stimulate commercialization of early stage technologies and increase BioGenerator's ability to assist entrepreneurs within the St. Louis region. The Spark Fund shares the same overall mission of regional economic development in technologies that benefit mankind as BioGenerator's Seed Fund, but is applied to earlier stage business and technology ideas that are not at a stage where the Seed Fund process can be applied. It went on to state, "relative to our Seed Fund program, Spark Fund deal terms are commensurate with the earlier, higher risk nature of these investments and therefore carry a higher interest rate, conversion discount and royalty rate, as appropriate to the individual development plan."
(http://www.biogenerator.org/sparkfund/index.shtml)

"Seed Fund"

According to Bell (2007), seed funding is given in the very earliest stages, when a company is still developing a prototype, refining a business concept, hiring key employees, researching a market, or just renting physical space. It is during the seed stage when companies often attempt to raise their first external capital investments. With such an early stage company it is often difficult to raise money, and when it is raised, it is often very expensive money, reflecting the significant risk assumed by such early stage investors.

The category "seed" fund by far represented the highest response rate of the funds surveyed at 12 of the 28 total funds. "Seed Fund" also seemed to be more extensively defined within the literature.

Seed money is typically used to pay for such preliminary operations as market research and product development. Seed capital is not necessarily a large amount of money. Many people start up new business ventures with $50,000 or less. Seed funding involves a higher risk than normal venture capital funding since the investor does not see any existing project to evaluate for funding. Hence the dollar value of the investments made are usually lower (in the tens of thousands to the hundreds of thousands of dollars range). (en.wikipedia.org/wiki/Seed_money)

During the seed stage, the person or venture has to convince the investor why the idea/product is worthwhile. The investor will investigate into the technical and the economical feasibility of the idea. In some cases, there is some sort of prototype of the idea/product that is not fully developed or tested. If the idea is not feasible at this stage, and the investor does not see any potential in the idea/product, the investor will not consider financing the idea. However if the idea/product is not directly feasible, but part of the idea is worth more investigation, the investor may invest some time and money in it for further investigation. (en.wikipedia.org/wiki/Venture_capital_financing)

[6] "Fund not fitting the survey profile" is generally due to the investment targets residing outside of the bioscience and healthcare areas.

The Funding Incentive Seed Grant Program, sponsored by the University of Utah Research Foundation, a survey study subject, supports only **new** areas of research for a principal investigator(s). Research that is already supported by other sources will not be approved for funding. Gap funding to bridge support between external grants or contracts will not be considered. The applicant must clearly and convincingly demonstrate that the proposed project represents a new research direction in an area likely to generate extramural funding. Thus, the proposal must not have overlap with any existing grants. Seed funding under this program is to be used to successfully compete for extramural funds to support the project in the long term. (www.research.utah.edu/funding/seed)

Other funds not fitting the survey profile[7], such as Pre-Seed Fund for Australian universities and public sector research agencies utilizes the term "seed fund" to address the gap between promising scientific discoveries and commercialization. This Fund assists the commercialization of public sector R&D activities by further developing the management and entrepreneurial skills of public sector researchers and build links with the finance and business community. (http://www.ausindustry.gov.au/VentureCapital/Pre-SeedFundPSF)

According to Rhunka and Young (1987), at this stage, the risk of losing the investment is tremendously high, because there are so many uncertain factors. From research, we know that the risk of losing the investment is around the 66.2% at the seed stage (see, Table 1).

Table 1

Stage at which investment made	Risk of loss
The Seed-stage	66.20%
The Start-up Stage	53.00%
The Second Stage	33.70%
The Third Stage	20.10%
The Bridge/Pre-public Stage	20.90%

Proof of Concept Fund

A proof of concept (POC) is a realization of a certain method or idea(s) to demonstrate its feasibility, or a demonstration in principle, whose purpose is to verify that some concept or theory that has the potential of being used. In reference to business, proof of concept helps establish viability, technical issues, and overall direction, as well as providing feedback for budgeting and other forms of internal decision-making processes. In engineering and technology, a rough prototype of a new idea is often constructed as a "proof of concept". (http://en.wikipedia.org/wiki/Proof_of_concept) For example, a new medical device, such as a

[7] "Fund not fitting the survey profile" is generally due to the investment targets residing outside of the bioscience and healthcare areas.

wound closure system, might have a working prototype. This may well be necessary, as a patent application often requires a demonstration of functionality prior to being filed.

Some universities have proof of concept centers to "fill the 'funding gap'" for "seed-stage investing" and "accelerate the commercialization of university innovations". Proof of concept centers provide "seed funding to novel, early stage research that most often would not be funded by any other conventional source". (Gulbranson, C. and Audretsch, D., 2008)

The Wall Fund – Technology Innovation Gap Fund, at Tulane University, a subject of the survey, awards $20,000 increments to University researchers. The Fund, though relatively small in total value at $300,000[8], has set few if any limits on the types or purpose of investment candidates. This may be more indicative of a smaller research institution than of meeting the definition of a stage of development.[9]

In Australia, the "bluebox Proof of Concept Fund"[10] is a program providing funding to unlock the potential of Queensland research, and increase the level of commercialization in the State, by providing assistance to applicants to demonstrate the commercial potential of their innovations (technologies, products or processes). For the purposes of this fund, proof of concept is defined as the point at which the potential commercial viability of an innovation can be demonstrated. A successful proof of concept activity would assist innovators to attract commercial allies including industry collaborators and potential collaborators and investors. Achieving proof of concept involves adding commercial value to a discovery by generating evidence that the invention or technology actually works and could lead to a commercially viable product, service or process. Proof of concept activities are aimed at progressing the discovery to a stage where (a) additional external investment in the intellectual property (IP) is possible (such as obtaining commercially relevant data that will demonstrate the viability of the project to an investor or provider of further commercial funding), or (b) an industry partner or licensee might agree to take a license to the discovery. (http://www.industry.qld.gov.au/funding-and-assistance/504.htm)

The St. Louis University (SLU) Technology Transfer Proof-of-Product Fund ("The Fund")[11] provides resources of up to $50,000 to enable SLU investigators to develop a commercializable product based upon SLU-owned intellectual property. The purpose of The Fund is to enhance the commercial value of SLU technology in the marketplace. (http://www.slu.edu/x27831.xml)

DISCUSSION ON FUNDS DEFINED

Rhunka and Young (1987), show risk based upon stage of the investment (see Table 1).
The risk of losing the investment for the VC-firm drops from 66.20% to 53.0%, when the technology advances from the seed stage to the start-up stage. This can be explained by the fact

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[8] The University of Indiana and the Massachusetts Institute of Technology are $10,000,000 and $15,000,000 respectively.
[9] Tulane ranks 92nd in NIH 2010 research dollars (www.medcitynews.com/2011/03/top-nih-grant-funding-by-institutions-states-for-2010)
[10] "Fund not fitting the survey profile" is generally due to the investment targets residing outside of the bioscience and healthcare areas.
[11] Ibid.

because the prototype was not fully developed and tested at the seed stage. Thus, Rhunka and Young assert that at the end of the seed stage, the prototype was developed and tested. With the further development of the etchnology and its corresponding reduction in risk, "start-up" capitalization is possible.

The understanding of risk is key to the stage terminology associated with a fund, be it pre-seed, seed or early, and the corresponding investment in a particular technology. And though we are not insinuating that investment activity is based upon terminology, and absent fundamental due diligence, we do advocate the potential for a degree of predisposition or "signaling". (Bell, 2010)

SURVEY OF US UNIVERSITY FUNDS RESULTS

A survey of 28 funds was performed to assess 26 quantitative and qualitative variables of University based or affiliated investment funds. Each of the 28 fund website was initially used to gather data on the 26 variables. Follow-up phone interviews have been begun to complete the survey. The data collected for the purposes of this paper was primarily upon based upon website observations. This paper is a preliminary examination of the first variable: the stage of investment of the fund.

The survey produced the following results:

Stage	Number
Pre-seed	2
Seed	12
Proof of Concept	5
Early	4
Undefined	1
Early/Seed	4
Total Funds	28

IMPLICATIONS

This paper is relevant to both academicians and practitioners alike, in that it explores actual terminology utilized by practitioners to describe their fund stage of investment focus, yet even as reflected in the academic literature, these key descriptive terms seem interchangeable and almost randomly applied. It is important to understand that differences in timing or company stage can dramatically affect the amount of perceived risk that exists and the corresponding investment terms associated with a particular investment. This paper is an attempt to illustrate the lack of consistency in the application of these defined terms.

CONCLUSION

The above overview of defined terms was undertaken to illustrate the difficulty in assessing the purpose of the fund by the terminology alone and the possible ensuing confusion as to its purpose. The terms pre-seed, seed and proof of concept remain confusing not only within the survey limitation but also by institutions that fail to meet the criteria. The seed fund offered by the University of Utah would seem to be more closely aligned to the definition of pre-seed, while the RIT and Purdue funds would both seem more aligned with the definition of seed. Finally, Tulane University fund would seem to fit all three definitions.

Though a number of funds define themselves as "early" stage investment funds, there seemed to be far less supportive literature as to what when that stage really is, though it seems to act more as catch-all, covering various stages of product or company development. One of the challenges in defining terms is also the target of the funding. For example, when connected to a university seed funding the funding can often be targeted at bench research, increasing the commercial viability of the research. When funding is targeting an internet related startup, the timing to market will be much quicker yet the funding may employ the same seed funding terminology.

Though each fund that was a subject of the survey well defined the purpose of the fund, an outsider would well have to examine each fund independently to assess its true timing or stage of investment.

There are a number of questions left unanswered within this paper including perceived and/or actual riskiness of a particular fund in relation to name/purpose of the fund. There also exists a wealth of research questions as the survey data is collected and finalized.

Closing Commentary

Each university fund in the survey, and those not fitting the survey profile, offer opportunities to advance technologies and research that may have never come to market. Their impact on society and quality of life extends well beyond a "fit" into defined investment stage terminology. Their efforts are to be commended.

As the University of Arkansas for Medical Sciences attempts to establish a seed fund, the timing and purpose of the fund may well be more important than the terminology selected in defining the fund.

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DEBT FINANCE AND PERFORMANCE AMONG SMALL BUSINESSES OWNERS: AGE AND EXPERIENCE, GENDER, ETHNICITY AND YOUNGER BUSINESSES

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ABSTRACT

Small business finance and performance are important to the development and sustaining of small businesses. We were interested in the extent to which small businesses were financed with debt according to owners' age and experience, age of business, ethnicity and gender. Our results indicate that only age of business and gender show difference in debt level. With respect to performance, we found that middle age owners' and majority owned businesses had better rates of return on equity.

INTRODUCTION

The U.S. Small Business Administration reports that small businesses in the U.S. represent 99.7% of all employer firms, employ over half of the private sector, generate 64% of the net new jobs over the past 15 years, and create over half of the nonfarm GDP. That means that small businesses play an important role in the U.S. economy. This importance of small businesses on the economy lead to the Small Business Jobs Act of 2010 which attempts to provide resources to small firms to encourage growth and development and thereby improve economic conditions in the U.S.

Small business formation and expansion depend, among other things, on the availability of capital. If capital sources are not available, small firms do not have the capital to get established and grow. Capital is acquired by small businesses as equity or debt. Debt for small firms is limited even during normal times and is reduced even more when the economy is in a recession. Also, there has been more attention in public policy to encourage women and minority individuals to become active in starting and managing small businesses in the past 20 or so years. This paper looks at selected owner characteristics, business characteristics, the use of debt (measured by the proportion of debt) and the financial performance of small firms (measured by return on equity).

The U. S. Small Business Administration has had a policy of encouraging the development of women and minority owned businesses. Lowery (2010, p. 4) indicates that "If a goal of public policy is to encourage more business creation through more gender parity, female-owned business creation should continue to be strongly encouraged." Further in another publication of the SBA Office of Advocacy, Lowery (2010, p. 25) indicates that "For a number of years, policymakers have pursued policies aimed at fostering minority business ownership as a means of improving the economic well-being of minorities in the United States."

The purpose of this research was to see if and to what extent debt is used to finance businesses and the differences that might exist among different groups and to discover how well businesses perform and the differences that might exist among the selected small firms. Specifically we were interested in looking at owner's age, experience, gender and ethnicity and the extent to which used debt and how their businesses performed.

METHODOLOGY

The data for the study were taken from the 2003 Survey of Small Business Finance. The survey, conducted by the Board of Governors of the Federal Reserve System with assistance from the SBA and the National Opinion Research Center every five years. The survey targeted businesses with fewer than 500 employees that were in business as of December 2003. The data set includes 4,240 respondents from across the United States. Information about the survey is available on the Federal Reserve Board of Governors' website. The portion of the survey, which includes numerous variables, we used include the questions covering selected business owners characteristics, business characteristics, the use of credit and firm performance.

In the analysis of firm's debt level, we first calculate the per cent of debt for each of the firms. These per cents were then arranged by quintiles, 20 per cent intervals. The interval calculated for performance, as measured by return on equity, is figured based on the percentile distribution of the values which were fairly normally distributed. Descriptive statistics were used to summarize frequencies and percentage of responses. Cross tabulation analysis was performed, chi square and gamma statistics were calculated and P-values are also included.
Literature Review

Small Business Finance.

A search of the literature on small business financing led to a few recent publications on the topic. It has been recognized that small businesses face difficulties with getting finance. That is particularly true in the start up and survival stages of a new venture. Texts in small business and entrepreneurship indicate that start ups, in particular, depend on the entrepreneurs' personal and friendly sources of funds. "When initially financing a small business, an entrepreneur will typically rely on personal savings and the attempt to gain access to the savings of family and friends." (Longenecker, Moore, Petty and Palich, 2006, p 243). Similarly, Scarborough says, "The first place entrepreneurs should look for start-up money is in their own pockets." (Scarborough, 2011, p. 405) Katz and Green echo similar sentiments "In general the entrepreneurs' own pockets are the first source of financing for most businesses." (Katz and Green, 2011, p. 479)

As firms achieve stability, additional sources of funds become available including outside credit. Carland and Carland indicate that …."small firms frequently depend totally upon debt for their financing needs." (Carland and Carland, 1998, p. 440) Similarly Katz and Green suggest that, "The most common source of capital for established ongoing small businesses is borrowed funds." (Katz and Green, 2011, p.485) Katz and Green. Scarborough observes that "Debt capital is a popular tool that many entrepreneurs use to acquire capital…." (Scarborough, 2011, p. 420). Longenecker, et.al. similarly indicate that "Commercial banks are the primary providers of debt capital to small companies." (Longenecker, Moore, Petty, and Palich, 2006, p. 247). As firms continue to grow, their needs for capital becomes increasingly important. "Access to credit is essential for the survival and success of small firms." (Hayes and Williams, 2011)

Based on this literature, it would seem that younger, less experienced, and perhaps less well educated small business owners have less access to and use less debt.

Women and Minority Owned Enterprise Finance. One area of interest to the researchers was woman and minority owned small businesses. The literature on finance in women and minority owned enterprises seems to indicate that there are problems for these groups in obtaining capital. For example Bitler and Wolken(2001, p. 185) assert that …" Women and minority owned enterprises are similar to small businesses in general, but may lack access to credit more." There is a caveat however, that differences in organizational type may result from the firms being minority or female-owned firms, younger and smaller and organized as sole proprietorships or partnerships rather than as corporations. Coleman echoes similarly, that her findings were that small firms owned by minority owners tend to be small, young, organized as sole proprietorships, less experienced and in service or retail lines of business. Carter, Anderson and Shaw (2003, p. 5) conclude that …"The analysis of the acquisition and mobilisation of resources at start-up has shown the greatest differences between women and men. Overall, the majority of studies show that *women find it more difficult to access resources (finance, human capital and social capital)* than do men." Constantinidis, Cornet and Asandei (2006, p. 154) find that "there are indeed some specific financing patterns and barriers for a number of women entrepreneurs.

However, we have also highlighted that women entrepreneurs are not a homogeneous group, and that we could differentiate them according to human, social and financial capital variables." Treichel and Scott(2006, pp. 63-63) found that women were less likely to apply for bank loans, that women were not more likely to be turned down and that women business loans were smaller. On the other hand, Haynes and Haynes (1999, p. 14) found that women gained more access to credit from 1987 to 1993. In a study of the United Kingdom, Fraser (2004, p. 53) found that "There are no significant differences in the likelihood of using external finance between male and female owned businesses or between white and ethnic minority owned businesses."

Similar to women-owned firms, minority firm owners tend to be younger and less experienced than white owners. Carter, S.L. and Anderson, S. and Shaw, E. (2003, p. 127) Coleman (2004, p. 84), in a separate study finds that the "Results reveal that, even controlling for differences in educational level, black men were significantly less likely to be approved for their most recent loan request. Further, black men were significantly less likely to apply for loans because they assumed they would be denied." Cavalluzzo and Wolken (2002, p. 2) indicate that they found substantial unexplained differences in denial rates between African American-, Hispanic-, Asian- and white-owned firms and that greater personal wealth is associated with a lower probability of loan denial.

Blanchard, Zhao and Yinger(2005, p. 23) assert, based on their analysis that "We find substantial, statistically significant evidence of discrimination in loan denial against black-owned and Hispanic-owned businesses in 1998 with additional control variables, with a variety of different specifications, and with a simultaneous model of the application and loan-denial decisions. Blanchflower, Levine and Zimmerman (2002, p. 23) found loan denial rates are significantly higher for black-owned even after taking into account differences in "an extensive array of measures" of credit-worthiness and other characteristics. This literature suggests that women and minority owned businesses could face problems using external sources of funds. If that is the case, the debt structure of women and minority owned businesses should show less debt than for their male and majority counterparts.

While performance literature for women and minority owned businesses is harder to discover, Fairlie and Robb (2005, p. 31) found that “Estimates from the CBO indicate that black-owned firms have lower profits and sales, hire fewer employees, and are more likely to close than white-owned businesses.” Lowery (2010, p. 4) found that “The death rate for White-owned establishments was 29.2 percent. It was more than 10 percent higher for Black-owned businesses, 4.7 percent higher for businesses owned by Hispanics, and 3.7 percent higher for Asian-owned establishments.” Carter, Anderson and Shaw (2003, p. 8) in a review of the literature found that “The analysis of actual performance has produced more ambiguous results. Increasingly, however, a consensus is emerging that women owned firms perform less well than those owned by men. The reasons for this under-performance, although disputed, are usually associated with initial under-resourcing.” Given the literature, several expectations are exposed.

One would expect that debt finance would be used less by younger, less experienced owners, young businesses, and women and minority owned businesses. In addition, one might expect that the performance of these businesses would be lower.
Findings of the Study

Table 1 shows the debt structure of small businesses by the owner’s weighted age and experience. There were no statistically significant differences in the debt structure of firms in either owners’ age or experience. One might expect that older and more experienced small business owners might have and use debt more, that expectation is not supported by the data.

Table 1

Owners’ Age and Experience Per Cent of Debt							
Weighted Owners' Age					Weighted Owners' Experience		
Per Cent Debt	< 30 years	30-50 years	Over 50 years		0-5 years	6-10 years	11+ years
< .20	0.28	0.36	0.39		0.42	0.39	0.37
.21 - .40	0.18	0.13	0.13		0.11	0.09	0.14
.41 - .60	0.13	0.11	0.12		0.07	0.11	0.12
.61 - .80	0.15	0.12	0.11		0.10	0.12	0.11
> .80	0.26	0.29	0.25		0.30	0.29	0.26
Total	1.00	1.00	1.00		1.00	1.00	1.00
n	39	1625	2445		309	521	3272
Chi Square	0.200				0.007		
Gamma	0.005				0.909		

Table 2 shows the age of the firm and percent of debt. Given the literature review, one would expect that younger businesses would have a lower proportion of debt, that expectation is not supported by the data. Younger businesses had statistically significantly more debt than older businesses. Of course, the specific nature of the debt may differ.

Table 2

Firm Age and Percent of Debt			
	Firm Age		
Percent Debt	1 - 10	11 - 20	> 20
< .20	0.36	0.37	0.39
.21 - .40	0.10	0.14	0.16
.41 - .60	0.10	0.12	0.13
.61 - .80	0.12	0.10	0.12
> .80	0.32	0.26	0.20
Total	1.00	1.00	1.00
n	1617	1237	1314
Chi Square	0.000		
Gamma	0.000		

Table 3 shows the debt structure of minority owned firms compared to majority owned firms and female-owned firms compared to male owned firms. There was not statistically significant difference between minority and majority owned firms. Based on the literature one would expect that minority owned firms would have less debt. That expectation is not supported. On the contrary, male owned firms had significantly more debt than women owned businesses. That is as expected according to the literature.

Table 3

Ethnicity and Gender Per Cent Debt					
	Ethnicity			Gender	
Per Cent Debt	Minority Owner	Majority Owned		Female	Male
< .20	0.42	0.37		0.47	0.35
.21 - .40	0.10	0.13		0.12	0.13
.41 - .60	0.09	0.12		0.09	0.12
.61 - .80	0.09	0.11		0.08	0.12
> .80	0.30	0.26		0.25	0.27
Total	1.00	1.00		1.00	1.00
N	357	3727		890	3194
Chi Square	0.075			0.000	
Gamma	0.964			0.000	

Performance of small businesses is an issue that is often addressed. Return on equity was used as the measure of performance in this study. We wanted to consider how small business performance differed according to the variables with which we were concerned. Table 4 shows that middle age business people performed better than younger and older business people in general. Interestingly, younger and older business people had higher rates of return than middle aged business people. The differences were significant. While there was no significant difference according to experience, there tended to be a pattern similar to that shown in age. Though not statistically, younger firms tended to have a better return on equity than older firms (Table 5).

Table 4

Owners' Age and Experience Return on Equity							
	Weighted Owners' Age				Weighted Owners' Experience		
Return on Equity	>30 years	30-50 years	Over 50		0-5	6-10	11+
<-2.83	0.05	0.06	0.05		0.09	0.07	0.04
-2.82 to 0.01	0.30	0.20	0.20		0.26	0.24	0.19
0 to .23	0.15	0.22	0.27		0.16	0.18	0.27
.24 to 1.13	0.20	0.25	0.25		0.23	0.25	0.25
1.14 to 8.71	0.25	0.22	0.19		0.22	0.20	0.20
>8.71	0.05	0.06	0.04		0.04	0.06	0.05
Total	1.00	1.00	1.00		1.00	1.00	1.00
n	40	1624	2443		311	521	3268
Chi Square	0.003				0.000		
Gamma	0.033				0.172		

Table 5

Firm Age and Return on Equity			
Return on Equity	1 - 10	11 - 20	> 20
< -2.83	0.07	0.04	0.04
-2.82 - .01	0.23	0.18	0.19
0 - .23	0.21	0.26	0.30
.24 - 1.13	0.23	0.28	0.24
1.14 - 8.71	0.21	0.20	0.19
> 8.72	0.06	0.04	0.05
Total	1.00	1.00	1.00
n	3569	537	60
Chi Square	0.000		
Gamma	0.444		

Table 6 shows the rates of return on equity for ethnicity and gender. Majority businesses had a statistically significant higher rate of return than minority businesses. Male owned businesses tended to have a slightly higher rate of return than female owned businesses. The differences were not, however, statistically significant.

Table 6

Ethnicity and Gender Return on Equity

Return on Equity	Minority Owner	Majority Owned		Female	Male
<-2.83	0.07	0.05		0.06	0.05
-2.82 to 0.01	0.24	0.20		0.23	0.19
0 to .23	0.22	0.25		0.21	0.26
.24 to 1.13	0.22	0.25		0.23	0.25
1.14 to 8.71	0.18	0.20		0.21	0.20
>8.71	0.06	0.05		0.05	0.05
Total	1.00	1.00		1.00	1.00
N	357	3725		890	3192
Chi Square	0.056			0.011	
Gamma	0.078			0.262	

IMPLICATIONS

The literature on corporate finance is well established. Small business finance literature has not been explored as well. This paper provides additional insight into how small businesses are financed and how they perform. Additional research into these topics is likely lead to new and better insights into small business finance.

For practitioners, it is important to develop a better understanding of small business finance and performance. This paper provides additional insight and can lead to further developments in small business finance.

This particular data set provides additional possibilities for further research and understanding of small business finance and performance. The authors recommend it to our colleagues.

CONCLUSIONS

The purpose of this research was to see if and to what extent debt is used to finance businesses and the differences that might exist between; businesses owned by younger less experienced owner compared to older more experienced owners; younger business and older businesses; female owned businesses compared to male owned businesses and minority owned compared to majority owned businesses. Based on the results of this research, there was not a significant difference between the level of debt for different age owners and different experience level owners. Younger businesses on the other hand had significantly more debt that older businesses, an unexpected result. There was no significant difference between the level of debt by minority and majority owned businesses, another unexpected result. Male owned businesses had significantly more debt than female owned businesses.

A second purpose of the research was to discover how well businesses perform, measured by return on equity, and the differences that might exist based on owner's age, experience, business age, gender and ethnicity. Businesses owned by middle age individuals had significantly better performance than either younger or older owners. There was no significant difference in the performance of businesses based on level of experience or younger and older businesses. Majority owned businesses had slightly better performance than minority owned businesses. There was no difference in performance between female and male owned businesses.

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QUALITY ASSESSMENT IN SMALL BUSINESSES: THE CASE OF DUTCH CULINARY RESTAURANTS

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ABSTRACT

Only scarce research material is available about quality definitions in the specific small business segment of culinary restaurants (Johnson, 2005, Gehrels, 2004, Michelin 2009). Defining quality in culinary restaurant small businesses deserves extended attention in order to further develop professionalism within this segment. For this research nine Dutch senior key-stakeholders were interviewed. They hold different viewpoints about quality but share certain elements. Most important determinants of quality were 'product quality' and 'service quality'. Offering information to potential customers about these two are very important in customer decision making. This research stimulates the quality discourse in the relatively underexposed segment of culinary restaurant small businesses.

Key Words: Small Business, Quality Assessment; Culinary Restaurants; Service Management

Background and justification

Several authors and researchers have given their opinion about quality measurement and the link with the service industry while there is some research about culinary restaurant small businesses. A two-sided opinion can be recognized. On the one hand authors and researchers stress the importance to increase the controlling *service variables* while on the other hand as the strengths of culinary restaurant small businesses *individuality* and *creativity* are identified being necessary to operate and survive. Standardization of service processes is a delicate concept when it comes down to culinary restaurant small businesses and would deserve further attention of researchers. Already in the mid 90's, Johnson, Tsiros & Lancioni (1995) express that service organizations are faced with uncertainty when trying to identify appropriate measures for service quality. In other research by Oh (1999), Soriano (2002), Johnson, Surlemont, Nicod, & Revaz (2005) and Hansen, Jensen & Gustafsson (2005) this opinion is reconfirmed. They all agree that organizational theories and (operational) processes in the service industry are in need for debate and refining to find a common basis as well as acknowledging the need for appropriate, customized quality defining and measurement techniques.

Stierand & Sandt (2007) stress the need for clarification of culinary service processes as well when they state that guests visiting culinary restaurant small businesses regularly have a high degree of uncertainty as they often lack the experience of assessing quality in a culinary restaurant setting. It seems reasonable that standardisation of service processes should also be applicable to culinary restaurant small businesses. Most commonly restaurant practitioners are expected to focus on their human potential such as the soft skills, human resources and material potential in order to increase process stability and quality of its resources (Wall & Berry, 2007). Soriano (2002) recommends to identify the influencing factors and their values to achieve quality service. However, Surlemont & Johnson (2005) address the "danger" of explaining quality criteria for restaurants: "one must be careful that the art of cooking remains and the more it is codified the more it might be seen to stifle and prevent creativity and discovery". Ottenbacher &

Harrington (2007) suggest that because within the culinary industry the service production and consumption are in progress simultaneously it will be important to develop quality standards as an organic model that is interdisciplinary in nature.

Relevance of the study

The aim of this research is to stress the importance of understanding basic theory about quality measurement systems in culinary restaurant small businesses. This research focuses on the possibility of mapping service quality concepts and dimensions into a *standard*. It helps students and restaurant practitioners to develop their thoughts about quality in culinary restaurant small businesses and is intended to generate practical applications. A discussion about standardization and process-organization within the culinary restaurant world is valuable. This research helps to clarify the potential of developing a more academic quality standard for culinary restaurant small businesses in the Netherlands other than the existing Michelin, Gault & Millau, Lekker and other popular quality guides.

QUALITY AND CULINARY RESTAURANT SMALL BUSINESSES

Is it possible to describe the quality of restaurants? The culinary restaurant small businesses in which the four senses of people (touch, taste, hearing, and scent) continuously adapt and change is probably one of the most difficult businesses to adopt an universal and specific explanation of quality. Within the restaurant industry in general there are several concepts (e.g. fast-food, snack bars and a la carte) available. The complexity of defining quality begins with the general belief that every concept is different in organizing. Every concept "designs" its own setting and presents itself in its own way, and is supported by certain companies and individuals that help, advice, control, influence and set rules regarding the "healthiness" of the particular concept. The complexity of describing quality in restaurants continues because there is a general belief that within every concept several *performing levels* can be recognized. These levels are created by, for example, the level of professionalism, design and assortment of products/ services. It might be a cliché to believe that high prices stand for high quality or from another perspective, high quality stands for luxurious products. Emotions and personal thoughts influence the perception of quality. Quality appears to be a "mysterious" topic. This research tried as far as possible to present an objective explanation about quality within culinary restaurant small businesses.

Historical perspective

Within the restaurant industry there is a substantial amount of research available regarding service quality from a customer's perspective (Svensson, 2006). However, the service provider's perspective together with the perspective of stakeholders is ignored in research investigations. The research based data on quality in culinary restaurant small businesses dealing with the diversity of multi-faced perspectives is underdeveloped. There are several key stakeholders that influence the discourse on quality in culinary restaurant small businesses directly and indirectly. These stakeholders are: culinary restaurant small businesses practitioners themselves (e.g. owners, chefs, service managers), culinary quality assessment organizations (e.g. Lekker, Gault Millau, Michelin), culinary associations (e.g. G 7), culinary journalists, hospitality & culinary educators, hospitality & culinary consultants, associations of professionals (e.g. Gastvrijheidsgilde) and other independent hospitality experts.

Culinary restaurant small businesses

It was in France that the first so-called 'culinary restaurant' was opened in 1765 (Surlemont & Johnson, 2005). Culinary restaurants are known as gastronomic, haute-cuisine, gourmet and fine-dining restaurants. This type of restaurant is (extremely) guest oriented and strives towards hospitality perfection in every way. The culinary restaurant-industry is characterized by a luxurious ambience in which the finest quality and most exclusivity food and beverages are served according to hospitality and dinner etiquettes. Culinary restaurant small businesses sell experiences. Their objective is to create a "show", a "wow-effect" and an "unforgettable experience". Within this sector, the higher the performance the higher the expectations will be. Metaphors like *moment of truth, critical incidents* and *added value* are often used to explain the most critical service situations in which expectations and perceptions are formed. Although only less than 1% of the Dutch restaurants are culinary restaurant small businesses, they play a vital role in the development of the restaurant industry as a whole; "the haute cuisine plays a key role in trend setting, image building and in setting quality standards for the industry as a whole" (Surlemont & Johnson, 2005).

The ultimate goals of culinary restaurant small businesses are to produce product quality and excellent service. For this, information about guest expectations and perceptions are a pre. For the guest's subjective opinion about quality expectations and perceptions makes the operation of service processes difficult. However, guests are only one category of the interested and influencing parties of culinary restaurant small businesses. At this moment culinary restaurant small businesses (in The Netherlands) are defined by at least three major culinary quality assessment institutions: Michelin, Gault Millau and Lekker Top 100 (Gehrels, 2004). These culinary quality assessment institutions are well-known and respected by the restaurant industry in the Netherlands and have several decades of experience and special (skilled) inspectors. The institutions use strict rules and indicators (which are not accessible for general public) in order to assess the quality of culinary restaurant small businesses.

Quality

Quality is a difficult topic to describe without referring to examples. Already before the start of the Christian calendar quality was known and used as a concept. Aristoteles (384 BC – 322 BC) said: *"quality is not a play, it's a habit"*. Until the 21st century numerous definitions and explanations about quality were created and most certainly this process will continue. In every industry a definition of quality regarding every specific output and process is designed. This can be concluded from the perspective of Garvin (1984) who presented five ways to approach the definition of quality: 1.the *transcendent (philosophical) approach*, 2.the *manufacturing (technical) approach*, 3.the *user-based approach*, 4.the *product-based approach* and 5.the *value-based approach*. The philosophical approach is rather vague and abstract; quality is defined as something superior and desirable. The technical approach defines quality in an objective manner; quality is/should be evaluated with technical standards. The user-based approach defines quality as the opposite of technical approach. Within this approach quality is seen as something subjective and is evaluated by individual perceptions. The product-based approach is seen as an objective approach which views quality as "a measurable set of characteristics that is required to satisfy the customers". The value-based approach defines quality in terms of costs. Definitions of quality quoted often are Crosby (1979): "conformance to agreed and fully understood requirements", Juran (1999): "fitness for purpose/ use", and BSN EN ISO 9001 (2000): "degree to which a set of inherent characteristics fulfils requirements".

Both concepts *quality* and *service* are interconnected. An explanation of *service quality* is just as complicated as the explanation of *quality* separately. Theory developed by Grönroos (2000) explores service quality from three approaches: "technical quality/ outcome"; *what* the customer actually receives, "functional quality/ outcome"; the *way* service is delivered, and "image quality"; the image of the service provider. Lewis (2007) explains managing service quality as an understanding of what is *meant* with service quality. The explanation of service quality should describe which determinants are key and how they can be measured, as well as service quality pitfalls and its recovery processes. Literature offers a variety of (slightly) different definitions and explanations about service quality. Definitions of service quality that are often quoted include Bitner, Booms & Tetreault (1990): "consumer's overall impression of relative superiority of the organization and its services" and Zeithaml, Bitner & Gremler (2006): "the gap between customer' expectations and perceptions. A customer will perceive quality positively only when the service provider exceeds his expectations".

Standardization

Management and measuring service quality with help of independent models and systems have been adopted from quality-control systems used in the manufactory industry. Although the service industry developed around the 1920's, the creation of measurement systems for service quality started several decades ago. Examples of service quality control systems are SERVQUAL (Parasuraman, 1988) and ISO 9000 standards and DINESERV (Stevens, Knutson & Patton, 1995). There are many more, relatively simple, quality control systems and quality assurance standards. It is concluded by several researchers (Seth, Deshmukh & Vrat, 2006 and Ladhari 2008) that there is no universal service quality control system. The content of systems varies according to the type of industry, company and location.

"Quality assurance" and "quality systems" are concepts used often in quality management theory and hold a broad perspective. The definition of quality assurance and systems are open-ended. Quality assurance can be described as *the belief that quality goals are reached* as quality systems can be described as *the control of quality*. Quality systems set a norm for the organization as a whole on how to operate. Lagrosen & Lagrosen (2006) explain more specifically *how* quality management can be organized. According to Lagrosen & Lagrosen (2006) quality management theory consists of three layers: values, models and techniques which can be seen as "steps"; from values to models to techniques; from broad to specific. Values and models are interrelated as well as models and techniques. Understanding the industry- and company values is essential to create models. This is a difficult process. An objective point of view is needed and is reached only when all perspectives are heard and understood (Lagrosen & Lagrosen, 2006, Svensson, 2006 and Ladhari, 2008). Values, in this context, are described as shared organizational principles. The development of models helps to "implement" these values to create organizational quality by means of concrete ideas. Ideas can be described as points of attention, critical points or any other kind of criteria set by the company. The use of techniques will help in executing these critical points.

The connection between quality management and values is described in terms of (quality) *concepts* and *dimensions*. Discussing service quality in a particular sector as the culinary restaurant small businesses is in need of a structured specification of items. Only *then,* support is given to them who discuss quality and reasoning will be possible. Lots of researchers have developed a set of items for discussion and measuring. Ladhari (2008) presents an overview of authors and researchers and their set of items (dimensions). In particular, Svensson (2006) and Wall & Berry (2007) specified service quality and connect to the restaurant industry very well. Svensson talks about service quality components and dimensions. Components can be defined as: *tangibles*, *intangibles* and *outcomes* whereby dimensions specify each component again in two sub-items: *explicit and implicit* tangibles, *interactive and interfacial* intangibles, and *actual and interpreted* outcomes. According to Wall & Berry (2007), service quality is judged by the use of three "clues": *functional* (technical quality of food and service), *mechanic* (the ambience, design and technical elements) and *humanic* (the performance, behaviour and appearance of the employees). All items within the set are essential for the discussion of quality. Namely, the items are interrelated and influence the evaluation of quality. For this research we chose to take Svensson's approach as the reference because it provided the possibility to interpret the output of the interviews and organize, categorize and structure it while being applicable both to the customers and –providers perspectives.

Standardization and culinary restaurant small businesses

There are several parties that influence, evaluate and show interest in the quality of culinary restaurant small businesses. (I) the *customers* (or "guests"). Restaurants need customers to survive and they have a major impact on the financial situation by generating revenue. Besides, customers have a major impact on the reputation of chefs and their culinary restaurants by *word-of-mouth communication* (Gehrels & Kristanto 2006). Soriano (2002) states that "dining out becomes an integral part of guests' lifestyle". Their expectations towards quality and service rise after every service encounter. (II) the *chefs, managers and owners* of culinary restaurant small businesses themselves because they influence the customer while being in the restaurant. (III) the *culinary quality (assessing) organizations* (CQO). There are several organizations operating within the hospitality industry that evaluate the quality of culinary restaurant small businesses.

The most well-known and accepted CQO's in the hospitality industry and especially the culinary restaurant sector are Michelin, Gault Millau and Lekker. The first two are operating in a variety of countries while the latter is only active in The Netherlands. Restaurants positively appraised by Michelin, Gault Millau and Lekker have achieved an excellence in service performance thereby creating unique culinary experiences. However, CQO's do not have publically shared standards for measuring quality; "not using quality systems ensures creativity and individuality within the restaurant industry and avoid standardization" (respondent's comment). The CQO's print and distribute restaurant-guides every year. These guides function as a signalling device for guests, restaurants, suppliers as well as other parties involved to reduce uncertainty. The responsibility of CQO's is to present reliable and trustworthy advice. The influences and impact of the advice made by CQO's are noticeable for restaurants very quickly and affect several stakeholders. It influences guests' restaurant choices and restaurants' style of cuisine, reputation, price levels, motivation and working atmosphere.

(IV) the *culinary associations* (CA). The so-called "G 7" (Gastronomic 7) is an association of seven gastronomic associations based in the Netherlands. All associations together in 2008 had 172 culinary restaurant members. Their goal is to improve and develop the level of gastronomy in general. They promote themselves as a "quality brand" for culinary experiences. (V) the *culinary journalists*. Culinary journalists have a tremendous impact on the definition of quality.

Their perspective and perception of activities in culinary restaurant small businesses results in publications for the interested audience. (VI) the *hospitality and culinary educators*. Their perspectives and thoughts are based on their own experiences as well as on what they read. Through educating future practitioners and hospitality management students in general they influence the definition of quality. (VII) the *independent hospitality experts and hospitality consultants*. Professionals in this category advise hospitality organizations about all kinds of service related topics.

Despite the distinction between these different key-stakeholders there is one of them that is linked to every other target group; "guests". Everyone professionally involved in the culinary restaurant sector is also confronted with his/her own guest experiences. Although it is unrealistic to order stakeholders by the level of importance, it must be mentioned that "guests" point of view is critical in order to be successful as a culinary organization. Furthermore, many culinary restaurant-owners/chefs/managers have the motivation and interest to fulfil other functions like culinary experts, culinary consultants and (board-) members of culinary associations. Again, this results in a combination of different stakeholders connected to *one* person. All parties mentioned above considered together provide an interesting, new and comprehensive picture of quality in culinary restaurant small businesses.

RESEARCH DESIGN

This research was organized within the qualitative research tradition being "multi-method in focus, involving an interpretive, naturalistic approach of its subject matter" as Denzin & Lincoln (2005) define it. The epistemological focus in this research is constructionist as formulated by Flick (2006), "it informs a lot of qualitative research programs with the approach that the realities we study are social products of the actor, of interactions and institutions". Easterby-Smith, Thorpe & Lowe (2008) emphasize the connection between a constructionist approach and qualitative methods whereas knowledge is constructed by the social interchange of the researcher and the objects to be researched.

Table 1. Interviewees and their background

Stakeholder Category	***Organization***	***Role interviewee***	***Characteristics of background interviewee***
1.Culinary Associations	*Alliance Gastronomique*	*Important Opinion Leader*	*35 years entrepreneur in small business (10 years 2* Michelin) two-times Chairperson of the leading association of culinary restaurant small business in The Netherlands.*
2.Culinary Quality Assessing Organizations	*Michelin Benelux*	*Management of Publications*	*Over 20 years Michelin Inspector and since 2007 Chief Inspector of Michelin Benelux for culinary restaurant small businesses.*
3.Culinary restaurants	*Restaurant De Librije (3* Michelin)*	*Manager*	*Voted most talented hospitality professional in culinary restaurant business in 2009*
4.Culinary catering	*Van Eeghem catering*	*Owner*	*Operated for 30 years a Michelin * restaurant business.*
5.Hospitality Education	*Stenden University*	*Lecturer Strategic Management*	*10 years working in hospitality small business and since 1983 in hospitality management education.*
6.Culinary Education	*Stenden University*	*Lecturer Gastronomy & Culinary Consultant*	*Former 2* Michelin chef, worked for 20 years in culinary restaurant business before becoming lecturer gastronomy in 1986.*
7.Culinary Education	*Stenden University Hotel*	*Executive Chef, & Culinary Consultant*	*Former 2* Michelin chef, worked in a great diversity of culinary restaurant small businesses in the past 35 years.*
8.Culinary Journalism	*Bouillon Magazine*	*Journalist on Culinary Quality*	*Operated small business (cafe-bars) before starting career as culinary journalist in 2000. Since 2003 chief editor of culinary journal.*
9.Professional Association	*Gastvrijheidsgilde*	*Important Opinion Leader*	*50 years running small businesses in the hospitality industry, 5 years chairman of Association of Hospitality Professionals*

METHODOLOGY AND DATA COLLECTION

Grounded theory as defined by Corbin & Strauss (1990) is appropriate for this particular type of research where it serves a process of discovery which grounds theoretical implications in the data found. A qualitative research approach with a grounded theory methodology would favour the use of semi-structured interviews as an applicable research instrument. The research was done in The Netherlands. The researchers are Dutch nationals and were able to travel around for data gathering without any difficulties while understanding the culture and history of the country as well as the professional background of the interviewees. The research concentrated on nine senior key-stakeholders who are dealing with the "quality" of culinary restaurant small businesses located in the Netherlands. Each of the interviewees held very senior positions within or connected to the culinary restaurant world and can be considered as experts in their field who can *speak with authority about the topic* on behalf of the stakeholder category they were approached for.

Semi-structured interviews were chosen because this method offers the opportunity to meet with the key stakeholders face-to-face. Burton & Bartlett (2005) emphasize the strenghts of this research method as:

> "interviewing is a research method adaptable to different situations and respondents, non-verbal clues can be picked up (other than in questionnaire research), unexpected lines of inquiry can be followed which makes the method flexible, the qualitative data is expressed in the respondent's own words. (p. 126)"

Arksey & Knight (1999) confirm the value of interviewing as an important approach to social sciences reseach because face-to-face interviews can provide data on understandings, opinions, what people remember to have done, attitudes and feelings. Since in this research it was very important to hear the perceptions and opinions of the experts involved in this relatively under-researched field of small businesses a choice for interviewing was justified. The interviews were recorded with a digital voice recorder and transcribed by the researchers.

FINDINGS

Interview results

A summary of the interview-outcomes is presented below with the main points discussed during the interviews.

The ultimate goal of culinary restaurant small businesses…
The ultimate goal of culinary restaurant small businesses is multi-faceted. There is a general belief that restaurant owners/ entrepreneurs start and operate their business because of a financial reason. As one interviewee states: “there is no one who will start a culinary business just because of ideology”. Making money and profit is the most important goal of culinary restaurant small businesses. A second reason which is mentioned by many interviewees is: to increase and improve the ego of the “artist”. The owner/ entrepreneur hopes to gain respect and recognition from guests by presenting his/ her passion. People start culinary restaurant small businesses because they like what they do and are good at it. A third reason is: giving something “extra” to guests. Staff in culinary restaurant small businesses are trained and skilled in pampering guests, let them feel special, and amaze people with something which is unique and not easy to experience a second time. It is important that guests get excited, to entertain them and make them happy, however, in a different way every time again.

The meaning of quality in culinary restaurant small businesses…
The meaning of quality in culinary restaurant small businesses is complex. The explanations about quality given by the interviewees derive from different perspectives. However, all interviewees agree that quality is defined and judged both by guests and restaurant-staff; both decide what they *perceive* as quality. Although restaurant-staff *hope* their guests have some understanding of the culinary culture, the interviewees *expect* from owners to know what quality is and what is not. The interviewees agree that quality is defined and judged by comparison and the level of consistency of the overall restaurant product. They agree as well that explaining quality consists of several aspects, like product (food and drinks), ambience and service. The overall opinion is that product and service are both most important as expression of quality. The question “what is quality” leads to a discussion. A part of the aspects which define and express quality can be described in general and other parts cannot. The interviewees share the opinion that the aspect “product” can be assessed according to quality-standards but only as far as the product is handled by restaurant-staff (kitchen and service staff). The rest of the aspects cannot be assessed by applying quality standards because the interviewees agree that the perspective of guests is crucial and cannot be standardized or categorized. The interviewees agree that the “emotion” of guests and restaurant staff is unique and therefore assessing quality is difficult or even impossible within the culinary sector. Some interviewees state that the operation of culinary restaurant small businesses consists of creative, personal and “one of a kind” processes. These processes are created by the interaction of all aspects (which define and express quality) interconnected all the time. Some interviewees state that quality develops constantly and is in a ongoing state of development. On the one hand the number of products which can be used is never as high as before, on the other hand it is going to be more difficult to get top-quality products because everything is going to be more perceived as “standard”. People get used to a certain “taste” and that will become a norm or standard. As some believe this development will continue and increase, others believe the maximum of quality has already been reached. There are different opinions about when quality is measured and judged. It is the dominant opinion that the guests’ quality perspectives are set before arriving at the restaurant and re-visited &

evaluated after the visit.

The values within the organisation of culinary restaurant small businesses…
One interviewee states that the level of quality one wants to reach and present depends on one's education, pride, personal and financial goals. From the interviewees' perspectives we identify two categories of values: personal/ staff related values and operational/ business values. The interviewees share the opinion that a particular attitude is crucial. As one interviewee states: "the restaurant industry is a people-profession in which social skills are key". Within this people-profession the interviewees agree that *people skills*, showing emotion and being hospitable are important factors. Therefore it is essential that staff members like the job they do. Showing passion and effort are critical to work in this environment. A certain level of personal pride to work within this sector is needed as well. The most important operational/ business value is the understanding of the "relationship" between price/ quality.

The concepts of culinary restaurant small businesses…
Interviewees unanimously agree that all elements in the concepts of culinary restaurant small businesses must be in harmony and that the elements are dependent on each other to present the best "product" possible. However, the individual concepts as explained by the interviewees show variation and especially the hierarchy definition of "most important concepts within culinary restaurant small businesses" differs among interviewees. The different concepts mentioned by the interviewees in random order are: product, service, interior, ambience, location, price/quality and atmosphere. Some interviewees share the opinion that the actual product (food and drinks) comes first. Other interviewees share the opinion that service (staff) is just as important as product, referring to the opinion that one needs the other and that good service staff performance has an impact on the way customers perceive the products. Some interviewees state that staff is the connecting factor between all other concepts. One interviewee states that if both product and service are in harmony than ambience (another concept) does not matter that much anymore. Another interviewee states that not the core products only are most important, but the whole experience referring to the combination of product (food and drinks), location, ambience and service. This latter opinion testifies of a more holistic approach towards the concepts of culinary restaurant small businesses.

The dimensions of culinary restaurant small businesses…
The interviewees talked about three dimensions of culinary restaurant small businesses and their attributes that were categorized as followed: **1. Tangible dimensions** - Fresh products - Products of the season **2. Intangible dimensions** - Representative presentation - Professional appearance - Modesty in service behaviour - Interactive mode of approaching the guest

- Communication skills of service staff - Sympathizing with the guest - Friendly behaviour by the service staff - Knowledge of products by all staff - Passionate attitude towards the service by staff - Ambitious managing of the restaurant by the entrepreneur/management **3. Outcomes related dimension**. - Price/ quality balance as perceived by the guest

The opinion about quality standards…
In general, the interviewees hold a positive opinion about quality standards. Quality standards and the explicit process of them being assessed have a lot of (positive) influence on the culinary sector and for interested parties. According to one interviewee quality standards will be generally more accepted in the near future as well. Quality standards will help to create a clear picture of the restaurants, however, it should not give any judgment because that is something which should be reserved as a right for the customer. Not every interviewee holds a positive opinion about the phenomenon as one stated that "*setting quality standards in culinary organizations is almost impossible. Products (food and drinks) used are not standard and quality depends on the person who 'works' with it. Quality can be judged only as 'good' or 'not good'. Even if it was possible to standardize culinary processes, it would become too academic. Within this profession creativeness and personal influence are 'key'. As soon as one is going to work with products, one has to let go of the standardised quality norm and it becomes one's own quality norm, which is judged by the guest*". The latter opinion was expressed by a respondent with a "kitchen background".

ANALYSIS

In order to start describing quality management in culinary organizations and to present a logical structure of information about quality management it is crucial to clarify the principles that form the foundation for quality standard systems. We mainly focused during the interviews on concepts, dimensions and values as developed by Svensson (2006). Interpretations of quality concepts and dimensions are based on the interviews with the seven stakeholder categories and the different perspectives (although sometimes inter-connected) that they represent:

(I) *Customers* (or "guests")
(II) C*hefs, managers and owners* of culinary restaurant small businesses
(III) C*ulinary quality (assessing) organizations* (CQO)
(IV) C*ulinary associations* (CA).
(V) C*ulinary journalists*.
(VI) *Hospitality and culinary educators*.
(VII) *Independent hospitality experts and hospitality consultants*

A definition or at least a description of quality is needed to start producing useful information. As can be concluded from the interview results a unified specific definition of quality could not be identified. However, the interviewees described *quality* in several ways. The interviewees described *who* assesses quality. All interviewees agreed that both guests and restaurant practitioners assess quality. The interviewees described *how* quality is being assessed. The interviewees agreed that quality is assessed by comparison and the level of offering the overall culinary restaurant small businesses produce consistently. Finally, the interviewees agreed that quality *consists* of several concepts and elements. Although the level of importance of each concept differs per interviewee, the interviewees agree that all concepts should work in harmony to *produce* quality. As all interviewees only in a general sense agree about quality it must be concluded that providing a specific definition of quality in culinary restaurant small businesses will be challenging.

By approaching the findings from different angles we tried to find which concepts are most important according to the different stakeholder categories. The concepts mentioned by the stakeholder categories are: product, service, interior, ambience, location, price/quality and atmosphere. The opinions about the hierarchy/rank ordering of the concepts are different among the interviewees. However, the concepts *product* and *service* are seen as most important, as some interviewees place product on top while others place product and service equal both on top. Most attention during the restaurant experience is perceived as given to product and service. One interviewee stated that if product and service are in harmony, the ambience is not that much important *anymore,* as others still stress the importance of ambience and other concepts.

Assuming that other concepts might not be that important as product and service still the interviewees agree that location, ambience, atmosphere and price/ quality, even if they have a small share in the restaurant experience, can have critical impact on the restaurant experience as a whole, positively and negatively.

During the interviews many dimensions were mentioned. It may be concluded that the intangible dimension is the most important as most examples were presented in this dimension. This is not surprising if one realizes that the concept “service” is very important and usually strongly linked with particularly the intangible dimensions. Linking to the literature on “occupational behaviour” will help to categorize these dimensions even further. When comparing to Furnham’s (1997) approach that presented main factors predicting occupational behaviour, it can be concluded that stakeholders add more value to the elements “motivation”, “personality traits” and “intelligence” than the elements “ability” and “demographic”. This makes sense as several interviewees share the opinion that a “hospitality attitude” cannot be learned and is critical to the quality experience of customers. Several interviewees share the opinion that social background, grades and degrees of hospitality professionals (management and staff) are not that important that the *willingness to learn* actually is.

The interviewees share the opinion about the tangible dimension and the outcome dimension. Within the tangible dimension, fresh and seasonal products are seen as most important. For the outcome dimension, price/ quality is seen as most important. The connection and relation between concepts and dimensions is as follows; the intangible dimension is related to the service concept, the tangible dimension is related to the product concept and the outcome dimension is related to all concepts. For the interviewees it is clear what needs to be done to focus and emphasize on the dimensions and concepts. They agree that learning and improving the use of dimensions means gaining knowledge about psychology and empathy towards the customer whereby “reading guests” and “face reading” were mentioned. Interviewees stress the importance of the need to try to adapt to the same level of how their guests think and act. It will help restaurant staff to know what guests really want and when and how. A method suggested by the interviewees is: “to engage in extensive interaction with guests”. The interviewees stress the importance for service providers in culinary restaurant small businesses to do their “homework” regarding the marketing mix as well. The marketing mix is mentioned by the interviewees because of the general opinion that owners/ entrepreneurs do not focus enough on the marketing mix therefore ignoring its essential value for “survival”.

Finally it is important to consider the personal aspect and motivation of the practitioners involved in culinary restaurant small businesses and where this connects to quality systems. A key-word which is related towards practice and the possible standardization of quality is *documentation*. Documenting quality concepts and quality dimensions should be available for the culinary restaurant practice. The documentation should refer particularly to the subjects psychology and emotion as was mentioned by the interviewees. Psychologists study human behaviour whereby the “individual” is key. The behaviour of the people working in culinary restaurant small businesses and their personal characteristics are of great importance for the success and the way of making quality in culinary restaurant small businesses explicit. Like for every other professional job, kitchen- and service staff need several personal characteristics in order to positively influence the organization and to deliver quality in the culinary restaurant.

The personal involvement and responsibility for every operational and strategic decision is experienced continuously particularly by the restaurant owner or chef and the consequences of their decisions are noticeable directly by employees, guests and other parties involved.
Motivational factors and values differ per individual and will change with the individual’s age, personal life and career phase. Defining characteristics for the “ideal practitioner” is impossible or to say the least very difficult. Depending on the working-situation different personality traits and values are needed and expected. As Legoherel et al. (2004) suggests that “personal values and objectives can not be dissociated from the organization’s objectives and that behaviour and personality traits direct the organization and therefore the success or failure of the organization”. Attitudes and motives are interrelated but it would be incorrect to suggest that someone’s behaviour can be predicted if the attitude is known. The way one behaves is not always in line with one’s motives. In the final section of this research paper we formulate our conclusions.

IMPLICATIONS AND CONCLUSIONS

It was an important observation in this research that the amount of academic literature that can be found related to this specific topic of quality definition in culinary restaurant small businesses is rather limited although the array of sources dealing with the subjects “quality management” and “restaurant industry” separately is much more extended. It would be fair to acknowledge that restaurant practitioners do not have the amount of written information and usable tools to implement quality management systems and standardize quality as may be needed. Several authors stress the importance to increase knowledge in this field and provide more useful and specific information and tools which was also confirmed by the interviewees in this research.

First, the general conclusions and recommendations are presented, followed by a discussion of the main research issues.

- The ultimate goal for culinary restaurant small businesses is diverse and consists of a combination of several sub-goals. From speaking to the stakeholders the overall conclusion is that restaurant- practitioners enjoy the work they do and see it as a logical effect to make money out of their passion.
- The meaning of quality remains multi-faceted and a general unified definition is difficult to present. However, from different perspectives the definition of quality can be described in general. Quality is subjective; some parts of quality may be standardized while others seem to be impossible to be standardized.
- It is essential for restaurant-practitioners to be consistent in their level of presentation and performance. At the same time restaurant-practitioners have to be creative and innovative regarding their presentation and performance in order to keep on attracting their guests. Guests need to be attracted in a different way every time again, which means that restaurant-practitioners need to change their creative and innovative processes on a regular basis. Within the culinary restaurant industry, guests compare and expect a certain level of quality which makes the *way* of presenting quality crucial.
- It becomes more difficult for restaurant-practitioners to be creative with food products. The number of restaurants increases constantly which means that competition grows rapidly. Therefore the "uniqueness" of a restaurant (e.g. cooking style) does not sustain for long. The importance and consideration of hypes and restaurant themes by the practitioners becomes more and more important to excite the customer.
- A good and appropriate "hospitality attitude" is critical when working in the culinary restaurant business. It can be concluded that *people skills*, *showing emotion* and *being hospitable* are important factors within the hospitality attitude.
- Different restaurant-practitioners have different thoughts about concepts. As "product" and "service" are valued as most important by most interviewees, the level of importance of other concepts remains uncertain.
- It can be concluded that "intangible dimensions" are valued as most important as all interviewees mentioned lots of intangible dimension in relation to other dimensions. Intangible dimensions are strongly associated with "service concepts".
- As guests compare quality, they are in need of information. From this research it can be concluded that informing guests with help of magazines and reports (e.g. Michelin, Lekker, Gaul Millau etc.) is two-sided. On the one hand several interviewees state that the more information is sent to guests it will help them to choose a restaurant while some interviewees stated that a minimum amount of information is enough for guests' decisions. There is a shared opinion that culinary restaurant small businesses are visited by guests "just once in a while", some restaurants more than others. Guest who have experienced a visit to a culinary restaurant previously are better able to create a picture of a culinary restaurant in advance with less information than guests who visit a culinary restaurant the first time.

DISCUSSION

To become unique as a culinary restaurant is one step, to remain unique is definitely another step. Being a prominent restaurant in the culinary segment is influenced by the opinion of several groups of interest. Their opinions are variable and change regularly. Situations during the actual restaurant experience, as well as pre-experiences formed by advertisements and word-to-mouth create an impact on opinions. It is very hard to describe the level of impact. People are led by emotions. Emotions are influenced by others. It doesn't matter how one feels about a particular restaurant; there is always a chance to attract a person, because people are in need for confirmation. With help of written and verbal information people can create a certain picture about a restaurant. Guests like to experience something mysterious, something new and exciting. The expectation is influenced by lots of factors and therefore highly vulnerable for disappointment. As long as one is not "fixed" towards service procedures and pre-formed thoughts, the experience can be more positive. An opinion about a restaurant can not be ascribed to only one concept. The restaurant experience and its quality are shaped by all concepts and dimensions together. This conclusion is confirmed by previous research (Wall & Berry, 2007). They state that the concepts "service", "product" and "location" are all important in influencing the expectation of interested parties. However, as stated in their research and confirmed through this research, focus is importantly on intangible dimensions regarding quality perceptions. All concepts should work in harmony and if they are not, it would be wise for the restaurant operator to focus on intangible dimensions.

A description of quality is personal and therefore always open for discussion. On the one hand people like to describe their perception of quality and inform everyone who is interested. On the other hand people know that different thoughts, emotions and situations mean different perceptions. So, why are people still using the word quality in the culinary industry? Is it necessary? As found from the literature, researchers state that culinary art is personal and in need for creative processes. This would mean that no one is able to comprehensively use the word "quality" in describing processes in culinary restaurant small businesses. This might indicate that no one is actually *allowed* to use the word quality. Everyone who tries to give a description of *quality in culinary restaurant small businesses* will directly experience response from others that might add something useful or not at all. Describing quality in culinary restaurant small businesses in general is not possible but using dimensions and concepts will make it a lot more understandable. Therefore we suggest to look at quality standards as not only being a list of subjects that restaurant-practitioners can check but more importantly as a line of thought that practitioners in culinary restaurant small businesses should be aware of. The knowledge that restaurant practitioners can gain through this defining of quality will help in operating their business while not obstruct their own opinion, thoughts and creativity. Emotion will remain important at the centre of good culinary restaurant offering.

SUGGESTIONS FOR FURTHER RESEARCH

As can be concluded from this research, the "culinary restaurant world" will benefit from the provision of information regarding the subject "organizational and occupational behaviour" and its link to psychology. More research is needed into this subject area in the future and topics from this perspective might be; introducing relevant literature for restaurant-practitioners to study and let them become more aware of the difficulty of occupational behaviour, introducing graphical models and useable tools from the research field of psychology that can assist to categorize and standardize personal behaviour and emotion.

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APPENDIX 1. RESEARCH INSTRUMENT: INTERVIEW QUESTIONS

Questions asked to the entrepreneurs in the research to define the profile of their small businesses.

1. When did you start your business?
2. What are your ambitions for the future for your business?
3. What would you mark as special or significant in the development of your business?
4. Which work experience did you have before starting your business?

The next few questions were directly related to the research questions and were asked to identify the 'story line' of the different opinions about 'quality in the small businesses i.e. culinary restaurants'. The intention was to see if a 'standard for defining quality' could be described.

5. Can you describe what the most important goal is of culinary restaurant small businesses?
6. How would you define 'quality in culinary restaurant small businesses'?
7. Is there in your opinion a relationship between 'quality' and 'organizational culture'?
8. Which values would you find to be important is operating culinary restaurant small businesses?

The next questions were about the 'concepts' and 'dimensions' of culinary restaurant small businesses.

9. Could you list and describe the most valuable concepts found in culinary restaurant small businesses?
10. Can you describe the most valuable dimensions in culinary restaurant small businesses?
11. How would you define the influence of quality standards for actors involved in experiencing culinary restaurant small businesses?
12. Do you think it would be feasible to define a unified quality standard for culinary restaurant small businesses?

BECOMING AN EXPERT: TRANSFER AND GENERATION OF EXPERTISE IN THE COURSE OF THE SBI-GUIDED STUDENT CONSULTING PROCESS

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ABSTRACT

Problem-based learning (PBL) is defined as challenging students with ill-structured problems that defy simple, formulaic solutions while limiting the role of instructor to that of a facilitator. In contrast, we contend that due to complexity and enhanced responsibility associated with SBI-guided student consulting assignments, instructors need to focus on their role as experts responsible for the process of expertise transfer and generation through student-instructor interaction.

INTRODUCTION

The Small Business Institute (SBI) provides guidelines to instructor-led student consulting teams. Such teams offer consulting to small, medium-sized, and even large businesses (Brzovic & Matz, 2009) and operate at hundreds of universities in the United States (Heriot & Campbell, 2002). Student consulting is similar to professional consulting in the way the consulting process is structured and managed (Cook & Belliveau, 2006). However, it is also part and parcel of an educational process defined as active learning (Bonwell & Eison, 1991; Heriot et al., 2007; 2008) or problem-based learning (PBL) (Barrows, 1996; Kloppenborg & Baucus, 2004). Active learning oriented courses “ask students to participate in constructing their own knowledge through discussion, role-play, simulation, problem-based learning, and other methods” (Powner & Allendoerfer, 2008: 75). In turn, PBL utilizes “real world, simulated, contextualized problems of practice to motivate, focus, and initiate content learning and skill development” (Dunlap, 2005: 66).

Defined as cognitive apprenticeship (Dunlap, 2005), PBL is facilitated by the instructor seeking to stimulate students’ cognitive abilities and enhance their self-efficacy (Hmelo-Silver & Barrows, 2006). Studies have shown that it may be challenging to incorporate PBL into the learning process as instructors “often underestimate students’ capabilities or what students can learn and accomplish when appropriately challenged” (Kloppenborg & Baucus, 2004: 611). In our opinion, the opposite could also be true: instructors may underestimate the cognitive pitfalls underlying PBL, rely too much on students’ ability to learn independently and fail as a result to transfer their expertise to students. Delegating problem solution to students may work in the classroom but turn out to be counterproductive in real-world situations. In the course of SBI-guided consulting, student teams encounter genuine conundrums that no one including the instructor knows how to resolve. These are not simply ill-structured problems specially designed for the purposes of PBL, but bona fide dilemmas whose solution is frequently critical to the survival of the client’ business. Moreover, the success or failure of student consulting projects may affect the reputation of the institution hosting the SBI, the SBI, and SBI-based programs nationwide. This is why instructors, as we argue in this study, need to enhance their role as experts, and focus on how to perform this key role well so that students could grow to become experts.

Because of the inherent complexity of problems faced by student consultants, transfer of expertise from instructors to students is requisite. Importantly, studies have shown that experts have a cognitive edge over novices in problem representation, i.e. adequate construal of the problem, problem structuration, strategic choice, and other areas (Chi, 2006). Due to cognitive disadvantages of students as novices, the success of student consulting is predicated on effective transfer of expertise from instructors to students. Besides, expertise transfer is not enough to make student consulting successful. Due to the difficulty of understanding and resolving consulting problems (Schein, 1995; 2003), only generation of new expertise in the process of instructor-student interaction and collaboration may allow resolving client's problems. Unfortunately, we still know little about the critical aspects of instructor involvement into the student consulting process, and how to make the process of instructor-student interaction more effective. This is why additional studies are needed into the subject of effective expertise transfer from instructors to students as well as expertise generation by way of successful instructor-student interface. Such research could enhance our understanding of how to make instructor-student interaction more advantageous for students involved, clients served and instructors as professional learners. The suggested direction can be useful from a practical standpoint by helping make student consulting more effective, increasing its economic impact in the area and facilitating client recruitment. To this end, this paper focuses on how instructors may enhance the efficacy of student consulting by effectively managing expertise transfer and generation.

ACTIVE LEARNING, PROBLEM-BASED LEARNING AND STUDENT CONSULTING

Research on student consulting has used active learning and PBL theories to explain the cognitive advantages of field-based cases (Cook, 2000; 2002) and student consulting compared to more traditional educational methods such as lecturing or a mix of lecturing and cases (Kloppenborg & Baucus, 2004; Heriot et al., 2008). Active learning (Bonwell & Eison, 1991; Bonwell, 2003) techniques are described in the literature as "any instructional technique which requires students to apply or process content as part of the learning experience. This includes such diverse methods as case studies, simulations, service learning, computer-mediated activities, and other forms of experiential education; problem-based learning…; the use of film as an application or context of concepts; group projects, in which students learn from and teach each other; and discussion, which may be paired with any of the above or used independently" (Powner & Allendoerfer, 2008: 76). PBL represents one of the principal aspects of active learning that has blossomed into a distinct theory and teaching methodology. It is defined as "an active learning method based on the use of ill-structured problems as a stimulus for learning" (Barrows, 2000; Hmelo-Silver & Barrows, 2006: 24). Ill-structured problems "do not necessarily have a single correct answer but require learners to consider alternatives and to provide a reasoned argument to support the solution that they generate" (Hmelo-Silver & Barrows, 2006: 24). PBL may be used in conjunction with project management techniques to stimulate student learning (Kloppenburg & Baucus, 2003; 2006). Although the goal is to teach students how to become independent and self-sufficient learners, PBL specifies an important set of roles for the instructor. Such roles, however, are typically geared toward facilitation of the student learning process (Kloppenburg & Baucus, 2003; 2006).

PBL is readily applicable to the area of SBI-guided student consulting for businesses that present inherently ill-defined problems defying simplistic formulaic solutions. At the same time, student consulting poses significant challenges compared to controlled classroom environments. Because the problems are known in advance to instructors, are purposely designed at a certain level of complexity and target particular audiences, utilizing them for education purposes may be relatively easy. In contrast, clients and instructors may experience cognitive difficulties in defining and categorizing or structuring problems encountered in consulting assignments, i.e., it is often hard to determine what constitutes a problem much less how it may be resolved (Kilmann & Mitroff, 1977; 1979). Furthermore, student consulting assignments are different from class discussions of ill-structured problems simulating real-life situations because of the possibility that erroneous approaches adopted by the team could result in economic losses for the client.

In the course of PBL-oriented student consulting, instructors and the SBI take responsibility for the quality of provided advice. Although neither students nor instructors get paid for their work as SBI consultants, many schools charge businesses considerable fees for providing consulting advice that may run into thousands of dollars. As such, student consulting services essentially compete with advice provided by independent professional consultants. In fact, students coming to the first interview are often told that a professional consulting team has recently completed its report and sometimes may even gain access to such report. While clients understandably desire to get their money's worth, students, at least initially, may not have the resources to provide a consulting service to client. It is therefore the instructor's responsibility to organize the PBL process that delivers results. The cognitive difficulties of this endeavor cannot be overstated. Consider that within an ordinary semester, i.e., three months and a half, students need to (1) to get to know an industry they initially do not know anything about; (2) develop familiarity with a particular business and company and understand its problems as if these were students' own problems. Moreover, students are also supposed (3) to become competent in a particular area of knowledge such as strategy or entrepreneurship and (4) to master the art of consulting.

The intensity of this multi-dimensional learning adventure crammed in a regular academic semester when students may also be taking other classes and could be fully employed is truly overwhelming. Therefore, it is unrealistic to expect that instructors may forgo their role as experts, rely on students' ability to learn independently and merely act as facilitators. The cognitive challenge of managing the student consulting process appears to be underestimated and downplayed in existing research (Kloppenburg & Baucus, 2003; 2006; Brzovic & Matz, 2009). Based on authors' experience in teaching dozens of SBI-guided consulting classes, students may not just feel some initial frustration and confusion described in prior studies (Kloppenburg & Baucus, 2003; 2006) but rather be prone to downright anxiety, panic, self-doubt, insecurity, anger and at times even depression. Often, students fear that they are not qualified and competent to serve the client. This flipside of the student consulting process magnifies the instructor's challenge.

The roles of the instructor conducting a PBL-oriented course have been defined in prior research as follows: "Instructor acts as facilitator, providing assistance, creating learning environment, and encouraging critical evaluation of ideas; instructor provides essential resources" (Kloppenburg & Baucus, 2006: 613). This included performing the following functions: (1)

Provide readings, (2) make past project reports available, and (3) ask critical questions of teams; (4) conduct initial 20- to 30-minute discussion of projects in each class and cover problems being tackled, solutions developed, upcoming challenges, etc.; (5) turn student questions back to the class to avoid acting as content expert; (6) provide mini-lectures of key concepts and work through problems to illustrate applications in one context, followed by teams working through new problems and sharing solutions and learning; (7) provide consultation time in class; require client organization to have project advisor available for students" (Kloppenburg & Baucus, 2006: 613).

While these are all excellent instructional techniques, they may not suffice to assist students in resolving the inherently challenging problems of organizational development. Instructors need to partner up with student teams to wrap their heads around complex problems. Such problems are not ill-structured on purpose as they often are in a regular classroom situation. Instead, such problems are inherently challenging in the sense that neither instructor nor students or clients may know how to resolve them and are even uncertain whether or not such problems have been correctly identified in the first place (Kilmann & Mitroff, 1977; 1979; Schein, 1995). Hence, instructor-student interaction is critical in order to make the student consulting process work.

Experts and Novices and Expertise Transfer and Generation

Given the discussed pitfalls of the student consulting process, it would be unrealistic to assume that students could simultaneously develop expertise in many complex areas of knowledge and project management without receiving sufficient assistance from the instructor. The role of the instructor as expert is critical in teaching students how to appropriately structure their consulting process and what knowledge management activities need to be conducted. Individuals who have developed over the years both profound knowledge of a certain area and the ability to apply such knowledge to achieve practical results are known as experts or specialists. Experts are often called to provide advice to beginners, or novices, as well as outsiders based on their combined theoretical knowledge and practical knowhow that jointly constitute expertise. In the literature, a novice is described as "literally, someone who is new – a probationary member. There has been some, but minimal, exposure to the domain" (Hoffman et al., 1998: 132). In contrast, an expert is characterized in laudatory terms as "the distinguished or brilliant journeyman, highly regarded by peers, whose judgments are uncommonly accurate and reliable, whose performance shows consummate skill and economy of effort, and who can deal effectively with rare or 'tough' cases. Also, an expert is one who has special skills or knowledge derived from extensive experience with subdomains" (Hoffman et al., 1998: 132). Experts are different from novices in that they possess stocks of knowledge; i.e. quite simply, experts tend to know more than novices (Bedard & Chi, 1992). This allows experts to detect a greater amount of information than novices by simply taking a casual look at the situation. Experts also enjoy greater recall than novices. Thus, chess experts remember more than novices from a chess position (Chase & Simon, 1973). Such superior memory can be explained by that experts are able to categorize a situation more fittingly than novices. Experts are able create an accurate representation of a problem based on their theoretical and practical knowledge whereas novices often categorize the same situation inappropriately as they focus on less relevant or surface characteristics.

Overall, experts do better than novices in (1) generating an optimal solution and doing it faster and more precisely than novices; (2) detecting features that novices may overlook and discovering the deep structure of a situation that novices usually miss because they do not categorize the situation correctly; (3) establishing suitable domain-specific constraints to the problem that helps develop an adequate problem representation which facilitates, in turn, quantitative rather than purely qualitative analysis of the problem at hand; (4) self-monitoring and establishing the limits of one's cognitive abilities: what they can or cannot do; (5) choosing more appropriate strategies and applying them more effectively; (6) using a great variety of resources in a more opportunistic or pragmatic way; and (7) exercising cognitive effort with greater ease, control and automaticity (Chi, 2006: 23 – 24). Despite substantial cognitive advantages, experts also exhibit a number of shortcomings that could make them inferior to novices.

Specifically, (1) experts' expertise is domain-limited; (2) experts are notoriously over-confident; (4) experts tend to gloss over the details while seeking to unveil the deep structure underlying a concrete situation even though some external cues could provide meaningful insights; (4) experts are context-dependent (relying too much on familiar contextual cues); (5) experts are less flexible in adjusting to the rules of the game; and (6) experts are prone to professional biases and preconceived opinions (Chi, 2006: 26 – 27). Such differences between experts and novices are most salient when they deal with an ill-defined problem, i.e. "a problem whose structure lacks definition in some respect (initial state, state of permissible operators, or goal state)" (Bedard & Chi, 1992; 136). To make an ill-defined problem easier to solve an expert exercises special effort to develop a fitting problem representation and add domain-specific and general constraints to a problem, that is, essentially, uses special techniques to redefine a problem (Bedard & Chi, 1992; Chi, 2006) and subsequently applies suitable strategies to resolve it.

During the student consulting process, instructors must act as experts for two reasons. First, instructors are well familiar with theories that students are supposed to learn, for instance, in the areas of strategic management and entrepreneurship. Second, instructors usually teach numerous student consulting classes, and therefore, can rely on their own experience in teaching a consulting course and interacting with the client. Third, many instructors are actually professional consultants in their own right or at least have accumulated expertise in the area of consulting. Fourth, the instructor must act as expert in order to help students, in turn, to become experts.

It is important to realize, however, that students may possess greater expertise in some areas than the instructor. For instance, MBA students may hold important positions in their companies such as CFOs, CIOs and CEOs and have greater expertise than the instructor in the areas of operations, accounting, marketing and even strategic decision making. An instructor teaching entrepreneurship may equally encounter students that have created successful businesses in the past. Furthermore, students may turn out to be quick learners and as they spend a considerable amount of time working on the project they essentially become experts in this line of business and specific firm environment. For these reasons, not only can the instructor help students acquire expertise but the students can also help the instructor enrich their expertise. Given that the instructor and students have complementary stocks of knowledge and skills and that the instructor cannot spend as much time working on a project as the student involved, collaboration between instructor and student is critical. The goals of such interaction are expertise generation, sharing, transfer and regeneration based on new data and conceptual analysis. Due to the cognitive advantages of the instructor as expert and the goal of transferring instructor expertise as well as generating new expertise in the process of instructor-student interaction, we will subsequently identify the principal areas of expertise transfer and generation and discuss how the overriding objectives of expertise transfer and generation could be accomplished.

Emotional intelligence

The first area in which instructors need both to exercise their expertise and transfer such expertise to students is the area of emotional intelligence. Studies of emotional intelligence or EI (Salovey & Mayer. 1990; Coleman, 1995) have shown that EI is critical in many areas of human activity. EI is defined as “a constellation of abilities, competencies, and dispositions related to perceiving, understanding, and managing emotions of self and others (Bar-On & Parker, 2000; Parker & Keefer, 2011: 763). EI is critical to success in consulting because of the importance of understanding the client and the system of personal and organizational relationships in the client’s company. In addition, an effective consultant needs to be aware of his or her own emotions (in reaction to the client’s problems) to manage them. For instance, a consultant may experience frustration with a client that does not provide information and keeps beating around the bush. However, it is important to deal with one’s own frustration by explaining to oneself that the client’s confusion is common and that the situation of trying to present one’s own failures to a group of strangers is a very stressful one so that being frustrated with the client is counterproductive. EI may also help students to cope with their stress and fears to expose one’s inadequacy to other students, the client and the instructor. As an expert, the instructor needs to provide at least some initial exposure to these problems that students may experience in the course of conducting a consulting assignment and explain that these problems may occur and provide recommendations as to how such problems could be tackled. For instance, one of our students was ashamed to contact the client directly for an interview and suggested that she could just take up the client on his offer to come to their office and work from there, and wait for the client to show up. Put another way, the student was planning to sneak up on client when he was not expecting it. Needless to say, the instructor had to explain to the student that the client should be contacted directly and that the student needed to deal with her own fear of contacting the client.

Structuration and categorization

Research has shown that experts surpass novices in their ability to appropriately structure and categorize a situation (Chi et al., 1981; Chi, 2006). Sense making, structuration and categorization of the problem are crucial for a consultant. As novices, students, however, may be overwhelmed by the information flow they receive during the first interview and later, in the process of repeated interactions with the client’s firm. To help, the instructor may first show to students how to relate different pieces of information coming from the client to specific functional areas of marketing, finance, accounting, etc. Some of these areas may actually lie outside of the scope of the consulting engagement (for instance, if the course is focused on HR management). In addition to such initial structuration of the consulting assignment, the instructor may show to students what categories may help present information about the company systematically.

These categories often can come from the discipline taught by the instructor. While students may spot some meaningful details, they are often not sure whether or not these are relevant. Asking specific questions as to how certain categories studied in the course may be manifest in the consulting assignment could help students put things in perspective and analyze the empirics from a conceptual perspective. For instance, using a resource-based view of the firm, the instructor could categorize the firm's resources into tangible and intangible with further distinctions within each category and subsequently assess them as important, less important, not important at all or even superfluous and representing areas of strength, weakness or indifference for the company. Such discussion could help students organize their attention to look for more information about specific areas that could expose potential company's inadequacies and shortcomings.

Domain-specific constraints

Working on a consulting assignment requires establishing specific constraints or cognitive limits. An ability to set such limits differentiates an expert from a novice. Due to a lack of experience, students often take an exceedingly broad approach to the consulting assignment. Moreover, clients may also have some boundless expectations that may be counterproductive due to various limitations faced by both clients and consultants. For instance, our SBI recently accepted a case study proposed by the client whose goal was explicitly stated as changing the climate worldwide. Naturally, implementing such a project could be trying in the course of a regular semester by a small student group. In this situation, it is critical to help the client and students translate a broad-focused and non-specific assignment into something more actionable. The idea is to try and define not only what appears to be a problem but also what could be done by this group of people led by this particular instructor within this particular timeframe. Furthermore, implementation of consulting recommendations often befalls on the client that may or may not choose to implement them. This imposes another constraint on the consultant. The idea is to develop actionable recommendations that could be acted upon by this client.

Time management

Continuing with the subject of boundaries, time is certainly one limit that should never be overlooked and that needs to be factored into the consulting assignment. The instructor knows from experience how long it may take to complete a particular stage of the consulting assignment. His or her role, therefore, is to communicate this expertise in the area of time management to the students. Moreover, clients expect students to complete certain stages such as putting together the letter of engagement in a timely manner. While students may not realize it, their time management skills play a key role in how they will be perceived and assessed by the client. Furthermore, working in spurts or having periods of intense work followed by periods of apathy and inertia is unprofessional and indicative of being a novice or amateur. Learning time management skills is necessary for acquiring expertise in consulting and is part and parcel of maturation.

Problem representation

Numerous studies have established that experts surpass novices in their problem representation skills (Chi et al., 2001; Chi, 2006). Problem representation means identifying the structure of the problem, its causes and consequences. Novices often misrepresent problems as they mistakenly approach surface features as causes (Chi, 2006). Literature on consulting also underscores that problems are not easy to identify, in fact, clients themselves may experience difficulties in this regard (Schein, 1995). The role of instructor as an expert is to stimulate students to gradually overcome their first, superficial understanding of the problem. In our experience, students often start discussing recommendations to the client's problem right after their first meeting with the client. It would be incorrect to think that instructors become immediately aware of what the client's problem is. Instead, instructors and students alike do not initially have a sufficient understanding or representation of a problem. Only by way of repeated attempts, instructors and students may eventually develop a realistic problem representation. The dynamics of developing an adequate problem representation may differ substantially. Instructors usually do not know in the beginning what part of the project will become critical to problem representation. Oftentimes, it is financial analysis that could allow identifying the weakest areas of the company's performance. A student may hit sometimes upon the right set of facts that contain a clue to problem representation but fail to see the importance of what the data is telling us due to lack of experience. Adequate problem representation may also be discovered in a class discussion as a result of the collective effort and intense instructor-student interface. The instructor must manage the quest for improving problem representation during this collaborative effort.

Self-monitoring

Experts are superior self-monitors compared to novices (Chi, 2006). Learning how to become an effective self-monitor is, therefore, critical to effective expertise transfer and generation in the SBI-guided student consulting process. During class discussions and one-on-one meetings with students, the instructor may be able to make students more self-aware and insist that they use greater introspection and trace the development of their own ideas. Student reports may play an important role in this regard since students that systematically write down their thoughts, facts and findings during the discovery process, can then go back and see how much their approach has changed. Self-monitoring is important because it allows avoiding prior mistakes and helps to effectuate continual reconceptualization and reclassification of new factual material.

Strategic choice

Instructors can help students with finding appropriate strategies in the course of the consulting process. Research has shown that experts typically apply a forward-looking method by beginning with data analysis and then gradually progress to objectives that need to be accomplished whereas novices choose the reverse, backward-looking method, and begin with goals while failing to analyze the situation at hand (Chi, 2006). Although experts as well as novices could use both approaches simultaneously, experts supersede novices in their realism and efficacy. The role of the instructor as expert is critical in the area of strategic choice because students often do not understand how to resolve a problem even after it has been identified. The solutions proposed by students tend to be impractical or not tailored to the client's situation and may not be perceived by the client as adding value or worthy of a serious consideration. Therefore, the role of the instructor is to help students overcome their initial confusion as to how the observed problems could be resolved and direct them toward detecting different scenarios and practical solutions that have worked in the past or appear to be applicable to the situation. The instructor, therefore, needs to continually carry out the specific-general link by relating the situation of the client (the specific) to the problem solutions that have been previously used in the literature (the general). By correlating the specific and general, data and goals or using both backward-looking and forward-looking approach, the instructor can help students chart a smart strategy.

Range of Resources

Students often do not realize that certain resources are available to them or that such resources could be used for the project at hand. Experts are often more opportunistic than novices in the sense that they have an idea what resources from various areas could be used for problem solution (Chi, 2006). While novices often do not know how to apply the brakes or establish constraints, they also may not realize that broad search or exploration is critical to success. Summarizing one could say that the role of instructors in transferring their expertise to students has to do with a careful orchestration of the exploration-exploitation process. Using a wider range of resources and approaching the search for resources opportunistically and pragmatically should be combined with continual emphasis on exploitation by way of redefining exceedingly broad and unrealistic objectives into more specific, concrete as well as actionable tasks.

Cognitive effort

The last area in which experts outperform novices is exercise of cognitive effort with greater ease and automaticity (Chi, 2006). Students need to learn concepts as well as master analytical skills before they can begin to conduct the consulting assignment. Once someone just learned a certain skill applying it to a concrete situation is not easy. At the same time, the student consulting team operates under time constraints. Under the circumstances, instructors must effectively collaborate with students to help them overcome their cognitive difficulties and exercise their new skills with greater ease. This process is not a one-way street. Encouraged by the instructor, students can accelerate their skill acquisition and contribute to new expertise generation in the process of instructor-student interaction. Such collaboration structured as cognitive apprenticeship works well due to the tacit nature of knowledge (Spender, 2005). During such a process of one-on-one interaction, both students and instructors can participate in transfer of expertise (instructors and students may have greater expertise in some areas) and work together on expertise generation and application as they learn to tailor prior expertise to the client's situation. Table 1 summarizes the key areas in which instructors could assist students through expertise transfer and explains how instructors and students could contribute to expertise generation.

Table 1. The key areas of student consulting management and instructor roles and functions

#	Principal tasks	Instructor Roles	Instructor functions needed to perform each role	Relevant questions
1.	Client identification and client relationship management (CRM)	Instructor as a manager	Selecting appropriate clients; Priming clients; Managing student team-client relationship; Client's impression management	How to negotiate with the client if the latter raises some objections to the initial letter of engagement? How to deal with an impatient, skeptical, know-it-all or non-collaborative client?
2.	Facilitation of the student consulting process	Instructor as a facilitator	Influencing team formation and leadership choice; Facilitating the process of student team's self-organization; Priming students; Managing project/student team development	How to approach a client to set up the first meeting? How to prepare for the first meeting with the client? How to conduct oneself during the first meeting? How to construct a letter of engagement that would adequately reflect the symptoms of problems referred to by the client? How to allocate roles and sections of the consulting assignment among the student team?
3.	Knowledge management, expertise transfer and student/instructor expertise generation	Instructor as an expert and partner	Creating and enhancing knowledge base; Setting objectives, analyzing and editing; Leading the process of brainstorming	How to identify the problems among often difficult to sort out assemblage of boastful statements and bashful litanies presented by the client during the first meeting? How to collect appropriate information about a particular industry and its segments? How to find specific information related to particular areas of the student consulting assignment such as finance, marketing and operations? How to choose and learn specific methods for collecting information such as surveys

				and interviews? How to adjust the initial ideas if new evidence is discovered pointing in a different direction?
4.	Project supervision and optimization	Instructor as a supervisor and coach	Supervising, instructing, and coaching the student team and individual students	How to stage the student consulting process depending on the project and student team's idiosyncrasies? How to set up the reporting process? How to set up appropriate time management? How to better understand and implement the SBI requirements? How to put together an effective presentation?

DISCUSSION AND CONCLUSIONS

PBL appears to be an appropriate perspective for discussing SBI-guided student consulting. By their nature, the problems faced by instructors and students in working with clients are ill-defined and defy formulaic solutions. At the same time, as we argued in this paper, the level of complexity posed by problems encountered in the process of student consulting may substantially exceed the level of complexity posed by specially designed problems for classroom discussions. In this situation, insisting that the instructor should not play the role of expert as recommended in many previous studies (Wilkerson, 1999; Kloppenburg & Baucus, 2003; 2006) appears to be unrealistic. In contrast, we contended in this paper that the efficacy of student consulting could be enhanced by amplifying the ability of the instructor to act as expert. Hence, we proposed that the tasks of expertise transfer and expertise generation in the process of instructor-student collaboration are critical for attaining success in the process of student consulting.

Based on the literature on the advantages vs. disadvantages of experts vs. novices (Chi, 2006), we examined nine areas in which instructors as experts must help students to become experts as well by carefully orchestrating the process of expertise transfer and generation. In the beginning of the consulting process, students are often at a loss as they cannot effectively analyze the situation, relate facts and symptoms to deeper structures; think in terms of categories and methods studied in the course; and apply a broad range of qualitative and quantitative methods. The process of gradual expertise transfer needs to be guided by the instructor to be effective since the cognitive difficulties of the learning adventure embarked upon by the students can be truly overwhelming. The structure of the student consulting process identified in prior research

(Cook & Belliveau, 2007; Heriot et al., 2008a; 20008b) needs to be communicated to students first as well as the importance of time management and grasping the domain-specific constraints.

It is more difficult to transfer expertise in problem representation. This aspect of the student consulting process, similar to structuration/categorization, needs to be handled via creative instructor-student interaction. While prior studies have suggested that instructors should not reveal answers to students, this is not something to be worried about in the process of student consulting. Indeed, instructors are no more aware of answers than students are. Hence, the Socratic Method is applied differently to student consulting. It is not enough to ask questions stimulating active learning, what is needed are creative methods of iterative brainstorming that allow instructors and students become true partners in knowledge exploration and exploitation. The goal of this process is for students to become experts and for instructors to magnify their expertise.

Table 2.

	Instructor as Expert	SBI-guided Student Consulting
1.	Emotional intelligence/relationship management	Understanding the client and the system of personal and organizational relationships in the client's company Dealing with one's own emotions (instructor and student) Emphasizing with group members and instructor
2.	Structuration/categorization	Relating different pieces of information coming from the client to specific areas of marketing, finance, accounting, HR, management Relating factual data to concepts and methods studied in the course
3.	Domain-specific constraints	Define what could be done by this group of people led by this particular instructor within this particular timeframe. Develop actionable recommendations for this particular client
4.	Time management	Allocating enough time to each stage of the project Delivering on time
5.	Problem representation	Discovering the actual structure of the problem faced by the client by way of reiterative brainstorming and conducting functional analyses (HR, finance, marketing)
6.	Self-monitoring	Tracing one's progress systematically Using introspection and self-analysis
7.	Strategic choice	Combining backward-looking and forward-looking strategies customized to the client's situation Effectively combining exploration and exploitation
8.	Range of resources	Widening the range of possible sources and methods that could be used to complete the assignment
9.	Cognitive effort	Accelerate expertise transfer and generation through

		effective instructor-student collaboration

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MENTORING AND ENTREPRENEURSHIP: EXAMINING THE POTENTIAL FOR ENTREPRENEURSHIP EDUCATION AND FOR ASPIRING NEW ENTREPRENEURS

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ABSTRACT

Mentoring in the workplace has been studied extensively over the past thirty years and many positive benefits have been identified for protégés as well as for the mentors themselves. Recently, more universities and governments have been attempting to use this powerful tool in an attempt to develop potential entrepreneurs. While a great deal of research has examined the key requirements for mentoring programs within established organizations, less is known about how the demands for effective mentoring change in the entrepreneurial context. This paper discusses effective mentoring in entrepreneurial education for both student led case competitions and networks for aspiring entrepreneurs.

Key Words: Mentoring, Entrepreneurial Development, Entrepreneurial Education

INTRODUCTION

Mentoring in the workplace has been studied extensively over the past thirty years and many positive benefits have been identified for protégés as well as for the mentors themselves (see Allen, Eby, O'Brien, & Lentz, 2008 for a comprehensive review). Recently, more universities and governments have been attempting to use this powerful tool in an attempt to develop potential entrepreneurs. While a great deal of research has examined the key requirements for mentoring programs within established organizations, less is known about how the demands for effective mentoring change in the entrepreneurial context.

Kathy Kram (1985) conducted an extensive qualitative study in which she examined the developmental relationships of 18 pairs of junior and senior managers in a large public utility organization. Several of the key mentoring functions she identified in her seminal work on mentoring in the workplace are understandably more closely related to mentoring within a large hierarchical organization than to developmental relationships involving mentors and either new entrepreneurs or student teams. St-Jean (2011) conducted a study of 360 protégés taking part in an entrepreneurial foundation’s mentoring program, and identified a different set of mentoring functions for developmental relationships between experienced and novice entrepreneurs. This underscores the need for examining the mentoring phenomena within specific contexts.

While the functions and demands upon mentors in the entrepreneurial context may be different from those in a more hierarchical organization, there is growing empirical evidence that mentoring provides career benefits to entrepreneurial mentees. For example, Ozgen and Baron (2007) conducted a study with a sample of entrepreneurs who had recently founded new ventures in the information technology industry and their results indicated that mentors increase opportunity recognition by entrepreneurs. St-Jean and Tremblay (2011) expanded upon this research and found that the learning goal orientation of the mentee influenced the extent to which the opportunity recognition was increased. Ozgen and Baron (2007) went on to recommend that entrepreneurial educators should work to assist nascent entrepreneurs in obtaining mentors.

The purpose of this paper is to discuss effective mentoring in entrepreneurial education for both student led case competitions and networks for aspiring entrepreneurs. First, I briefly review the established research findings on mentoring. Then I discuss the unique demands of the new venture environment and the student led case competition team environment, and how mentoring may be adapted to fit those environments most effectively. Finally, I discuss the implications of this paper for both academics and practitioners.

MENTORING

Mentoring in the workplace is generally defined as an intense interpersonal exchange between a more senior member of the organization, the mentor, and a less experienced member, the protégé, whereby the mentor provides advice, counsel, feedback, and support in order to facilitate the career and personal development of the protégé (Hunt & Michael, 1983; Kram, 1985, Noe, Greenberger, & Wang, 2002). Haggard, Dougherty, Turban, and Wilbanks (2011) reviewed the various definitions used in empirical studies on mentoring and noted that the definitions tend to have three core-attributes in common: reciprocity, developmental benefits, and regular/consistent interaction over some period of time. Reciprocity refers to a reciprocal relationship which involves mutual social exchange as opposed to a one-way relationship. Thus a role-model is not necessarily a mentor unless there is also regular personal interaction.

Developmental benefits of a mentoring relationship refer primarily to the benefits to the protégé's work and career, but also include benefits to the mentor as well. Finally, regular consistent interaction over a period of time is necessary for a mentoring relationship. Thus, an individual would not be considered a mentor for giving someone generic advice once or twice.

Kram (1985) introduced the two broad categories of mentoring functions which are career-related and psychosocial. Career related mentoring involves providing sponsorship, exposure and visibility, protection, coaching, and challenging work assignments. Psychosocial mentoring involves role-modeling, acceptance and confirmation, counseling, and friendship. Scandura (1992) later demonstrated through factor analysis that role-modeling is a third distinct function rather than a sub-function of psychosocial mentoring.

Sponsorship involves the mentor providing public support for the protégé. Exposure and visibility involves the mentor providing the protégé with the opportunity to interact with important members of the organization. Coaching is the aspect of mentoring that usually first comes to mind and involves the mentor sharing valuable knowledge and experience with the protégé. Protection occurs when the mentor intervenes in order to shield the protégé from potentially career harming situations. Challenging work assignments involve the mentor assigning the protégé challenging work that will facilitate growth and development of professional skills, and supporting the assignments with technical training and feedback.

Role-modeling involves the mentor setting a good example and the protégé emulating it. Acceptance and confirmation involves the mentor providing support, encouragement, and a sense of safety to the protégé, which should empower the protégé to experiment with new behaviors without fear of rejection. Counseling does not directly involve work related areas, but by allowing the protégé to discuss anxieties, fears, and conflicts, the mentor helps the protégé deal with personal concerns that might interfere with both personal and professional development. Friendship involves social interaction and enjoyable exchanges of information about both work-related and non-work-related activities. These functions may be provided by a single mentor or from multiple mentors within a protégé's personal developmental network (Higgins & Kram, 2001; Higgins & Hunt, 2001).

Research in the mentoring literature has supported many positive outcomes for protégés in terms of both objective and subjective measures of career success (see Allen, Eby, Poteet, Lentz, & Lima, 2004 for meta-analysis), but mentoring is also beneficial for organizations as well. Wilson and Elman (1990) discussed the benefits of mentoring to organizations. The most obvious benefits for the organization are improvements in employee motivation, job performance, and retention rates. Another benefit of mentoring for the organization is the strengthening and perpetuation of the corporate culture. Mentors can also benefit the organization by passing information up as well as down. In other words, mentors can act as "deep sensors" in order to detect "noise" at lower levels of the organization before it becomes a larger problem. The authors also emphasize the importance of the choice of mentors. They mention that some people are not psychologically secure enough to be mentors, and may see younger members of the organization as threats to their position. The authors note that as individuals rise through the organization, their need for mentoring does not decrease, especially when transitioning from one level of management to the next. Also, as protégés advance to higher levels, they will likely take on the role of mentor for newer employees. The authors close with a warning that mentors must keep up with the changing environment so as not to pass on obsolete or harmful practices to their protégés.

MENTORING AND ENTREPRENEURIAL EDUCATION AND DEVELOPMENT

The benefits of mentoring are well established for individuals within organizations and for the organizations themselves. While not as thoroughly researched empirically, it makes perfect intuitive sense that having the benefit of a seasoned entrepreneur or businessperson who can share their hard earned wisdom and experience with a student team or an aspiring entrepreneur would prove to be extremely valuable. Indeed, this has been recognized by entrepreneurial practitioners and educators for decades before the scholarly study of mentoring within large organizations became widespread.

From the standpoint of small business development and entrepreneurial assistance programs, it is a long standing tradition to provide mentoring to aspiring entrepreneurs. For example, SCORE (Service Corps of Retired Executives, information available at www.score.org) is a non-profit association and resource partner with the Small Business Administration which has been providing mentoring to small business owners since 1964. They currently have over 13,000 volunteers who offer their mentoring services to small business owners at no charge.

Many other organizations charged with the development of entrepreneurial activity have also implemented systems for linking novice entrepreneurs with experienced entrepreneur mentors. Some prominent examples include, Business Link in England, Mentor Eget Foretag in Sweden, the France Initiative in France, and the Foundation de l' Entrepreneurship in Quebec, Canada (St-Jean & Audet, 2011).

It is also considered good practice for entrepreneurial educators to provide access to mentors for student business plan competition teams (Russell, Atchison, & Roberts, 2008). In her popular press article for *BusinessWeek* on the topic of strategies for winning business plan competitions, Alison Damast (2007) noted that many judges and participants emphasized the importance of obtaining mentors in order to provide feedback and guidance for the student teams. Thus, it is important to examine how the functions of mentoring in the entrepreneurial education and development context differ from those of the large established hierarchical organization.

Sullivan (2000) summarized the research on entrepreneurial learning and mentoring that had taken place before the turn of the century and noted that learning is a necessity for successful entrepreneurship, and that mentoring is an effective teaching tool which allows entrepreneurs to take advantage of the experience of others. For example, Cox and Jennings (1995) found that the ability to learn from mistakes was critical for successful entrepreneurship, but that many entrepreneurs could not identify a single individual who met the classic definition of mentoring. Nevertheless, most of the successful entrepreneurs studied by Cox and Jennings (1995) did agree that learning from the experience of others, with particular emphasis on critical incidents, was very important and had been a key to their success. This supports the idea that the type of mentoring that is most successful in the entrepreneurial context differs from that of the large established organizational context.

As noted earlier, St-Jean (2011) conducted a series of empirical analyses to determine the unique demands of mentoring in the entrepreneurial context. Rather than applying the established mentoring functions developed by Kram (1985) in a large utility organization context, he began by conducting a qualitative analysis utilizing focus groups which included 51 novice entrepreneur mentees and 8 experienced entrepreneur mentors. This resulted in the categorization of several entrepreneurial mentor functions and the creation of several proposed items to measure the constructs. He then submitted the items and constructs to expert review by three business mentoring experts and finally tested the items in a sample of 360 mentees from the Foundation de l' entrepreneurship and conducted confirmatory factor analyses to validate the scale. This resulted in St-Jean (2011) identifying four psychological functions, four career-related functions, and one role-modeling function.

The psychological mentor functions for entrepreneurs include reflector, reassurance, motivation, and confidant. The career-related mentor functions for entrepreneurs include integration, information support, confrontation, and guide. The role model function involves the mentee observing the mentor and listening to the mentor's stories about past experiences and learning to emulate the mentor's behaviors which have led to success.

The psychological mentor function for entrepreneurs of reflector involves the mentor giving the mentee feedback on the business plan and the image that the mentee projects to others, allowing the mentee to gauge progress and development. The reassurance function involves the mentor reassuring the mentee during difficult times and helping to alleviate stress by putting problems into perspective. The motivation function involves the mentor providing encouragement and building the mentee's self-confidence. Finally, the psychological mentor function for entrepreneurs of confidant develops over time as the mentee comes to trust and confide in the mentor as one would a friend.

The career-related mentor function for entrepreneurs of integration involves the mentor facilitating the integration of the mentee into the business community by introducing contacts. The information support function involves the mentor giving the mentee information which may include personal knowledge of business management, laws to be aware of, useful information on the industry, etc. The confrontation function involves the mentor questioning and challenging the mentee's ideas to help develop and strengthen them. Finally, the career-related mentor function for entrepreneurs of guide involves the mentor helping the mentee improve problem comprehension, and expand problem vision and context as well as making suggestions and giving advice towards a solution when necessary.

While similar in many respects to the widely accepted mentor functions which were developed in the large organizational context, the mentor functions for entrepreneurs have distinct differences. Most pronounced, would be the lack of the protection function. This is not surprising, because the primary reason why entrepreneurs prefer the term mentee to protégé when referring to the individual for whom they are providing developmental guidance, is because it does not imply protection (St-Jean, 2011). The entrepreneurial mentor helps their mentees to stand on their own, which is consistent with the classic entrepreneur persona of an independent proactive individual. An effective entrepreneurial mentor allows the mentee to reach conclusions, with some guidance, as opposed to simply telling the answer. St-Jean and Audet (2011) found that a low directive but high involvement mentoring intervention style produced the best results within the context of experienced entrepreneur mentors and novice entrepreneur mentees. In other words, the best mentors spent a lot of time with their mentees and were readily available to them, but did not try to control them, or to make them a clone of themselves. They helped them to think about possibilities from different points of view and to consider the likely outcomes of different courses of action, while sharing their experiences and allowing the mentees to reach their own conclusions. This style would also likely be the best way to assist student-teams competing in business competitions.

One of the most popular and successful programs in higher education for developing entrepreneurial skill is the business plan competition. These competitions can provide stimulus for new venture creation, the development of new and innovative ideas, and an increase in the entrepreneurial skill and orientation within communities (Russell, et al, 2008). From the standpoint of higher education, business plan competitions provide an excellent vehicle for the development of a variety of entrepreneurial and general business skills for students.

Business plan competitions are an excellent way for institutions of higher learning to teach and encourage entrepreneurial mindsets and innovative behavior. In order for students to successfully complete a business plan, they must demonstrate discipline and a solid work ethic over a significant period of time, and during this process they will develop skills and knowledge specific to their product or service, as well as general business skills. The opportunity to put into practice what they have studied theoretically in their various finance, accounting, marketing, and management courses is an invaluable part of a top quality business education.

In addition to developing the skills and refining the ideas necessary for the formation of new ventures, these competitions are an excellent opportunity for aspiring entrepreneurs to meet the contacts and mentors who can increase the likelihood of their new venture's success. Russell and colleagues (2008) noted that "…access to the business community through networking opportunities, mentors and judges all provide enormous benefits to participants and host institutions" (p. 124). The business plan competition provides an excellent opportunity to increase the exposure of the academic institution and to introduce students to their local business community in a favorable light. Many business leaders are very happy to be involved with the student competition teams and view it as their way of giving back to their community.

This provides an excellent opportunity for faculty facilitators of student business plan competition teams. As any experienced entrepreneurship educator knows, it is important to network in the local business community. Therefore, it should be relatively easy to find experienced business professionals who would be happy to share their knowledge and experience with the team as a mentor. This should prove very helpful for the students. Jodie O'Keefe (2008) recommends seeking feedback from trusted mentors when developing business plans for competitions. Russell and colleagues (2008) conducted a study of 51 participants in student business competitions and found that mentors and networking activities ranked second only to sponsorship and funding as factors for success.

IMPLICATIONS

The benefits of mentoring for entrepreneurial education and development are evident from both an academic and practitioner standpoint. Mentoring is an excellent learning tool that incorporates the transfer of knowledge, skills, and ability through shared experience, as well as developing and strengthening self-confidence and entrepreneurial self efficacy in the mentee. Organizations which engage in entrepreneurial development within communities and entrepreneurial educators wishing to give their student business plan competition team the greatest learning experience should definitely work to provide access to experienced mentors.

In order to help maximize the benefits to the mentees, it would be helpful to provide volunteer mentors with information regarding the mentor functions for entrepreneurs. By making them aware of the psychological, career-related, and role-modeling functions that are utilized in high quality entrepreneurial mentoring relationships, they can strive to make sure they are meeting the developmental needs of the mentees. Additionally, making the mentors aware of the fact that the best mentoring results occur when utilizing a low directive and high involvement style will help them to encourage the mentees to develop their own problem solving skills and learn through the examples provided by listening to stories about the mentor's experience.

CONCLUSION

The purpose of this paper was to discuss effective mentoring in entrepreneurial education for both student led case competitions and networks for aspiring entrepreneurs. The review of the research on the subject of mentoring revealed that there has been a great deal of scholarly attention directed at mentoring within large organizations. While the needs of the protégés in these traditional mentoring relationships have been well researched, very little attention has been paid to the unique demands of the mentoring of entrepreneurs until recently. Despite the fact that organizational researchers have not been studying entrepreneurial mentoring until recently, organizations charged with the task of developing the entrepreneurial activity within communities and regions have been employing this tool since the late 60's. This is excellent news, because the benefit of experience often proves invaluable to novice entrepreneurs and can have an impact on the economic development of communities and regions.

It is this author's hope that the information contained in this paper will be of benefit to entrepreneurial educators as they continue to incorporate the effective tool of mentoring into their entrepreneurial developmental networks and student business case competition teams. Also, that they will continue to recruit volunteer business mentors from their community and assist them by making them aware of the necessary mentoring functions for entrepreneurs and the benefits of engaging in a low directive, high involvement mentoring style.

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ACHIEVING EXPERIENTIAL LEARNING THROUGH A MARKETING STRATEGY AND PROMOTIONS PROJECT

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ABSTRACT

Experiential learning provides a rich learning experience that goes beyond the normal course material, providing an opportunity for students to learn and practice soft skills necessary for success in the business world. This article documents an experiential learning project sponsored by Chevrolet to develop a marketing strategy and promotion for their new vehicle, the Cruze. The project experienced difficulties that provided outstanding learning opportunities for both students and faculty. The lessons learned from execution of the project can serve to guide future experiential learning projects.
Keywords: experiential learning, marketing strategy, promotions, education.

INTRODUCTION

The use of experiential learning has become imperative as educators prepare students for the workplace, proving to be an invaluable tool that facilitates learning for college business students. Experiential learning increases course learning and increases learning soft skills that are needed, but not specifically addressed in business school education. Schettler (2002) states that, "If you only look at the bottom line, you are only going to work on the things that can truly be measured, and if that's all you are going to work on, then you are doomed to failure. You must deal with people where people live – in their hearts – and then tie it to their minds" (p. 3). The robust and ambiguous nature of the modern workplace and today's techno-savvy college students make an interesting dilemma for university professors. This requires that educators ensure that the learning is student centered and that their teaching pedagogy is more process-based. Incorporating experiential learning projects in the classroom accomplishes these goals. This article discusses a team-based experiential learning project involving two upper level undergraduate Advertising and Promotional Strategy classes, with a unique twist; college students designed the marketing strategy for a college student target audience. This project provided students with real-life experience that they will eventually put to use as they enter the business world and it provided the client with priceless insight into their target market. The process, notable outcomes, and several serendipitous results are discussed.

Experiential Learning

The Association to Advance Collegiate Schools of Business International (AACSB) Task Force defined applied experiential learning as "a business curriculum-related endeavor theory, which is interactive (other than between teacher and pupil) and is characterized by variability and uncertainty" (Gentry, 1986, p. 3). The critical components of experiential learning, as defined by AACSB, are; business-related curriculum, applied, participative, interactive, whole-person emphasis, contact with the environment, variability and uncertainty, structured exercise, student evaluation of the experience, and feedback. Even along with this accreditation push, employers have also been pushing for increasing student exposure to real-world experiences to apply their education (Li et al, 2007). And much like Butler (2007) found with planning funerals, the topic does not matter nearly as much as the experience.

Experiential learning emphasizes the importance that experience plays in the learning process; the process whereby knowledge is created through the transformation of experience. “In the field of higher education, there is a growing group of educators – faculty, administrators, and interested outsiders – who see experiential education as a way to revitalize the university curriculum” (Kolb, 1984, p. 4). Experiential learning has gone from the introduction of the case study method into the classroom in 1909 by Harvard Business School to using computerized simulations in the 1970’s to the increasing use of real life cases in the study of business today. In the 21st century, the value of global experiential learning has also been proven (Charlebois and Giberson, 2010). AACSB reinforces the emphasis on experiential learning with its accreditation standards requiring active student involvement in the learning process (AACSB, 2010). In its recently revised accreditation standards, AACSB states the following:

> The most effective learning takes place when students are involved in their education experiences. Passive learning is ineffective and of short duration. Faculty members should develop techniques and styles that engage students and make students responsible for meeting learning goals…. Faculty members should find such approaches that are suited to their subject matter, and should adopt active learning methodologies.

Elam and Spotts (2004) discuss soft skills that can be honed through experiential learning, such as development and revision of timelines, project management, actively assessing the communication and participation of self and others, development of critical thinking, and problem-solving.

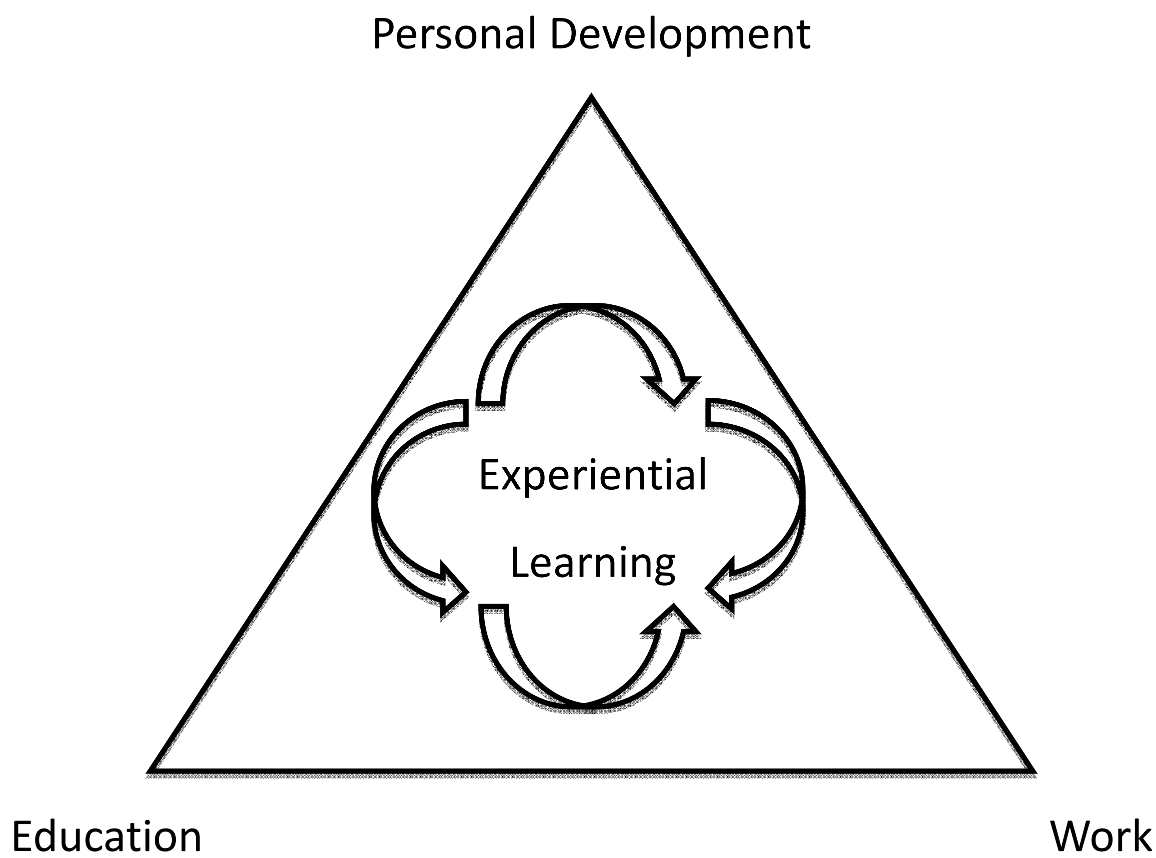
The Experiential Learning Model shown in Figure 1 (Kolb, 1984) describes linkages that can be developed between the classroom and the work world. Kolb (1984) shows the workplace as a learning environment that enhances formal education and results in lifelong learning and the development of individuals as global citizens.
Figure 1.

Experiential Learning translates the abstract ideas of academia into the concrete practical realities that students can use in their real lives. Practitioners are not only concerned with what people learn but also how they learn. Experiential learning is the “how” part of the formula.

Experiential Learning in Business and Marketing Education

Interest in experiential learning in collegiate level schools of business will increase according to the finding of an AACSB study that focused on program outcome assessments (Porter and McKibbin, 1988). The results of the study, and the trend toward outcome assessment, suggests that students need practice and behavioral skill application opportunities. Experiential learning provides the ideal vehicle for delivering practical experience in the classroom (Gentry, 1990), (Craciun and Corrigan, 2010). As Craciun and Corrigan (2010) found, research quantifying the impact of experiential marketing courses in particular has been rare. While the benefits of experiential learning has been anecdotal for the most part, empirical research supporting the type of out-of-classroom experience studied for this article with curriculum integration has only recently been proven as demonstrated by Craciun and Corrigan (2010). Furthermore, as business and societies take on an increasing global point of view, experiential learning will continue to have a positive impact on student learning (Charlebois and Giberson, 2010).

Figure 1: Experiential Learning Model



The Project

University professors are often on the outlook for real world case opportunities to relate the classroom to the world outside. A large project with far-reaching implications presented itself during the summer of 2010. The project would involve students in a real world marketing experience by guiding students through the process of designing and presenting a marketing campaign around a newly launched automobile, the Chevy Cruze, and designing and executing an on-ground promotional event. The project was to be executed during the fall semester and the results were to be used by GM to market the Cruze to the college student target market. Such a project approach is more idyllic than a more formalized marketing plan given the integration of marketing skills that must be used; for example, marketing research, consumer behavior, promotion skills, and advertising media (Craciun and Corrigan, 2010).

Applied cases, by their very nature, require careful preparation for an effective learning experience, given that students are not working in a clean and tidy environment when dealing with a live case (Gentry, 2004). Far more likely will be students dealing with variable situations, ambiguity, and incomplete information, which makes experiential learning far more reflective of actual career challenges they will face post-graduation. At the same time, experiential learning is an excellent learning vehicle for extending the classroom into the real world. Planning for the experiential learning project requires substantially more time than preparing for a traditional lecture course (Elam and Spotts, 2004). The above issues did increase initial student discomfort with the project and they did struggle, but at the conclusion of the project, these very issues are what created the most positive impact. Complicating these issues are also what Craciun and Corrigan (2010) found to be similar issues; shorter list or prerequisites vs. a capstone class, class background will vary across the marketing curriculum, unknown knowledge gaps throughout the class.

Manufacturer's Objectives

The Chevrolet Cruze Marketing Program (CCMP) focused on creating a marketing plan by the target market for the target market. The Local Chevrolet Marketing Association of Dealers was looking for ways to better connect with a younger demographic, while providing them a matchless learning experience. Chevrolet was looking to partner with one upper division undergraduate marketing class from local universities to work on a semester long project.
The class was divided into groups of five to six students. Each group was responsible for creating a marketing plan within a mock budget of $100,000. The plan included key components that would best communicate and focus on their fellow students and the general market. The communication media were to focus directly on what the students would pay attention to and what would influence the student's purchasing decisions. Each team was to focus on four areas:

1. Advertising – print and out-of-home
2. Media – television and radio
3. Digital – web sites and e-mail, social marketing (Facebook, Myspace, Twitter, LinkedIn), and text messaging
4. Experiential Marketing – promotions, sponsorships and grassroots

Dividing the teams up and assigning responsibilities based on the areas of focus was up to the professor and/or the individual groups to learn project management skills. As part of the semester long project, CCMP representatives came to campus, presented the plan, and provided samples of prior campaigns. There were opportunities for each student group to interact with and set up a conference call with CCMP representatives to discuss any questions that came up during the process. By their very nature, the teams created their own learning environments, both good and bad (Jassawalla et al, 2010).

At the end of the project, the student groups were judged on their project by their professor. One group was chosen to activate a portion of their marketing plan (promotion, advertising, social marketing) with a budget of $2500, which was facilitated through CCMP. Representatives from the Chevrolet regional dealer group and CCMP promotional representatives were to be on-site to monitor the promotion activation and take notes. After the plan was completed, the winning team was responsible for presenting to the dealer group and CCMP representatives. CCMP followed-up by implementing the winning marketing plan.

Chevrolet felt that the opportunity would provide the students with a tremendous amount of experience that could be related to the workplace. GM also believed that the project and budget management would give students valuable experience while building their resumes and portfolio with elements from a high-profile marketing campaign. The timeframe for executing the project was the fall semester 2010 including a live, on-ground promotion by the winning team and a presentation to local dealers. Table 1 has the semester course schedule.

Table 1. Semester Course Schedule

Week	Course material	CCMPproject
Week 1	Intro integrated brand promotion	Project launch, teams assigned
Week 2		CCMP representatives present program to class
Week 3	Evolution of brands	Teams meet and organize, plan outline due
Week 4	Social, ethical, consumer behavior	List of brainstormed ideas
Week 5	Market segmentation and research	Receive CCMP creative, teams add creative to outline
Week 6	IBP from international perspective	Conference call with CCMP, prepare questions
Week 7	Creativity and message strategy	Teams meet, meeting notes due
Week 8	Mid-term exam	Paper and slide draft due and drafts returned
Week 9	Team presentations	In-class final presentations, final paper, and slides
Week 10	Copywriting/art direction/production	Winning teams prep for on-ground promotion execution
Week 11	Media strategy and planning	2 winning teams execute promotions at football game
Week 12	Internet and sales promotion	Winning teams practice final presentations
Week 13	Events and branded entertainment	Winning teams present to dealers and reps
Week 14	Personal selling and public relations	Professor send winning videos and materials to CCMP
Week 15	Review	Press release on university web site
Week 16	Final exam	Final examsweek

STUDENTS' AND PROFESSOR'S BACKGROUNDS

The advertising students involved in the live case were juniors and seniors, some with minor work experience and virtually no live case experience. Most of the students were marketing or communication majors; a few students had some of the skills needed to execute the CCMP. The class had never had such an opportunity as this to create, design, and manage the execution of a real life project using funds provided by one of the top U.S. automakers.

The professor had over thirty years of experience managing advertising and promotions projects for a major consumer products sporting-goods company. She knew that it would be exponentially more work than the normal lecture/individual project class she usually taught, and she knew she was taking a big risk by deviating from the traditional class. While appreciating the value of the learning experience the live project would be for her students, she also worried about how difficult the project would be to execute within the bureaucracy of a university setting. In the end, she realized she could not pass up such a potentially valuable learning experience. In hindsight, she was thankful for her years of managing promotional projects and coordinating multiple entities, because the experience was invaluable during the actual execution of the on-ground portion of the project. The class experience was indeed challenging, as supported by the amount of effort uncovered by Li et al (2010) for professors conducting experiential leaning classes.

Integrating CCMP Objectives with Course Learning Outcomes

The Advertising and Promotional Strategy course has several learning outcomes, the most important of which in regards to the CCMP project was; upon completion of this course, students will develop a knowledge base and acquire skills to describe and understand advertising and promotional strategy concepts and apply these concepts in real life and case situations domestically and globally. The CCMP project fulfilled and perhaps exceeded that learning outcome. Integrating the project into the course curriculum and ensuring that the students still covered all of the material in the course was difficult as it was necessary to build the conceptual foundation on which the project would be executed. The students had to understand the basics of advertising and promotional strategy, while at the same time, apply the basics to the project.

This resulted in a heavier course workload than normal, which was especially true for the winning teams that were required to execute the on-ground promotion by presenting to the dealers and promotions personnel. The professor's workload was doubled after she convinced the CCMP representatives to include a winning team from both of her Advertising and Promotional Strategy sections to compete in the on-ground promotion and the final presentation phase of the project. Chevrolet agreed to increase the participation in this valuable experience.

How the Process Actually Worked

The course material was successfully integrated using the project as the primary example throughout the semester. The most difficult aspect of the project for the professor was resisting the urge to make the project less ambiguous, but dealing with ambiguity is one of the most valuable aspects of the project. Learning to successfully deal with ambiguity is an extremely valuable skill in the business world. At times, when the ambiguity became overwhelming for a team, the professor had to step in and clarify just enough to keep them going. One tactic that helped keep the students on track was to require interim deliverables throughout the project, thereby allowing the professor to gauge each team's progress.

A key recurring theme was the issue of team dynamics and the inevitable team member not doing their share, at least according to the other team members. When examining the more productive teams over the course of the project, these teams followed classic team-group development with conflict, resolution, and effective leadership. The result was a focused goal-oriented team that achieved. Teams that did not develop, both through conflict resolution or the emergence of effective leadership, were less functional and therefore, did not achieve as expected. These results, as predicted by Jassawalla et al (2010), could have been at least partially avoided by group effectiveness training or education. The result was professorial leadership, which in hindsight, should have been avoided. As part of student final analysis and grade for the project, each team member was provided a rubric to grade all of their team members along with grading their own work throughout the project. The professor relied heavily on the results of this rubric for team participation grades. Interestingly enough, even with knowing that their peers would be grading them, several team members avoided participation.

Team members on the winning teams rated almost everyone on the team high, and even those rated lower, were still graded at a higher level than the non-winning team members. Ratings from the non-winning teams tended to be lower overall and there were members that were rated extremely low by all members of the team. Non-winning teams tended to include more handwritten comments about non-participating team members than the winning teams.

Team attitude and behavior towards competing teams also had a negative impact. In particular, one team was vocal in stating how much better they were functioning as a team and how that was impacting the overwhelming strength of their presentation. This haughtiness carried over into the team presentation, was noted by the evaluators, and prevented the team from winning. Throughout, team development or lack of development confirmed the results found in Li at al (2007).

The professor ran into an almost project-stopping case of institutional inertia. This was to be expected, but not at the level where it actually occurred. When the project first was presented to the professor by CCMP, the professor went directly to the provost who presented the opportunity to the university president. The president immediately approved participation and even suggested that the on-ground portion of the promotion be executed at a school football game.

Assuming this was an excellent opportunity not only for client exposure, but student, program, and educational promotion all in one event, this was quickly embraced. Unfortunately, the old adage about assuming quickly came true. Even with presidential support, it was quickly learned that the university development office had been courting a competing automaker to sponsor various athletic events. While not overruling the project itself, the football game exposure was quickly adjusted by putting the competing automakers outside the stadium at opposite ends. There was also some pushback from the university athletic department about having two promotions at stadium entrances on a Saturday football game, but that was resolved in favor of the experiential learning project by both the provost and presidential offices.

The teams worked together in each class to create a $100,000 fantasy promotion and a $2500 on-ground promotion that was executed at a university football game. The completed projects were presented to the professor and classmates. A rubric was used for each student to rate each team's presentation, and for the professor to rate each team. A winning team was chosen from both classes. The timing on this part of the project was critical; there were only two weeks between choosing the winning team from each class, and the actual execution of the on-ground promotion at the football game. The professor had to get the $2500 per team promotional materials ordered and delivered in that limited timeframe. Fortunately, the professor previously had dealt with an extremely reliable promotions company and was assured that the materials would be delivered on time, which they were.

Throughout this process, the professor was keenly aware of the risks that were being taken in order to execute the project. There was risk on several levels. First, simply stepping outside the four classroom walls raised eyebrows and increased the visibility, and vulnerability, of nontraditional learning. Second, there was the risk of the project itself; would the students be up to the challenge? Would any of the projects succeed? Was this was waste of a very prominent client's time and money? Third, there was the risk of the on-ground event itself; success, disaster, or embarrassment? And educational risk; was knowledge being integrated? What were the students taking away from this experience? Running behind all this was the knowledge that several other local universities and colleges had already passed on this project; what did they know that we did not?

Table 2.Post Project Evaluation Survey – Project Survey

Survey Question	**Mean**	**Win Mean**
As a learning experience, this project was more productive than listening to a lecture.	4.25	4.80
As a learning experience, this project was more enjoyable than listening to a lecture.	4.38	4.80
Compared to group projects in other business-related courses, this project was more productive.	3.79	4.80
Compared to group projects in other business-related courses, this project was less enjoyable.	2.33	1.20
Having students on my team evaluate my work was a positive aspect of this project.	3.63	4.50
As a result of completing this project, I have a greater appreciation of what it takes to work in a group.	3.64	4.50
My understanding of advertising and integrated brand promotion was enhanced by this project.	4.20	4.50
Projects of this type should not be assigned in future classes.	1.91	1.80
This project was one of the best parts of this course.	3.88	4.90
Compared to writing a term paper, this project was more interesting.	4.38	4.90
Having completed this project, I feel confident that I could complete this type of project for a company.	4.30	4.60
The learning experience provided by this project was not worth the effort.	1.95	1.20
My understanding of marketing activities was enhanced by completing this project.	4.13	4.70
This project gave me stronger motivation to work hard at learning than listening to lectures does.	4.11	4.60
I put a great deal of effort into this project.	4.36	4.70
This project allowed me to apply marketing concepts to a hands-on business project.	4.48	4.80
As a result of completing this project, I have a greater appreciation of team management skills.	4.29	4.80
As a result of completing this project, I have a greater appreciation of project management skills.	4.34	4.80

Post Project Survey

A post-project survey was conducted, the results of which are in Table 2. The survey, developed by Elam and Spotts (2004), was used as a guide for this project with the following Likert scoring:

1 = strongly disagree
2 = disagree
3 = neither agree nor disagree
4 = agree
5 = strongly agree

The questions were revised minimally to fit the CCMP project and closely mirrored similar research conducted by Li et al (2007), although their research used a 7 point scale. Butler (2007) and Loroz (2009) also developed a similar survey for experiential learning, but again on a 7 point scale. Survey results were compiled as a group. The winning team members' survey responses were coded in order to compile their results separately. Student ratings of the learning experience, as to whether the CCMP project was more productive than listening to a lecture, overall was a 4.25 out of 5, while for the winning team members, the score was 4.8. In rating the learning experience as more enjoyable than listening to a lecture, overall the rating was 4.38, but for the winning teams the score was 4.8. The highest rating came when students were asked if the project allowed them to apply marketing concepts to a hands-on business project; overall students rated the application 4.48 and 4.8 from the winning team members.
While everything did not go perfectly for all of the groups, the survey results strongly indicate that overall the students thought that the project was valuable, worth their effort, and that they learned applicable skills for use beyond the classroom, results similar to what was found for MBA students by Li et al (2007).

TEAM EVALUATION RESULTS

During the presentation phase of the project, each class member was supplied a rubric used to evaluate each team on overall aesthetics, mechanics, flow, team member skills, information provided, and innovativeness/creativeness of the presentations. The professor used these rubrics, along with her own team evaluations, to choose a winning team from each class. As expected, but not wished for, there were several excellent presentations in each class, several average ones, and a couple that were poor. Having not followed Jassawalla et al (2010), this is not surprising. If time had allowed, pairing such a project with team effectiveness training as recommended by Jassawalla et al (2010) would most likely have yielded higher quality presentations and higher team member performance ratings.

At the end of the term, each team completed a rubric, which they used to evaluate their performance along with each of their team members' performance. Again, the cohesiveness of the team was readily apparent by these peer team-rubric results. The lack of teamwork was painfully obvious during some of the team presentations. The professor used these team results, along with her team presentation rubric results, to determine the students' CCMP project grades. There was little to no discrepancy between student scoring and instructor rating both throughout the semester and for the final presentation.

PROFESSOR/COURSE EVALUATIONS

The professor's previous course evaluations had been generally positive and varied little from past ratings for the CCMP project. The negatives that had not been present in past evaluations focused on the ambiguous nature of the project, which was expected given the nontraditional format of the course. Even fewer negative responses were received on course workload; textbook material and quizzes, in addition to the CCMP project, was too heavy of a workload. Overall, comments revolved around the exciting and original nature of the project that allowed for creativity and application of learning. A typical response; "The CCMP project was a great experience, and helped us learn hands-on what you were teaching us. You tied that in with the lectures extremely well. I am very grateful you decided to allow that project into the curriculum. Thank you for all of the advice and opportunities!"

A future improvement would be developing the teams in a more psychological/sociological context, possible creating an interdisciplinary collaborative class. As research by Jassawalla et al (2010) reflected, more effective student teams can be created if students are taught about effective team strategies. This was not done given the time frame, but should certainly be considered for future experiential classes.

NOTABLE OUTCOMES/SERENDIPITOUS RESULTS

At the end of the project, the teams made presentations and a winning team was chosen from each class. A serendipitous result of the entire process was CCMP promotional representatives' expertise in promoting the entire process. During the time between announcing the winning teams and executing the on-ground promotion, a local television producer called to interview the professor and the winning teams in front of a Chevy vehicle. Not having been told where the interview had to take place, the Chevy was parked on the sidewalk directly in front of the school of business. One more piece of marketing education for students and school.

A second, and perhaps more far reaching, result of the process occurred during the on-ground execution of the promotions at the university football game. The students did an excellent job as they showed off the vehicles parked at one of the stadium's main entrances (one student actually "sold" four cars) and as a result, the Chevy promotions person commented that perhaps our university would be a good pilot school for the GM summer internship program. The professor immediately called the school of business internship coordinator, who was on his way to the football game, to stop by.

The third major outcome was the students' winning presentations. A presentation to 15 automotive dealers by the two winning teams turned into a major production in the school of business auditorium. Other professors heard about the presentation and brought their students to the presentations; it was standing room only. The school of business internship coordinator attended both team practice presentation sessions and coached them. The teams executed their presentations flawlessly and the dealers were very impressed. Coincidentally, the television broadcast on the promotion was aired immediately at the end of the two student presentations, so the dealers were able to watch the presentations, view the television broadcast story, and then select the winning team. Ultimately, the dealers said their decision was made on the fact that the winning team used data-driven decision making to put together their plan, which was evident in their presentation. Both teams had put together outstanding videos, but it was the data collected during the process and used during the presentation that made the winning team stand out. The winning team did an excellent job using data to defend their choices during the question and answer session at the end of the presentation as well.

One of the CCMP representatives commented in a post-promotion survey their disappointment that students did not use more social media in their promotion plans, which was one of the objectives for the project. The professor believes that the students presented what is their reality as the target market of the new vehicle, and that perhaps the CCMP promotion representatives assumed that students use more social media than they really do use. When asked if he would do the project again in the future one dealer remarked, “It’s a different path for us to take, but I would definitely do it again.”

Kennedy (2001, p3) quotes an Epinons leader as saying, “We need closers, we need bulldogs, we need engineers who are execution machines… We do not need any more strategists.” While close to a truism, Kennedy’s (2010) quote does mirror what this experience found in regards to student knowledge and pricing of various marketing components. As found with Marshall and Pearson (2007), students did not fully appreciate the true cost of virtually every component of this exercise until they had to actually price it and work out the budget.

The CCMP project involved strategy, but more importantly, it involved executing the plan in the real world using those all-important soft skills. The project was an extremely powerful learning tool fostering the development of critical thinking and problem solving skills, while balancing the ambiguous nature of the project that is ever present in the real world.

During the process there were some ah-ha moments for both the students and the professor. One such moment came during a conference call with the CCMP promotions representatives, when the professor suddenly realized from the way the call was going that no student in either class had ever been involved in a conference call. A second ah-ha moment came when the professor saw the videos made by the two winning teams. With high expectations can come great disappointment, but this was not the case. The quality of the videos may be a direct reflection on the way video and social media are used by the students’ general; not as a means of communication itself, but as a channel for the message, however, that is chosen to be sent. And there were several ah-ha moments for the winning teams as they executed their on ground promotions and discovered that things do not always go as planned in the real world. The final ah-ha moment for both classes was when during an on-site presentation to the class about the project, the CCMP promotions representative mentioned that the students would be able to put this project on their resumes. The professor saw faces in the room light up as the students realized that an important outcome of the class would be something they could put to good use after graduation.

Major project outcomes included development of effective management skills, oral and written presentation skills, team leadership, interpersonal communications skills, oral and written presentation skills, experience in complex project planning, implementation of a promotion, and actual sales experience. These are all soft skills vital to student success in the business world after graduation (Elam and Spotts, 2004). Additionally the students learned being uncomfortable; uncomfortable working on a team, loss of control due to ambiguity, and working on a real experiential project has a direct impact on project success unless dealt with directly. And as predicted by Makienko (2009), students did appear to understand marketing terms in an utilitarian way, although this was not directly assessed.

CONCLUSION AND IMPLICATIONS

The professor, students, dealers, and CCMP promotions representatives were pleased with and would be willing to repeat this experiential learning experience; however, changes would be suggested. As a result of the project, Chevrolet is working with the university internship coordinator to put together a pilot summer internship program for university students. Additionally, as a direct result of the airing of the CCMP segment on television, the university has received inquiries from other companies about filling intern positions. And the professor quickly filled both of her Advertising and Promotional Strategy sections for next term.

Changes that should be considered for future live case projects include the following:

1. Group dynamics and process: Teams should be limited to 3-4 students and part of the curriculum should be discussions on team building and group dynamics. An interdisciplinary approach at this juncture with sociology or counseling would be ideal.
2. Collaboration: An electronic team collaboration tool (beyond the Blackboard site used for the course) would have been very helpful for the teams to use in coordinating their final projects and for the professor to have access to in order to gauge participation. It would also have been very useful in the forwarding of the winning materials to the CCMP promotions representatives.
3. Curriculum load: A reduced teaching load by one class would have dramatically shifted professor time towards the project class.
4. Recognition: Non-winning teams that did exemplary work should be given an honorable mention or recognition of some sort.
5. Structured process: While the CCMP project was very structured with interim deadlines and deliverables, some students still found it too ambiguous.
6. Documentation: Documentation of all aspects of the project quickly provided benefits to team and instructor. While assuming this is not news to the instructor, the value of documenting all milestones and communications quickly proved its worth to effective teams.
7. Debriefing: While traditional university course evaluations were conducted, the project may have benefited from a more formalized debriefing between instructor and teams and/or students.

As found with Butler (2007) and Craciun and Corrigan (2010), integration of marketing concepts in an experiential learning format has a positive impact on student learning and application of learned skills across the business curriculum. Exposing students to an experiential learning class, much like one found in the MBA program studied by Li et al (2007) has a positive learning impact with coupled with previous coursework.

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A STRATEGY TO ATTRACT THE NECESSARY SKILLED WORKERS FOR SMALL BUSINESSES

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ABSTRACT

There are many jobs available in our economy, but these jobs require skilled workers. Even though there are thousands of unemployed, many of them do not have the skills or abilities needed to fill the jobs available. The skills required include welders, engineers, carpenters, etc. These jobs require special education and training to become certified. Many of these skills require trade school. Our society needs to rethink the way trade schools and community colleges are viewed and begin encouraging a return to these programs. Without people learning these specialized skills, the shortage of workers will continue and our economy will never fully recover.

INTRODUCTION

With the unemployment level closing in on 10% in America, why is it that small businesses are having trouble finding the employees they need? The key problem is that these small businesses need employees with specialized skills. These specialized skills include computer work such as programming, graphic design, and technical writing, and physical skills such as welding, engineering, or mechanical repair. The American culture sees this manual labor as being outdated and has moved toward earning degrees from colleges or universities. This culture needs to be changed so that labor jobs and trade schools are seen as respected career choices. This culture change will take an extended period of time, but this still leaves small businesses without the employees they need to grow and expand.

In the short run, these businesses looking for employees can find them through hiring agencies or through college recruiting. College recruiting is the more viable option of the two. Recruiting would take more effort on the part of the business, but would also reap the most rewards. Both situations require the training of new employees, but employees hired through an agency are not usually long-term solutions, possibly lasting only weeks or months. College students, on the other hand, are looking to start careers and would be more likely to stay for an extended period of time. This makes them the more worthwhile investment.

In the long run, businesses have many options to fulfill their needs. One of these options is working with local community colleges to tailor a curriculum that not only fits the requirements of the desired degree, but also has specific connections to that local business. This allows the students a job opportunity coming straight out of college and the business has the ability to hire new employees with the specific skills they are searching for. Another option is to reintroduce training programs and apprenticeships that were prevalent in the 1900's. This allows the business to train their employees for the intricacies that will be faced at that location, so that they may not have learned or seen at any other place. This also allows for a pass of knowledge from those experienced workers to the new employees. The final option is a change in the hiring process. It

seems like every job requires 5-10 years of experience. There needs to be a shift from the focus on experience to a focus on what a person has accomplished in their life.
Of these long-term options, the tailored college programs would work the best. Students are learning skills that they need for their degree or license, and they are learning skills for a specific job with a specific business. The company eliminates the need for a full-scale training program, which also eliminates the need for a large expenditure to fund the program.

BACKGROUND

The United States of America is currently hovering between 9 and 10 percent when it comes to unemployment, according to the U.S. Bureau of Labor Statistics (Table 1). They also have the Arkansas unemployment level listed as 7.8 percent as of December 2010. So why are small businesses having trouble filling jobs? The problem is not the quantity of applications these businesses are receiving. It is the quality of those looking for employment. As Mike Kleinberg, an executive at Needham Roofing and Solera Salon, puts it, the 'challenge to hiring is not the finding enough people to sign up for the job. Our challenge is finding the right people who stick with us after the first couple weeks on the job.'

Table 1

So how to businesses find employees? What efforts to they make to get there jobs known? Many small businesses use word of mouth. This is probably the must successful form of advertising positions. We all know people who are looking for jobs, and most of us would not recommend a bad employee to a friend. The recommendation reflects on us and we are not willing to have that negative reputation come back to us. Many small businesses try to hire students just out of college. This allows the business to get good employees with the needed knowledge for a cheap price. They are able to pay these young people slightly less because they have no experience and relatively low expectations. Other places small businesses use to hire include newspapers, signs, local offices, Craigslist, and the new hot ticket is social media. Social media can be used to reach more people than any other outlet available. Facebook and Youtube receive as much traffic as search engines like Google. These sights are the future of small business employment. But this still does not guarantee that a small business will find a qualified person. There needs to be a way to find the right person for the right position. This paper will elaborate on some ideas to make this work for a business.

What if a small business were to find an employee that is a good fit? Dave Hatter ran into this problem. He is the president and founder of Libertas Technologies and struggling to find quality employees. When he finally found an employee with the right qualifications, that employee was unable to relocate. Other aspects affect employment also. This person's was unable to relocate due to the housing crisis. His house had gone under water.

Another problem is compensation. Many small businesses cannot afford to pay new employees much more than minimum wage. The average unemployment check is between three and four hundred dollars a week. If we take the maximum of this number ($400) and divide it out over a forty-hour workweek the dollars per hour come out to ten. Minimum wage in the United States is seven dollars and twenty-five cents an hour. This means that a person can actually make more money by being unemployed then making minimum wage. What would be the advantage of sticking with a small business if you are earning less money? The stability of a job and the possibility of benefits could be a reason. The experience added to ones resume and the potential for a raise or promotion are other reasons to stay with a small business.

Not all small businesses are paying minimum wage however. Many can afford to pay very well. The two previously mentioned small business executives were offering 90-100 thousand dollars for their jobs. This returns us to the original problem of finding qualified workers for the jobs that are available. These executives cannot afford to give these jobs to unqualified workers when they employ about 20-50 employees.

This paper will detail a few ways that small businesses can find the skilled labor they desperately need. Two of the main options are to work with local colleges to get the specific skill needed by that company or for that company to implement its own training program. Another possible problem for small businesses looking to hire new employees is the interview process. This is a process that could use an overhaul.

Skilled Work Needed

It is important to understand what kind of skilled work these small businesses are looking for, before we get into ways to find those workers. A skilled worker is someone who knows how to perform some type of special knowledge or ability learned in college, technical school, or on the job. Since the 70's, parents and students have been told that any degree is a ticket into a good profession. This idea has taken a hit since the recession, and a move towards technical schools is not inappropriate (Zieminski).

Many technical schools reward licenses or certificates upon completions. Jobs requiring this type of certification include plumbing, carpentry, bricklayers, welders, and electricians. Other skilled jobs include operating sophisticated computer machines and programs. Many companies are requiring higher levels of math proficiency than ever before (Rich 2010). This type of education better prepares students by providing a specific skill and job type than some college degrees.

Many colleges have lost touch with the modern business world. Another problem is the social stigma that comes with going to a technical school. Many people look down on specialized skills learned at a technical school because it is not a '4 year degree' and many times only takes a year to earn certification (Zieminski). Many people see manual labor as an unfitting way to make a living.

This danger is threatening to continue in our country. Only 10% of American teenagers see themselves working a skilled trade. We need to find ways to improve the outlook on manual labor and technical schools, or the shortage of skilled labor in the workforce will continue. Creating a positive outlook on specialized skills is imperative to facilitate growth. Getting the word out on the good and reliable careers that are created by trade schools, community colleges, and universities are important, especially the fact that many of these jobs can start at $75,000.

The other important aspect of technical school that needs to be fixed is the idea that it is somehow beneath a college degree. The ideas that manual labor needs to be done by those less educated, that work is always noisy and dirty and that the jobs cannot be done by women needs to be addressed (Manpower 2010).

The lack of skilled workers is not just a problem in the United States. Five of the top 10 countries ranked by GDP list the shortage of skilled workers as the number one issue facing their economy. Many countries have resorted to recruiting abroad for skilled workers. The United States could take a modified approach to this concept and allow citizenship to encourage skilled workers abroad to come to our country.

Short-Term Initiatives

Hiring Agency

Possibly the easiest shot term solution for the hiring problem would be to work with local hiring agencies. Hiring or employment agencies work to match employees and employers. The agency usually requires a test to make sure you posses certain skills such as reading ability, basic math, and writing. Many of these agencies specialize in certain fields such as nursing, technical, executive, etc. The hiring agency will take make money out of the check of the people they get hired. Employees hired through an agency are usually part-time or full-time for a short period of time. This allows the business time to find a full-time employee with the needed skills for the job.

For a small business to find the work it needs immediately, this option is very viable. Many unemployed people have begun using hiring agencies to match them with jobs. And many businesses have looked to agencies to fill their open positions. This would allow many small businesses to fill this positions they need for a relatively short period of time, while trying to implement one of the long-term initiatives. The key here would be to find a hiring agency that specializes in finding jobs for people with technical skills. It would not do a business any good to hire completely unqualified or unskilled workers if they need people with specialized skills.

The drawback with a hiring agency for the business is the skill of the workers. The business will be forced to train their new hire on the details of that particular work place. Another problem would be the duration of the work. Many times, the people using hiring agencies have fairly unstable lifestyles which could result in them leaving after a short period of time. The loyalty level to a company is not very high when hired through an agency. This could result in a high cost of training for someone who may not be with the company for an extended period of time. This may just be a risk that a small business needs to take, however, to fill an open position quickly.

College Recruitment

The next short-term option for a business is to recruit college students. This can be easily done by attending the job or career fairs sponsored by the university. This is an easy way to get the name of your business out amongst the students and to come in contact with many people who will need jobs soon. The fairs usually take place in March or April. This allows the business time to review resumes and schedule interviews before school is out. It would also be possible to set up a similar process at trade or technical schools is one does not exist.

Another option would be to talk with faculty so they can help you find students for the open positions. Many teachers are more than willing to help students get in contact with potential employers. Making connections with the faculty can lead to the referral of students to your business.

Recent college graduates would be good hires. They are raw talents looking for good starting jobs. The people who are chosen for work would require training, but being in school recently would help the learning curve be much shorter.

My recommendation for a business looking for immediate help would be to use college recruiting. The talent would be more reliable and moldable coming out of college than it would be through a hiring agency. Either way the employees will need to be trained. Hiring employees from college would also be a more long term investment than hiring people from the agency. College recruiting would require a little more work on the part of the business. When using a hiring agency the business asks for employees and the agency sends them over. The recruiting requires sending out a representative for the business to the school, reviewing resumes, conducting interviews, and choosing employees. However, this process would be much more rewarding in the long run for the business.

Long-Term Initiatives

Community College

One of the easiest ways for a small business to find workers with the skills they require is to look into the talent pool right in front of them: local colleges. With many medium to large companies going to state colleges for recruiting, it is not reasonable for a small business to compete on that level. By working with local community colleges, a small business could get the college to tailor its courses towards the specific skills it needs. A manufacturer could ask the college to gear its business and engineering classes towards production. A community college could tailor marketing classes towards retail for a startup clothing company. A college could also design a technician program for a local business that fixes appliances. Setting a program up like this does not mean you are leaving out other aspects of a specific major, but are instead designing the classes that will specifically translate into a needed skill.

This concept is similar to a system called a business incubator. A business indicator is a program set up by schools to teach, train, coach, and support people interested in becoming an entrepreneurs. Tracy Kitts, who is the vice president and chief operating officer of the National Business Incubator Association, says, “A business incubator can help strengthen the ties between local businesses and the college. The college can provide resources (space, labor, equipment) that the small business needs, and the small business can provide financial support and placement assistance to the college and its students.” Incubators also improve the success rate of small businesses operations. There is nearly a 50% difference in success in some areas using the incubator system. The incubator serves the students by providing a real life lab, the business, which supplements what is learned in the classroom.

My proposition is setting up the opposite of a business incubator institution. Instead of providing programs to train entrepreneurs on how to start a business, it provides programs to train employees on the skills that are needed by those entrepreneurs. Once a student completed this program for a specific company, he or she would likely be offered an immediate job because they have the specialized skills that this specific business needs. They are by no means required to work for the small business and are welcome to explore other opportunities in other places.

However, this would be a great way to provide career opportunities for a colleges students and a way to support the local community. An investment from a state in a program like this would not only increase the success rate of a small business, but also lower unemployment rates. The growing businesses would then reinvest in the college, community, and the state. This program seems like a fairly certain way to help business and students.

President Obama has recently an initiative called Skills for America’s Future. A program that supports local community colleges in order to design a curriculum that develops skills that employers actually want. This program is still in the research stage.

Training Programs

The current business model assumes employees come in to a job with exactly the right set of skills needed to be successful. This idea is relatively new and needs to be retired. Think back 20-30 years ago, when computer programs and software did not run everything we could dream of. The workforce then did not know how to write code or do data entry when they were hired on to a company. How did they learn how to do it? The employees learned by training. These employees spend hours, days, weeks, and months learning how to write the code and make sure that it was entered correctly. Compare this with job requirements today. Employees are expected to come in with knowledge on how to run sophisticated computer software created by Oracle, SAP, IBM, Microsoft, and Cisco. We have shifted from a focus on potential and capabilities to what can you do for me now.

Training costs money. Every student of business understands that. Training will not work in every business, but those who need highly specialized employees should consider giving employees with high potential the opportunity to learn these skills and help their business. GenMet is a growing metal fabricating company in Wisconsin. The president of GenMet, Mary Ibister, says, “Currently we employ just over 70 people. We would be able to double revenue this year if we could find 20 more.” Mrs. Ibister also says that she turns down applications daily because she needs experienced welders and laser cutters. Why not choose some of those workers who have proven themselves in other arenas of business and train them to do the jobs you need? There are hundreds reports of similar stories, some of which have already been discussed here. Companies are having such a hard time finding the workers they need. They have the option to create the employees with the skills they need by training. Six to eight months of training resulting in a double of revenues should be enough to pay for the training and more.

Increased revenue and other benefits are derived by training your own workforce. Clearly, you get employees with a specific knowledge of your operations, goals, and strategies. Employees would be more loyal and confident because they have been invested in by the company. Employees who understand how they fit into the organization are said to be more motivated to perform well. Well-trained, confident, and motivated employees are likely to stay with a business for a longer tenure. Employers no longer need to search for new employees and focus on grooming and growing as a company.

Another way to look at training a new workforce is through apprenticeships. These programs allow one-on-one training with a close proximity to the job at hand. Many apprenticeships also offer college credit to those who are accepted. Once the apprentice is experienced enough to work on his own, he can be inserted directly into the workforce. After a certain number of years working on their own, this skilled worker can then take on an apprentice of their own. This results in a passing of learned skills and intellectual knowledge. The employer saves money on implementing a required training period and gains employees with the skills it needs.

Changing the Hiring Process

As previously stated, the business model has shifted. Another important goal for a small business is to refocus on what is important. Instead of looking for someone who has 5-7 years of experience in a certain field, companies should look at the challenges an individual has overcome and their potential to be successful. The company should then work to develop that talent. It is clearly easy and convenient to ask someone you hire to immediately start a job with very little instruction. But easy is not always the most rewarding.

Businesses need to focus on people who are able to adapt well. An important business principle to remember is fluidity. Rapid advances in technology and changing markets mean that the ability to deal with change is becoming very important. Just because a person is experienced in the current system of production or operation, does not mean he or she will be able to successfully navigate the next system.

Another factor to consider in the hiring process is age. Many companies have decided not to consider employees over a certain age because of their inability to learn and adapt to new technologies. Here again, the focus should not be on the age of the person but the ability of that person to learn and thrive successfully in the business. A 40 year old with experience may have just as much or more to offer than a 22 year old coming out of college.

A change in culture is needed for our businesses. The times of making the easiest choice and hiring the employee who needs the least training are over. Businesses need to put an emphasis on the ability to learn and adapt, just as much as they look at a person's experience.

SWOT Analysis

My recommendation for a small business would be to look at college recruiting for immediate needs, while setting up a college training program to solve long-term problems. These plans provide strengths and opportunities for each and every business that decides to use them. As with anything, they do present a few drawbacks.

The biggest strength of college recruiting is the loyalty it would create, opposed to that created by using a hiring agency. Investing a large amount of time in an individual through meeting them at a career fair and in the interview process creates a relationship between the candidate and the business. When using a hiring agency, the employee is assigned to your business. Loyal employees work more effectively and efficiently, creating more revenue and lowering turnover.

The opportunities that go along with college recruiting are also lucrative. Going out to local colleges presents opportunities to get the name of your company out amongst the students and faculty. Handing out coupons or fliers would be an easy way to market while at these fairs. The obvious weakness of college hiring is the lack of work and life experience of 21 to 22 year olds. They will require a sufficient amount of funds to get them ready to perform the intricate job functions that are required. However, the weakness of hiring through an agency is much greater. Training expenses may be slightly lower, because of past job experience, but the length of employment is likely to be much lower. Having to hire 2-3 employees to fill the same position that one college recruit could fill would be much more expensive.

The strengths and opportunities created by creating a college curriculum also outweigh those created by the other options. The college curriculum allows for specific training, before these candidates even step foot into your business. This greatly reduces the overall training costs. A possible weakness of this program is that your competitors come poach these candidates away from your business. To combat this possible problem, a contract/scholarship program may need to be created. This would allow the students to attend school at a lowered cost and require them to work for a set number of years.

The problems that arise when addressing the other options seem much riskier. The main problem with a full-scale training program is the drastic costs and slowed production. If your workers have to train someone while working, they will have to slow their productivity on whatever they are working on. Having inexperienced workers can create errors in the quality of work. A change in the hiring process may allow you to consider more candidates, but it does not solve the problem of a shortage in skilled workers. The college incubator program is clearly the best option available with all these factors considered.

CONCLUSION

There are many jobs available in our economy, but these jobs require skilled workers. Even though there are thousands of unemployed, many of them do not have the skills or abilities needed to fill the jobs available. The skills required include welders, engineers, carpenters, etc. These jobs require special education and training to become certified. Many of these skills require trade school. Our society needs to rethink the way trade schools and community colleges are viewed and begin encouraging a return to these programs. Without people learning these specialized skills, the shortage of workers will continue and our economy will never fully recover.

Other ways for businesses to find the employees they need is to work with local community college to develop specific training programs. This would allow the company to cultivate the skills they need and higher workers just out of school. Another way for businesses to find the skills they need is to implement full-scale training programs and apprenticeships. The final way suggested for a small business to change the hiring process that we currently use. The idea of every position requiring five to ten years experience is a little far fetched. Job related experience needs to become secondary to what a person has been able to accomplish and overcome in his or her life.

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ENTREPRENEURSHIP OR SMALL BUSINESS – A MATTER OF INNOVATION

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ABSTRACT

There have been decades of discussion about what are the differences between small businesses and entrepreneurships. On one side of the discussion, any new business could be an entrepreneurship as it does take planning, courage, dedication and funding in order to start a new business. On the opposing side of the discussion, entrepreneurship implies that there is something very new and innovative within the business (Schumpeter, 1934). The creation of the business and the product/service should involve challenging risk, use novel ideas or methodologies to solve a business or consumer problem and require a passionate defense by the business creator. Therein lies the nexus of the discussion!
Entrepreneurship or Small Business – A Matter of Innovation

INTRODUCTION

Schumpeter – Entrepreneurship and Innovation

The problem is that there is risk of failure with any new business. There is an element of newness and creativity with any new business, but is the "new" to the business owner sufficiently new for the business to be known as an entrepreneurship? This paper suggests that the element of innovation and newness must be at a higher level for a new firm to be categorized as an entrepreneurship. An original voice in this discussion was Joseph Schumpeter (1983) who defined small business owners as people who were willing to take on the risk of starting a business that was new to them, but not dynamically new or innovative. Schumpeter viewed the small business owner as an essential part of American commerce, but starting a new business that did not embrace innovation was not an entrepreneurship. The person who created an entrepreneurship, an entrepreneur, was described as a person who could take two or more disparate ideas and put them together to engineer a new concept or solution. The entrepreneur was sociable and able to be empathic to consumer needs and situations as needed to be able to conceptualize new possibilities. Schumpeter (1983) thought that there was a special type of person who would embody the drive and passion needed to start a creative new business that would not be following a more traditional business path.

In one of his original books on economic cycles, Schumpeter posited that:
Most new firms are founded with an idea and for a definite purpose. The life goes out of them when that idea or purpose has been fulfilled or has become obsolete or even if, without having become obsolete, it has ceased to be new. That is the fundamental reason why firms do not exist forever. Many of them are, of course, failures from the start. Like human beings, firms are constantly being born that cannot live. Others meet what is akin, in the case of men, to death from accident or illness. Still others die a 'natural' death, as men die of old age. And the 'natural' cause, in the case of firms, is precisely their inability to keep up the pace in innovating which they themselves had been instrumental in setting in the first place (Schumpeter, 1934).

Opposing Viewpoints

In contrast, Scott Shane (2008) defined all new small businesses – all new business starts with less than 500 employees – as entrepreneurships. He used U. S. Department of Commerce data as well as state information to collate new business start information. In his study, he found that traditional geographic areas like Silicon Valley in California or Silicon Alley in New York are not the locations were the greatest numbers of new businesses are started. The greatest number of new businesses were started in less urban areas and states like Vermont. The new business owner tends to start a business within an industry that he/she has had a job and that there are few new companies that embody something new. Shane believes that the data shows that small businesses are not creating large numbers of new jobs as they are usually very small firms with fewer than ten people. These new companies have a rather high failure rate, 70% over 10 years, so strategies designed to encourage and support new small businesses do not help to reduce large numbers of unemployed as the new small business are often short lived. Entrepreneurships, in contrast, are more likely to create longer lasting new jobs as they support and feed into evolving consumer needs and wants.

In opposition to this grim picture is the knowledge that both Steve Jobs and Bill Gates started their innovative companies in garages. They were both driven to create the companies and products that they did. They were passionate about the ideas and products and were passionate about continually innovating and recreating the products so the products remain on the bleeding edge. They both embraced risk and both have experienced success and failure. Both started their companies during a downward trending economy. Shane does find that poor economic conditions tend to encourage more people to start businesses – especially since they probably had been let go from another company (Shane, 2008).

In a graduation address at Stanford, in 2005, Steve Jobs told the story of how he was fired at age 30 from the company he started and that he was driven to find something to do (www.forbes.com/sites/davidewalt/2011/10/05/steve-jobs-2005-stanford-commencement-address). He created a new computer company, Next, which was very technology forward and interesting in how it worked, but also very expensive and therefore difficult for the average computer consumer to envision how that computer would solve a computerization need. Academics were excited about the Next, but schools were already invested in either Apples or PCs and could not make large investments in buying Nexts. Jobs then branched out into digitally animated movies via a company he bought from George Lucas and re-imagined into Pixar. While the Next was not a success, the company was bought by Apple and Steve Jobs returned to Apple. He remained a fervent imaginer.

Since Schumpeter believed that innovation was part of the heart of an entrepreneurship, it is important to note that there are different types of innovation. Innovation may be continuous, dynamic or discontinuous (Shinohara & Okuda, 2010; Anderson, Cook & Morceau, 2004; Xu, Chen, Xie, Zheng & Wang, 2006). Continuous or systematic innovations are innovations that are slight improvements to existing products and may be only new to the individual who will sell that improvement. The products/services are better, but the lifestyle of the consumer does not change noticeably. Dynamic innovations are new to the company and create a need for a new supply chain, new training for the production line and the consumer must make some accommodations to the changes within his/her lifestyle. The discontinuous innovation is one that changes our world. It is new to the world, new to the company and new to the consumer. This is the product with the greatest potential for making consumers create new life patterns, communicate differently and change consumers' lives radically.

Apple serves as an example of a company that continued to encourage and embrace innovation with Jobs in the company. Apple was on its way to being irrelevant when traditional business strategy was used to guide the company's direction. Change came to Apple with the iPod and iTunes. ITunes allowed Apple to welcome PC users into a new way to enjoy music without having to change computers. It was truly new to be able to have "music in your pocket" and have the device compatible with both Apple Macs and PCs (October 6, 2011, NBC National News Broadcast, Brian Williams). The passion did not abate. The iPod was transformed through both continuous and dynamic innovations. The Touch iPod was very different from the earlier versions of the iPod and illustrates the stimulus that new products that are well suited to the needs and wants of the consumer can bring. The improvements in the iPod family illustrate the synergy that can be engendered within an environment of continual innovation and improvement. The iPad and iPhone would not be as successful without the company's experience with the iPod. While Wall Street was not overwhelmed by the iPhone 4S, it may be due to a lack of experience with the product. Predictions for the success of the first iPad were not favorable before it was available in stores (Schadelbauer, 2010). After the iPad was available for Father's Day 2010, it was sold out in the New York tri-state area. The iPhone 4S does not have the changes in hardware that the market was anticipating, but a phone you can talk to, request information of and have it respond back with active artificial intelligence may well be revolutionary. The change in software development is enormous and may be an industry changer as much as the iPad was in tablet sales.

Apple has been an excellent example of how an entrepreneurship can create a need when letting the consumer public know what can be accomplished with engineering possibilities. Shang, Wu and Yao (2010) found that continual innovation is necessary for a business to be successful in a dynamic business environment. 3M Corporation provides a historical example of how continual innovation provides the energy for a corporation to remain current in its field. 3M has found that encouraging time for creative thinking has been critical for business success (Royer, 2002).

Small businesses are those businesses, which were started with fewer than 500 employees and incorporate minimal innovation. Schumpeter said that all new businesses that encapsulated something new were entrepreneurships. The new small business must continue to create newness in management functions, technology, products, services, etc. to remain an entrepreneurship. At the point that the business does not incorporate something that could be called new, then it reverts to being a small business instead of a small entrepreneurship. That change from the new to the old may take only a matter of months – 6 or less when the new business has entered a mature business environment without a new vision, concept, methodology or product/service. The newness is only of the new presence of the firm and a new proprietor. The existence of the store would quickly become mundane and ordinary if the firm does not have at least one way for customers to see how it can solve one or more of their problems more easily than other stores of the same business type.

IMPLICATIONS

It is a puzzle how some researchers into small business and entrepreneurship have examined business statistics and found that new business startups do not create new jobs nor new business opportunities and that most fail (Shane, 2008). At the same time, a second set of researchers report, based on the use of U. S. census data, that new small start-ups create the majority of new jobs (Kane, 2010). Horrell and Litan (2010) have found that the job growth in older companies (startups that were started a few years ago) is slightly higher than in very new companies, but that as companies age, they will add employees and that over a span of a year, new companies keep about 80% of their employees that they started with. These firms were cohorts and not a panel study of new companies.

The first question that is raised is: it may be that if a panel study is conducted, that different results might be obtained concerning job creation, growth, retention and the efficacy of new businesses creating jobs. The second question that might be answered is: whether all startups could be defined as entrepreneurships or whether some startup small businesses start with little new to offer other than a new location and new people in the firm. A third question is whether the time frame of data that is being used for the study made a difference. The same research methodologies should be applied to the same time frame databases so that it could be seen whether small business support would help to lift employment rates of the population or if there are some statistical anomalies that have inserted some misunderstanding of the mechanisms of job creation.

CONCLUSION

Entrepreneurships require qualitatively more innovation – either dynamic innovation or discontinuous innovation. It seems misleading to define entrepreneurships as all small businesses started within a set time frame. Schumpeter's definition, which called for creativity, innovation and passion with products, services, and proactive strategies (Hagedoorn, 1996), must be included in any categorization of entrepreneurship. The question of whether small businesses create more job opportunities than large corporations may hinge on whether the study is following the same firms over time, using the same time frames and whether there is a good definition of which of the firms is entrepreneurial in nature. It may be that the firms that create more jobs encompass more innovation than the rest of the startups, thereby supporting the research of Schumpeter. This conceptual paper opens the door for future empirical research.

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DETERMINANTS OF THE ENTREPRENEURIAL DECISION TO UTILIZE FORMAL PLANNING TECHNIQUES

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ABSTRACT

This paper investigates factors that influence entrepreneurs' decisions to prepare a business plan. Data is obtained from a recent survey analyzing financing options for small businesses, owners attitudes toward different financing options, and real or perceived difficulties encountered in gaining financing for growth. The survey instrument, administered to businesses in the Arkansas Small Business and Technology Development Center data base, was designed to address various aspects of financing within small businesses, including availability/use of outside debt or equity funds, owner attitudes toward various funding options, and owner decision as to whether to prepare a formal business plan in support of the search for funding. Factors identified as influencing the decision to prepare a formal business plan in support of financing efforts include amount of required start-up costs, proportion of start-up costs raised from outside sources, receipt of financial advice from an investment advisor, and use of start-up funds to finance start-up expenses and acquisition of intellectual property. Furthermore, individuals who sought debt financing and expressed high confidence in their level of financial knowledge were less likely to prepare business plans than other individuals. In addition, individuals who prepared a business plan and expressed high confidence in their level of financial knowledge were less likely to have found surprises concerning their investment arrangements than other individuals.

FRANCHISE ADVISORY COUNCILS: ALLIES, AGENTS, ACTIVISTS, OR ANTAGONISTS

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ABSTRACT

A series of interviews with franchise advisory council members was undertaken to determine if a stakeholder typology is a fruitful means for categorizing franchise advisory council relationships. Because effective collaboration requires teamwork, understanding the stakeholder relationships is critical at the beginning of any council evaluation or organization development assessment. Franchisees and franchisors were interviewed to compare each group's perspective on why councils form, what roles these councils play, and what type of relationships operates. Findings' from this study fills a gap in the literature on franchise advisory councils and provide a typology to evaluate the stakeholder relationship of franchise councils.
Keywords: Stakeholders; Franchise Advisory Councils

INTRODUCTION

Franchising has played a major role in shaping the U.S. economy over the last 50 years. Franchise businesses make up 11% of the U.S. private-sector economy and there are over 800,000 franchised businesses in the United States (International Franchising Association, 2007, para. 1). Despite a weak lending environment, franchising continues to attract individuals with an entrepreneurial spirit seeking to establish and manage their own businesses.

The relationship between franchisee and franchisor is interdependent. Each partner relies on and influences the other across multiple domains, including marketing, operations, finance, human resources, and governance (Morrison, 1998). One mechanism promoted to enhance the relationship between franchisees and franchisors is the establishment of franchise advisory councils. These councils encourage participatory engagement and allow franchisee voices to be heard (Dandridge & Falbe, 1994). Although there is a substantial body of practitioner literature on franchise councils, there is a more limited pool of scholarly research.

Statement of the Problem

Drucker (1974) suggested that a commonality among boards is that most of them function poorly. In providing his recommendations for nonprofit boards, Drucker (1990) argued that membership on a board should not be viewed as power, but as responsibility. Franchise councils can influence operating decisions, channel communication to the broader franchisee constituency, ignite tensions between franchisees and the franchisor, or collaborate on strategic opportunities to grow the brand. A good deal of time, money, and resources are dedicated by both franchisees and franchisors to running advisory councils. Taken together, Drucker's (1974, 1990) research suggests that periodic assessments are needed to ensure that there is not a gap between the intentions and the functioning of a board.

Purpose of this Study

This study will explore the attitudes and behaviors of both franchisees and franchisors that serve on franchise advisory councils. The objective of this research is to develop a conceptual model for understanding the stakeholder relationships that exist within these groups. Greater understanding of internal stakeholder dynamics may help improve advisory council performance. In the case of franchise advisory councils, the stakeholders represented include the franchisees and the franchisor.

Research Questions

Using qualitative methods, this study explores stakeholder dynamics that operate within franchise advisory councils. This study presents stakeholder theory as a promising avenue to identify the types of relationship that may be operating within franchise advisory councils. Stakeholders are those groups or individuals, who are impacted by the organizations decisions (Freeman, 1984). Several research questions guide this study.

1. Why do franchise advisory councils form?
2. How do franchisee and franchisor council members view their roles?
3. What types of stakeholder relationships exist?

The Franchise Advisory Council

The International Franchising Association (IFA), a trade association representing the franchise industry, recommends that franchisors establish advisory councils early in their life cycle (Wulff, 2005). As a young growth-oriented franchise firm attempts to bring new franchisees on-board, the presence of an advisory council may prove to be a valuable component for future growth. The IFA reports that the majority of their franchisor members have established advisory councils and over 90% of the council participants are elected by fellow franchisees.

Current understandings of why advisory councils form and the roles these councils play is based largely on normative guidelines provided by franchise consultants (e.g., Ingage Consulting, n.d.; Powers, 2010), franchising attorneys (Barkoff et al., 2006; Gurnick & Wharton, 2000); Karp, Norman, & Stafford, 1999; Spandorf & Barkoff, 2003) and trade associations (e.g., IFA; American Franchise Association, Coalition of Franchisee Associations). From a scholarly standpoint, the field’s knowledge is limited to a few studies conducted outside the United States (Cochet & Ehrmann, 2007; Croonen, 2008; Grunhagen, DiPetro, Stassen, & Frazer, 2008; McCosker, Frazer, & Pensiero, 1995) and Dandridge and Falbe’s (1994) U.S. study.
In the one quantitative study located on the subject of franchise councils in the United States, Dandridge and Falbe (1994) surveyed members of the IFA to determine if fast-growing franchise systems would use advisory councils to reduce conflict and encourage entrepreneurism and innovation. Although the study did not find support for the theory that a franchise advisory council was used by fast-growing systems as a means to reduce conflict, there was a positive correlation that suggested that advisory councils were used as a way to encourage franchisee innovation.

In an empirical study of franchise advisory councils conducted in Australia (McCosker et al., 1995), covering a range of industries found that while franchisees tended to agree on the roles of the board, they were not aligned with franchisors on their power to change operations. Franchisees rated their level of decision making on boards higher than franchisors rated the franchisees’ decision-making input (McCosker et al., 1995).

A case study of four Dutch drugstore franchise systems found the presence of a franchise advisory council provided franchisees a high level of participation and influenced the level of franchisees trust in the system (Croonen, 2008). A correlational study, conducted among German franchisees (Cochet & Ehrmann, 2007), found franchise councils were more prevalent in systems where the franchisor had more control over the operations of the chain. In addition to supporting Croonen's argument that councils foster franchisees' participation in decision making, Cochet and Ehrmann's (2007) study found councils provided a tool to monitor the franchisor. In this respect, trust may be garnered because councils serve as watchdogs that protect franchisees interests. Finally, a study by Grunhagen et al. (2008) found franchise systems with councils in place were less likely to be involved in legal disputes.

Franchise advisory councils will each assume characteristics of coalitions. Occasional disagreement is likely between different parties in any group, and such discord can stifle collaboration and prevent synergy. Applying a stakeholder framework may contribute to the resolution of issues by providing a method of classifying the board relationships to understand the sociopolitical environment that is operating.

The Stakeholder Concept

Freeman (1984) introduced the term *stakeholder* in his seminal work, *Strategic Management: A Stakeholder Approach*. In this work, Freeman defined a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (p. 46). Since the publication of Freeman's work, the term *stakeholder* has become part of corporate America's lexicon. The definition of who qualifies as a stakeholder, however, is open to various interpretations. Popular lists of stakeholders include the following groups: employees, shareholders, customers, competitors, vendors, strategic partners, the local community, and the environment (Donaldson & Preston, 1995). Recent scholarly work has attempted to provide greater clarity of the term *stakeholder* by taking these broad groups and subdividing them into smaller units to provide more precision and allow for empirical research to be undertaken.

A seminal contribution to the literature was offered by Mitchell, Agle, and Wood (1997). In this theory, stakeholder types are based on whether they have the attributes of power, legitimacy and urgency. The framework suggests that stakeholders can be classified based on specific situations. This type of classification allows managers to predict the behavior of these various stakeholders under different conditions.

Another typology of stakeholders is offered by Frooman (1999) and was based on resource dependency theory. Frooman argued that there must be conflict in a relationship for a stakeholder relationship to even exist. Divergent interests and the potential for conflict are the cornerstones of his typology. Frooman's (1999) typology outlined influencer strategies that different groups of stakeholders are apt to employ to get what they want.

Recently, Ford, Peeper, and Gresock (2009) wrote a detailed case study of convention and visitors bureaus that suggested a categorization of stakeholders as friends, foes, or neutrals. This typology expands earlier classification schemes by suggesting that stakeholders may not fall into either the friend or foe class, but may be a neutral faction.

The goal of this research is to assist franchises and franchisors understand the type of stakeholder relationship operating within the context of the franchise advisory council. Because stakeholder relationships evolve over time (Hosseini & Brenner, 1992), franchise advisory councils wanting to collaborate effectively will need to understand the type of stakeholder relationship that exists.

Conceptual Framework for Franchise Boards

The conceptual framework in Figure 1 depicts four stakeholder relationships. The governance models depicted in the framework were influenced by the work of Cornforth and Edwards (1999) study of nonprofit boards. Unlike Cornforth and Edwards, who focused on how norms of governance impact the ability of boards to function strategically, this researcher suggests that the norms of governance create stakeholder relationships on franchise boards.

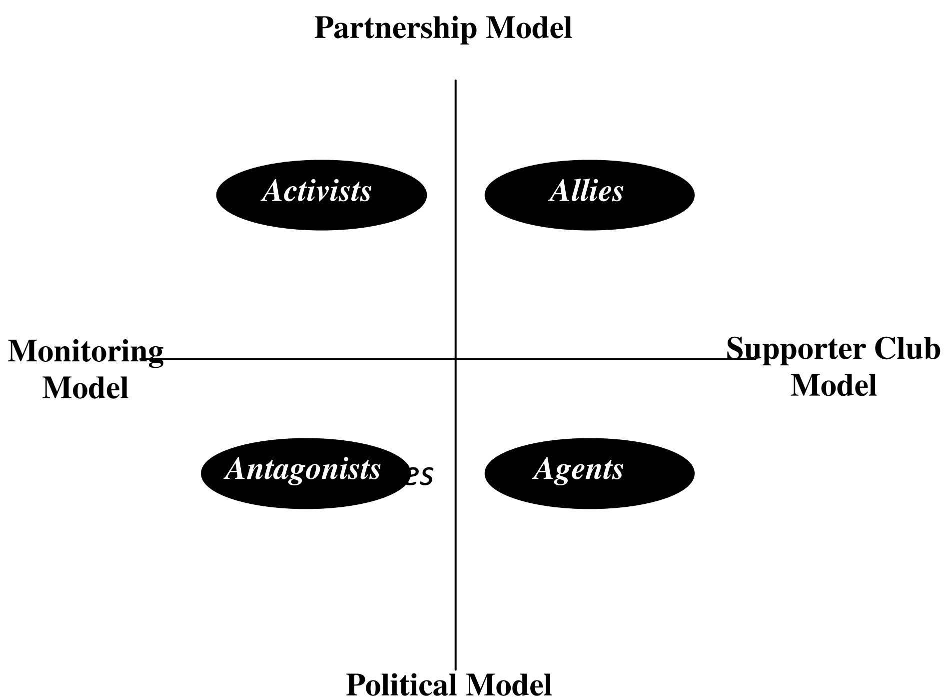

Figure 1. Conceptual framework illustrating four governance models and stakeholder relationships by quadrant.

The vertical axis represents a continuum of boards' behavior that ranges from the political model to the participation model. In the political model behavior is characterized by a quid pro quo approach, whereby boards are continually horse-trading in their decision-making efforts. This model is influenced by resource dependency theory, which deals with asymmetric power relations (Pfeffer, 1972). On the opposite end is the participation model, whereby boards' conduct substantive dialogue and debate prior to making decisions.

On the far right horizontal axis is the supporter's club. In this model franchisees view the franchisor as the expert and their role as ratifying the franchisor's decisions. This idea of legitimizing actions to promote survival of the firm evolves from institutional theory (Meyer & Rowan, 1977). On the far left is the monitoring or compliance model. In this model franchisees view their role as watchdog to protect themselves and other franchisees from franchisor misconduct. This model rests on the assumption made by agency theorists that boards are needed to ensure that the interests of the principals and agents are aligned (Fama and Jensen, 1983).

This four-quadrant grid provides a process for categorizing stakeholder relationships. Franchise advisory councils that behave politically and have a monitoring attitude would be characterized as having an "antagonistic" stakeholder relationship. Board dynamics would be fraught with dissension and distrust between franchisees and the franchisor. Councils behaving politically, but having a supporters club mindset would be considered as "agent" stakeholders. This agent relationship can be contextualized by suggesting franchisees have "gone native," becoming indoctrinated into the trappings of being part of the council and the advantages that are associated with that position.

Moving above the horizontal axis, councils in the participatory model that have a supporters' club attitude are characterized as "allies." Stakeholder boards functioning as allies are characterized by two-way discussions and both franchisees and franchisors bringing insight and advice to meetings. The franchisees attitudes are one of trust towards the franchisor. In upper left quadrant are "activist" stakeholders. These councils want to be intensely involved in decision-making on key issues, desire partnership, yet there is acknowledgement that each side has different objectives.

Prior stakeholder typologies identified stakeholders according to their influence over resources (Ford, Peeper, & Grescock, 2009; Frooman, 1999) or by the level of power, legitimacy, and urgency stakeholders hold (Mitchell, Argyle, & Woods, 1997). The proposed framework classifies advisory council stakeholder relationships based on four normative board governance models. It is suggested that how the board governance process occurs can characterize the stakeholder relationship that is operating.

METHODOLOGY

This study relied on a qualitative research design using multiple interviews with franchisee and franchisor advisory council members from various organizations around the U.S. This took place over a 12-month period. Interviews with twelve franchisee and franchisor advisory council members explored reasons why the council formed, roles of the members, and uncovered aspects of board culture, including tensions that arose between franchisees and franchisors. A heterogeneous stratified purposeful approach and snowball sampling technique was used to ensure multiple industries were covered. Six franchisees were interviewed and six franchisors. In-person or telephone interviews ranged between 45 and 90 minutes.

Transcripts were coded using attributes to enable identification between franchisors and franchisees, as well as to track each participant. The initial coding technique also relied on descriptive codes based on participant content related to each research question (Saldana, 2009). At times the codes reflect an in vivo approach where the participants' words were used to capture certain themes.

RESULTS

Dan H., a franchisor of a mid-sized restaurant chain, indicated their franchise created a franchise advisory council once they had 20 stores open. Dan offered the opinion that every franchisee in good standing be part of the council and be invited to attend all meetings. Variation in the franchisor's approach to establishing and managing advisory councils was evident when Maddie H., a franchisee of a sign business, said their franchisor's sponsored council is not widely known. While Maddie has participated on this council in the past she commented, "I am not sure there is a lot of perception about the board. I mean it's prestigious to be invited on the council, but there's no ceremony to say 'here's your franchise advisor' in front of other franchisees." She went on to say there are probably many franchisees either not aware of the council or not familiar with what it does. Meanwhile, Betty M., an automotive franchisor indicated high visibility of their franchise council. Betty indicated they hold annual elections for members, issuing a public relations piece on each candidate to every franchisee in the system.

RQ1 - Two Primary Reasons Advisory Councils Form

RQ1 investigated why advisory councils form. First these councils were viewed as a means to network and pool resources. Second, it was noted that some advisory councils disband or morph when there is stress on the system.

Formation to Pool Resources. All of those interviewed acknowledged that councils form to pool resources, network and grow the business. Kevin S. explained that with his system he thought is was a chance for them [franchisor] to get ideas from these smart people [franchisees] for free. He went on to say, "for example, when I got in they didn't have employee handbooks and when I mentioned this they asked me to handle since I had an HR background."

Reaction to Stress. Of the twelve participants interviewed, over half of the respondents suggested " stress" on the system can lead to the council disbanding or morphing into a different type of board. Stress was defined as low sales, disgruntled franchisees, litigation, and new ownership.

In some systems, both an independent association board and a franchise advisory council co-exist. Independent franchise associations are organized by franchisees and may or may not be recognized by the franchisor. In three firms, the advisory councils changed when there was some form of stress to the system. In the case of the three boards that experienced transformations, two had franchise councils in place prior to their transition to independent associations and in one situation an independent association disbanded to form an advisory council after the relationship healed.

Formation as Pre-emptive Mechanism Less Evident. Practitioner literature suggests that franchisors form advisory councils as a defensive strike to avoid an independent association from arising. In this study, however, only three of the twelve individuals interviewed suggested this as a reason for the formation of advisory councils.

RQ2 - The Roles Boards Play

RQ2 examined franchisee and franchisor advisory member perceptions of the roles their boards play. Practitioner franchising literature on the role of councils was used to triangulate findings. Franchising consultants and attorneys suggest boards provide "feet on the street" feedback from operators who are in the field, allow for new ideas, programs, suggestions, and concerns to be brought forward, evaluate upcoming or past programs, improve communication with the franchisor, and represent the broader group of franchisees interests, and in some instances protect the franchisees by creating a legal entity that can challenge the franchisor in court (Barkoff & Green-Kelly, 2006; Darrin, Stadfeld, & Wulff, 1998; Gurnick Wharton, 2000; Ingage Consulting, n.d.; & Spandorf & Barkoff, 2003).

The researcher asked all participants to describe the roles of their franchise councils. Through an iterative process these roles were classified to reduce redundancy. From this investigation the three themes that emerged were focused around communication, representation and shared experiences.

Advisory Councils Facilitate Communication. The most prevalent theme to emerge was that the board serves as a communication forum. All twelve participants mentioned communication as a key role of the board. David B., a franchisor whose organization has had both a franchise sponsored board and currently an independent association, said it in simple terms, "the most important role of the board is feedback." He went on to suggest that the board may offer granular input on a new product idea, or broad perspective by engaging in dialogue on where the company is going." Matt P., a franchisor with a small restaurant chain, lauded the value of field level communication when he said:

> We [franchisor] are not always in tune with what's going on out there. They [franchisees] keep us in tune. They talk about issues affecting our restaurants at the ground level. They are in their restaurants everyday, they are the foot soldiers, in contact with guests daily, so they keep our ears to the ground and nose to the grindstone."

The value of communication expanded beyond the tangible of improving ideas or direction. Franchisor Donny. L., said the most important role of communication is "everyone likes to be heard, and I think that is the most important piece." Laddering up from the idea of being heard, John T, suggested that two-way communication was the most important role an advisory council played and he had personally experienced his franchisor doing an "outstanding" job, as well as times when management just wants the council to operate as a "rubber stamp."

Advisory Councils Play a Political Role. Respondents described a number of roles that can be captured under the umbrella of politics. Four specific functions that ensconce political elements include: (a) providing representation of rank and file franchisees; (b) serving as a monitoring mechanism; (c) influencing decisions; and (d) legitimizing people, processes and decisions. While both sides mentioned political functions, the research uncovered differences between franchisee and franchisor perspectives. Figure 2 provides a visual display of how franchisees and franchisors emphasized the political aspects of boards with the number in parenthesis indicating the number of respondents mentioning that role.

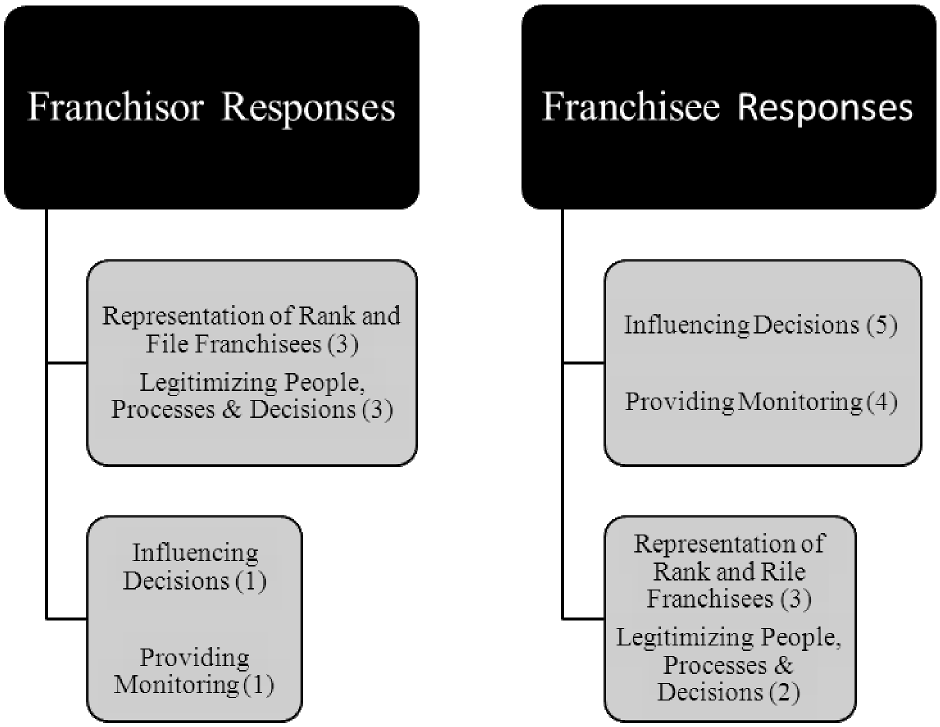

Figure 2. Compares Franchisor versus Franchisee perceptions of political roles boards play.

Franchisor Jim O., expressed the role of representation when he said, "as systems grow the council's role is to bring the perspective of the franchisee community to the table." He went on to elaborate, "given the proxy by constituents then they [councils] become important to the franchisor." Franchisor, Betty M. echoed this sentiment by indicating their system sends out surveys to franchisees to ensure they know who their franchisee representative is and how to reach them. Meanwhile, half of the franchisees pointed out representation of franchisees as a role, but representation may have been implicit in that franchisees were more likely to suggest the primary role of boards is to influence decisions and provide a monitoring function.

The idea that boards legitimize people, processes, and decisions was mentioned slightly more often by franchisors. David B., a franchisor from the restaurant industry, stated, "they provide credibility for decisions. When we [the franchisor] say we discussed something at the last board meeting this provides validation to the franchisees." A few franchisees also indicted that councils offer legitimacy to decisions. In every case the franchisee acknowledged this was a tactic by the franchisor. Jason T., a franchisee from the restaurant industry offered the following, “having votes goes back to legitimizing and allowing the franchisor to say the board was unanimous.”

Another political role that varied between franchisor and franchisees was decision-making. This role was mentioned by five of the six franchisees and only by one of the franchisors interviewed. Franchisee Tom C. said that their franchise council administers the marketing funds. On a broader scale, Connie G. suggested their council influences decisions. The only franchisor to discuss the board’s role as influencing decisions was Matt P. who said, “we don’t make any major decisions without consulting our franchisee council.”

Half of the franchisees indicated monitoring was an accountability of boards, while only one franchisor offered this as a role. Half of the franchisees mentioned the belief that franchisees are suspicious of franchisors’ intentions and the council helps provide comfort that they are “getting the real story.”

Boards Create Shared Experiences. The final theme to emerge with respect to board roles was the idea that boards foster collaboration, allow for mentoring, and promote a sense of belongingness. Both franchisees and franchisors mentioned this role, though to a lesser degree than fostering communication or providing political capital. Franchisee Connie G. said, “boards provide you a back-pat and hoorah, it’s sharing of successes with others. We are all sitting here by ourselves. It’s good to have that camaraderie, everyone bonds.” Dan H., a franchisor, commented that some franchisors fail to grasp how important franchisee interactions are and how they benefit the system. Betty M. offered that their council even has a mentoring program for other franchisees to be mentored by board members.

RQ3 - Stakeholder Dynamics Emerging

Effective boards work together and have mutual trust in the relationship to allow for objectivity and constructive conflict (Dulewicz, MacMillan, & Herbert, 1995). RQ3 investigated the type of stakeholder relationships that exist among franchise boards by asking participants to discuss what tensions exist on boards and what qualities create strong relationships. Through these questions the researcher attempted to garner insights into board culture. Culture is defined by those unwritten and powerful norms that evolve from beliefs about how things should work (Schein, 2004). During stage one the researcher distilled four commonalities that suggest how boards operate as stakeholders.

Power and Politics at Play. The most noted theme was the number of times political maneuverings and outright power displays were discussed. One franchisor admitted to being careful in how they created the council when he said “we want our predecessors to be grateful that we don’t tie their hands, we must be franchisor friendly.” Visible displays of power were also demonstrated. In discussing the franchisor’s appointment of council members, Kevin S. indicated that when corporate wanted the franchisee of the advisory council out, they simply appointed a new chair. Another franchisor discussed how the franchise advisory council was disbanded right after a meeting where the franchisees on the council read a letter requesting the brand be sold. He commented, “the meeting ended there and a new advisory committee was formed the next month.”

Democratic Process at Work. Another theme to emerge was the idea that franchise boards are promoting a democratic process by participating in decision-making and representing constituents. In discussing how this works, one franchisor said, "what I thought was the best practice is when the elected representatives spent time and energy communicating with their franchisees what they learned and the why behind their decision making." He elaborated that when this wasn't present be observed tension between the elected representatives and the franchisees they were supposed to represent.

When asked what is needed for a truly effective board, the majority of participations indicated trust and openness. Franchisee Mickey B., commented on the need for advisory councils to acknowledge that there will be a corporate point of view and a store point of view and that the way to get past this was to "form real relationships, spend real time together and develop real trust."

Supporter's Club Mindset. The idea that these advisory councils can serve as a mechanism to endorse franchisor decisions was mentioned by five participants. The comments ranged from disgust that advisory councils at times function like rubber stamps, to the positive aspect of providing shared accountability for managing the business. One franchisee pointed out that a sister concept basically had this "rubber stamp advisory committee" which served to influence franchisees to support franchisor decisions. Kevin S., a franchisee, indicated the danger of this approach when he found out the franchisor was sending out communication indicating that the franchise advisory committee had endorsed decisions that were never brought to the committee. Ultimately the advisory council dissolved due to the breakdown in trust.

Us Versus Them Attitude. When discussion about the types of tensions that arise, participants discussed this as corporate versus franchisee. Franchisor Jim O., suggested the importance of not using the word recommendation in meetings to retain corporate control on the franchisor side. John T., a restaurant franchisee commented "the advisory council we have functioning right now is into command and control. They are in the backroom trying to sway opinions." He went on to comment that in their current situation management is trying to "ram things through" and uses the advisory council as a legitimizer.

IMPLICATIONS

Both franchisees and franchisors recognized advisory councils as a mechanism to network and pool resources. Results suggest that young franchise firms may find the creation of advisory councils as a means to tap the knowledge and best practices of franchisees. Firms with advisory councils in place can use the results to better understand the dynamics of their relationship and begin to characterize the stakeholder relationship operating.

While franchisee and franchisors both emphasized communication as the most important role the board plays, from there the perspectives on roles began to diverge. Franchisors focused on representation of the broader system and serving to legitimize decisions. Franchisees, meanwhile, focused on influencing decisions. This discovery alone suggests the need for franchise advisory councils to regularly conduct self-assessments to rethink members' roles and work on building the relationship. Annual formative evaluations are recommended to aid in the health of franchise advisory councils.

The study results also suggest that the stakeholder typology model can be used to categorize four major relationship dynamics on advisory councils as seen by interview subjects. The data did, however, inform a refinement to the model with regard to the monitoring relationship. While "monitoring" is an acknowledge governance role, the model could be strengthened if the horizontal axis is changed to reflect franchisee member attitudes toward the franchisor. Evidence from the interviews suggested there can be an "us versus them" attitude that surfaces. The revised framework offers the horizontal axis as attitudinally based while the vertical axis is based on behavior. See the revised conceptual framework in Figure 3.

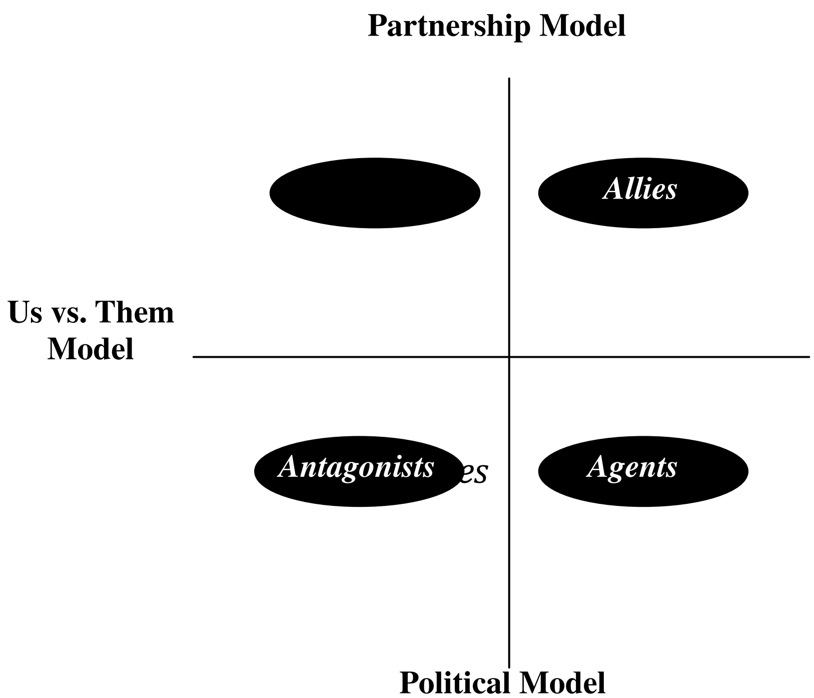

Figure 3. Conceptual framework illustrating four governance models and stakeholder relationships by quadrant.

If franchisees believe they have a role in decision-making, but the franchisor is not bringing issues to the council for discussion, the stakeholder relationship is likely to be "antagonistic." In an antagonistic relationship political maneuverings and power struggles will dominate. When franchisors use the presence of an advisory council as a means to recruit new franchisees the "agent" stakeholder relationship takes hold. Conversely, franchisees that use their council position for rewards and information are also mired in an agent relationship. Advisory councils that are actively engaged in decision-making, but where participants are willing to recognize each side has different objectives may be classified as "activist" stakeholders. Whereas councils that are participatory in decision-making, but want to be viewed by external audiences as aligned can be classified as “allies.”

Ultimately the key to effective advisory councils lies in the working relationship between franchisees and franchisors. The stakeholder typology model should be viewed as illustrating the overall relationship of the council from a qualitative perspective. It offers advisory councils a straightforward way to depict the council’s relationship and open dialogue with council members on where and how they want to be located on the grid. This could assist franchise advisory councils become more effective in managing their relationship.

The results of this study expand our understanding about franchise council stakeholder relationships. Surfacing disagreements about franchise roles may unearth why certain stakeholder relationships have formed. These findings expand prior knowledge and suggest franchise advisory councils may need to engage in a conversation about governance to gain alignment, establish ground rules, and agree on the level of involvement in decision-making.

CONCLUSIONS AND FURTHER STUDY

Findings from this study fill a gap in the empirical literature on franchise advisory councils. The results corroborate practitioner literature that suggests boards from to pool resources, facilitate communication, and in reaction to some type of stress on the system. The study did not, however, confirm practitioner theory that advisory councils are established by franchisors to prevent independent associations from forming. It’s possible those interviewed did not think of this reason, or perhaps in today’s business landscape is more in tune with the need for collaboration and knowledge sharing. This qualitative study also offers additional support to McCosker et al.’s (1995) findings that franchisees are more likely to think their function on advisory councils is to influence decisions, while franchisors are less inclined to mention this role.

Disagreement is highly likely between different parties in any group, and such discord can stifle collaboration and prevent synergy. As noted by those interviewed, advisory councils may function productively or become mired in political tensions and disband or morph into a different type of board. Applying a stakeholder framework can contribute to the resolution of issues by providing a method of classifying the board relationships to help understand the sociopolitical environment that is operating. The conceptual model offered in this study can provide practitioners an assessment tool to help calibrate what type of relationship is operating on a franchise advisory council.

This research was limited by the number of advisory council members interviewed. Further understanding of the stakeholder relationships that operate on advisory councils is warranted. Use of participant observation, as well as quantitative assessment may help further develop the stakeholder typology model that is offered.

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THE RELATIONSHIP BETWEEN ORGANIZATIONAL SIZE, LEADER SPIRITUALITY AND FOLLOWER RATINGS OF LEADERSHIP

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ABSTRACT

This study analyzed the relationships between the size of the organization in which leaders led, the leaders' spirituality and how followers, peers, and supervisors perceived those leaders' leadership styles. One hundred twenty-seven participants in executive leadership training and graduate programs in leadership asked two colleagues, two subordinates and a supervisor to rate them on-line using the *Multifactor Leadership Questionnaire*. The leaders in turn completed three instruments on themselves: the *Religious Orientation Scale*, *Spiritual Well-Being Scale* and the *Daily Spiritual Experiences Scale.* All scores were completed before the onset of the leadership training.

The results of a multiple regression found no relationship between organizational size and ratings of leadership. This implies that the leaders of small organizations led in a similarly transformational manner as those of larger organizations.

The leaders' spirituality, however, was related to how the leaders led. The higher the leaders' existential spiritual well-being and existential religious orientation the more the followers, peers and supervisors rated the leaders as active, transformational leaders. The higher the leaders' daily spiritual experience score, the less the followers, peers and supervisors rated the leaders as passive-avoidant leaders.

Introduction

Well over 200 published studies have reported positive relationships between transformational leadership and follower satisfaction and extra effort. Virtually none of these studies, however, included organizational size as an independent variable. Recent studies, however, of small businesses using the *Multifactor Leadership Questionnaire* (MLQ) have reported leadership scores in line with "typical" leadership scores reported in most studies using the MLQ. Valdiserri and Wilson (2010), for example, asked followers to rate 25 small business construction leaders using the MLQ. Boga and Ensari (2009) studied leaders of small to mid-sized businesses. Yung-Shui and Tung-Chun (2009) studied 51 department managers from **small**-medium textile **business** firms in Taiwan. In each of these studies, the mean scores reported from the MLQ indicate that these leaders lead "similarly" to leaders in larger organizations.

While comparing means of various MLQ scores across studies provides some sense of whether small business owners lead differently than leaders of larger organizations, a preferable approach is to include the size of the organization in which the leader leads along with other variables in the same analysis.

Other variables that have regularly been shown to influence leadership style, for example, include leader gender and leader age. An emerging variable of interest in the study of leadership is the spiritual orientation of the leader. There are, however, virtually no empirical studies of how the leader's spirituality influences how she/he leads.

Problem Statement

Those studies that have measured the transformational leadership behaviors of small-business leaders indicate that those leaders' mean scores on the *Multifactor Leadership Questionnaire* are consistent with leaders who work in larger organizations.

A variety of studies have found associations between the spiritual well-being of workers and their psychological health and job satisfaction. A variety of studies have also found relationships between the style of leadership used by a leader and the job satisfaction of the follower. This is particularly true for studies that use the *Multifactor Leadership Questionnaire* (Bass & Avolio, 2002) as a measure of leadership.

Consequently, the Full Range of Leadership model and its associated instrument, the *Multifactor Leadership Questionnaire*, is likely the most widely taught and studied model of leadership. It is only speculative, however, to what degree the size of the organization is related to the transformational style employed by leaders. It is also unknown, to what degree the leaders' personal religiosity/spirituality moderates this relationship.
Spirituality

A variety of studies have shown relationships between spiritual well-being and various aspects of general psychological well-being, such as marital satisfaction, physical health, social adjustment and stress management (Wolf & Stevens, 2001; Adams, Bezner, Drabbs, Zambarano, & Steinhardt, 2000; Ellison & Smith, 1991; Graham, Furr, Flowers, & Burke, 2001; Kamya, 2000; Paloutzian & Ellison, 1982; Roth, 1988; Westgate, 1996). Within the work environment, there is also evidence of a relationship between worker spirituality and worker job satisfaction, (Robert, Young, and Kelly, 2006).

Leadership Style

In a different area of research, leadership style has been shown to impact multiple areas of follower performance, (Kuoppala, Lamminpää, Liira, and Vainio, 2008; Burke et al. 2006)

In the largest meta-analysis of studies that have used the *Multifactor Leadership Questionnaire*, Gang Wang, Courtright and Colbert (2011) meta-analyzed 117 independent samples over 113 primary studies. The results confirmed that transformational leadership and contingent reward are effective forms of leadership while management by exception active and passive are ineffective.

Leadership Style and Gender

In the seminal meta-analysis of gender and leadership, Eagly, Johannesen-Schmidt and van Engen (2003) meta-analyzed 45 studies which compared men and woman on measures of transformational, transactional, and laissez-faire (passive-avoidant) leadership styles. The results of the meta-analysis revealed that female leaders were more transformational and scored higher on the subscales of charisma, idealized influence, inspirational motivation, intellectual stimulation, and individual consideration than their male counterparts. Female leaders also scored higher than males on the first subscale of transactional leadership, contingent reward. Male leaders scored higher on the subscales of management by exception active and management by exception passive.

Leadership Style and Age

While there are many studies that report leadership style and age, the vast majority of those studies are leader self-assessment studies in which leaders report how they believe they lead, rather than studies in which followers actually rate their leaders. Several, large sample studies, however, in which the leadership ratings were done by followers do exist. The overall findings of this body of literature seem almost stereotypical. Older leaders tend to be rated higher on dimensions of leadership such as being calm, conservative, considerate, cooperative and deferent to authority. Younger leaders tend to be rated higher on being energetic, exciting and friendly, but tend to emphasize short-term results, have a production focus, and are somewhat self-focused. (Sessa et al, 2007; Kabacoff and Stoffey, 2001; Kearney, 2008; Barbuto et al, 2007; Gilbert, 1990)

METHOD

One hundred twenty-seven participants in executive leadership training and graduate programs in leadership asked two colleagues, two subordinates and a supervisor to rate them on-line using the *Multifactor Leadership Questionnaire*. The leaders in turn completed three instruments on themselves: the *Religious Orientation Scale*, *Spiritual Well-Being Scale* and the *Daily Spiritual Experiences Scale.* All scores were completed before the onset of the leadership training.

Leadership Instruments
Multifactor Leadership Questionnaire (MLQ)

The *Multifactor Leadership Questionnaire* (MLQ) was developed to determine the degree to which leaders exhibited transformational and transactional leadership. The MLQ has undergone many revisions during the past 20 years. The Form 5X contains five transformational leadership subscales, two transactional subscales, and two passive subscales of leadership that together form what is known as the full range leadership theory. The leadership model represented by the MLQ 5X had a goodness of fit (GFI) of .91 and the root mean squared residual (RMSR) of .04.

Religious and Spiritual Instruments
The Spiritual Well-Being Scale (SWB)

The *Spiritual Well-Being Scale* (Paloutzian & Ellison, 1982) is a 20-item instrument composed of two subscales of 10 items each. The religious well-being (RWB) subscale assesses the degree to which individuals report that they experience a satisfying relationship with God. Items of the existential well-being (EWB) subscale relate to a sense of life satisfaction and purpose. The scale it is not based on a specific religious or ideological orientation. The scales have demonstrated good internal consistency and construct validity (Bufford, Paloutzian, & Ellison, 1991; Ellison, 1983; Ellison & Smith, 1991).

Daily Spiritual Experiences Scales

The *Daily Spiritual Experiences Scale* "is intended to measure a person's perception of the transcendent (God, the divine) in daily life and his or her perception of his or her interaction with or involvement of the transcendent in life. The items attempt to measure experience rather than particular beliefs or behaviors" (Underwood & Teresi, 2002, p. 23). Evidence of construct validity was developed through in-depth interviews and focus groups with individuals from many religious perspectives. (Underwood & Teresi, 2002).

Religious Orientation Scale (ROS)

The **Allport**-**Ross** *Religious Orientation Scale* (ROS) distinguishes intrinsically religious people who are genuinely committed to their faith from those who are more self-serving, called extrinsic religiosity (**Allport** & **Ross**, 1967). There is support for **Allport's** assertion that religious individuals with an intrinsic faith are more psychologically adjusted than are those who are extrinsically oriented toward religion (Donahue, 1985).

Constructs Being Measured

Leadership

Bass (1985) developed five aspects of transformational leadership: (a) idealized influence – attributed, (b) idealized influence - behavioral, (c) inspirational motivation, (d) intellectual stimulation, and (e) individualized consideration (Bass & Riggio, 2006). Transactional leadership is comprised of two aspects: (f) contingent reward and (g) management by exception – active. A passive and largely ineffective form of leadership is called passive-avoidant and consists of two aspects: (h) management-by-exception-passive and (i) laissez-faire. Appendix A provides the definitions of each aspect of leadership.

Religiosity

Extrinsic religious orientation is the method of using religion to achieve non-religious goals. It is used by people who go to religious gatherings and make claims to certain religious ideologies to establish or maintain social networks while minimally adhering to the teachings of the religion. Individuals high in external religiosity use religion "to provide security and solace, sociability and distraction, status and self-justification" and "using religion for their own ends, with values that are always instrumental and utilitarian" (Allport & Ross, 1967, p. 434).

Intrinsic religious orientation is characterized by those "who view religion itself as an end, a master motive" (p. 434). These individuals embrace a religious creed, internalize it, and attempt to follow it. Their attendance at church may be thought of as motivated by spiritual growth. Those with an intrinsic religious orientation are wholly committed to their religious beliefs, and the influence of religion is evident in every aspect of their lives (Lewis, Maltby, & Day, 2005; Masters et al., 2004).

Spirituality

The existential well-being scale of the *Spiritual Well-Being Scale* measures the individual's environmental relationship meaning and how the conditions that surround people affect the way they live. The religious well-being scale measures the individual's relationship with a higher power (God) in regards to commitment, behavioral interaction, communication, cooperation, level of friendship, or degree of intimacy. Items on the *Daily Spiritual Experiences Scale* address concepts such as perceived relationship with the transcendent, inspiration, inner harmony, awe, gratefulness, and mercy. Appendix B contains more detail on the spiritual and religious dimensions measured.

Preliminary Factor Analyses

Because 14 scales were used in this study, an exploratory factor analysis was first conducted using Principal Component Analysis to determine which scales loaded together on similar components. Four components were found with an Eigenvalue greater than one. The first component, which was labeled *Active Transformational Leadership* had an Eigenvalue of 4.37 and explained 31.19% of the variance. Appendix C shows that the first six scales of the *Multifactor Leadership Questionnaire* loaded on this component with an Eigenvalue vector score greater than 0.6 or less than negative 0.6. The second component was labeled *Spirituality.* The scales from both spirituality instruments completed by the leaders loaded on this component with an Eigenvalue of 2.25. The third component was labeled *Passive-Avoidant Leadership* and consisted of the MLQ subscales of management by exception passive and liaise-faire leadership. This component had an Eigenvalue of 1.58. The final component was labeled *Religiosity*, and consisted of the intrinsic and extrinsic religiosity scales of the *Religious Orientation Scale*. Fittingly, the Eigenvalue vector scores loaded in opposite directions.

The results of the exploratory factor analysis indicated that the instruments used appear to be measuring independent constructs. The *Multifactor Leadership Questionnaire* – components 1 and 4 - are measuring active and passive leadership. The *Spiritual Well-Being Scale* and *Daily Spiritual Experiences Scale* loaded together on component 2 and appear to measure a different construct that the *Religious Orientation Scale* that loaded on component 4. Based on the results of the factor analysis, the question of whether the leaders' spirituality and religiosity influence their followers' views of how they lead can be analyzed using the scales from the SWBS, DSE and ROS as predictor variables and scores for Active Transformational and Passive-Avoidant leadership as the criterion variables. Appendix C provides the details of the factor analysis.

RESULTS

Active Transformational Leadership

A multiple regression was run using four blocks of predictor variables. Block 1 contained the size of the organization in which the leader worked. Block two contained the measures of spirituality - the spiritual well-being religious score (SWBR), spiritual well-being existential score (SWBE) and daily spiritual experiences score (DSE). Block three contained the two measures of religiosity, religious orientation – intrinsic score (ROI) and religious orientation –

extrinsic score (ROE). Block 4 contained the leader demographic variables of gender and age. The enter method was used for block 1 and the stepwise method was used for blocks 2, 3 and 4.

Table 1 provides the results of a reduced model for the significant predictor variables.

Table 1:
Demographic, Spiritual and Religious Predictors of Ratings of Active Transformational Leadership

	R	R Square	R Change	Square F Change	Beta-Weight	Partial Correlation	Sig.
1 SWBE	.269[a]	.073	.073	9.79	.31	.35	.002
2 ROSE	.356[b]	.127	.054	7.69	.27	.29	.006
3 Gender	.470[c]	.221	.094	14.81	-	-	.000

Note. (1) SWBE Spiritual Well-Being Existential, (2) SWBE, ROSE Religious Orientation – Extrinsic, (3) SWBE, ROSE, Gender.

The leader's spiritual well-being existential score explained seven percent of the variance in how the participants' followers rated them on active transformational leadership (R^2 = .07, β = .31. r_p = .35, p = .00). The Beta weight was .31, and the partial correlation, controlling for the effects of the other independent variables, was .35. These indicate that the higher the leaders scored on existential spiritual well-being, the higher their followers, peers and supervisors rated them as active, transformational leaders.

The leader's extrinsic religious orientation score explained an additional five percent of the variance (ΔR^2 = .05, β = .27. r_p = .29, p = .01). Here the more the leaders' religiosity was extrinsically oriented, the more actively transformational they were rated by followers, peers and supervisors. Allport and Ross (1967) define an extrinsic religious orientation as "using religion for their own ends, with values that are always instrumental and utilitarian" (p. 434). The leader's gender explained an additional nine percent of the variance in how the participants' followers rated them on active transformational leadership (ΔR^2 = .09, p = .00). Female leaders (M = 3.1) were rated as more actively transformational than male leaders (M = 2.9).

Passive Avoidant Leadership

A multiple regression was also run using the same predictor variables with the criterion variable of the 360 degree rating of the leaders' passive avoidant leadership style. Two predictors were significant. The higher the leaders' *Daily Spiritual Experiences* scores, (R^2 = .05, β = -.17. r_p = -.16, p = .01) the less the followers, peers and supervisors rated the leaders as passive avoidant leaders. The older the leader the less the followers, peers and supervisors rated the leaders as passive avoidant leaders (ΔR^2 = .03, β = -.18. r_p = -.18, p = .05)

Table 2:

Demographic, Spiritual and Religious Predictors of Ratings of Passive-Avoidant Leadership

	R	R Square	R Change	Square F Change	Beta-Weight	Partial Correlation	Sig.
1DSE	.22[a]	.05	.05	6.24	-.17	-.16	.01
2 Age	.28[b]	.08	.03	4.01	-.18	-.18	.05

Note. (1) DSE Daily Spiritual Experiences Scale (2) DSE, Age

Multiple Analysis of Covariance for Spirituality and Religiosity

To further explore the question of whether there was a relationship between the size of the organization in which the leaders lead, and the leaders' religiosity and spirituality, a 3-way Multiple Analysis of Co-Variance was run. Gender was used as a categorical independent variable and leader age and company size as co-variants. The five measures of spirituality and religiosity were the dependent variables. Table 3 reports the results of the Wilk's Lamda tests. No differences were found between male and female leaders, but both co-variants were significant.

Table 3:

Results of a 3-Way Multiple Analysis of Covariance

Variable	Wilks' Lambda	F	Sig.
Company Size	.71	9.55	.00
Age	.59	16.62	.00
Gender	.94	1.47	.21

Because company size was significant in the MANCOVA, separate univariate tests were run for company size and each of the five measures of religiosity and spirituality. Two measures were significant - daily spiritual experiences and religious orientation – intrinsic. Table 6 provides the results of partial correlations between company size and each dimension, controlling for the effects of gender and age. In both cases the partial correlations were negative, indicating that the smaller the company, the more daily spiritual experiences the leader reported (r_p = -.49, p = .00) and the more intrinsic her/his religious orientation was (r_p = -.17, p = .05)

Table 4:

Significant Partial Correlations for Company Size

Dependent Variable	Type III Sum of Squares	F	Sig.	Partial Correlation
Daily Spiritual Experiences	3948.44	38.66	.00	-0.49
Religious Orientation - Intrinsic	86.55	3.95	.05	-0.17

Because age was also significant in the MANCOVA, separate univariate tests were run for age and each of the five measures of religiosity and spirituality. Table 5 provides the results of the univariate tests that were significant and the partial correlations. For each of the dimensions of religiosity and spirituality shown the partial correlations were positive, indicating the older the leader the higher she/he scored on the measures.

Table 5:
Significant Partial Correlations for Age

Dependent Variable	Type III Sum of Squares	F	Sig.	Partial Correlation
Daily Spiritual Experiences	2207.90	21.61	.00	0.30
Religious Orientation - Intrinsic	141.36	6.11	.02	0.22
Spiritual Well-Being Religious	1801.59	77.10	.00	0.62
Spiritual Well-Being Existential	639.92	19.30	.00	0.37

DISCUSSION

Table 6 provides a summary of the significant findings in this study.

Organizational Size

A significant finding was that organizational size was unrelated to ratings of either transformational or passive-avoidant leadership. This "non-finding" indicates that the leaders in this study who lead in smaller organizations lead in a similar manner as those in mid-sized and larger organizations. This alludes to the idea that both good and bad leadership are somewhat universally recognized, regardless of the size of the organization.

Gender

Eagly, Johannesen-Schmidt, and van Engen's (2003) meta-analysis of 45 studies which compared men and woman on measures of transformational leadership found that women are regularly rated higher on transformational and effective leadership than men. Consequently, the finding in this study that women were rated higher on actively transformational leadership was expected.

Spirituality and Religiosity

One striking observation was that the "intrinsic" measures of religiosity and spirituality, the ROSI, SWBR and the DSE were unrelated to perceptions that leaders were actively transformational. The religious orientation intrinsic scale contains items such as "It is important for me to spend periods of time in private religious thought and meditation" and "The prayers I say when I am alone carry as much meaning and personal emotion as those said by me during services." The spiritual well-being religious scale includes items such as "I have a personally meaningful relationship with God." The *Daily Spiritual Experiences Scale* includes items such as "I feel deep inner peace or harmony" and "I desire to be closer to God or in union with God."

The extrinsically oriented measures, SWBE and ROSE are likely much more easily understandable by followers than the more private and often unexplainable intrinsic spiritual/religious experiences. Leaders who attend church functions for social and fellowship reasons and who have a strong sense of who they are, are easy for followers to "read." Conversely, leaders whose spirituality is much more introspective, and even perhaps private, are more difficult for followers to read.

Table 6:
Summary of Significant Findings

Variables	Organizational Size	SWBE	ROSE	DSE	Gender	Age
Active Leadership		R^2 = .07 B = .31 r_p = .35	R^2 = .05 B = .27 r_p = .29		R^2 = .09 Females Scored Higher	
Passive-Avoidant Leadership				R^2 = .05 B = -.17 r_p = -.16		R^2 = .08 B = -.18 r_p = -.18
Daily Spiritual Experiences	r_p = -.49					r_p = .30
Religious Orientation – Intrinsic	r_p = -.17					r_p = .22
Spiritual Well-Being Religious						r_p = .62
Spiritual Well-Being Existential						r_p = .37

Organizational Size and Spirituality and Religiosity

The other striking observation was that the smaller the organization, the higher the leaders rated themselves on four of the five measures of spirituality and religiosity. These are only correlations and causation cannot be assumed. However, Mintzberg's (1993) organizational form model for most large organization is that of a machine bureaucracy. It is certainly plausible to speculate that leaders who are more spiritual might be more attracted to smaller organizations that they perceive to be less bureaucratic and perhaps more "human" or "community" oriented.

Implications

Three Pictures are Worth 3,000 Words

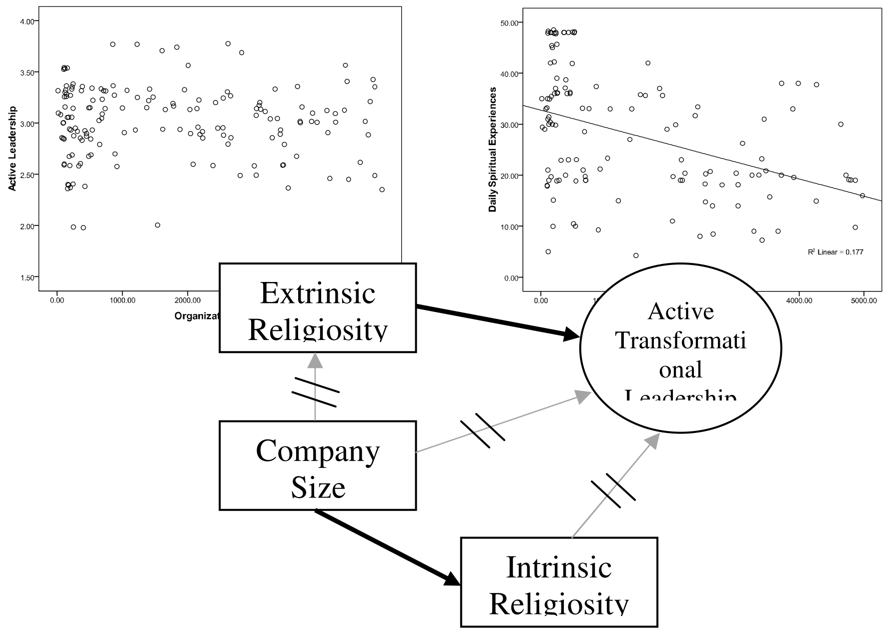

Figure 1. Visuals of findings in this study

Figure 1 captures the implications of the findings in this study. The scatter plot for organizational size and active leadership shows a "band" of leadership styles across all company sizes, with no statistical linear pattern. The scatter plot for organizational size and daily spiritual experiences, however, shows a negative relationship ($r = -.41$, $r_p = -.49$) between the variables.

While structural equation modeling was beyond the scope of this study, the implications are that company size is unrelated to ratings of leadership, but is related to leader intrinsic religiosity/spirituality. Leader intrinsic religiosity/spirituality, however, was in turn unrelated to ratings of leadership. What mattered was the leaders' extrinsic religiosity/spirituality.

The results of this study indicate that leaders should feel confident that their intrinsic religiosity/spirituality seems to have little relationship to perceptions of how they lead.

When the spiritual values of the leader tend to be private, the followers may be unclear or unaware of exactly what their leader believes. This seems to be the case in this study. If the leaders' intrinsic spirituality/religiosity were a detriment to the leaders' leadership styles, negative Beta weights and partial correlations should have been found. Instead, these measures were unrelated to the followers, peers and supervisors' perceptions of how actively transformational the leaders were.

Conversely, when the leaders' "more easily interpretable" spiritual/religious values are anchored in established religious ceremonies revolving around a religious center such as a mosque or church it is likely easier for the followers to believe they understand the leaders' spiritual or religious values.

Put simply, if a follower and leader begin to discuss spirituality or religion and the leader indicates something such as "For me it is a deeply personal thing…difficult to describe. I feel a union with God, especially in private prayer," the follower probably doesn't react negatively, but also doesn't seem to associate the behavior with active leadership.

If a follower and leader begin to discuss spirituality or religion and the leader indicates something such as "I attend mass at St. Mary's Parrish… and I really enjoy singing in the choir," the follower can easily envision those activities. Additionally, those descriptions are clearly more perceptually active and social in the image portrayed than that of private prayer. Followers in this study associated that type of "easily interpretable" spiritual/religious values with being an actively transformational leader.

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Appendix A:
Aspects of Leadership Measured by the Multifactor Leadership Questionnaire

Leadership Aspect	Definition
Transformational Leadership	Involves a leader-follower exchange relationship in which the followers feel trust, loyalty, and respect toward the leader, and are motivated to do more than originally expected (Bass, 1985).
Idealized Influence (Attributed)	Is a facet of transformational leadership, which describes leaders who are exemplary role models for associates. Leaders are admired and respected, and followers want to emulate them (bass, 1999).
Idealized Influence (Behaviors)	Is a facet of transformational leadership, which describes leaders who can be counted on to do the right thing through high ethical and moral standards (Bass, 1999).
Inspirational Motivation	Is a behavior facet of transformational leadership, which describes leaders who motivate and inspire followers to commit to the vision of the organization. Leaders with inspirational motivation behave in ways that encourage team spirit, and provide meaning and challenge to their follower's work (Avolio, 1999).
Intellectual Stimulation	Is a behavior facet of transformational leadership, which describes leaders who encourage innovation and creativity through challenging the normal beliefs or views of their followers. Leaders with intellectual stimulation promote critical thinking and problem solving to make the organization better (Avolio, 1999).
Individual Consideration	Is a behavior facet of transformational leadership, which describes leaders who act as coaches, facilitators, teachers, and mentors to their followers. Leaders with individual consideration encourage followers, provide continuous feedback, and link the follower's current needs to the organization's mission (Avolio, 1999).
Transactional Leadership	Involves a leader-follower exchange relationship in which the follower receives some reward related to lower-order needs in return for compliance with the leader's expectations (Bass, 1985).
Contingent Reward	Is a behavior facet of transactional leadership, which describes leaders who engage in a constructive path-goal transaction of reward for performance. Leaders clarify expectations, exchange promises and resources, arrange mutually satisfactory agreements, negotiate for resources, exchange assistance for effort, and provide recommendations for successful follower performance (Bass, 1985).

Management-By-Exception (Active)	Is a behavior facet of transactional leadership, which describes leaders who monitor followers' performance and take corrective action if deviations from standards occur. They enforce rules to avoid mistakes (Bass, 1985).
Management-By-Exception (Passive)	Is a behavior facet of passive-avoidant leadership, which describes leaders who fail to intervene until problems become serious. They wait for mistakes to be brought to their attention before they take corrective action (Bass, 1985).
Laissez-Faire	Is a behavior facet of passive-avoidant leadership, which describes the absence of leadership. A person in a leadership that avoids making decisions and carrying out their supervisory responsibilities exemplifies it. They are not reactive or proactive, but inactive and passive their leadership role (Bass & Avolio, 1994).

Appendix B:
Aspects of Spirituality and Religiosity Used in this Study

Religious and Spiritual Dimension	Definition
Extrinsic Religious Orientation	The method of using religion to achieve non-religious goals. It is to provide security and solace, sociability and distraction, status and self-justification. (Allport & Ross, 1967).
Intrinsic Religious Orientation	Viewing religion itself as an end and a master motive. These individuals embrace a religious creed, internalize it, and attempt to follow it. Their attendance at church may be thought of as motivated by spiritual growth. (Allport & Ross, 1967).
Existential well-being	The individuals' environmental relationship meaning and how the conditions that surround people affect the way they live.
Religious well-being	The individual's relationship with a higher power (God) in regards to commitment, behavioral interaction, communication, cooperation, level of friendship, or degree of intimacy.
Daily Spiritual Experiences	The frequency of experiences such as perceived relationship with the transcendent, inspiration, inner harmony, awe, gratefulness, and mercy.

Appendix C:
Results of an Exploratory Factor Analysis

Scales Used	Active Leadership	Spirituality	Passive-Avoidant Leadership	Religiosi ty
Idealized Influence - Attributed	**.856**	-.013	-.139	.007
Idealized Influence - Behavioral	**.870**	.092	.112	-.010
Inspirational Motivation	**.765**	.152	.146	-.012
Intellectual Stimulation	**.678**	.013	.040	.130
Individual Consideration	**.758**	.093	.285	-.076
Contingent Reward	**.834**	-.068	.096	-.119
Spiritual Well-Being Religious	-.123	**.687**	.229	.131
Spiritual Well-Being Existential	-.339	**.673**	.216	.480
Daily Spiritual Experiences	-.145	**.747**	.201	.055
Management by Exception -	-.289	-.588	**.621**	.031
Liaise-Faire	-.256	-.423	**.736**	.223
Internal Religious Orientation	-.115	.435	.304	**-.648**
External Religious Orientation	.296	-.092	-.234	**.695**
Management by Exception -	.401	.031	.470	.135

Note. Management by Exception – Active failed to load on any component.

EXTRAVERSION AND TRANSFORMATIONAL LEADERSHIP: A MULTIVARIATE STUDY OF PERSONALITY, GENDER, INTELLIGENCE AND LEADERSHIP

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ABSTRACT

This study considers whether transformational leadership is best predicted by personality, gender, or intelligence. One-hundred sixty-two participants in executive leadership training and graduate programs in leadership completed the *Watson-Glaser Critical Thinking Appraisal*, and the *NEO-PI* personality assessment. A *360 Multifactor Leadership Questionnaire* was also collected on each participant. Extraversion was the strongest predictor of transformational leadership, explaining 10% of the variance in scores. This extends previous research on personality and intelligence, and represents new findings regarding gender and personality. Implications are presented for coaches, mentors, and trainers working with entrepreneurs.

INTRODUCTION AND STATEMENT OF THE PROBLEM

Transformational leadership has, since its inception, been about change, growth, and creating exceptional performance on the part of followers. Followers are motivated by more than traditional rewards and punishments because the leader reaches them on a deep emotional level. In a small business setting this type of leadership is critical, as the small business owner does not always have access to the same level of incentives that many large businesses do.

A question then becomes, when assisting small business owners to become more transformational, on what should coaches and trainers concentrate. A body of literature exists that indicates that personality traits are correlated to transformational leadership. Other literature indicates that women regularly are rated higher on transformational leadership. Yet another body of literature shows a relationship between intelligence and transformational leadership.

While the meta-analytic literature concerning the relationships between personality, gender, intelligence and transformational leadership add much to our understanding of how to assist leaders in improving their transformational leadership abilities, these meta-analytic bodies of research don't overlap. Consequently trainers, coaches and mentors are left with the fundamental question: "What predicts how transformational a leader is perceived to be – her/his personality, gender or intelligence?"

LITERATURE REVIEW

Transformational Leadership

The key premise of transformational leadership is that leaders motivate followers to achieve beyond both the leader and the follower's expectations. This theory of transformational leadership (now often called the full-range model of leadership) originally included seven components: charisma, inspirational, intellectual stimulation, individualized consideration, contingent reward, management-by-exception, and laissez-faire leadership (Bass, 1985).

Charisma, inspirational, intellectual stimulation, and individualized consideration were theorized to be associated with transformational leadership, while contingent reward and management-by-exception were part of a more transactional form of leadership. Laissez-faire leadership stood on its own as a passive form of leadership (Bass, 1985). This model was later revised to include only six components, as Bass discovered that there was little empirical distinction between charisma and inspirational leadership (Bass, 1988). The *Multi-Factor Leadership Questionnaire* (MLQ) was developed to measure this six-factor model. The model has been tested and critiqued extensively, and most research has supported the model (Avolio & Bass, 1999; Bass, 1999; Bass, 1985; Metcalfe, 2001).

Meta-Analytic Studies

In the largest meta-analysis of studies that have used the *Multifactor Leadership Questionnaire*, Wang, Oh, Courtright, and Colbert (2011) meta-analyzed 117 independent samples over 113 primary studies. The results confirmed that transformational leadership and contingent reward are effective forms of leadership while management by exception active and passive are ineffective.

Transformational leadership was positively related to individual level performance (N = 16,809, estimated corrected mean correlation = .25), task performance (N = 7,016, estimated corrected mean correlation = .21), contextual performance (N = 7,970, estimated corrected mean correlation = .30), creative performance (N = 3728, estimated corrected mean correlation = .21), and general performance contextual performance (N = 4.017, estimated corrected mean correlation = .18).

Contingent reward was also positively related to individual, task and contextual measures of performance, with estimated corrected mean correlations ranging from .22 to .28. Conversely, both management by exception active and passive leadership were negatively related to individual, task and contextual measures of performance, with estimated corrected mean correlations ranging from -.03 to -.29.

In an effort to provide a comprehensive examination of the full range model of leadership, Judge and Piccolo (2004) performed a meta-analysis containing 626 correlations from 87 studies. Their study found transformational leadership has the highest overall validity (corrected $r = 0.44$), with contingent reward leadership close behind (corrected r – 0.39). They also found a negative average relationship between laissez-faire leadership and leadership criteria (corrected $r = -0.37$). In addition they indicate that the vast majority of the studies in the meta-analysis found a positive correlation between leadership criteria and transformational leadership, further validating the concept. However, they also found a strong correlation between transformational and transactional leadership, indicating these two concepts are not easily distinguishable.

One factor from the transformational model, charismatic leadership, has been studied extensively as a separate concept. Charisma has been linked to a variety of leadership outcomes, most notably subordinate performance. DeGroot, Kiker, and Cross (2000) used meta-analysis to study this relationship in 36 published samples, with 62 useable correlations. They found a relationship between charisma and subordinate performance at the individual level (r = 0.31) as well as the group level (r = 0.49).

Gender

Gender has also been studied in a variety of academic areas. Meta-analytic studies have found that women score higher than men in areas such as behavioral self-esteem and moral– ethical self-esteem, care-orientation towards morality, forgiveness, collaborative computer-mediated communication, extraversion, anxiety, trust and nurturance. Men score higher than women in areas such as assertiveness, overall self-esteem, the self-esteem domains of physical appearance, athletic, personal, and self-satisfaction.

Gentile et al (2009), meta-analyzed 115 articles and dissertations representing 32,486 participants to explore gender differences in reported self-esteem. Males scored higher than females on the self-esteem domains of physical appearance, athletic, personal, and self-satisfaction. Females scored higher than males on the self-esteem domains of behavioral conduct and moral– ethical self-esteem. Major et al (1999) conducted a meta-analysis of 226 samples representing 82,569 participants to explore gender differences in reported self-esteem. The study found that males reported higher global self-esteem than female participants did.

Miller's (2008) meta-analysis of 53 empirical articles representing 15,731 participants found women were more forgiving than men across a variety of sample types, measures of forgiveness and in both US and non-US samples

Jaffee and Hyde (2000) performed a meta-analysis of 113 studies representing 5,783 male and 6,654 female participants. Women scored higher than men did on Care Orientation - characterized by a focus on maintaining relationships, responding to the needs of others, and a responsibility not to cause hurt. Men, on the other hand, scored higher than women did on Justice Orientation – characterized by principles of fairness and equity such as those assessed in conventional measures of moral reasoning.

Li's (2005) meta-analysis of 50 studies involving 63,889 users found that female users had a significantly higher frequency of collaborative instances using computer-mediated communication than males and females were more collaborative and personally oriented than males.

Feingold (1994) analyzed 68 studies representing 17,729 participants to compare differences in personality between men and women. Males were found to be more assertive and had slightly higher self-esteem than females. Females scored higher than males on extraversion, anxiety, trust and nurturance. The differences were consistent across ages, years of data collection, educational levels, and nations.

Gender and Leadership

In the seminal meta-analysis of gender and leadership, Eagly and Johannesen-Schmidt (2003) meta-analyzed 45 studies which compared men and woman on measures of transformational, transactional, and laissez-faire (passive-avoidant) leadership styles. The studies were conducted with people occupying leadership roles who were rated by their subordinates, peers, and superiors using the Multifactor Leadership Questionnaire. The results of the meta-analysis revealed that female leaders were more transformational and scored higher on the subscales of charisma, idealized influence, inspirational motivation, intellectual stimulation, and individual consideration than their male counterparts. Female leaders also scored higher than males on the first subscale of transactional leadership, contingent reward. Male leaders scored higher on the subscales of management by exception active and management by exception passive. The study also found that women surpassed men in areas of leadership styles that were positively related to effectiveness while men's leadership styles had a negative relationship to follower effectiveness.

Personality and Leadership

Judge, Bono, Ilies, and Gerhardt (2002) conducted a review of the trait perspective in leadership using the five-factor model as an organizing framework while conducting a meta-analysis on 60 studies consisting of 222 correlations from 73 samples. In terms of criterion, studies were coded as representing leader emergence or leadership effectiveness and assessed independently and pooled together for overall analysis (Judge et al., 2002).

Results of the meta-analysis relating to the five-factor model of personality to leadership, when leader emergence and leadership effectiveness were pooled together, indicated that Extraversion ($\rho = .31$) was the strongest correlate of leadership (where ρ = estimated corrected correlation). Conscientiousness ($\rho = .28$) and then Neuroticism and Openness to Experience ($\rho = -.24$ and $\rho = .24$, respectively) displayed the next strongest correlations with leadership, and Agreeableness showed a relatively weak correlation with leadership ($\rho = .08$) (Judge et al., 2002). Extraversion was the most consistent correlate of leadership across study settings and leadership criteria (leader emergence and leadership effectiveness). Overall, the five-factor model had a multiple correlation of .48 with leadership, indicating strong support for the leader trait perspective when traits are organized according to the five-factor model (Judge et al., 2002).

Personality and Entrepreneurs

Zhao, Seibert and Lumpkin (2010) conducted a meta-analysis to determine the relationship between personality (defined as the Big 5 plus one – risk propensity) and the entrepreneurial process. They focused on two parts of the process, entrepreneurial intentions and entrepreneurial performance. Personality was positively associated with both entrepreneurial intentions and entrepreneurial performance. Specifically, conscientiousness ($\rho = 0.19$, where ρ = estimated corrected correlation), openness to experience ($\rho = 0.24$), emotional stability ($\rho = 0.22$), extroversion ($\rho = 0.16$), and risk propensity ($\rho = 0.40$) all showed a positive correlation with entrepreneurial intentions. Agreeableness was the only personality factor not directly related to entrepreneurial intentions. Similar results were found with entrepreneurial performance; with the one key difference that risk propensity ($\rho = -0.02$) did not show a relationship with performance. The authors conclude that personality does play a role in the emergence and effectiveness of entrepreneurs.

Stewart and Roth (2007) conducted a meta-analysis of studies that contrasted the achievement motivation of entrepreneurs and managers. The sample consisted of 18 studies and 3,272 subjects from the United States, UK, Netherlands, New Zealand, Israel, Sweden, Germany, and Russia. In the studies sampled, differences in achievement motivation between entrepreneurs and managers were statistically obtained through the use of F or t statistics and used to calculate the required d-statistic in the meta-analysis.

Overall results indicated a difference in means on achievement motivation with entrepreneurs obtaining higher means than managers (d = 0.35). Additionally a comparison of coefficients from studies conducted in the United States versus other nations showed larger difference scores for non-US nations (d = 0.54 vs. d = 0.20). Finally, when the analysis was restricted to entrepreneurs who were founders of their ventures, there was a larger difference between entrepreneurs and managers (d = 0.64). The overall results indicate that entrepreneurs are moderately higher in achievement motivation than are managers.

Zhao and Seibert (2006) also conducted a meta-analysis of personality and entrepreneurial status. The sample consisted of 60 studies obtain from a number of electronic databases. In the studies sampled, analysis was conducted to estimate differences between entrepreneurs and managers on Neuroticism, Extraversion, Openness, Agreeableness, and Conscientiousness. The effect size d was calculated as the ratio of the mean difference. Results indicated significant differences between entrepreneurs and managers on 4 personality dimensions. Entrepreneurs scored higher on Conscientiousness and openness, (d = .45 and d = .36) and lower on neuroticism and agreeableness (d = -.32 and d = -.14).

Intelligence and Leadership

Lord, Vader and Alliger (1986) conducted the first meta-analysis looking at the relationship between intelligence and leadership. They found a .51 average correlation between intelligence and leadership. This study was furthered by Judge, Colbert, and Ilies (2004), who found a smaller average correlation of .25 but still concluded there was a significant link between intelligence and leadership.

In an attempt to address this issue a few studies have considered intelligence and personality together. Ilies and Gerhardt (2004) conducted a meta-analysis aimed at considering the impact of individual genetic differences in leadership emergence. They found a strong multiple correlation (R = .57) when entering the big five traits and intelligence into a regression to predict leadership emergence.

Ensari, Riggio, Christian, and Carslaw (2011) studied leadership emergence in leaderless group discussions (LGD) through a meta-analysis containing 45 studies. They did not "force" the leader traits into any preconceived grouping (such as the big five personality factors) but instead categorized the variables from the various studies into naturally emerging groupings. They found the strongest predictors of leadership emergence in LGD to be authoritarianism (Fisher's z = 0.39), creativity (Fisher's z = 0.36), extraversion (Fisher's z = 0.33), masculinity (Fisher's z = 0.33), and intelligence (Fisher's z = 0.32).

Literature Review Summary

Meta-analytic studies clearly show that personality is related to, and often predicts, leadership (Judge, Bono, Ilies, & Gerhardt, 2002; Zhao et al., 2010; 2007; Zhao & Seibert, 2006). In addition, meta-analytic studies also show that intelligence predicts leadership (Ensari et al., 2011; Ilies & Gerhardt, 2004; Lord, De Vader, & Aiiger, 1986). Finally, it is clear and that gender typically predicts leadership (Eagly & Johannesen-Schmidt, 2003).

Ilies and Gerhardt (2004) found that personality and intelligence together predict leadership emergence, but they were not focused on the full range of leadership, only the emergence of a leader in a leaderless group. None of the studies found considered personality, intelligence, gender and their combined impact on the full range of leadership.

Participants

There were 97 female and 65 male leaders who were rated by their peers, followers and supervisor. The ages ranged from 26 to 67 with a mean of 42. Eighty-four participants described themselves as Hispanic, 46 as White and 29 as Black.

METHOD

One-Hundred Sixty-Two participants in executive leadership training and graduate programs in leadership agreed to participate in the study. The participants were rated be two peers, two followers and a supervisor using the *Multifactor Leadership Questionnaire*. The generic term for this assessment is often referred to as a “360 degree” assessment, as the leader is being rated from three different organizational viewpoints. The followers, peers and supervisor completed the leadership assessments on-line using survey monkey. The leaders in turn completed two instruments on themselves: the *Watson-Glaser Critical Thinking Appraisal*, The *NEO-PI* personality assessment.

Instruments

Multifactor Leadership Questionnaire (MLQ)

The *Multifactor Leadership Questionnaire* (MLQ) was developed to determine the degree to which leaders exhibited transformational and transactional leadership. The MLQ has undergone many revisions during the past 20 years. The Form 5X contains five transformational leadership subscales, two transactional subscales, and two passive subscales of leadership that together form what is known as the full range leadership theory.

Bass and Avolio (1990) assert that transformational leaders have a strong set of internal values and ideals and develop followers to their fullest potential. Transactional leaders exchange things of value with subordinates to advance their own, as well as their subordinates’ agenda.

Bass and Avolio (2002) conducted a cross-validation study of the MLQ Form 5X. The study was used to test the convergent and discriminate validities of each subscale through confirmatory factor analysis. The studies consisted of examining nine samples with *N* = 2,154, and a second study using five samples with a total of *N* = 1,706. The two studies combined provided a sample of *N* = 3,860. Reliabilities for the total items and leadership factor subscales ranged from .74 to .94. The validity coefficient for the MLQ was .91 (Bass & Avolio, 2002).

Bass and Avolio conducted a second confirmatory factor analysis using LISRELVII to compare the *Goodness of Fit* (GFI) and the *Root Mean Squared Residual* (RMSR) estimates with the MLQ. The GFI values higher than .90 indicated a better fit between the model and the available data (Bentler & Kano, 1990). The RMSR value was considered a good fit if it was less than .05 (Joreskog & Sorbom, 1982).The results if the study indicated that the full range leadership model represented by the MLQ 5X had a goodness of fit (GFI) of .91 and the root mean squared residual (RMSR) was .04. Each was above and below their perspective cut-off criterion respectively.

Watson-Glaser Critical Thinking Appraisal

The Watson-Glaser Critical Thinking Appraisal (WGCTA) was constructed by Watson and Glaser (1980) as a measure of critical thinking. It is a test of crystallized ability (verbal reasoning), designed for graduate recruitment and management selection. The WGCTA system provides five sub-scales and a total of the overall score measures.

The Inference scale measures the ability to discriminate among degrees of truth or falsity of inferences drawn from given data. The Recognition of Assumptions scale measures the ability to recognize unstated assumptions or presuppositions in given statements or assertions. The Deduction scale measures the ability to determine whether certain conclusions necessarily follow from information in given statements or premises. The Interpretation scale measures the ability to weigh evidence and decide if generalizations or conclusions based on the given data are warranted. The Evaluation of Arguments scale measures the ability to distinguish between arguments that are strong and relevant and those that are weak or irrelevant to a particular question at issue. The Total Critical Thinking Appraisal score is a summation of the five subscale scores. It provides a more accurate estimate of individuals' overall critical thinking ability than do the individual subscales. The internal consistency and test-retest reliability for the WGCTA is .81 (Watson & Glaser, 1994).

NEO-PI

Although a number of widely available tests have been created to measure the big five personality traits (Paunonen, Jackson, Trzebinski, & Forsterling, 1992; Piedmont et al., 1991, 1992), the only commercially available measure designed specifically to capture these five factors is the NEO personality Inventory (NEO-PI; Costa & McCrae, 1985, 1989a). The *NEO-PI* measures the five factors as well as more specific facet scales for neuroticism, extroversion, openness. For example, neuroticism comprises the six facet scales of anxiety, hostility, depression, self-conscientiousness, impulsiveness, and vulnerability to stress. These scales are designed to capture more specific traits that underlie these broad factors. Currently, agreeableness and conscientiousness are only represented by a global score. Costa & McCrae (1998c) also identified scales for these two factors; in the new revision of the *NEO-PI* (the *NEO-*

PIR), these facet scales have been added in attempt to capture more fully the qualities included by them.

The *NEO-PI* was developed by Costa and McCrae (1985). This 181-item questionnaire was developed through rational and factor analytic methods to measure the five major factors of personality: N,E,O,A, and C. Items are answered on a 5-point scale ranging from strongly agree (1) to strongly disagree (5), and scales are balanced to control for the effects of agreement. The claim of five-factor theorists is that these factors, singularly or in combination, can be found in virtually all personality instruments, and a number of authors have compiled tables showing the putative assignment of standard personality scales or factors to the five (Brand & Egan, 1989; Digman, 1990).

Predictors of Transformational Leadership

In order to determine which variables best predicted the 360 degree ratings of how transformational the leaders were a stepwise regression was run using the predictor variables of personality – Openness, Conscientiousness, Extraversion, Agreeableness and Neuroticism, the overall Watson-Glaser Critical Thinking Score, and the leaders' gender.

The leader's self-reported extraversion scores was the strongest predictor of ratings of Transformational Leadership, explaining 10% of the variance in the scores ($R^2 = .10$, $B = .29$, $r_p = .30$, $p = .00$). The positive Beta weight and partial correlation indicate that the more extraverted the leader was, the higher she/he was rated on transformational leadership.

The leader's gender explained an additional 4% of the variance in Transformational ratings ($\Delta R^2 = .04$, $p = .01$). Female leaders ($M = 3.26$) were rated as more Transformational than male leaders ($M = 3.12$). The leader's critical thinking scores explained an additional 2% of the variance in Transformational ratings ($\Delta R^2 = .02$, $B = -.16$, $r_p = -.17$, $p = .04$). Unexpectedly the negative Beta weights and partial correlations indicated that the more intelligent the leader, the lower she/he was rated on Transformational leadership.

Table 1:
Predictors of Transformational Leadership

Model	R	R Square	R Square Change	F Change	Sig. F Change
1	.32	.10	.10	16.46	.00
2	.37	.14	.04	6.41	.01
3	.40	.16	.02	4.29	.04

Note. Predictors: 1) Extraversion, 2) Extraversion, Gender, 3) Extraversion, Gender, Watson-Glaser Score

Predictors of Transactional Leadership

In order to determine which variables best predicted the 360 degree ratings of how transactional the leaders were a stepwise regression was run using the same predictor variables as the previous regression. Only the personality factor of conscientiousness predicted transactional leadership, and only explained 3% of the variance (R^2 = .03, B = .16, r = .16, p = .04).

Table 2:
Predictors of Transactional Leadership

Model	R	R Square	R Square Change	F Change	Sig. F Change
1	.16	.03	.03	4.18	.04

Note. Predictors: 1) Conscientiousness

Predictors of Passive-Avoidant Leadership

The leader's extraversion explained 4% of the variance in rating of passive-avoidant leadership (R^2 = .04, B = -.19, r_p = -.20, p = .01). Gender explained an additional 3% of the variance (R^2 = .03, p = .04). Women (M = .61) were rated lower on passive-avoidant leadership than men (M = .75).

Table 3:
Predictors of Passive-Avoidant Leadership

Model	R	R Square	R Square Change	F Change	Sig. F Change
1	.20	.04	.04	6.30	.01
2	.26	.07	.03	4.36	.04

Note. Predictors: 1) Extraversion, 2) Extraversion, Gender.

DISCUSSION

A paradigm shift can be seen in human resource strategies in businesses that employ a transformational approach to leadership. This transformation evolves from a more traditional model of control of human resources to one of mutual commitment between employees and the organization (Bass & Avolio, 1994). This transformational approach of developing mutual commitment among employees is a strategy designed to elicit trust and commitment in employees incorporating leaner, more flexible leadership that strives for idealized influence (Bass & Avolio, 1994). This paradigm shift from a control to commitment model requires a change in manager and employee's mind-sets, which is mostly impacted by the transformational competencies of intellectual stimulation and inspirational motivation (Bass & Avolio, 1994). This takes a business from the mind-set of the control model (transactional approach), where the focus on order, discipline, and efficiency sends a message of mistrust and damages morale, to a commitment model which places a requirement on supervisors to move from a control focus to a more facilitative, developmental, and instructive role grounded in the transformational competency of individualized consideration (Bass & Avolio, 1994).

As mentioned previously, empirical evidence indicated that Extraversion was the most consistent predictor from the five-factor personality model for transformational leadership (Judge et al., 2002). Extroversion refers to the degree to which a person is outgoing, sociable, talkative, and comfortable meeting and talking to people. Extraversion has also been described by adjectives such as warmth, gregariousness, assertiveness, activity, excitement-seeking and having positive emotions. The various elements of Extroversion have the potential to directly impact transformational leadership factors that elicit competencies for a commitment-oriented organization. Specifically, as assessed by the five-factor model and measured by the NEO-PI-R, Extraversion consists of the following six attributes: Friendliness, Gregariousness, Assertiveness, Activity Level, Excitement Seeking, and Cheerfulness.

Table 4 (next page) lists the elements of Extraversion and the corresponding factors of transformational leadership and ties these attributes to organizational leadership examples.

Leaders that seek to transform their organizations from a control-oriented environment to a commitment-oriented environment can do so through establishing a transformational leadership-focused strategy using factors attributed to the personality trait Extroversion. There are many beneficial outcomes that stem from a commitment-oriented organization. A few benefits include increased efficiency and effectiveness due to higher morale and how leadership is perceived by followers, shared organizational mission and vision by all due to free-flowing communication, and a focus on excellence, leader/employee competence, skills, expertise, and striving toward continuous improvement (Bass & Avolio, 1994).

Table 4:
Extraversion and Transformational Leadership applied

Extraversion (Attributes)	Transformational Leadership (Factors)	Leadership Examples
Friendliness	Establishes *Idealized Influence* and *Inspirational Motivation* by developing trust and rapport	Ensure timely and friendly communication to individuals at all levels. Employees must understand expectations and responsibilities and how they align with the mission and vision of the organization.
Gregariousness	Develops *Idealized Influence* and *Individualized Consideration* through the ability to engage and interact with people, teams, and groups.	Engaging and interacting with individuals, groups, and teams; developing trust and empowering employees to encourage them to optimally demonstrate their abilities, develop new skills, and seek challenges.
Assertiveness	Develops *Idealized Influence* by focusing on capabilities, integrity, and success.	Proactively promoting core values, mission, and vision: "We must continue to follow the CEO's vision and to maintain the trust we have in each other."
Activity Level	*Inspirational Motivation* through high-energy involvement	Promote understanding and clearly communicate the mission, remain optimistic, and boost confidence: "Ok team, we are on task to finish before the deadline. Let's finish strong!"
Excitement Seeking	*Intellectual Stimulation* and *Individual Consideration* through high levels of stimulation	A catalyst for creative activity; move employees to question their assumptions and the status quo. Staying within the boundaries of the mission/vision, challenge employees to seek better processes or outcomes.
Cheerfulness	*Idealized Influence* through positive mood and feelings, happiness, enthusiasm, optimism, and joy; *Inspirational Motivation* through optimistic approach to outcomes and success	Improving morale and helping people enjoy what they do start with leaders modeling the same. An optimistic leader who is in good spirits is infectious to an organization. Leaders who are enthusiastic, genuinely happy, and optimistic tend to elicit the same responses in their workers. This has a positive impact on over-all work performance and perceptions of the organization.

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MICRO AND SMALL BUSINESSES: THEIR NATURE AND THE KEYS TO THEIR ECONOMIC SUSTAINABILITY

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ABSTRACT

Micro and small businesses comprise the majority of all firms in the United States, Canada and the European Union. They employ a significant amount of the total workforce. These businesses have limited resources and are highly susceptible to business failures during difficult economic times. High unemployment is leading many to seek opportunities in these businesses without necessarily possessing the skills to operate them. This paper discusses primary attributes, strengths and weaknesses of micro and small businesses and examines both traditional business and more sophisticated skills and methods that can enhance the business performance and economic sustainability of this important sector of the economy.
Keywords: Small Business, Micro Business, Sustainability, Family Business, Entrepreneurship, Risk Management, Project Management, Marketing, Product Development, Personal Skills Training, Business Planning

INTRODUCTION

Micro and small businesses typically employ a small number of workers and have relatively low sales volumes. Generally, these companies are organized as sole proprietorships, partnerships and privately held corporations. Micro and small businesses are usually not dominant in their field and are vulnerable to the actions of large businesses in the same industry. Businesses that can benefit from personal interaction or finding very specialized niches are good candidates for these small operations. Convenience stores, delicatessen, restaurants and inns are often organized as small businesses. This category also often includes a variety of small scale manufacturers and subcontractors. An important strength of micro and small business is its ability to create close relationships with customers and clients.

During good economic times micro and small businesses have five year startup failure rates of only around 30%, which is better than businesses overall. The only exception is micro businesses with revenues below $30,000. They have a 5-year failure rate of 65%. Generally, the reasons given for business failure in the micro and small business sector are weak general management, weak financial management, or weak marketing capabilities. [1] During the harsh economic times of the last 5 years, 5-year failure rates for micro and small businesses have increased to around 50%. [2] During this same period, mass layoffs and higher unemployment have motivated many more individuals to start micro and small businesses.

This paper addresses the defining characteristics and the unique improvements in business management necessary for micro and small businesses to survive in the current environment. The term sustainability, as used in this paper, refers primarily to the dimension of economic or market sustainability, as distinct from the two other dimensions of business sustainability, social and environmental sustainability. [3] Various sources and skills that can contribute to the economic sustainability of micro and small businesses are addressed, including unique governance, management and operational models found in family businesses, application of project and risk management, reliance on traditional core business skills, and newer, more complex business skill sets.

MICRO AND SMALL BUSINESSES IN THE UNITED STATES, CANADA, AND THE EUROPEAN UNION

Although definitions vary across countries, micro and small businesses are characterized by the small number of employees in their organization. Typically microenterprises have less than ten employees, while small enterprises have fewer than 100. In these organizations there is a high level of 'hands on' engagement in the business by all employees, and a higher level of awareness of the roles of all members of the company team. In short, micro and small business enterprises do not perceive a great need for integration management, as is often the case in larger organizations. [4]

United States

In the United States, microbusinesses are firms with 0-9 employees. They constitute 79% of total firms and employ 13.0 million people, 11% of the total work force. Small firms have 10-99 employees. They make up another 20% of U.S. firms and 29.1 million, or 25%, of the U.S. workforce. Combined, these two categories account for 98% of total businesses and employ 36% of the total workforce. This is a significant part of the working population. However, the microbusiness portion is understated, since it does not include approximately 21.1 million non-employer businesses, a number almost twice as large as microbusiness employees. This workforce may consist of contract workers, family members and/or owners. The ranks of microbusinesses are further expanded by unemployed workers temporally doing piecework and other non-employee activities.

Although small business is defined here as having less than 100 employees, the official definition of a small business according to the United States Small Business Administration is under 500 employees. This is a rather large measure for small business and differs materially from Canadian and EU definitions of the upper limit of small business. It includes firms that clearly have a very different profile with regard to management and availability of funding sources. [5]

Canada

As in the U.S., Canadian micro firms having 1-9 employees and small firms having 10-100 employees play a significant role in the employment statistics. Micro size firms comprise 77% of Canada's businesses. In addition, the unemployed figures in Canada, as in the U.S., also contribute to the micro businesses numbers as they become included in piece work or day work. They increase the numbers in Canada's 'indeterminate' category, which is the equivalent of the non-employer category firms of the United States. In Canada, the "indeterminate" category consists of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners. The Business Register of Statistics Canada maintains a count of business establishments and publishes results twice a year. [6]

European Union (EU)

The definition of micro versus small business enterprises in the EU is slightly different than in the United States and Canada. A microenterprise is defined as having fewer than ten employees and having total sales and balance sheet of less than 2 million Euros. Small enterprises are defined as having fewer than 50 employees and sales and balance sheet of less than 10 million Euros. [7]

FAMILY OPERATED BUSINESS ORGANIZATIONS – CONTRIBUTIONS TO MICRO AND SMALL BUSINESSES

One important form of micro and small size businesses is the "family business". Family businesses are operated and generally owned by a family group. It is estimated that the proportion of all enterprises worldwide owned or managed by families is between 65 and 90 percent**.** [8] Many of the most successful family small businesses have an ethnic component stemming from affiliation of the family to a specific national culture. The relative importance of the family in different societies varies across cultures, and, therefore, the definition of the term "family business" is assumed to be culture-specific. **[**9**]** [10] [11]

An example of a strong ethnic family culture can be found amongst the Greeks in South Africa. Greek family businesses have been extremely successful in the South African economy, where family businesses are generally the predominant way of doing business. A large percentage of these businesses are Greek owned and approximately 95% of all Greek businesses in South Africa are family owned businesses. Greek families have a significant economic influence in the country. Spar is a major South African grocery chain focusing on neighborhood stores. More than 80% of Spar outlets are controlled by Greek families. Ninety percent of the South African shipping supply industry's ship chandler's services are run by Greek families. Fast-food outlets such as Spur and Debonair, and at retail level, Seven Eleven, Fruit and Veg. Famous Brands and Pick 'n Pay are also all dominated by Greek family interests.

Adendorff, develops a comprehensive model of independent variables that explain good governance in South African Greek family businesses. [12] [13] [14] The variables are planning, family harmony and culture-related values. Other ethnic cultures have their own unique sets of values. Values are learned behaviors, strongly influenced by cultural norms.

An important issue in understanding family business governance is recognition of the specific operating characteristics of a family business. This includes sharing a commonly held vision. [15] The shared vision of a family microenterprise or small business clarifies the role interactions among stakeholders, promotes coherence in their expectations and facilitates the reduction of opportunistic behavior and the development of social norms that reinforce commitment to jointly agreed-upon decisions. This common vision is typically shaped by frequent interactions among family members. During family or small group get-togethers common beliefs and norms are continually being developed. A good relationship requires **frequent interactions** of reasonable duration. **[16][17]**

Another important operating characteristic of family businesses is the need to continually blend two inherently different realms– the performance-based world of business and the emotion-based domain of the family. This relates to the role of the family in the development of the entrepreneurship process of family businesses. It is important to assess whether this development places at risk important issues such as family traditions, culture, values, and assets. This close link between family values and business decisions can have the impact of blurring the family decision-making process. [18]

The family business coalition controlled by a family member, the managing group or the original cultures may become resistant to change. An important reason for this resistance is the role that emotions often play in family decision-making. These emotional considerations are seldom a consideration in non-family businesses. Family members often deal with this potential threat by restoring the status quo, therefore resisting change. Furthermore, family business members who put family needs ahead of business needs are more likely to remain involved with the business. [19]

Success in maintaining a working balance between emotional family concerns and business performance is essential to the sustainability of this form of business. In addition, it is important to recognize that corporate governance cannot be "standardized" for all ethnic groupings that function in an economy. The way in which corporate governance is implemented has been shown to be affected by specific ethnic and cultural influences. [20] [21]

IMPORTANT SKILL NEEDS OF MICRO AND SMALL BUSINESS SECTOR: TRADITIONALLY DISCUSSED SKILLS

Micro and small businesses require basic business knowledge just as other larger companies. The following are some basic skill areas, with focus on the specific needs and problems of the micro and small business entrepreneur. [22]

Strategy and Planning

As in all businesses, micro and small businesses need to have a clear idea of what they want to become and how they intend to go about achieving that vision. A simple vision or mission statement, often consisting of a few sentences, is a useful way to clarify the business's purpose and primary activities. From such a statement, quantitative and qualitative objectives can be identified. Through this thinking process, the micro or small business can develop a simple strategic plan for its first few years, as well as, an initial operating plan for the first year of operation. Such a strategic underpinning will aid the company in dealing with other issues, such as funding, pricing, marketing, etc. [23] [24] [25]

Funding

Inadequate funding or undercapitalization is often cited as a common problem of micro and small businesses. [26] Obtaining necessary capital both for startups and for important projects and expansions is an issue that separates micro and small business organizations from their larger business counterparts. In an interview with a representative of the U.S. Small Business administration, it was observed that commercial lending institutions in the U.S. were not interested in making small microloans to microbusinesses because a $50,000 loan marked the breakeven point for lenders -- the point where the fixed and variable costs of making a loan equals the revenue benefits of that loan. [27] Sadly, for many microenterprises, even $50,000 is a sobering amount of risk to take on. Consequently, commercial loans are the least likely source of business funding except in the case of larger, extremely productive ventures.

The more typical funding sources for micro and small business are: (a) personal savings and equity loans raised against the owner's assets, e.g. a second mortgage, (b) loans from friends and relatives, (c) grants from private foundations, where available, (d) forming a partnership or issuing private stock, (e) angel investors, i.e. rich individuals seeking avenues for profitable investments, (f) small business financing programs (usually guarantees issued by government small business support agencies), and (g) micro financing (commercial or nonprofit). [28] [29] [30] Entrepreneurs need to have the basic skills of estimating their true funding needs relative to their projected sales to determine a reasonable amount.

Pricing

Another common problem in micro and small businesses is underpricing of products and services. Many entrepreneurs tend to price their products and services too low. Underpricing yields low contribution margins, i.e. the excess of revenue over the direct costs of delivering the product or service. If the contribution margin is too low, the business may be unable to cover "fixed" expenses such as rent and payroll. Under these circumstances, the business can continuously incur losses even when producing and selling at full capacity, to say nothing of downward fluctuations in sales. [31]

Traditional Marketing

Marketing is another problem area for many small businesses. The business might be providing an excellent product or service, but is unable to achieve sales volumes needed for profitability. Achieving sales volumes requires sustained effort, as well as the ability to build trust and confidence among new customers. Small businesspersons might lack the staff and skills necessary to accomplish this. [32] [33] Although entrepreneurs are by nature persistent, developing basic marketing knowledge is essential for taking meaningful action. For micro and small businesses, marketing may simply involve personal networking, customer referrals, and the use of inexpensive 'out of the box' websites on the Internet.

Customer relationship management (CRM) is a widely implemented strategy for managing a company's interactions with customers, clients and sales prospects. It involves the use of technology to organize, automate, and synchronize business processes—principally sales activities, but also those for marketing, customer service, and technical support. [34] Micro and small business do have the advantage of a closer relationship to customers and clients, but this must be supported by strong cross-referenced customer and client records that organize all customer data. Although large CRM database systems are likely to be beyond the resource capacities of micro and small businesses, simpler technical solutions should definitely be considered as part of productivity technology.

Productivity Technology

An important problem for micro and small business management is productivity. This can be helped by using business software designed to meet small business needs. A variety of small business software for CRM, accounting, inventory management, property and asset management, payroll, invoicing and order management are available in the marketplace. [35]
There is industry-specific business management software for retail, restaurant and other specific businesses. Personal productivity software for tracking projects and individual tasks can also help significantly in using available time to full potential. Using business productivity technology not only makes the small business more efficient, but also provides an opportunity to be influenced by best practices included in small business software. The use of email and internet marketing via a website can be an effective way of extending and expanding micro and small business closer relationships with customers and clients.

IMPORTANT ADDITIONAL SKILL NEEDS OF MICRO/SMALL BUSINESS SECTOR

Risk Management

Although specialized financial risk management is an established tool within financial sector companies like banking, investment, and insurance, operational or business risk management is a relatively new methodology for other industries. Operational risk is by its nature holistic in its perspective and must consider all aspects of the firm and the environment to seek desirable outcomes and avoid undesirable ones. The implications of this relatively new field of activity are still being digested by industry, consultants and academia. Beyond pure theory, practical risk management in the consulting marketplace is, for the most part, diverse, unsystematic and not yet grounded in a well-developed theoretical framework. The primary users of this knowledge are large corporations which face highly diverse, complex and extensive risk landscapes. Given existing uncertainties as to what operational risk management should focus on in a given firm and what can or should be done, it is not surprising that micro and small businesses are often confused and not particularly attracted to this area. This is not to say that small businesses are not aware of risks and do not anticipate and respond to what they perceive as risk. This is reflected in the level of risk aversion/attraction of different entrepreneurs.

Even small family businesses are aware of risk. These are organizations that are frequently conservative and averse to change and see risk control as attempts to protect the business and the family from outside or internal threats. Thus, it is noted in family business research that that control of the internal regulatory environment and the protection of the stakeholders' interest are important factors in a successful family run business. [36] [37]

For micro and small businesses in general, the existence of risk or uncertainty is a pervasive concept of business, while risk management is seen as limited to areas where management perceives that it has some ability to affect a situation. Serious investment by owners of micro and small businesses in systematic risk management systems are unlikely at this time. Only large organizations facing far more diverse, complex and extensive risk landscapes can afford to invest in these still developing methodologies. [38]

Project Management

Research by Turner, Ledwith and Kelly found that companies of all sizes spend roughly the same proportion of sales on project management. [39] Consequently, the smaller the company, the smaller their project in dollar cost terms. These companies are less likely to employ project management methodology or tools. At the same time, there is a greater likelihood in the small business that all of the members will be involved in the various stages of project decision making, similar to the situation in a family business. Other findings of the study were that hi-tech companies spend less on projects then lo-tech or service companies, but have larger projects and use project management to a greater extent. Furthermore, there is evidence that in small to medium businesses there is a perception of a high consequence of failure, and, therefore, "tried and true" techniques are preferred. They also have a low degree of standardization and make idealistic decisions, are less specialized, do more multi-tasking and have a high degree of innovativeness. [40]

The above supports the productivity efficiencies of project management and suggests that small and medium sized firms might benefit from the use of a "lite" version of project management. By "lite" versions what is meant are simpler, less demanding project management tool sets than those utilized by medium and large size businesses. Ultimately for all sizes of firms, the primary success factors are (1) client consultation, (2) planning, monitoring and control, and (3) resource allocation.

IMPORTANT SKILL NEEDS OF MICRO/SMALL BUSINESS SECTOR: IMPORTANT BUT OFTEN IGNORED SKILLS

Beyond the commonly discussed traditional business skill needs mentioned earlier, there are a variety of more complex skills relevant to micro and small business that are frequently ignored by practitioners. These skills can be divided into two groups: The first group is personal skills for owners/managers and key players in the company. This skill group includes emotional intelligence development, personal skills self-analysis, leadership development and written and verbal communication. The second skill group is business skills relating to specialized functions and processes. This group includes advanced marketing, i.e., social media, guerilla marketing and blogs, business planning, logistics and delegation, and product development, specifically up to date market research techniques. Below each of these skill groups is discussed.

PERSONAL SKILLS FOR OWNERS, MANAGERS AND KEY PLAYERS

Emotional Intelligence Development

Emotional intelligence is a set of skills dealing with control of ones impulses, self-motivation, empathy and social relationships. It is identified as a major indicator of human success, including in business. It is also defined in terms of self-awareness, altruism, and the ability to love and be loved by friends, partners and family members. Emotional intelligence is not genetic and can be augmented by training. [41] [42] It is also an important leadership component.

Personal Skills Self-Analysis

Self-analysis questionnaires are important to micro and small business functioning Going through the process aids in the discovery of what roles in the organization will take the fullest advantage of the employee's skills inventory. Unlike larger organizations, micro and small business offer greater opportunities for multitasking and playing multiple roles within the organization. This process helps to identify and develop these roles. [43]

Leadership Development

Programs for developing strategic, tactical and practical thinking skills and planning, problem solving and decision making skills in sole proprietors and owners of small business and other key players are important. [44] [45] [46] In the context of micro and small business, the development of these skills is even more critical than in larger organizations., because in these lean organizations there is no room for back up leaders, and replacement of an owner is not a likely event. All must be done to make the best of all talents from the top down. These skills are essential to successful strategic and operational planning, and contribute a variety of better strategic decisions in the business.

Written and verbal communication

These programs provide training for both written and oral presentation and communication. Written communication training focuses on producing concise, precise and definite use of words in memos, advertising pamphlets and other written communications of the business. Oral communication training focuses on monitoring verbal and nonverbal responses, paying attention to volume and speed of one's speech, understanding/clarifying the other's point of view, and deep listening. [47]

BUSINESS SKILLS RELATING TO SPECIALIZED FUNCTIONS AND PROCESSES

Advanced Marketing; Social media

Social media marketing is a useful addition to micro and small business integrated marketing communications. Social media are a group of Internet-based applications that allow the creation and exchange of user generated content. [48] Social media marketing programs usually center on efforts to create content that attracts attention and encourages readers to share it with their social network. A company message spreads from user to user and presumably resonates, because it appears to come from a trusted, third-party source, as opposed to the brand or company itself. It is an easily accessible platform for micro and small businesses. [49]

Advanced Marketing: Guerilla Marketing and Blogs

Guerilla marketing is an unconventional system of promotions that relies on time, energy and imagination rather than a big marketing budget. Typically guerilla marketing campaigns are unexpected and unconventional, potentially interactive and target consumers in unexpected places. The objective is to create a unique, engaging and thought provoking concept and, thereby, generate “buzz” that will resonate, i.e., “turn viral.” [50] Blogs are an excellent site for micro and small businesses, contrary to misconceptions that they are only for journalists or kids. Blogs are the simplest content management system, since, once they are set up, the only skill required to make content is to type. [51]

Business Planning, Logistics and Delegation

Business planning can be greatly enhanced by inexpensive planning software designed for micro and small businesses. For startup planning some packages offer a multitude of examples of real business plans from all types of businesses, profit and non-profit. [52]
Logistics includes all the processes from purchasing raw materials to delivering the product to the customer. Logistics improvements can reduce costs and increase profits of a small business. The function can be outsourced. Typical service providers are accountants, attorneys, bankers, insurance agents, information technology experts, etc. These service providers keep logistics for small businesses in order. Delegation skills are critical to owners/managers of micro and small businesses. Multitasking has it limits, even at the top. Without corrective training, a leader who refuses to delegate can create business process gridlock. [53] [54]

Product Development: Market Research

Market research is the process of gathering and analyzing consumer and economic data to help understand which products and services your customers want and how to differentiate your business from competitors. Micro and small businesses have access to much free information from databases provided by the US government. Also, the Small Business Administration provides useful information on how to conduct marketing research. [55] For the most part, micro and small business need to rely on secondary sources of market research data. Secondary research is the most the widely used method of collecting data and involves summarizing and synthesizing existing research from sources such as books, magazine articles, white papers and websites. The federal government provides free data and research under Consumer Statistics, Economic Indicators, Employment Statistics, and Income and Earnings. [56]

IMPLICATIONS

Implications for Practitioners

Micro and small businesses should consider upgrading their project management procedures in order to better manage innovation using programs and software especially suited to small organizations. Although relevant risk should be taken into consideration in business decision making, micro and small businesses probably do not need to invest in sophisticated risk management systems given their size. Entrepreneur owner/managers of micro and small businesses should be sure that they and their staffs have basic, commonly discussed skills in the areas of funding, pricing, marketing and productivity technologies to support their particular business.

Beyond this, micro and small businesses would do well to consider often ignored skills that may contribute to greater success through the effectiveness of interpersonal communication both within the company and with clients and customers and the beneficial results of smarter, more focused marketing research and product development.

Implications for Academics

Given the estimated preponderance of family owned businesses worldwide, investigation of the special cultural based values and attributes of family run micro and small businesses should be continued as a source of insights into management and operating practices that support economic sustainability. These include further studies of Greek and other ethnic family businesses in the United States and internationally. Also study of family governance, both its strength and weakness, may offer useful insights about the management of all micro and small businesses.

Further research is needed into project management programs and tool sets appropriate for micro and small businesses with emphasis on leveraging the strengths and improving the weaker aspects of small business innovation processes. Also any evidence of joint projects by several firms with a common interest should be investigated.

CONCLUSION

What are the keys to sustainability for micro and small businesses? It is known that the commonest reasons for business failure are internal to the firm, specifically weak management of the company, its finances and its marketing. More generally these reasons reflect lack of planning and preparation by management. Startups require sound business planning and projects demand well planned project management. Both endeavors require technological tool sets appropriate to the needs and capacities of micro and small business. Beyond these core failings in business knowledge and organization lie other issues connected with the ability of the owner/manager and his/her employees to have effective and supportive interactions that facilitate problem solving, confident delegation and fulfillment of tasks and a commitment to continuous improvement. The suggestions offered regarding project and risk management, issues of funding, pricing, marketing, and productivity along with the more sophisticated personal and business skills discussed are all intended to contribute to the success and sustainability of micro and small businesses.

At the same time, micro and small business teams must fully utilize their unique advantages of closeness to customers and to one another. They are more intimate organizations than their larger counterparts and it is not surprising that family businesses occupy such a prominent position in this sector. Future "family" research is needed. Family businesses throughout the world of various ethnic cultures need to be investigated more fully. Hopefully this work can contribute to establishing new critical success factors for micro and small businesses in general.

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NEW OPPORTUNITIES FOR SOCIAL ENTREPRENEURSHIP GENERATED BY THE GREAT RECESSION

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ABSTRACT

Poverty stemming from unemployment exists at all times. More extreme financial times, such as the Great Recession in the United States and similar financial crises in Europe and beyond, push the envelope of what government initiatives and existing safety nets can provide. Social entrepreneurship can play a large role during such periods to achieve effective results. Demographics of unemployed and underemployed of U.S. workers are discussed and focal areas of need for these individuals are identified. Loss of access to medical care is examined in depth. Implications are considered for the role of social entrepreneurship in severe financial crises.
KEYWORDS: Social Entrepreneurship, Social Enterprise, Microenterprise, Unemployment, Underemployment, Great Recession

INTRODUCTION

Since 2008 the world has experienced a severe financial crisis that has weakened many economies and resulted in high levels of unemployment. Both Europe and the United States reacted with bailouts of their financial institutions and economic stimulus packages. Despite these efforts, unemployment and underemployment have remained high. This period has seen many company failures and restructuring, mainly within in the financial sector, but also in automotive, other manufacturing, housing, and construction. Currently, the general unemployment rate in the European Union remains high on 9.5 percent with double digit inflation in several southern European countries. [1]

The Great Recession has also left its mark on the U.S. economy with the current overall unemployment rate of 9.1 percent. [1] In August, new net job creation registered zero, its lowest point in 27 years and the White House Office of Management and Budget announced that problems with jobs and the economy will probably be with us until 2017. [2] [3]

The U.S. government has addressed these problems in various ways. Its attempt to bail out the banking system with the Troubled Asset Relief Program (TARP) act, and an effective zero percent interest rate from the Federal Reserve were intended to stabilize the banks and free up money to make loans and stimulate the economy. [4] Banks got stronger, but they did not make many loans. In addition, stimulus money was spent primarily on prescheduled government construction projects, which did aid some of those hardest hit in the construction field, but not others. At the small business and individual level, the government passed the Small Business Recovery Act and various other laws that primarily granted tax credits. The government also extended unemployment benefits beyond their normal limit, offered a one-time extension of COBRA past 18 months, and a subsidy for a portion of COBRA premiums. [5] Such benefits have already expired, despite the fact that many unemployed and underemployed workers remain unable to afford medical insurance.

For those who are jobless, tax credits and lower withholding rates are of little use in meeting financial needs. Further, the current makeup of the U.S. House of Representatives makes it unlikely that any new job stimulus package can be passed. It is necessary to look elsewhere for additional solutions to these problems, at least in the short term.
The potential of social entrepreneurs to find creative solutions to some of the problems generated by America's Great Recession is examined below. Various roles of social entrepreneurship for bringing change to society are suggested. Consideration is given to those areas where social entrepreneurs can make the greatest contribution to the unemployed in the United States.

NATURE OF SOCIAL ENTREPRENEURSHIP: LITERATURE REVIEW

Theoretical Grounding

The terms 'social entrepreneur' and 'social entrepreneurship' first appeared in the literature on social change in the 1960s and 1970s, and gained scholarly attention starting in the 1980s. [6] [7] [8] The underlying concepts and components of this term, however, have a far longer history. For example, in 1834 the French economist Jean-Baptiste Say defined an entrepreneur is an owner or manager who earns monetary profits by risk and initiative and "shifts economic resources out of lower and into higher productivity and greater yield." [9] Replacing the goal of profits with that of creating solutions to social problems might be seen as providing a simple starting definition of a social entrepreneur. From this starting point, one might extrapolate that the work of social entrepreneurs is to organize, create and manage ventures to achieve a high yield of positive social change.

A strong ethical/theoretical basis for the social aspect of the social entrepreneurship concept can be found in the writings of the Indian economist Amartya Sen, winner of the 1998 Nobel Prize in Economic Sciences for his contributions to welfare economics and social choice theory. Sen was influenced significantly by the work of the American economist Kenneth Arrow whose thinking had significant implications for welfare economics and theories of justice. Sen's revolutionary contribution to development economics and social indicators is his concept of 'capability' developed in his article "Equality of What." [10] He argues that governments should be measured against the concrete capabilities of their citizens, and that top-down development will always outweigh human rights as long as the definition of terms remains in doubt. As an example, he considers the United States citizens' hypothetical "right" to vote. To Sen, the concept is fairly empty. In order for citizens to have a capacity to vote, they must first have what he calls "functionings." These "functionings" can range from very broad needs, such as the availability of education, to very specific ones, such as transportation to the polls. Only when such barriers are removed can the citizen truly be said to act out of personal choice. It is up to each individual society to make the list of minimum capabilities guaranteed by that society. Freedom to choose what one will do or be depends on these capabilities. [10]

As Nussbaum, a proponent of Sen's ideas puts it

> "The central question asked by the capabilities approach is not 'How satisfied is Vasanti?'or even 'How much in the way of resources is she able to command?' It is actually 'What is Vasanti actually able to do and to be?'" (p. 71) [11]

Sen's profound sense of the economic and social requirements necessary for personal freedom and choice, and his recognition of the diverse individual needs of individuals once they are free to realize them provides a powerful ethical and socio-economic model for creating positive social change.

Scholarly Literature on Social Entrepreneurship

Some of the earliest scholarly writings on social entrepreneurship focus on the role of the social entrepreneur in the public sector, and emphasize innovation, leadership and commitment to public purpose. [12] [13] Subsequent studies focus more often on the not-for-profit. [14] [15] [16] [17] [18] [19] [20] [21] [22] [23] [8] Paredo and McLean find that over eighty percent of social entrepreneurship scholars favor the not-for-profit sector as the appropriate organizational form for social entrepreneurship.[24] They emphasize, however, that for-profit businesses or hybrid organizations, should not be ruled out as a basis for social entrepreneurship. They define a set of five characteristics of such activities carried out by a person or group:

> "(1) aim(s) at creating social value, either exclusively or at least in some prominent way; (2) show(s) a capacity to recognize and take advantage of opportunities to create that value ("envision"); (3) employ(s) innovation, ranging from outright invention to adapting someone else's novelty, in creating and/or distributing social value; (4) is/are willing to accept an above-average degree of risk in creating and disseminating social value; and (5) is/are unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture." (pp. 24-25) [24]

The bold disregard of asset scarcity in pursuing social change is frequently cited as a characteristic of social entrepreneurs in these early studies.

In contrast, Weerawardena and Mort note that, based on their empirical study, entrepreneurial not-for-profit organizations act in reality with caution regarding limited resources and take a more measured stance in relation to risk, one that is better characterized as 'risk management.' They associate this with the management constraint of sustainability of the organization. [25] Their multidimensional model consists of three core behavioral dimensions - innovativeness, proactiveness and risk management - which are exercised within the constraints of their social mission and organizational sustainability.

In addressing the need and role of social entrepreneurship during the Great Recession and its aftermath, we hypothesize that entrepreneurs and social enterprises are diverse organizations and that, faced with the momentous ethical and economic issues in this country, there are those that will rise quickly and boldly to the opportunities of current crisis with innovativeness, flexibility and a sense of mission to create positive social change in whatever manner possible.

UNEMPLOYMENT AND THE GREAT RECESSION

As of August 2011, 14.8 million Americans were unemployed, of which 42.9% have been out of work for more than 6 months. [26] African Americans were most affected with an unemployment rate at 16.7%, the highest level since 1984. The unemployment rate for Latinos remained unchanged at 11.3% and the rate for whites has fallen slightly to 8%. Another 2.6

million people were considered ‘marginally attached’ to the workforce in August. These are workers wanting to work, who are available for work, and have looked for a job sometime in 2011. They are not counted in the unemployment statistics because they were not actively searching for a job in August. Overall, the ‘underemployment rate’, which includes the ‘marginally attached’, as well as, those who want to work full-time but are forced to work part-time, has risen to 16.2%. [26] Clearly, from 2009 to the present, the Great Recession continues to negatively affect many workers through unemployment, underemployment and long term departure from the national work force.

Youngest and oldest most affected

The youngest workers have the highest rates of unemployment, based on a breakdown of unemployment by age for second quarter 2010 and 2011. [27] Compared to the average overall unemployment, the 16-19 age group has the highest rate at three times the average. The 20-24 age group is next at a little less than double the average. The toll on these youngest workers of high unemployment, and, for some, the inability to get a first job leads to setbacks in future income growth - “wage scars” - and emotional problems that continue for much of their lives. This is a serious problem in the US and abroad. [28]

At the other end of the age spectrum, older workers experience their own specific problems, particularly after age 55. Emy Sok of Bureau of Labor Statistics writes that older persons who do become unemployed spend more time searching for work [29] The 55-64 age group is in a particularly vulnerable position as, at this age, some businesses may take the opportunity to remove older workers from the payroll before they are eligible for pensions.

The underemployed and “marginally attached”

Additional casualties of the Great Recession from the employed workforce are those who are underemployed. Part time employees, aside from earning lower salaries, frequently do not have access to important employee benefits, such as group health insurance. The number of workers employed ‘part-time for economic reason’, also called ‘involuntary part-time’ was 8.4 million in July 2011 and 8.8 million in August 2011. In 2010, there were 83.9 million adults outside of the workforce. Out of this group, 6.1 million indicated that they wanted a job, and of this group of 2.9 million were defined as ‘marginally attached.’ [30]

Personal Financial Consequences Of Unemployment

The consequences of losing a job and experiencing sustained unemployment during a major economic downturn can create a variety of financial challenges for workers. These challenges are useful to review in seeking new directions for social entrepreneurship. There is the almost immediate prospect of lost compensation, as well as, the loss of a variety of employee benefits. All of these can be seen as constituting an economic loss potentially contributing to a decline in quality of life. Lost group medical benefits endanger, or make more expensive, the continuation of *medical treatment and medications* for the worker and his/her family. Loss of pay and, in some cases, possible subsidized travel benefits to and from work may limit the job seeker’s mobility exactly at a time when meeting the costs of *transportation* is particularly critical to finding new work. The employee may have lost childcare benefits in the form of corporate cost reimbursement or a company provided day care center.

The employee may have had a company provided or subsidized cell phone or had personal access to a company laptop computer, copiers and other technology, all of which are now not readily available at a time when they are needed most for *communication and networking* efforts. The employee may have received course and program reimbursement for *self- education and training*. This is interrupted at a time when the job seeker may need self-improvement training to compete in the job market. In the case of the loss of employment during massive layoffs in a particular industry, the employee may have lost more than a job and may be confronted with the need to change career direction entirely. This may be comparatively simple for younger workers, but quite a more formidable task for older workers. The area of medical needs is singled out for examination in greater depth, as an opportunity for the contribution of social entrepreneurship.

All of the above financial challenges are exacerbated by the decline in personal credit rating frequently associated with sustained or long-term unemployment. Workers may find themselves deprived of any credit back up, including personal credit cards. Furthermore, since prospective employers frequently require a credit check as part of the application process, poor credit caused by unemployment can ironically function as a further barrier to finding new employment.

Focus On Medical And Healthcare Expenses

Of all the consequences of losing employment, loss of medical benefits is often the most difficult to replace. This is particularly true for older and married job seekers. Loss of a company subsidized group insurance plan leaves the job seeker with difficult choices. They may choose to take the COBRA option, if available. Alternative affordable medical insurance is rarely available. The unemployed is forced to handle medical problems on an ad hoc basis. This often means abandoning most preventative care, such as, physical examinations, seasonal vaccines and the like. All these measures may make an individual with normal health more at risk to become ill and potentially experience a setback in the job pursuit. For those with an existing medical condition, such as high blood pressure, diabetes, etc., loss of medical coverage may cause the job seeker to stop or cut down regular medication that have become unaffordable. This can only lead to more dire health conditions and potentially make the worker unemployable, perhaps permanently.

Without timely and proactive medical treatment from a doctor, the job seeker is likely to resort to the preferred medical solution for the uninsured – a visit to the emergency room of a public hospital. Furthermore, the serious illness of a spouse or child, who was previously covered under the now lost group medical plan, can further deplete family financial resources and limit the ability of the healthy family member to seek employment. Family members requiring regular visits to a medical facility or a doctor’s office for special treatments or testing present many additional needs including transportation. Even the creative social entrepreneur may not be able to solve all these problems, but there are several areas where micro-solutions can be found on the individual level: generic medications for six months, disposable medical supplies, medical equipment, periodic nurse practitioner or physician visit fees.

The most expensive benefit item for an employee is the monthly premium withholding for medical plan and dental plans. In 2008, the average premiums for health insurance coverage were $4,704 for an individual and $12,680 for family coverage. [2] These figures include both the employee and the employer portions of the premiums. Add to this figure the premiums for dental insurance, and the fact that insurance premiums have continued to rise since 2008 every year, and the cost is formidable. Further, there are a large number of additional out-of-pocket healthcare costs that are beyond the payment of premiums, such as deductibles, copays, amounts above allowed costs, payments for policy exclusions, expenses above the policy upper limits, and expenses beyond visit limitations per year. The costs of these expenses can far exceed the premium amount.

With the onset of unemployment, a worker may have an 18 month extension of health insurance through the COBRA option. However, only a small number of people sign up for this option since it requires the worker to pay the full amount of the premiums (employee and employer portion), and does not allow changing plans to more affordable ones offered by the employer. Also, they must pay an additional COBRA administration fee. COBRA premiums consume on average 84% of unemployment benefits. [31] When the employment outlook is good, COBRA payments for a few months are a viable option for some, but with the current high unemployment rate it has become less and less attractive. Of course, some workers have a spouse or partner that has insurance, but for the majority of unemployed, living without health insurance is the only viable option.

Living without health insurance in a country where health insurance is about twice as expensive as anywhere else in the world is problematic. [32] An individual or family that is young and free of any chronic medical conditions could manage perhaps for a while with healthy eating and regular exercise and the occasional free consult with a pharmacist. But for those who have one or more serious medical conditions - hypertension, diabetes, arthritis, or an autoimmune disorder - the situation can be life threatening. For example, consider the case of a diabetic who has lost medical health insurance and consequently cannot afford to pay for necessary medications. The patient's condition worsens and symptoms, such as foot neuropathy increase. Paying a podiatrist for preventative care costs money. Any foot injury that goes unnoticed is left untreated. A major infection can occur. Now surgery is needed and the emergency room of a hospital is the patient's only option. If the case has proceeded far enough, amputation may be needed. During recovery, the person cannot work or search for work and may be out of the workforce for a long time. For lack of the small amount of money for medication costs and preventative care fees, now a large amount of money for surgery and hospitalization is required. Also, there can be serious permanent implications for the patient (personal communication of actual cases, Dr. J. Bier).

Similarly, structured scenarios exist for workers with hypertension who can no longer afford medications or a home blood pressure measuring device that could help them know when their blood pressure is elevated so that they need to make use of the hospital emergency room or face a stroke or a heart attack. There are many more such case examples. Catastrophic illness of the unemployed worker or family members presents an even more serious situation. Those unemployed as the result of the current financial crisis have joined the ranks of the uninsured, and now experience the same health care related woes as those who live in poverty.

Government health initiatives for the poor in the US exist in the form of Medicaid and other programs, but these do not begin to cover all those who need assistance with medical expenses. A more robust set of medical health market innovations are required.
Special situations require creative and unique initiatives, something that social entrepreneurs working at the micro enterprise level have implemented in many other countries to improve health and medical services for the poor. The Center for Health Market Innovations (CHMI) portal lists over 1020 profiles of programs in 110 countries that improve the way that health markets operate in the developing world. [33] There are no programs listed that serve in North America and Australia. Canada has a single payer health system paid for by the government that covers all its citizens, so that leaves just the United States and Mexico in North America. All other continents have some program representation, including Europe. There is an opportunity for microenterprise social entrepreneurs to create some value now in the U.S. on a larger scale than was possible previously.

It is not to say that there have not been individuals and groups in the U.S. that have made an effort to create organizations that are highly effective. For example, Impact Makers, a for-profit health-care management and consulting company, provides funds for medical support for the poor in the US through its nonprofit partner Rxpartnership.org which donates medications and medical supplies to clinics that give health care to the uninsured. [34] [35]
The Micro Grants organization founded in 2006 by Joe Selvaggio provides $1000 grants to recipients living in the Twin Cities Minnesota area and operates on a donation-based budget of about $500,000 a year, which goes to assist the needy with a wide range of expenses, including a wide range of medical debts and bills. As this social entrepreneur proudly states, "since its inception these grants have changed the lives of 2,000 people for the better." [36]
This program is limited to persons living in the Minneapolis/St. Paul area. Imagine the impact of such a program in every city in the United States.

Financing care requires mobilizing funds. An analysis of the health care market innovation list in the CHMI portal shows seven separate types of funding care: government health insurance, health savings, private health insurance, micro/ community health insurance, vouchers, contracting, and cross subsidization. [33] There are numerous examples for each of these programs that are geographically spread all over the world, and are included in the database. The first four types in the list encompass the majority of the 270 projects listed and are familiar. The remainder are more unique and worthy of further explication.

There are 29 voucher programs listed in the CHMI database. One such program is the Care Rural Health Mission in India which is a private not-for-profit program launched in 2008. [33] It targets individuals in the bottom 20% income range and serves over 1.1 million people in 250 villages. It is funded by Care Hospital, a chain of for-profit tertiary care hospitals specializing in out-reach activities in a large geographical area in south and central India. It has created a micro insurance product in the form of pre-paid health cards (vouchers). The cards permit individuals to receive services on a fee-for-service basis at nominal prices from the hospital network plus assistance to obtain hospitalization when required.

Contracting is a newer method of financing care. The Adopt-A-Doctor program in Sierra Leone, Liberia, Mali, and Malawi is another private not-for-profit organization that alleviates high doctor turnover rates resulting in the lack of experienced physicians in health facilities by providing doctors in the poorest community clinics and hospitals with financial support and other resources to keep them practicing at these facilities.[33] In exchange for such aid, doctors sign a contract that they will stay in the country for at least seven years to practice medicine. If the doctor breaks the contract, all monies received must be returned.

Finally, in Bolivia, CREDISALUD (in existence since 1996) targets the 20-60% income level and operates a permanent healthcare center in the outlying neighborhoods of La Paz. [33] It is an association of 25 medical professionals who provide medical services, including surgery. The patient pays as little as 25% of the service cost. Depending on the patient's financial resources, costs can be entirely covered by the medical center. Even though these are novel and creatively financed medical health initiatives, more can be done by social entrepreneurs to devise even more ingenious programs, and to spread them more rapidly to medical patients who cannot afford the medical care they need.

Social entrepreneurs can create programs that can grow rapidly in size and spread quickly. The work of Dr. Devi Shetty, a cardiologist in Indi, serves to illustrate how a social entrepreneur, working at the micro level can solve social problems in ways that governments cannot. In 2001 he established a 1000 bed hospital named Narayana Hrudyalaya Institute of Cardiac Sciences in Bangalore with the mission of making healthcare affordable to the masses. [37] Loosely translated the name of the hospital means "Place of God's Heart." Since its inception, this hospital has expanded to many other specialties and there are now 12 such hospitals in other locations in India. It has grown to be the largest hospital in the world. Both rich and poor are served there and in Dr. Shetty's own words "the poor come here for the world's kindest care, and no one here is turned away for lack of funds." [37] There is now also a Dental Clinic network in development.

Narayana Hrudyalaya has a charitable wing established in 2000 which works to ensure that no patient coming to the hospital is denied quality healthcare. This trust fund is supported by a strong network of donors and philanthropists. Patients who are not able to pay themselves are listed on the Narayana Hrudyalaya website along with their financial situation, medical needs, and financial needs for medical treatment. An example from the website is listed as follows.
[Rs. 2,000 is approximately $40.82/ Rs. 90,000 about $1,837.11]

Baby Rohit Suresh Madake aged 8months ID No.282007. The family is from Ahmednagar in Maharashtra. Baby Rohit Suresh's father is doing agriculture earning Rs.2, 000/- monthly, to take care of his wife and child.

Baby Rohit Suresh is suffering from Congenital Heart Disease, Tetralogy of Fallot, Confluent Branch PA's. He needs to undergo **Open Heart Surgery** and to be operated on within 4weeks.

The Management of the hospital has offered a concessional package of Rs.90, 000/- (Surgery Rs.85, 000/-, Pre-Operative Profile Rs.5, 000/-) in the general ward.

Your donation by way of Direct Deposit can draw in the name of Narayana Hrudayalaya ID No.282007. Or, in case you need Income Tax Exemption, your funds may be drawn in the name of Narayana Hrudayalaya Charitable Trust.
Your help will save life of this child. [37]

Some donors contribute to the charitable trust for specific patients; others contribute to the general fund. No patient in need of surgery is denied care.

Can the successes of the constructs utilized by the Narayana Hrudyalaya Hospitals and Dental Clinics be replicated in the rest of the world, including the United State? Certainly it is worth considering this and other microenterprise level programs developed by social entrepreneurs to improve the delivery of medical services to the uninsured poor and the vast number of those left unemployed by the Great Recession in the United States.

IMPLICATIONS: RELEVANCE TO PRACTITIONERS

Given our nation's current economic downturn, the message of this paper is timely and relevant for social entrepreneurs. There is a need for them to play a central role alongside government and industry in dealing with the problems of major economic crises and downturns. Creative social entrepreneurs have the potential to expand and extend the focus of social enterprise entities to address the needs of the unemployed during extreme economic times. As a key contributor to social and economic wellbeing, the social entrepreneur must distinguish between short, medium, and long term strategies in order to adapt to the short and medium term demands of extreme economic cycles, and also address longer term goals of the profession.

It is equally important that practitioners recognize the importance of focusing on less frequently addressed human problems that stand in the way of social and economic fulfillment. Health and medical problems are a major example of this, as has become clear in the recent heated and impassioned debates over healthcare in the U.S. Congress. It is time for social entrepreneurs to take their rightful place in the search for solutions to these problems, doing the things they do best.

IMPLICATIONS: RELEVANCE TO ACADEMICS

The primary contribution of this paper is to emphasize the role of the social entrepreneur as an individual guardian for the preservation and expansion of social wellbeing, and positive social change during periods of extreme economic challenge and hardship. During such times there is a great need for individuals with a high sense of social mission to monitor the opening of gaps in our countries safety net that encumber individual citizens and to show boldness and creativity in finding innovative, timely solutions to short and medium issues that present barriers to survival and growth of individuals. Our primary focus has been the loss of access to medical care resulting from the massive unemployment of the Great Recession.

Although government has attempted to make corrections through limited funding initiatives, it is the social entrepreneur who can identify and fill the gaps or opportunities for service that remain. For example, government legislation has extended the right for young adults to be covered under a parent's group health insurance policy. But gaps remain, as this measure does not apply to those whose parents have become unemployed or who simply have no insurance. At the other end of the age spectrum, there are similar gaps to be found. Obama's Health Care Act [38], which first tried to offer extension of Medicare to the 55 to 64 age group, finally only offered limited funding through special coverage programs on a first come first served basis. These benefits were quickly depleted by large corporations and big unions, leaving many individuals with no source of insurance. It is our belief the social entrepreneur can most quickly perceive the problem and develop an innovative solution. Effects of the current economic crisis are likely to persist for at least several more years, requiring on ongoing process of monitoring and adapting by social entrepreneurs to repair gaps in our safety net.

Much of the current literature on social entrepreneurship focuses conceptually or descriptively on the characteristics of social entrepreneurs themselves [39] or on the structure and policies of social enterprises. [40] Subsequent research could consist of empirical studies looking at the potential impact of medical care provided to recipients of medical grants through a social entrepreneurship enterprise. This impact could potentially include improvement of overall medical health, greater interest in monitoring activities that lead to better medical compliance, improvement in self-esteem, expanded work seeking activity and increased general satisfaction with life. Data analysis will tell the story. The hope is that a simple act of help at the right point in time in a person's life can make a difference.

CONCLUSION AND DIRECTIONS FOR FUTURE RESEARCH

How much beneficial impact can social entrepreneurship activities have during the Great Recession to mitigate the ravages of unemployment? This is a function of interest in and awareness of the issues involved. Although the scale of community social entrepreneurs may be small, historical examples show that they have a potential for relatively rapid growth. This is especially true in comparison with federal legislative activities, especially given the recent paralysis in the U.S. Congress resulting from ideological divisions. There is great uncertainty as to the reliability of political solutions to current problems, even with regard to the health care reform bill recently passed at the federal level in 2010. [41] The need for expansion of social entrepreneurship activities seems great, especially with the long term uncertainty about the U.S. economy and employment situation.

Charitable organizations and foundations can move significantly faster than the government. These groups give billions of dollars annually for worldwide medical campaigns. [42] If some percentage of funds from such foundations could be directed to the U.S. population during current troubled financial times, much more could be accomplished. For example, if a program like the MicroGrants program in the Twin Cities were cloned in every major metropolitan area of the U.S. using funds from these large scale charities and local contributors, there would not only be a greater level of community support, but also a significant increase in public awareness and attention. Such possibilities underscore the importance of advertising, and the dissemination of information to potential donors, as well as, future social entrepreneurs. Universities and colleges are also an important target, since students are often good candidates given their interest and energetic participation in working for positive social change.

Subsequent research into the issues already discussed could include an in-depth consideration of other areas of opportunity for expanding and extending the focus of social entrepreneurship programs. Further, the demographics of the unemployed and underemployed in the U.S. could be examined in more detail to prioritize opportunities based on established rankings so that the most urgent needs stemming from the Great Recession can be best addressed first. Certainly, the unemployment issues faced by the 16-24 age group are crucial because these young people are the future of the country.

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FAMILY FIRMS' PROFESSIONALIZATION BY INDUSTRY

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ABSTRACT

Drawing upon agency theory and the extant family business literature, we argue that both internal and external factors may influence family firms' professionalization decisions. We investigate the moderation effects of service and manufacturing industries on the relationship between family governance and professionalization. Tobit regression results support our hypotheses that family firms are less likely to professionalize in service industries.

INTRODUCTION

Family firms are a dominant form of organization around the world, with research suggesting that about two-thirds of business enterprises are family owned and/or managed (Chrisman et al., 2005; Gersick, Davis, Hampton, & Lansberg, 1997; Tagiuri & Davis, 1996; Zahra & Sharma, 2004). Family firms have been receiving a growing research attention owing to their prevalence as well as idiosyncrasies distinguishing them from not only non-family firms, but also other family firms (Stewart & Miner, 2011). However, we still do not know enough about the family firm specific dynamics that play a role in family firms' distinct strategic decisions and behaviors. Family governance generally exhibits a high degree of family ownership, family members' involvement in management and/or board, and intentions for transgenerational succession. Family firms are also characterized by their "essence" or "familiness," which results from the involvement of family members in the firm and the accompanying influence that the family has on the strategic decisions and behavior of the family firms (Chrisman, Chua & Litz, 2003). One important strategic decision family firms make is concerning professionalization. Studies generally suggest that family firms are less likely to professionalize (Stewart & Hitt, 2010). On the one hand, the potential principal-agent cost deriving from employment of non-family managers (Chua et al., 2009), family's intentions to preserve socio-emotional wealth (Gómez-Mejía et al., 2003, 2007), non-family professionals' limited career advancement opportunities (Barnett & Kellermanns, 2006; Memili & Barnett, 2008; Sirmon & Hitt, 2003), and family business members' lack of desire or capability to professionalize (Stewart & Hitt, 2010) can limit family firms' professionalization. On the other hand, employment of professional managers may not only help family firms avoid inertia in strategic decision making for long-term survival and growth (Chua et al., 2003; Ensley, 2006; Lester & Cannella, 2006; Mitchell, Morse & Sharma, 2003; Schulze, Lubatkin & Dino, 2002; Zahra, Hayton & Salvato, 2004; Hoy et al. 1994), but also mitigate employees' (i.e. managers' subordinates) opportunism and increase organizational efficiencies through their effective oversight of the operations (Weber, 1905). Therefore, professionalization decision is a function of the benefits and costs associated with the separation of ownership and management (Fama & Jensen, 1983). While previous studies largely focus on the internal factors which influence family firms' professionalization (e.g. Stewart & Hitt, 2010), we do not know enough about how and to what extent the external factors may interact with the internal factors in influencing family firms' professionalization. To fill this gap, we draw upon agency theory and the extant family business literature to explore the effects of family governance on family firms' professionalization. Aside from the direct effects of family governance on professionalization, we also investigate the moderation effects of service and manufacturing industries on this relationship. The results of our analyses support our hypotheses suggesting that the direct effects of family governance on professionalization and the moderation effects of the service industry on this relationship.

This paper contributes to the literature in several ways. First, we demonstrate the effects of facilitative as well as restrictive family governance on professionalization. The model presented in this paper suggests that family governance can be an important determinant of professionalization. In addition, our findings complement past research focusing on the effects of internal factors on family firms' professionalization by showing that both internal and external factors (i.e. service and manufacturing industries) can play an important role in family firms' professionalization. Given the extensive and critical presence of family firms in certain industries, a better understanding of how family firm dynamics interact with different industry types in influencing family firms' professionalization is important. Second, our study also contributes to the agency theory. Unlike the traditional primary concern about the agency problems and costs associated with the employment of professional managers, our paper draws attention to the co-existence of agency benefits as well as agency costs and highlights the importance of the assessment of both in professionalization decisions. Indeed, a professional manager may be beneficial to his/her organization by mitigating subordinates' opportunistic behaviors through supervising, monitoring, and control. However, a professional manager may be driven by his/her self-interests and act opportunistically as well, which can result in an increase in agency costs. Third, we also find that family ownership tends to be more important than family management and succession intentions in family firms' strategic decisions concerning professionalization in different industries. This is consistent with recent studies distinguishing between the different effects of family ownership and family management (e.g. Schulze and Gedajlovic, 2010).

The remainder of our paper is as follows: We begin with theoretical overview of agency theory and the extant family business literature on professionalization by industry. Then, we develop our hypotheses. We then present the methodology and empirical findings. We conclude by providing a discussion and implications for future research.

THEORETICAL OVERVIEW

Agency Theory

Agency relationships occur when a principal hires and delegates authority to an agent (Jensen & Meckling, 1976). According to Jensen (1994), agency problems are likely to arise among individuals engaging in cooperative endeavors in any given setting (e.g. commerce, family, or other social organizations), since people are often driven by their self-interests and subsequently experience self-control problems. Agency theory is particularly concerned with contractual arrangements containing the agreed upon terms of agency (Ross, 1973). Since contracts are incomplete owing to bounded rationality and information asymmetries, separation of ownership and control can lead to problems when the interests of the principal and the agent diverge, and when it is difficult for the principal to monitor the behavior of the agent (Eisenhardt, 1989). This can lead to principal-agent agency problems. Agency problems can appear in the forms of adverse selection and moral hazard (Eisenhardt, 1989). Within the firm, these problems of opportunism can be mitigated via incentives and monitoring; while the market for corporate control provides an additional external check on opportunistic behavior (Eisenhardt, 1989).

Agency Problems in Family Firms. Many suggest that fewer agency problems will be experienced in firm governance with unified ownership and management (Chrisman et al., 2004; Jensen & Meckling, 1976; Fama & Jensen, 1983). Alignment of interests, monitoring advantages, and increased concern for shareholder wealth owing to property rights tend to mitigate some agency costs (Chrisman et al., 2004; Schulze et al., 2001). Additionally, reciprocal altruism in family firms can mitigate agency costs. Reciprocal altruism is a mutual moral value that motivates individuals to act in a manner that would benefit other individuals without expecting anything in return (Schulze, Lubatkin & Dino, 2002). On the one hand, when family business members are reciprocally altruistic to each other (Chrisman, Chua, & Sharma, 2005), their interests may be aligned with the interests of the family firm (Corbetta & Salvato, 2004) and family business members may hold business objectives above their personal objectives (Zahra, 2003). As reciprocal altruism facilitates bonding through trust, communication, respect, and love (Lubatkin, Schulze, Ling & Dino, 2005), family firms foster collectivistic behaviors rather than self-serving behaviors (Corbetta & Salvato, 2004). On the other hand, family relationships characterized by asymmetric altruism can lead to agency problems such as self-control, adverse-selection (Chrisman et al., 2004: 336-337), and moral hazard (Chrisman et al., 2004: 336-337), which can be in the forms of shirking or the consumption of perks in family firms (Jensen, 1994; Schulze et al., 2001). For example, when parents with nepotistic tendencies hire and promote offspring (or other kin) based on irrelevant criteria (e.g. kinship ties) in contrast to universalistic criteria based on competence (Perrow, 1972), this can lead to adverse selection and biased evaluation, restrictions in human capital, and result in inertia in strategic decision making that potentially harms the long term survival and growth of family firms (Chua et al., 2003; Dyer, 2006; Ensley, 2006; Lester & Cannella, 2006; Mitchell, Morse & Sharma, 2003; Schulze, Lubatkin & Dino, 2002; Zahra, Hayton & Salvato, 2004; Hoy et al. 1994).

HYPOTHESES

Agency Relationships and Family Firms' Professionalization

Agency problems in family firms can also occur when the family firm hires a non-family manager in order to professionalize and the non-family manager acts opportunistically. From an agency theory perspective, the effects of professionalization are twofold. On the one hand, information asymmetries and divergent interests between a principal and an agent (Eisenhardt, 1989; Ross, 1973) may elevate monitoring costs for the principal, bonding costs for the agent, and the residual loss deriving from incomplete contracts (Jensen & Meckling, 1976). Therefore, professionalization may bring in agency costs which would have been prevented or diminished under family governance (Ang et al., 2000).

In family firms, family-centered goals of preservation of socio-emotional wealth (Chrisman et al., 2005; Chrisman, et al., 2012; Gómez-Mejía et al., 2003, 2007), family's dynasty (Gersick et al., 1997; Jaffe & Lane, 2004), values (Klein & Young, 2005; Salvato & Melin, 2008; Zellweger & Astrachan, 2008), family harmony (Lambrecht & Lievens, 2008), social capital

(Arregle et al., 2007; Chang et al., 2009; Lester & Cannella, 2006; Pearson et al., 2008; Sorenson et al., 2009; Steier, 2001), and ability to be altruistic toward family members (Lubatkin et al., 2005, 2007; Karra et al., 2006; Schulze et al., 2001, 2003; Steier, 2003) can undermine the benefits of professionalization by hiring nonfamily managers.

In order to facilitate the preservation of social emotional wealth, the dominant coalition of the owning family may generally be parsimonious with the use of family assets, exhibit personalized control over activities, and be particularistic toward family business members leading to their exclusive treatment in the firm (Carney, 2005). Family owners may wish to pursue family-centered non-economic goals even at the expense of economic goals (Chrisman et al., 2012; Zellweger & Astrachan, 2008). On the one hand, the achievement of these goals creates socioemotional wealth for the family and increase the desirability of transgenerational family control (Chua, Chrisman, & Sharma, 1999; Gomez-Mejia et al., 2007; Pearson, Carr, & Shaw, 2008). On the other hand, the loss of socioemotional wealth can result in diminished intimacy, lowered status, and inability to meet family's expectations (Gómez-Mejía et al., 2007). Hence, family firms could be willing to accept greater performance hazard in order to preserve socioemotional wealth rooted in noneconomic goals (Chrisman et al., 2003; Gómez-Mejía et al., 2007). Gómez-Mejía et al. (2007) show that family firms may be willing to accept risk to their performance to avoid the loss of socioemotional wealth, but at the same time be risk averse in making other business decisions. Family firms tend to diversify both domestically and internationally less than non-family firms to protect their socio-emotional wealth (Gómez-Mejía, Makri & Kintana, 2010). Therefore, family-centered non-economic goals do not necessarily create wealth of any kind for non-family managers and the benefits obtained from the attainment of these goals are usually not transferable to non-family managers (Barnett & Kellermanns, 2006). Indeed, such goals are harder to define and measure and their pursuit may lead to biased performance evaluations, decreased compensation, and lower career advancement opportunities for non-family managers, as compared to family managers, in family firms (Chrisman, Chua & Zahra, 2003; Chua et al., 2009; Sirmon & Hitt, 2003). Owing to the family's utility maximization through the attainment of noneconomic goals (Memili et al., 2011c), family firms may prefer not to professionalize. At the same time, the pursuit of family centered non-economic goals and family's discretion power to pursue these goals may make family firms less desirable for professional managers (Stewart & Hitt, 2010).

On the other hand, professionalization may be beneficial for firm growth and success. Business owners themselves may not be completely aware of the opportunistic behaviors of employees owing to bounded rationality (Simon, 1961, 1982). Employment of professional managers can help mitigate employees' opportunism and increase organizational efficiencies through close monitoring and control over subordinates (Fama & Jensen, 1983; Weber, 1905). Therefore, professionalization decisions can be a tradeoff between the agency benefits and costs when ownership and management are separated. A firm may prefer to professionalize as long as the efficiencies attained through the employment of professional managers outweigh the agency costs (Fama & Jensen, 1983; Chandler, 1990).

Despite the agency benefits, family firms tend to offer relatively less incentive compensation to non-family managers (Chua et al., 2009; Memili et al., 2011c). Non-family managers may also experience unjust and unprofessional treatment and perceive limited career prospects in family firms (Barnett & Kellermanns, 2006; Lubatkin, Ling & Schulze, 2007; Memili & Barnett, 2008; Sirmon & Hitt, 2003). Unlike family managers, non-family managers may be also held responsible for inferior firm performance. (Barnett & Kellermanns, 2006; Chrisman et al., 2010). Hence, perceptions of organizational injustice and scapegoating may make family firms less attractive to non-family professionals, and consequently non-family agents may require a relatively higher level of compensation to compensate for the opportunity cost of being employed at a family firm (Chua et al., 2009; Gomez-Mejia et al., 2003; Lee et al., 2003). However, family firms aim to maximize their utility by obtaining their economic and noneconomic goals at the lowest possible cost (e.g. the compensation and incentive packages that are paid to managers) (Memili et al., 2011c). Therefore, a higher compensation payment to non-family managers lowers the family's utility since it reduces their ability to provide altruism-driven benefits to family members and hence lowers agency benefits.

A shift from family governance depicting unified ownership and management may cause an increase of agency costs. Thereby, employment of professional managers becomes less attractive. Thus, family business members may still persist in assigning family members to key managerial positions (Chrisman et al., 2012; Chua et al., 2009; Memili et al., 2011c) and consequently are less likely to professionalize in comparison to non-family firms. Therefore, we expect that family firms are less likely to professionalize owing to potentially higher agency costs associated with the employment of non-family managers than benefits.

Hypothesis 1: Family firms are less likely to professionalize than non-family firms.

Agency Relationships and Family Firms' Professionalization by Industry

According to Sharma (2004), family firm studies need to be undertaken at various levels of analysis. Recent family business studies suggest that, in comparison to non-family firms, family firms may possess strategic advantages in certain industries, owing to their discretion to pursue family-centered goals (Carney, 2005), asset specificity (Gedajlovic & Carney, 2010; Memili et al., 2011a, 2011b), lower transaction costs (Memili et al., 2011a, 2011b), lower agency costs (Shleifer & Vishny, 1997), and long term orientation (Gallo & Vilaseca, 1996; Memili et al., 2010a, 2010b).

Since 70 percent of global economy is service-based (Schneider & White, 2004), scholars and practitioners start to recognize the importance of service firms in the business world (e.g. Hitt, Bierman, Shimizu & Kochhar, 2001; Mills & Margulies, 1980; Nayyar, 1993; Nordenflycht, 2010; Skaggs & Huffman, 2003). The service organization literature suggests that the fundamental distinction between service and manufacturing sectors is that service output is intangible while manufacturing output is tangible (e.g., Clark, 1940; Fisher, 1935; Mills & Margulies, 1980; Normann, 1984). A service firm is characterized by activities where people offer their uncodable knowledge and labor to satisfy clients' needs (Lovelock, 1984). Owing to the nature of intangibility, service products are commonly non-standardized and heterogeneous. In contrast, manufacturing sectors provide finished and tangible goods for other businesses, export purposes, or sales to domestic consumers, and thus are more likely to be standardized and homogenous (Bowen & Jones, 1986; Thompson, 1967). Therefore, service firms are distinctive from manufacturing firms in entry mode (Anderson & Coughlan, 1987; Brouthers& Brouthers, 2003; Contractor & Kundu, 1998; Delios & Beamish, 1999; Erramilli& Rao, 1993), internationalization (Campbell & Verbeke, 1994; Gatignon & Anderson, 1988), outsourcing (Murray & Kotabe, 1999), vertical integration (Klein et al., 1990), and strategic performance (Habib &Victor, 1991).

As aforementioned, the likelihood that a firm employs professional managers is a tradeoff between benefits of professionalization and agency costs versus benefits associated with the separation of ownership and management. A principal may be more likely to professionalize his/her firm when agency benefits exceed agency costs. Professional managers may monitor and control the subordinates' activities, mitigating employees' opportunism and elevating organizational efficiency (Fama & Jensen, 1983; Weber, 1905). Owing to bounded rationality and information asymmetries, a principal can implement monitoring mechanisms only to a limited number of agents but not to all employees (Simon, 1961, 1982). Principals can implement monitoring and control mechanisms to mitigate managerial opportunism (Fama & Jensen, 1983). Compared to employees' opportunism, the opportunistic behaviors of professional managers may be generally more controllable for principals in family firms owing to family's close monitoring. When both agency benefits and costs are assessed in professionalization considerations, the potential agency benefits may outweigh the agency costs depending on the firm's industry.

Since services are more heterogeneous and non-standard, and also less measurable and programmable (Eisenhardt, 1989), employees are more likely to engage in opportunistic behaviors in the service sector if they want to (Akerlof, 1970; Arrow, 1963). However, close monitoring and control by the family can mitigate opportunism in family firms in service sectors. Indeed, daily connections of family members, superior knowledge about one another, and the ability to use both organizational and familial sanctions to monitor each other (Pollak, 1985), can limit or prevent opportunism among family and non-family business members and lower agency cost in non- family firms (Denison & Ward, 2004; Kets de Vries, 1993; Vallejo, 2008). In comparison to non-family firms, family firms tend to have a higher level of trustworthiness not only among family members also between family managers and employees (Memili et al., 2010; Pearson & Marler, 2010). Therefore, family governance characterized by the close monitoring and trustworthiness among family and non-family members can lower the necessity to become professionalized in service sectors. In contrast, manufacturing products are more homogenous and standard (Carney, 1998; Chandler, 1990; Chen & Hsu, 2009; Gómez-Mejía et al., 2007). This requires technical skills and specialization which can undermine the benefits of close monitoring and control by family managers and elevate the importance of hiring external expertise (Daily & Dollinger, 1992; Gedajlovic, Lubatkin & Schulze, 2004). Thereby, employment of professional agents may be more attractive for family firms in manufacturing industries as the agency benefits of non-family agents may outweigh the agency costs.

Moreover, family firms are less likely to apply formal and standardized approaches in monitoring and control over the agents compared to non-family firms. As intermedium and final products are comparatively tangible and standard in manufacturing sectors, an agent's task is more programmable and his/her performance is more measurable (Eisenhardt, 1989). Consequently, professional manager's opportunistic behaviors are easier to be detected and principal-agent conflict becomes less destructive. Therefore, family firms in manufacturing sectors are more likely to employ non-family agents than family firms in service sectors.

On the other hand, services' comparatively intangible and non-standard features may increase the possibility of non-family agents' opportunism. As a consequence, family firms in service sectors may be more vulnerable to the opportunism of non-family managers, lowering their levels of professionalization in service sectors. Hence, industry types (i.e. service and manufacturing) can moderate the relationship between family governance and professionalization.

Hypothesis 2a: Family firms are less likely to professionalize in service sectors.

Hypothesis 2b: Family firms are more likely to professionalize in manufacturing sectors.

In sum, our framework suggests that, besides organizational attributes, environmental factors may also contribute to firm professionalization. Specifically, we suggest that family governance influences professionalization and the environmental factors (i.e. industry type) may moderate this relationship.

METHODOLOGY

Data: To test the aforementioned hypothesis, we collected data through SBDC (Small Business Development Center) survey. Responses from 67,694 SBDC clients were received from all 51 states through 2003-2009. We exclude respondents with missing data in annual sales, number of full and part time employees and firm age. We also exclude respondents with zero employee, which technically denotes to self-employed business that are unlikely to professionalize. Two mailings of the questionnaire were sent and respondents are divided into early and late respondents. The tests suggest that non-response bias is not a significant problem in this study (Kanuk & Berenson, 1975; Oppenheim, 1966). Owing to the fact that service products are intangible thus hard to specify, we also exclude respondents who are incapable to specify which industry they belong to. All treatments leave us 16,149 effective observations (23.9%) in cross-sectional structure for further analysis.

Dependent Variable: An increase of the absolute number of non- family managers in a family firm does not mean that this family firm has a higher level of professionalization. Besides the employment of non- family managers, the family firm may assign family members to managerial positions to maintain family socio-emotional wealth and balance firm politics (Barnett & Kellermanns, 2006). Therefore, we use the percentage of non-family professional managers over all managers as the dependent variable.

Independent Variable: We use measure(s) of family business as independent variable(s). We follow Chua and colleagues' (1999, p. 25) approach in defining a family firm as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". This definition involves family ownership, family management, and succession intentions as three necessary components to distinguish family from non-family firms. Thus, rather than exclusively emphasizing on family ownership, this approach provides a framework highlighting that family ownership in governance, family involvement in management and intention of transgenerational succession are equally important in specifying and analyzing family business (Chua et al., 1999; Chrisman et al., 2012).

We use a k-mean clustering used by Chrisman and colleagues (2004) to classify family from non-family firms. This approach is based on the assumption that a family firm can be distinguished from a non-family firm by family ownership, family management, and intra-family succession intentions (Chua et al., 1999). Studies have widely used this approach in classifying family and non-family firms (e.g., Chang et al., 2008; Chrisman, Chua, Chang, & Kellermanns, 2007). Accordingly, we use the percentage of business owned by members of the family, the number of family members involved in managing family firm, and the succession intentions, to cluster overall sample into family versus non-family firms. Family ownership is measured as the proportion of ownership by the family, including both family owners and other family members. Family management is estimated by the number of family managers involved in family business. Succession intention is coded as a dummy variable, where 1 represents the existence of succession intentions. K-mean clustering analysis yields two groups, in which family firms are coded by 1 while non-family firms are coded by 0. We name the dummy "family firm" rather than all three components. In total, k-mean clustering analysis classifies 14,229 firms as family firms (88.2 %), of overall firms (*Table 1*). This ratio is consistent with previous studies (Chang et al., 2008; Chrisman, Gatewood, & Donlevy, 2002; Chrisman et al., 2004; Chua, Chrisman, & Chang, 2004). In comparison to non-family firms, family firms have higher family ownership, more family managers, higher intra-family succession intentions and lower level of professionalization, which is consistent with the theoretical definition of family firms (Chua et al., 1999), also supportive to hypothesis 1.

Table 1: Result from clustering analysis

	Family business (N=14229)		Non-family business (N=1920)	
	Coefficient	S.D.	Coefficient	S.D.
Family ownership	99.33%	17.66%	39.09%	19.52%
Family manager	1.54	1.11	1.08	1.00
Succession Intention	0.56	0.50	0.26	0.24
Professionalization	22.49%	22.00%	56.17%	39.15%

Second, the "components-of-involvement" approach (e.f., Chrisman et al., 2005) suggests that family ownership, family management and succession intention are distinctive but equally important components in classifying family and non- family firms. This approach implies that a unidimensional classification of family versus non- family firms may underestimate the interaction among these three components (Chrisman et al., 2012). Therefore, in addition to using dummy variable in classifying family from non-family firms, we also separate all three family business components to explore if their variation may cause changes in firm professionalization.

Moderators: Although practically manufacturing firms may provide certain customer services such as delivery, return policy and factory warranty, these services are more likely to be found in large firms rather than small and medium-sized firms (Lovelock, 1984; Thompson, 1967). Therefore, the specific sample of small and medium-sized firms in SBDC clients ensures that our classification between service and manufacturing industries is reasonable.

In order to measure which industry a firm belongs to, respondents are asked to specify their business into one of the following six categories: retail, service, wholesale, manufacturing, construction, and other. Because of the intangible nature of service products, service firms are comparatively harder to be specified. Thus, respondents reporting "other" are more likely to be service than manufacturing firms. We exclude respondents classifying "other" to ensure that this specification error does not bias our result. After all, 5,779 respondents are classified as service firms (35.8%) and 2,781 as manufacturing firms (17.22%). We use two binary dummies, "service" and "manufacturing", to measure service and manufacturing sectors respectively. If a respondent specifies that the firm belongs to service industry, "service" is coded 1, and "manufacturing" coded 0. Reversely, a manufacturing firm has "service" by 0 and "manufacturing" by 1. Thus, belonging to service industry is mutually exclusive to belonging to manufacturing industry. "Service" and "manufacturing" are coded both 0 in case that firms specified to belong to retail, construction and wholesale industries.

Control variables: Consistent with previous family business studies (Chrisman et al., 2002, 2004; Chua et al., 2004; Schulze et al.,2001, 2003), we controlled for firm age and size in our analysis.

Firm age refers to the number of years that a firm operates, which we measured by subtracting their stated dates of venture creation from the year they responded the questionnaire. **Firm size** is measured by sales amount in previous year reported in US dollar and total employee number. Log of sales is used to adjust for skewness and rounding error. Because larger size and higher age denote to a higher requirement of specialization that owner and family members are less likely to possess, we expect to find that firm age and firm size are positively related to the level of professionalization.

Model specification: While family ownership, family involvement in management and succession intention are equally important in the classification of family business, a single dummy of family business may overlook certain variation that may influence family business's professionalization. Thus, besides using family business dummy (Model 1), we also run analysis using measures of components respectively as independent variables (Model 2). This approach also serves as a test of robustness to explore if our result is conclusive. In particular, a1 in Model 1 and b1, b2 and b3 in Model 2 are used to test how the status of family business may influence firm professionalization (H1), while a4 and a5, and b6~b11 are to test if service (H2a) and manufacturing sectors (H2b) may moderate the relationship between family business status and firm professionalization.

Model 1:

$$Profession = a0 + a1 * FB + a2 * Service + a3 * Manu + a4 * FB * Service + a5 * FB * Manu + a6 * AGE + a7 * Employee + a8 * Sales + error_1$$

Model 2:

$$Profession = b0 + b1 * FO + b2 * FM + b3 * Succession + b4 * Service + b5 * Manu + b6 * FO * Service + b7 * FM * Service + b8 * Succession * Service + b9 * FO * Manu + b10 * FM * Manu + b11 * Succession * Manu + b12 * AGE + b13 * Employee + b14 * Sales + error_2$$

EMPIRICAL RESULTS

The descriptive analysis and correlation matrix of all variables, including dependent, independent and control variables are listed in Table 2. The correlation index between family business dummy and family ownership is 0.93, suggesting that family firms are primarily classified by family ownership. The level of professionalization is negatively associated with family business dummy (-0.33) and family ownership (-0.35), thus supportive of H1.

Table 2: Descriptive and correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1, Family business dummy	0.88	0.32	1.00									
2, Family ownership	92.17	17.91	0.93	1.00								
3, Family manager	1.48	1.06	0.12	0.13	1.00							
4, Succession intention	0.50	0.40	0.18	0.19	0.24	1.00						
5, Professionalization	26.50	20.21	-0.33	-0.35	-0.27	-0.18	1.00					
6, Manufacture industry	0.17	0.37	-0.08	-0.10	0.04	-0.02	0.12	1.00				
7, Service industry	0.36	0.48	0.02	0.02	-0.05	-0.07	-0.05	-0.24	1.00			
8, Firm age	10.10	14.17	-0.01	-0.04	0.11	0.01	0.14	0.20	-0.09	1.00		
9. Employee number	11.65	26.31	-0.10	-0.13	0.14	0.00	0.26	0.14	-0.04	0.24	1.00	
10, Sales amount (logged)	12.36	1.88	-0.10	-0.13	0.09	-0.01	0.22	0.18	-0.08	0.28	0.55	1.00

Because owner-manager and family-owned-managed firms do not professionalize by definition, the dependent variable, namely professionalization, may be 0 in a significant portion of observations. Thus classical Ordinary Least Square (OLS) regression may yield biased results, and we use Tobit regression to generate more precise estimations. White variance correction of the error terms is applied to correct the potential impacts of serial correlation and heteroscadesticity. We also use OLS to test the robustness of our results.

As Table 3 suggests, Tobit regression analysis results (Model 1) show that the coefficient of family business dummy is negative and significant (-43.74). Thus, Hypothesis 1 is supported. In terms of two interactive terms, service industry is found significantly and negatively moderate the relationship between family business dummy and firm professionalization (H2a, -10.10), and the coefficient of interactive term of manufacturing industry is weak but positive. In order to explore whether three family business components may have distinctive effects on firm professionalization, we also replace family business dummy by three family business components in model 2. Three components are found all negatively connected with firm professionalization (H1). Among all components of family business, the interaction of family ownership is found negative and significant in service industry (H2a) and positive and significant in manufacturing industry (H2b). The other two components, namely family management and succession intentions, have insignificant effects. This suggests that, in comparison to family management and succession intentions, family ownership tends to be more important regarding the moderation effects of industries.

Robustness Tests: We use OLS regression in testing the robustness of our findings. Different from Tobit model, OLS regression is sensitive to the skewness of variables. As a result, extreme distribution, such as the variable of professionalization in this study, may cause biased estimations. However, empirical results remain robust even under OLS regression. Adjusted R^2 is 0.23 in model 1 and 0.33 in model 2, suggesting a reasonable level of model fit. Family business dummy (Model 1) and all three family business components (Model 2) are negative and significant. Among all three family business components in interactive terms, family ownership is the only significant one in model 2. Therefore, consistent with our conclusion using Tobit analysis, H1 are supported and H2a and H2b remain partially supported.

Table 3: Tobit and OLS Regression

Dependent Variable	Professionalization (%)			
	Tobit Regression		OLS regression	
	Model 1 Family business dummy	Model 2 Family business components	Model 1 Family business dummy	Model 2 Family business components
Intercept Term	-148.28***	-108.618***	-19.87***	0.19
Independent Variable(s)				
Family business dummy	-43.74***		-25.11***	
Family ownership		-0.56***		-0.35***
Family management		-10.65***		-8.07***
Succession Intention		-13.08***		-6.03***
Moderators				
Service Industry	9.90***	11.01**	5.57***	4.37*
Manufacturing Industry	-2.43*	-11.08*	6.06	0.02
Interactions				
Family business dummy*service industry	-10.10***		-5.09***	
Family ownership * service industry		-0.09**		-0.05*
Family management * service industry		-4.73		-0.58
Succession Intention * service industry		5.56		1.72
Family business dummy * manufacturing industry	3.69		2.76	
Family ownership * manufacturing industry		0.21*		0.08***
Family management * manufacturing industry		-2.33		-3.13*
Succession Intention * manufacturing industry		3.36		0.17
Control Variables				
Firm Age	-0.04	0.01	-0.01	0.02
Employee	0.19***	0.25***	0.16***	0.21***
Sales (logged)	14.34***	14.22***	5.30***	5.69***
Sample size	16,149	16,149	16,149	16,149
Log Likelihood (absolute value)	43098.43	43537.78		
Adjusted R^2			0.23	0.33
F statistics			596.14***	567.69***

DISCUSSION AND IMPLICATIONS

Drawing upon agency theory and the extant family business literature, we explore how different industries may influence family firm professionalization. Family firms are not a homogenous group, and both internal and external factors can contribute to the variation in this organizational population. While a great number of internal factors have been explored in the family business literature (Sharma, 2004; Chrisman et al., 2010), we do not know enough about how environmental factors may influence family firms' strategic decisions and behaviors. Our findings suggest that family firms tend to engage in professionalization less in service sectors and more in manufacturing sectors. These results supports our argument that environmental factors, such as industry, may have indirect effects on professionalization decisions of family firms.

In particular, we use a database primarily composed of small and medium sized enterprises, which facilitate our classification of service and manufacturing firms. But in practice, distinguishing service from manufacturing firms may not be easy. First, a great number of manufacturing firms integrate product-related services, such as delivery, return policy, factory warranty as one part of their businesses, most notably in large corporations. On the other hand, service firms engage in a variety of business activities, ranging from complex and professional tasks such as accounting, banking, consulting, etc., to simple and daily duties, such as cleaning, mailing, etc. The diversity of service businesses makes it hard to provide a conclusive classification of service firms (Stigler, 1956). Due to the limitation of the database, we are unable to specify the portion and types of service activities, and how these different types of service and manufacturing sectors may interact with family business components in determining professionalization.

Second, our argument suggests that employment of professional managers is an indicator of professionalization. There may be other indicators of professionalization as well. Aside from the evaluation of agency costs and agency benefits, there may be other factors which may influence professionalization. Certain family attributes, such as family size, family structure, generational stage, and kinship networks may play a critical role in family firms' professionalization. Hence, future research can investigate the relationships between other family firm dynamics and professionalization.

Third, we also find that family ownership tends to be more important than family involvement in management and the intentions for transgenerational succession in determining whether family firm chooses to professionalize. While theoretically these three components are mutually relevant, their correlation is found weak thus do not bias our results. Future studies can investigate the differential effects of family ownership, family management, and transgenerational succession intentions on other strategic decisions or family firm outcomes such as internationalization and diversification.

Forth, our findings also contribute to the agency theory. Because one function of employing agents is to monitor and control subordinates, professionalization can be conceptualized as a tradeoff between opportunism of agents and opportunism of employees. Employment of agents may cause a decline in employees' opportunism but may simultaneously increase the likelihood of agent's unethical behaviors. Indeed, power, authority, and legitimacy deriving from the managerial position can enable non-family managers act opportunistically if they want to. Service firms may be more vulnerable to opportunism of both employees and professional managers unlike in manufacturing firms. Future research can investigate the agency costs and benefits in other industries as well.

CONCLUSION

Driven by agency theory and the extant family business literature, we attempt to explore whether industry may interact with family governance to influence family firm professionalization. Empirical findings suggest that family firms are less likely to professionalize in service sectors and more likely to professionalize in manufacturing sectors.

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THE EFFECT OF OUTSIDE BOARD MEMBERS ON ESCALATION OF COMMITMENT IN PRIVATE FAMILY BUSINESSES

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ABSTRACT

Owner-managers of private family businesses are particularly vulnerable to escalation of commitment, which can lead to costly failure. In an effort to help private family businesses reduce such costs and contribute to the resource dependence literature, we extend prior research on escalation of commitment (Staw & Ross, 1978). Specifically, we develop a model that examines how outside board members influence the antecedents, and moderate the processes, that influence escalation of commitment. Our work supports the use of outside board members, insofar as they are likely to help the owner-managers of private family businesses to avoid escalation of commitment.

INTRODUCTION

"The outside board member perspective is so important because at times you can get wound up in your own beliefs and rhetoric and not necessarily face the reality and objectivity of what you are doing."

Rick Kline, CEO
Gardner Publications, Inc.

The predominant form of business in the world today is the private family business (i.e., private businesses that are both owned and managed by family members (Astrachan & Shanker, 2003; Family Firm Institute, 2005). Most of these businesses rely heavily upon a single family member (e.g., a president or CEO) who has predominant decision-making authority in the business (Feltham et al., 2005; Paoching, 2010). Due to their family ties and emotional attachment to the company, these owner-managers tend to be personally vested in the strategies they develop and are often committed to the long-term success of the family business (Gómez-Mejia et al., 2007). They tend to hold their positions in the firm for much longer than executives in nonfamily firms and are heavily relied upon by others to make key decisions (Gersick et al., 1997).

While dependence upon a single or small group of owner-managers can accelerate decision-making (Vroom & Yetton, 1973), researchers also find that over time it reduces the propensity of other family members and employees to engage in useful debates (Kellermanns & Eddleston, 2004), and diminishes their ability to share concerns or question strategic decisions (Zahra et al., 2004). When the owner-managers of private family businesses lack sufficient involvement from others in making important decisions and are busy with both the strategic and operational demands of the company (Tio & Kleiner, 2005), it is likely to influence their ability to make high quality decisions, rendering them more susceptible to errors in judgment – including escalation of commitment (i.e., sustained commitment to a failing course of action) (Staw, 1976).

Staw's work on escalation of commitment (1981) predicts that when individuals feel responsible for decisions and failure ensues, they are prone to justify themselves, maintain consistency in their decision-making, expect that future success is just around the corner, and continue to pursue the suboptimal course of action, despite its negative effects on the firm. Insofar as empirical testing validates the idea that escalation of commitment by powerful executives is predictive of corporate bankruptcy (Daily & Dalton, 1994) and chronic underperformance by small entrepreneurial firms (DeTienne, Shepherd, & Castro, 2008), research investigating ways to avoid escalation of commitment in private family firms seems warranted.

To begin to address this timely area of research, we complement escalation of commitment theory with insights from resource dependence theory (Pfeffer & Salancik, 1978). In so doing, we illustrate how resource dependence theory contributes a mechanism to escalation of commitment theory (i.e., outside board members) that may enable family businesses to avoid escalating their commitment to failing courses of action. This joint use of escalation of commitment and resource dependence reasoning also permits us to extend traditional resource dependence logic.

Given its traditional focus on the environment (Katz & Kahn, 1966; Pfeffer & Salanick, 1978), resource dependence theory aptly emphasizes mechanisms that facilitate the flow of resources to firms, yet it often stops short of explaining how these external resources are received and used within firms. Thus, it is susceptible to providing a so-called 'black-box' depiction of the relationship between board member characteristics and organizational outcomes (Pugliese, Bezemer, Zattoni, Huse, Van den Bosch, & Volberda, 2009). This is an important shortcoming to address since research suggests that incoming resources must be used, and even combined with other resources, in order to create value for customers and wealth for owners (Sirmon, Hitt, & Ireland, 2007). In this research, we employ behavioral insights from the escalation of commitment literature to begin to address this limitation. These insights enable a clearer understanding of how the resources outside board members provide (e.g., strategic knowledge and experience) can be used within firms to shape their strategies and to avoid escalation of commitment.

Insofar as private family businesses tend to involve fewer outside board members (Fiegener, Brown, Derux, & Dennis, 2000), and often have smaller boards (Jaskiewicz & Klein, 2007), or no boards at all (Pieper, Klein, & Jaskiewicz, 2008), clarifying the potential contributions of outside board members is a timely focus of research that could support owner-managers in their efforts to lead private family businesses. In view of offering practical guidance to these owner-managers and contributing to scholarly theory, we develop propositions built upon Staw's foundational work on escalation of commitment (1981). We employ a resource dependence view of outside board members and demonstrate how outside board members both influence the antecedents, and moderate the processes, that influence escalation of commitment. Our work provides support for the use of outside board members in private family businesses, insofar as they are expected to help owner-managers in these businesses to avoid escalation of commitment and the associated costs.

ESCALATION OF COMMITMENT

In a series of writings from the mid 1970's through the late 1980's, Barry Staw, Jerry Ross, and their collaborators developed a stream of thought around escalation of commitment. They examined how individuals persist in unprofitable courses of action because of their desire to justify previous actions, demonstrate consistency, and their hope that if they simply "stay the course" things will eventually improve (Staw, 1976; Staw & Ross, 1978; Staw, 1981; Staw & Ross, 1987). Since that time, scholars have drawn upon logic from the motivation, decision-making, and group polarization literatures to support the idea that human beings are prone to escalation of commitment at the individual, group, and organizational levels (Brockner, 1992). They have found substantial support for escalation of commitment reasoning (Staw, 1981) in both laboratory and field studies (e.g., Bazerman, Giuliano, & Appleman, 1984; McNamara, Moon, & Bromiley, 2002), and in both established corporations and small, entrepreneurial businesses (DeTienne, Shepherd, & Castro, 2008) – many of which are private family businesses.

Consistent with Staw's theory (1981), these findings confirm that responsibility for a failed course of action, self-justification, organizational norms, and perceptions of likely outcomes are all significantly associated with escalation of commitment (Rutledge, 1995; Whyte, 1991; Whyte, 1993). Given that escalation of commitment to unprofitable courses of action can threaten financial performance and even result in bankruptcy (Daily & Dalton, 1994), scholars have also devoted attention to mechanisms that may prevent such escalation.

For example, empirical research suggests having a budget is negatively associated with escalation of commitment, whereas in contexts where decision-makers do not rely upon a budget or where expenses are more difficult to track, escalation of commitment is more likely (Heath, 1995; Tan & Yates, 2002). Interestingly, researchers find supervision or monitoring of decision-makers can both inhibit escalation of commitment (Kirby & Davis, 1998), and give rise to it (McNamara, Moon, & Bromiley, 2002), particularly if monitoring is too frequent or short-term oriented (Kite, Katz, & Zarzeski, 1996). One mechanism that may avert or reduce escalation of commitment that has been largely neglected to date is the involvement of helpful outsiders.

OUTSIDE BOARD MEMBERS IN PRIVATE FAMILY BUSINESSES

One of the primary ways in which private family businesses can incorporate outsiders is through the use of outside board members. Though several scholars have begun to explore the role of boards in private family businesses (e.g., Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001), their focus has often been the influence of boards (and other governance mechanisms) in controlling agency problems (van den Heuvel, Van Gils, & Voordeckers, 2006), rather than on the board's provision of resources to the firm. Though agency problems tend to be less prevalent in private family businesses since many of the owners are also managers (Lane, Astrachan, Keyt, & McMillan, 2004), the "provision of resources function" (Hillman & Dalziel, 2003), which includes providing helpful advice, counsel, and other resources to the owner-managers, remains a largely neglected topic of research in the private family business research.

Recent scholarship draws attention to the importance of the provision of resources function of boards in private family businesses (Corbetta & Salvatto, 2004; Voordeckers, Van Gils, & Van den Heuvel, 2007). In fact, researchers find owner-managers of private family businesses view the provision of resources by outside board members among their most important duties (Van den Heuvel, Van Gils, & Voordeckers, 2006). This function of boards is emphasized by scholars in the resource dependence tradition (Pfeffer & Salancik, 1978). Resource dependence theory regards outside board members as important intermediaries whose diverse knowledge, experience, and relational ties with constituents outside the firm allow them to contribute to strategic decision-making in the firm (Hillman & Dalziel, 2003).

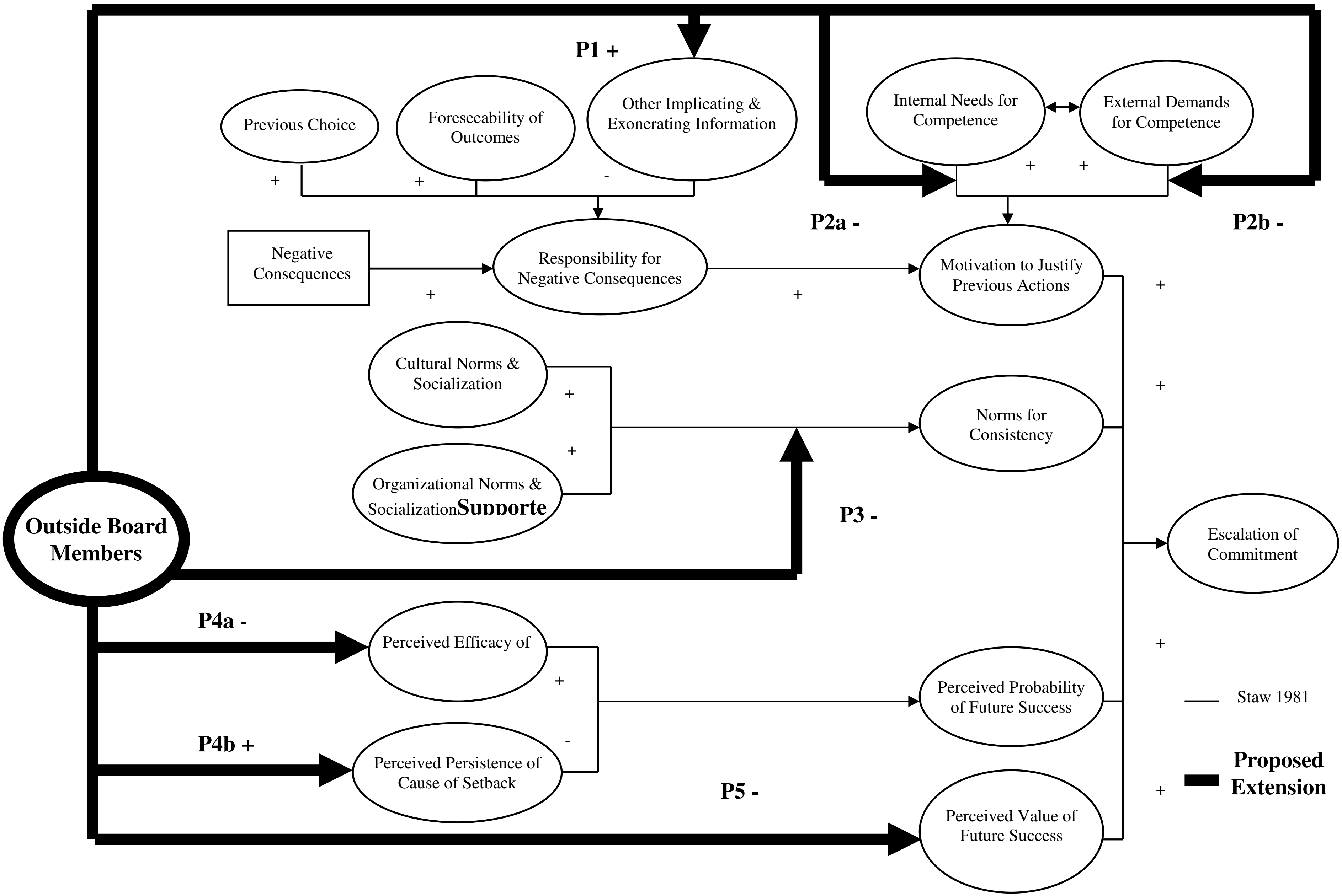
Notwithstanding its relevance to the examination of strategic decisions in private family businesses, resource dependence theory is not without limitations. Given its emphasis on the external environment (Katz & Kahn, 1966; Pfeffer & Salancik, 1978), resource dependence theory aptly emphasizes mechanisms (e.g., boards, alliances, mergers, and acquisitions), which facilitate the flow of resources to the firm, but it largely overlooks how these external resources are used in firms after they have been provided to them. Thus, while resource dependence theory underscores the importance of outside board members, it offers a limited insight into the processes by which the ideas and insights of these outsiders influence owner-managers making strategic decisions in private family firms.

To begin to address this limitation, we incorporate resource dependence and escalation of commitment reasoning into our propositions. We introduce outside board members into Staw's escalation of commitment theory (1981) and contribute an expanded model that provides further insight into how escalation of commitment might be avoided in private family businesses. We explore the processes through which insights provided by outside board members influence the decisions of owner-managers and their commitment to failing courses of action.

EXTENDING ESCALATION OF COMMITMENT & RESOURCE DEPENDENCE REASONING

As outlined in Figure 1, Staw (1981) provides a theoretical model for the escalation of commitment phenomenon. It describes how the motivation to justify previous actions, norms of consistency, and the perceived probability and value of future success, all lead to escalation of commitment. In this paper, we propose an extension to Staw's escalation of commitment theory (see Figure 1). We articulate how outside board members are likely to shape the antecedents and processes that would otherwise result in escalation of commitment in private family businesses.

FIGURE 1


P1 +
Previous Choice
Foreseeability of Outcomes
Other Implicating & Exonerating Information
Internal Needs for Competence
External Demands for Competence
+
+
-
+
+
P2a -
P2b -
Negative Consequences
Responsibility for Negative Consequences
Motivation to Justify Previous Actions
+
+
+
Cultural Norms & Socialization
+
+
Norms for Consistency
+
Organizational Norms & Socialization
Supporte
P3 -
Outside Board Members
Escalation of Commitment
P4a -
Perceived Efficacy of
+
+
Perceived Probability of Future Success
Staw 1981
P4b +
-
Perceived Persistence of Cause of Setback
P5 -
Proposed Extension
+
Perceived Value of Future Success

Exonerating Information

Escalation of commitment theory (Staw, 1981) proposes the level to which a decision maker is responsible for a decision that has had negative consequences is one of the elements which contributes to the need for self-justification (Whyte, 1991), a direct antecedent of escalation of commitment. Having to admit a mistake causes many people discomfort as it is common to take pride in and to be rewarded for the successful consequences of one's actions. When a decision leads to a failed course of action, however, owner-managers are deprived of the satisfaction of rewards and may even suffer a loss of stature in the family business or be singled out for derision. The logic of escalation of commitment theory is that these factors tend to prompt decision-makers to continue with a (failing) course of action in the hopes of turning things around, receiving the associated rewards, and avoiding derision (Staw & Ross, 1978). In this paper, we propose that involving outside advisors in decision-making will lessen these tendencies, because of their ability to provide exonerating information.

Resource dependence theory posits that outside board members have a wealth of knowledge and insights (Hillman, Canella, & Paetzhold, 2000; Hillman & Dalziel, 2003), which enables them to contribute to strategic decision-making. The involvement of outside board members is likely to lead to the generation of a wider array of strategic alternatives, more rigorous consideration of these alternatives, as well as additional evidence and voices supporting the chosen strategy (Forbes & Milliken, 1999). It is our claim that the knowledge, experience, and insights of outside directors shared in decision-making provide owner-managers of private family businesses with exonerating information. That is, to the degree outside board members provide input to the strategic decisions of private family businesses they share responsibility for the outcomes. This logic is supported by extent research which finds that searching for information from outsiders provides decision-makers with information that exonerates them from bearing (at least some of) the weight of subsequent failure (Conlon & McLean Parks, 1987; Staw, 1981). Such exonerating information tends to make owner-managers feel less culpable when a given strategy goes awry insofar as it allows them to diffuse the blame among the providers of this information (Leatherwood & Conlon, 1987). In keeping with this logic, we submit:

> *Proposition 1: Outside board members will be positively associated with the provision of exonerating information, which in turn decreases a private family firm owner-manager's feeling of responsibility for negative decision consequences.*

To the degree owner-managers receive exonerating information from outside board members, and assume less personal responsibility for a failed course of action, they are less likely to defend or justify their previous decisions and to escalate commitment. While this logic illustrates the value of outside board members, the provision of exonerating information is by no means the only way in which outside directors may help private family businesses to lessen escalation of commitment. Escalation of commitment theory (Staw, 1981) also proposes that internal needs and external demands for (decision-maker) competence are associated with decision-makers' motivation to justify previous decisions. Extending escalation of commitment reasoning with a resource dependence view of boards, we submit that outside board members moderate these relationships.

Need for Competence

Escalation of commitment theory argues that people have a need to feel competent (i.e., in possession of knowledge and abilities which allow them to successfully accomplish goals) (MacKenzie, 2002). They also respond to expectations (e.g., from co-workers, bankers, customers, suppliers, and society in general) to demonstrate competence (Giessner & van Knippenberg, 2008). In fact, these expectations are often institutionalized in the society laws and regulations that govern businesses. Failed decisions deprive a decision-maker of the opportunity to satisfy these internal needs and external demands – especially if the perceived causes for the failure were within the control of the decision-maker. An unwillingness to accept defeat in the face of these internal and external pressures can drive decision-makers to justify previous decisions (and escalate commitment to a course of action) in the hope of maintaining or restoring their reputation of competence (Sivanathan, Molden, Galinsky, & Ku, 2008). It is our contention that the involvement of outside board members will weaken the association between internal needs and external demands for competence and owner-managers motivation to justify previous decisions. Drawing upon resource dependence logic, we discuss each in turn.

One of the fundamental assumptions of resource dependence theory is that outside board members cooperate with owner-managers. Indeed, Pfeffer and Salancik state, "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will favorably present it to others, and will try to aid it" (1978: 163). To the degree outside board members assume a cooperative approach in interactions with owner-managers in private family businesses, these owner-managers are more likely to feel safe and to openly disclose relevant facts, including information related to failures their own actions may have caused (Gulati & Westphal, 1999; Westphal, 1999).

In such a context, owner-managers who have a high internal need for competence and are prone to justifying previous decisions may be less likely to do so (and more willing to take corrective actions), because of the support of outside board members. Indeed, prior research suggests cooperative interactions with outside board members can avert biases that influence managerial decision-making and support of the organization (Knapp, Dalziel, & Lewis, 2011). For these reasons, we propose:

> *Proposition 2a: Outside board members will weaken the positive relationship between the internal need for competence and the motivation to justify previous decisions of private family firm owner-managers.*

We also propose that the involvement of outside board members in private family businesses will weaken the relationship between external demands for competence and owner-managers' motivation to justify their previous decisions. Family firm owner-managers often need to demonstrate competent strategic planning and to defend their ability to execute upon that strategy in order to receive investment capital (Astrachan & McConaughy, 2001), trade credit (Filbeck & Lee, 2000), and other resources from individuals and entities outside the firm. In keeping with Staw (1981), the need to uphold the family firm's reputation or competence in the eyes of external constituents is likely to lead owner-managers to justify their decisions, rather than admit failure. However, with the support of reputable and competent outsiders (e.g., outside board members), owner-managers seem less likely to submit to self-justification (and more likely to take corrective action).

In support of this logic, resource dependence theory points out that board members are often selected because they have network ties with important external constituents (Mizruchi & Stearns, 1994; Stearns & Mizruchi, 1993) and reputations that enable them to enhance the legitimacy (Hillman, Cannella, & Paetzold, 2000) and accelerate the flow of resources to the firm (Pfeffer & Salancik, 1978). Because outside board members bolster the reputation of the firm and complement the expertise of owner-managers, admitting to a failed course of action is less likely to damage perceptions of owner-managers' competence or to threaten the family businesses relationships with external constituents. In fact, outside board members are known to signal prestige and enhance a firm's external reputation (Certo, 2003). Thus, external demands for competence seem less likely to elicit justification (or other defensive responses) from owner-managers, when the private family business is associated with outside board members, In view of this logic, we submit:

> *Proposition 2b: Outside board members will weaken the positive relationship between the external demand for competence and the motivation to justify previous decisions of private family firm owner-managers.*

Because motivation to justify previous decisions is a direct antecedent of escalation of commitment (Staw, 1981), outside board members that weaken the relationship between external demands for competence and owner-managers' motivation to justify their decisions, may ultimately reduce the likelihood of escalation of commitment in private family businesses. In addition to this contribution, we further propose that outside board members will moderate the relationship between culture and socialization and norms for consistency, another direct antecedent of escalation of commitment (Staw, 1981).

Culture & Socialization

Many organizations (Geletkanycz, 1997) and societies (Hoffman & Carver, 1984) value commitment to a course of action and this is reflected in their cultures and socialization processes. From the vantage-point of escalation of commitment theory, organizations and society commonly see "administrators who are consistent in their actions [as] better leaders than those who switch from one line of behavior to another" (1981: 580). Unfortunately, when cultures and socialization processes prompt owner-managers to espouse norms of consistency, this leads to escalation of commitment and can result in costly failures. It is our contention that outside board members are likely mitigate this tendency.

One of the advantages of an outside board is that its members come from diverse backgrounds and contribute fresh perspectives, which enable them to challenge organizational norms (Westphal & Milton, 2000). From a resource dependence viewpoint, boards are created and directors are selected with the express purpose of contributing outside perspectives, challenge norms, providing strategic advice (Hillman, Cannella & Paetzold, 2000; Hillman, Withers, & Collins, 2009), and guiding family firm owner-managers away from pitfalls such as groupthink and nepotistic decision making

(Janis, 1982; Kellermanns & Eddelston, 2004). Extant governance research (in non-family firms) supports the idea that outside board members can help firms to change their strategic direction (Golden & Zajac, 2001), even when this means deviating from industry norms (Geletkanycz & Hambrick, 1997). Thus, we predict:

> *Proposition 3: Outside board members will weaken the positive relationship between culture and socialization and norms of consistency among owner-managers of private family businesses.*

Perceived Efficacy of Resources & Persistence of Causes of Setbacks

We further anticipate that outside board members will alter owner-managers' perceptions of the efficacy of the firm's resources, which are known to be associated with the likelihood of future success and escalation of commitment (Staw, 1981). If owner-managers believe the resources at their disposal are sufficient for successful pursuit of a given course of action, they tend to believe the likelihood of that course of action being successful in the future to be higher. Private family business owner-managers are often particularly proud of their firms, and their family-identity and self-esteem are wrapped up in the quality of their resources, the products/services they produce, and the success of their businesses (Denison, Lief, & Ward, 2004). This can lead private family business owner-managers to be overly optimistic (Cooper, Woo, & Dunkelberg, 1988; Struck & Adler, 2009), which means they can benefit in particular from the interpretations, valuations, perceptions, and insights of outside board members.

Outside board members provide an independent assessment of the firm's resources. Their qualitative and quantitative valuations are shaped by their experiences in a variety of industries and professions (Hillman, Cannella, & Paetzold, 2000). Relative to owner-mangers, they are unvarnished by affinity for family members or self-identification with the family business or its resources (Hatum & Pettigrew, 2004; Sivanathan, Molden, Galinsky, & Ku, 2008). Thus, we anticipate their appraisals of the efficacy of the private family firms' resources (to support their chosen strategies and to generate success) will reshape owner-managers (positively) biased perceptions of the firm's resources and their overly optimistic view of the strategic opportunities available to them (Shane, 2000). Formally stated:

> *Proposition 4a: Outside board members will be negatively associated with private family firm owner-managers' perceptions of the efficacy of resources, which subsequently will dampen their perceptions of the probability of future success.*

By similar reasoning to that outlined above, this paper also proposes that outside board members will increase an owner-manager's perception of the persistence of the cause of a setback when there are reasons to believe that prior causes of the course of action failing are likely to recur. Family firm owner-managers, like members of most organizations, develop second-nature, implicit norms or patterns of behavior (Gersick & Hackman, 1990) which often help them navigate conflicts (Ingram, Hechavarria, Woods, Barton, & Matthews, 2011) among top management team members and reach consensus in making sense of their decision-making environment. However, family firm owner-managers' perceptions are often incomplete, since they only have so much mental "bandwidth" (Prahalad & Bettis, 1986) and are boundedly rational (March & Simon, 1968) and so can't notice everything while also running the company – whereas outsiders are unencumbered by thinking about day-to-day operations and so can provide fresh insights. As mentioned above, resource dependence theory posits that outside board members bring diverse experiences and backgrounds (Westphal & Milton, 2000) to the analysis of family firm owner-managers' decisions, and that this diversity in human and relational capital enables outsiders to identify weaknesses and deficiencies in more easily. Unvarnished, independent outside opinions point out flaws in tactics, means, and execution so that owner-managers become more aware of a) the causes of setbacks and b) the ongoing nature and/or repetition of the causes of setbacks (Fried, Bruton, & Hisrich, 1998).

Proposition 4b: Outside board members will be positively associated with private family firm owner-managers' perceptions of the persistence of the cause of a setback, which subsequently will dampen their perceptions of the probability of future success.

THE PERCEIVED VALUE OF FUTURE SUCCESS

This paper proposes that discussion of potential courses of action with outside advisors decreases an owner-manager's expected future utility of his/her current course of action. We define this future utility both in absolute dollar terms as well as in terms of the relative value of current course of action compared with the value of other potential courses of action when there are more attractive options available. Furthermore, while Staw did not explicitly designate the perceived value of future outcomes as being successful outcomes, the implication of escalating commitment to a course of action is that the decision-maker expects the course of action to be successful. Therefore, this paper will examine perceived value of future outcomes as perceived value of future <u>*success*</u>. Discussion of decisions with outside advisors tends to increase the environmental scanning (i.e., consideration of information from the firm's environment) undertaken in arriving at decisions, since, according to resource dependence theory, outside advisors tend to have access to a wider range of information from the environment than do firm insiders (Boyd, 1990). Outside board members can help management adjust overly optimistic (Struck & Adler, 2009) owner-manager perceptions of the revenues or profits that will be generated by a given course of action. They may also assist with comparing the value of alternative strategies (for example, weighing the value of mutually exclusive alternatives such as a) the value of driving market share of a product line by investing in advertising and sales vs. b) the value of investing in R&D that might result in high quality products which are more attractive to customers). Given the complexity of these types of valuations, which involve both objective analytical, financial analytic, and subjective predictions about the costs and benefits of a given pursuit (Baird & Thomas, 1985; Dalziel, Gentry, & Bowerman, 2011; Mullins & Forlani, 2005), the voice of outsiders is likely to increase the rigor and accuracy of discussions and perceptions about the value of the future success of a given strategy.

Proposition 5: Outside board members will be negatively associated with private family firm owner-mangers' perceptions of the value of future success.

DISCUSSION, IMPLICATIONS, AND CONCLUSION

This paper has extended the boundary conditions of resource dependence theory to explain how outside board members work with the owner-managers of private family businesses to employ a key resource provided by these board members – advice and counsel – to the aid of these firms. Private, family firms are often very dependent on a single family owner-manager as their key decision maker. While this can be beneficial and efficient, it exposes private, family firms to certain "Achilles heels". One of these is the tendency of family firm owner-managers to rationalize setbacks, believe that success is "just around the corner", and escalate their commitment to a failing course of action. Escalation of commitment has been shown to lead to chronic underperformance (DeTienne, Shepherd, & Castro, 2008) and bankruptcy (Daily & Dalton, 1994) in other organizational contexts. This paper outlines how the advice & counsel of outside board members can help family firm owner-managers avoid escalation of commitment.

In utilizing Staw's (1981) theoretical model for escalation of commitment to clarify the process by which outside board members can add value to family firm decision making, this paper addresses the calls of family business scholars to draw on existing theories from the management literature to develop more rigorous theoretical models (Sharma, 2010) which clarify the processes by which value is created in family firms. It also addresses recent calls by family business scholars to apply new theoretical frameworks focused on psychological processes (Pieper, 2010) and the role of boards of directors (Astrachan & Pieper, 2010) to deepen our understanding of the unique value creation processes which occur in family firms. Given the fact that fact that private, family businesses are the dominant form of business worldwide, and escalation of commitment in these businesses can lead to underperformance or bankruptcy, this paper also addresses the calls of practitioners and policy makers to focus on research which has the potential for significant practical wealth and job creation.

This paper points to a number of interesting avenues for future research. Future research could make a distinction between boards of advisors and boards of directors, which are often set up specifically to assist in a firm's decision-making process, and outside vendors such as lawyers, accountants, and management consultants, who are generally paid for specific business advisory services but also provide decision-making input (Hillman, Cannella, & Paetzold, 2000). It would also be interesting to evaluate the influence of the incentives and compensation provided to board members on our propositions. Insights and concepts from the board process literature (e.g., board formality, meeting frequency) might also be beneficial (Huse et al., 2005). We suspect that the proposed relationships will be even stronger when the board is properly incentivized, board processes are more formalized, and when the board meets more frequently (Hillman & Dalziel, 2003). Future research could also measure the human capital and social capital of board members. We suspect that different types of board member human and social capital are more helpful in particular escalation situations. For example, board members with a background in sales & marketing might be more helpful in defusing escalation of commitment to dead end product/market niches, whereas board members with a finance background might be more effective in helping family business owner-managers to alter commitment to failing sources of capital or inefficient debt leverage ratios.

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THE STUDENT CONSULTING PROCESS AND INSTRUCTOR'S ROLE: WORKING WITH THE STUDENT TEAM

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ABSTRACT

SBI-sponsored student consulting is offered by many colleges and universities in the United States. Since these consulting projects are often a critical component of the courses in which they are offered, we examine the consulting process and offer guidance to instructors for how to address typical problems that arise. Specifically, we focus on the formation and evolution of the student team and how the instructor can help student teams work more effectively.

INTRODUCTION

Student consulting is offered by numerous colleges and universities in the U.S. under the guidance of the Small Business Institute (SBI). The attraction of student consulting for many businesses has to do with that it provides substantial advantages over professional consultants. The first advantage is low cost: while some colleges offer student consulting free, others charge nominal or relatively small fees compared to professionals. The second advantage is limited engagement: while many professional consultants seek to develop an ongoing relationship with the client, student consulting is usually limited to one academic term. This potentially allows a client to benefit from many student teams that could approach the business from a variety of perspectives and over a long period of time. The third advantage is the connection to educational process that many clients find enriching and exciting: having young men and women doing research and incorporating insights from academia to their business can force clients to take a hard look at their own assumptions and practices. While there are likely to be many more reasons why clients could enjoy the student consulting process and see value in it, student consulting is quite different from professional consulting and could run into a number of serious problems that undermine its value.

It is important, therefore, to examine the process of student consulting and identify the typical problems that often arise in this process as well as offer solutions based on instructors' practical experience. This paper is written by two authors that teach student consulting-based course every semester and have collectively provided student consulting services to many small, medium-sized and large businesses. Student consulting has the potential to enhance the quality of student education as well as to deliver a valuable service to the local business community and provide a valuable alternative to professional consulting. In fact, we believe that, if conducted appropriately, student consulting could generate greater value than professional consulting. However, such value enhancement would only be possible if instructors clearly realize the underlying commonalities and differences between student consulting and professional consulting; identify the problems undermining the quality of student consulting in a timely manner and effectively avoid or resolve such problems to maximize the value of student consulting.

In this paper, we focus on the formation and evolution of the student team and how the instructor can help the student team to optimize its composition, leadership and performance.

We approach student team performance as encompassing: (a) the quality of advice provided to the client; (b) learning the key concepts of the course and applying them to a particular case as a problem looking for solution in the process of SBI-guided student team consulting; (c) learning from interaction with the instructor; (d) learning from interaction with other students; (e) learning the basics of consulting and how to act as a professional consultant; and (f) learning how to identify and overcome some of the cognitive and learning problems involved in consulting.

THE STUDENT CONSULTING TEAM: TEAM FORMATION

The student consulting process starts with the assignments of clients to the course by the university's SBI. Once this information is shared with the instructor, teams are formed based on the students' desire to work on particular projects. From the student's perspective, the team formation process formally signifies the commencement of their consulting project. The established model of team formation is broken down into five stages. It posits that teams become more effective as go through five discrete stages: (1) forming; (2) storming; (3) norming; (4) performing; and (5) adjourning (Tuckman, 1965; Tuckman and Jensen, 1977). The forming stage is often characterized by individual and collective anxiety due to a significant element of uncertainty. Sometimes students form groups they like so much that such groups essentially reassemble in successive classes given the instructor's permission. In this case, of course, anxiety, uncertainty and confusion are minimized. In contrast, new, freshly-minted groups are often unclear as to their purpose, structure, leadership and leader's abilities as well as the skills level and drive of individual members and their willingness and ability to collaborate. Adding to such anxiety, uncertainty and confusion in SBI-guided student consulting classes is that the students are expected to do something they have never done before or something that adds additional responsibility and complexity even for those that have done it before.

We teach SBI-guided student consulting classes in the area of entrepreneurship in which the groups are formed of undergraduate students studying a particular subject (for instance, human resources management in a small or medium-sized business or a new venture) and in the area of strategy in which the groups are formed of graduate MBA students. Either of these situations may result in the formation of groups that are completely new: the students may or may not know each other but have not previously worked as a group and the formation of groups transplanted from previous classes based on perceived success. These two types of groups may each present specific challenges addressed further in the paper.

Once the members start to see themselves as a group, and get to know each other a little better so that individual skills as well as personality traits transpire, they move to the second stage (storming). This stage is often characterized by conflict and tension between team members. Individuals may have a hard time adjusting to the distinct learning and personal styles of their team members. However, groups may also not experience problems at this stage and be immediately unified by a strong, decisive leader. The storming stage is complete when an agreement on how the group will be led is finally reached.

In the norming stage, the team develops standards of expected behavior and begins to feel like a cohesive unit. This objective can be accomplished in many different ways. When the group is masterminded by a strong decisive leader, other group members often have to adjust and play by the rules set by the leader, sometimes in a very peremptory and unceremonious way. Consensus-based groups may develop early based on a feeling of respect and admiration for one another. While such consensus mitigates conflicts, it could also present a substantial problem for the instructor since such groups may tend to exaggerate the merits of their work and accomplishments and not learn as much as they should during the consulting process. Likewise, the instructor could experience enormous problems dealing with groups that are constantly fighting with one another or are led by totalitarian leaders that try to minimize the instructor's role in the process.

In the performing stage, the group is focused on getting the work done. It is during this process that the instructor interacts most actively with the group. However, as group members gradually learn the ropes, they become increasingly independent and hit their stride as a group. This is actually one of the principal goals of the student consulting projects. The objective of student consulting is to help the group and its individual members to develop the required professional qualities and the ability to exercise them in different contexts. These professional qualities center around the ability to analyze a problem, find a set of acceptable solutions, and choose the ones that work best for the client.

Finally, after the work is done, the group enters the adjourning stage, where they prepare for disbandment by wrapping up their activities. At this stage, it is critical to make sure that the student consulting project is effectively communicated to the client and that the final text submitted to the client and the SBI follows the guidelines and specifications and is sufficiently professional.

A key limitation of the five-stage model is that it takes time for groups to move through each stage. Teams that are set up on a temporary basis and have relatively short deadlines are not likely to progress gradually through each stage. Instead, groups that are created to do projects that have a deadline follow the punctuated equilibrium model of group development (Gersick, 1988). In this model, the first team meeting sets the direction and behaviors of the group – deciding how to approach the project, how the team will be organized and who will lead the team. Then the group goes through alternating stages of inertia and revolution. Inertia is the phase where the team makes progress on its intended activities. At some point, the team undergoes a major transition that is characterized by the dropping of old patterns and adoption of new perspectives, with the objective to dramatically increase their progress.

Typically, the first time the team enters the revolution stage is about halfway between the start of the project and the deadline. From a student consulting project perspective, the punctuated equilibrium model indicates the importance of the first team meeting. As such, it is crucial for instructors to manage the team process properly as it can significantly affect the student consulting experience and outcomes.

We believe that both the five-stage model and the punctuated equilibrium model of group formation and functioning have their value and could be used to develop a better understanding of the SBI-guided student consulting process. Consequently, we will utilize these two models in discussing how student teams are formed, how student teams develop and mature, the dynamics of interaction between the instructor and student groups performing the SBI-guided consulting for business clients, and the problems arising at different stages of group formation, evolution and disbandment that may require interference and assistance on the part of the instructor.

Team Formation

The first decision that the instructor faces is what process to use to form teams. Such teams will be working on different consulting projects. There are four principal methods of team formation: (1) student-selected, (2) random, (3) instructor-formed, and (4) student-guided. Student-selected teams are formed by students themselves without any instructor assistance. Random teams are those in which the students are assigned to teams by the instructor at random (i.e., the instructor makes these assignments without any knowledge of the skills and experiences of the students). Instructor-formed teams are those in which the students are assigned to teams by the instructor, but such assignment is the result of a methodological process designed to create heterogeneous teams. The final (fourth) option that may be used to ensure heterogeneous teams is to allow the students to select teams but provide them with guidelines that they must follow. These guidelines are designed to ensure that the students form heterogeneous teams. In student-guided team formation, the students should be told from the very start that the instructor reserves the right to modify team assignments to ensure that each team has access to a diverse range of expertise.

The decision on which method of team formation to choose boils down to the instructor's opinion with regard to the comparative advantages of heterogeneous over homogeneous teams. Student-selected teams are more likely to be homogeneous in terms of skills and experiences because students typically form teams based on friendship and other relationships and friends are likely to be similar to each other (same major, same ethnicity, same gender, etc.). But the advantage of heterogeneous teams is that are more likely to have the required skills to successfully complete the consulting assignment. For instance, in undergraduate classes such groups may include both individuals with quantitative and qualitative skills or writing skills and social skills. In MBA classes, such groups may include accounting, finance, marketing and management or IT majors. Having all the majors in one group allows for delivering more effective multidimensional and comprehensive projects.

Although homogeneous teams may not have all the required skills or sufficient expertise in all the functional areas, their biggest strength is that they tend to be more cohesive. This may be why a survey of first-year MBA students who picked their own teams reported that they had a more positive team experience and were more likely to turn in their assignments on time, cooperate well and have fewer free-loaders than students who were randomly assigned to teams (Bacon, Stewart and Silver, 1999). In contrast, a survey by Feichtner and Davis (1984) found the opposite – that student-selected teams were rated as having a less positive team experience than instructor-formed teams. Therefore, the existing research on which method of student team formation is better appears to be inconclusive. Student-selected, instructor-formed or student-guided teams all have the potential to yield successful outcomes.

In some cases, the nature of course being taught may help determine what method to use. When an instructor is teaching an MBA strategy course where the consulting projects involve a comprehensive overview of the all areas of the client's business, heterogeneous teams might work better. This can be achieved by either the student-guided or the instructor-formed methods. The two authors of this paper are divided as to the best method to use for student consulting team's formation. One author believes that student teams should be formed more purposely rather than randomly. The other has used random method in the past and usually lets students pick their own teams but interferes if the random teams do not include enough members that could complete different aspects of the project.

What are the advantages and disadvantages of randomization vs. control during the process of group formation? Once again, the two authors have different perspectives. One author believes that the process of group formation should be carefully managed so that the resulting teams would have the benefits of heterogeneous skills and expertise and thus a better chance to maximize their performance on the project. The other author believes that it is very difficult to account for numerous factors that could interfere with the project completion process. This is why the other author lets students choose their own teams since that would allow students act on their likes and dislikes and possibly avoid or minimize future conflicts between group members. In addition, the other author uses a special method of group formation. He initially presents consulting projects to students and then asks the students to choose one of them by walking to the area of the classroom reserved for each of the project. This is where the students first meet their future teammates equally interested in the project. Subsequently, the instructor goes around the class and asks each student in each group about his or her major (in MBA strategy classes). If some groups have too many members and other groups have too few members or if some groups do not have some critical majors (marketing and finance), the instructor asks some students to switch groups to make all groups complete. Some students, however, may have chosen groups before the class. In this case, the entire previously formed group may choose a project to stay together even though some students could have chosen a different project had it been their own decision as opposed to a collective decision.

Overall, there are different methods of group formation that could be used to form a student consulting team. The instructors, in our opinion, should consider the following factors to guide them in making this decision. First, what are the general advantages of heterogeneous vs. homogenous teams for the SBI-guided student consulting of business clients? Second, what constitutes heterogeneity vs. homogeneity in a specific teaching situation: learning styles, skills, personality traits, expertise, prior experience, demographic characteristics? Third, what are some potential problems associated with too much heterogeneity or homogeneity such as groupthink, group conflict, individual conflict, weak leadership, totalitarian leadership, weak relationship with the instructor? Fourth, what are some potential negatives of making functionally sound but voluntaristic decisions that could antagonize student teams and their individual members? In particular, untenured instructors may want to avoid having serious frustration on the part of students that would rather be a member of another group and may blame the instructor for their misery. To summarize:

Proposition 1a: Different methods may be used to form a student consulting team that differ in terms of the degree of randomization vs. control and may result in greater heterogeneity vs. homogeneity.

Proposition 1b: Both randomization and control as well as heterogeneity and homogeneity have their value and need to be carefully balanced to maximize the potential of a student consulting team.

Proposition 1c: In facilitating student team formation, instructors need to take into account (a) the context of the learning environment (undergraduate vs. graduate classes); (b) the nature of the assignment (area-specific vs. comprehensive projects); (c) the existence of previously formed student teams; and (d) the strong feelings students may have with regard to being assigned to a team.

Electing and Controlling Group Leaders: Problems and Solutions

Once the teams are formed, the instructor should continue to provide guidance regarding the direction and behaviors of the teams to avoid the pitfalls associated with teams performing poorly:

- Ineffective leadership
- Free-riding
- Inadequate support from instructor
- Lack of team collaboration
- Conflict with the client or among group members

Ineffective leadership typically stems from the students not selecting an optimal leader. Often times, we have observed that the decision of who will lead a team is based on criteria that have nothing to do with effectiveness. In many cases, a leader will be chosen based on who volunteered to take on the role or who has the most time to devote to the course. Given that the team leader is the liaison between the team and other parties (e.g., the client, the instructor), it is vital that the team select a leader that is able to successfully perform the tasks demanded by the role. As an illustration, a student group in one of our classes was led by the most inappropriate person for performing that role. She proposed herself as group leader and the group elected her because no one else had a strong desire to serve as leader or people that actually wanted to be group leaders and had the appropriate capabilities, were afraid to challenge her. The person that became leader characterized herself to the group as being very "confrontational" and was elected anyways. Several group members later told the instructor that even though the project was their first choice, they hesitated whether or not to select it because they knew that the future group leader would be on that project. Obviously, the instructor was not familiar with the group leader and could not advise the group against electing her. However the instructor was forced to deal with the problems that arose due to the inefficient leadership in the group and the ineffective group leader was replaced. In hindsight, the instructor felt that he should have compiled a list of qualities that should disqualify a person from being elected a group leader. Having presented the list of undesirable qualities to the student group before it elected the group leader would have possibly helped to avoid the complications and severe problems that occurred later.

Such undesirable qualities, in our opinion, are as follows: (1) too confrontational (continually starting fights with other group members and often challenging group members with blunt, inappropriate and insensitive remarks that could be perceived as insult with intention to hurt); (2) too indecisive (continual avoidance of taking a strong stand even when this is necessary to effectively approach a problem and present a unified front); (3) too peremptory/unceremonious (using commands instead of trying to collaborate with other people and brainstorm problems); (4) too preoccupied or busy with other pursuits leaving very little time for exercising group leadership; and (5) too anxious (continually worried about some potential problems thus innerving other group members). As mentioned earlier, totalitarian and pushover leaders can equally represent a problem for the instructor. This is because totalitarian leaders end up trying to eliminate the instructor from the consulting process. By doing so, totalitarian leaders and their groups do not sufficiently utilize instructor resources. This may result in a poorly-performing consulting project and the students not fulfilling their educational goals to become problem solvers and expert consultants. In contrast, pushover leaders have a difficult time making any decision or taking a stand. As a result, their groups may become reactors (Miles and Snow, 1978) that continually hesitate to choose a course of action or embrace opposite decisions at different points in time thus failing to follow a consistent approach. This indecisiveness and reactiveness leads to deteriorating quality consulting projects and the inability to learn become efficient problem solvers.

To summarize:

> Proposition 2a: Instructors should seek to prevent election of totalitarian or pushover group leaders.
>
> Proposition 2b: In case totalitarian or pushover group leaders have been elected, instructors should develop and implement an effective strategy to mitigate the harm such ineffective group leaders can make by thwarting consulting and educational objectives of the student consulting process.
>
> Proposition 2c: The instructor should communicate early on to student groups what personality/behavioral traits are antithetical to effective group leadership, specifically, being too: (a) confrontational; (b) indecisive; (c) peremptory/unceremonious; (d) preoccupied/busy; and (e) anxious.
>
> Proposition 2d: The instructor must consistently indicate that (a) direct personal attacks directed at other group members are unacceptable in student consulting teams; (b) indecisiveness and reactiveness should be avoided to enhance consulting value; (c) peremptory/unceremonious forms of expression and communication with and among group members are unacceptable as they impair group coherence and collaboration success; (d) preoccupied/busy leaders and group embers should make time or face the possibility of not passing the course; (e) anxious leaders and group embers need to gain more confidence and self-efficacy.

Managing Student Roles in the Student Consulting Process

A way to enhance success of the student consulting process is for the instructor to explain importance of establishing roles for each team member (Page and Donelan, 2003). In order for the team to work effectively, team members need to take on both certain task-related roles and interpersonal roles (Benne and Sheats, 1948; Thompson, 2008). Task-related roles focus on coordinating the efforts of other team members; planning the work to be done; monitoring progress and addressing any problems that may arise. Interpersonal roles focus on managing the relationships and interactions between team members. When explaining these roles, specific attention should be allotted to the expectations the instructor has of the team leaders. By describing to the entire class the importance of assigning team members to roles, team members are more likely to think carefully when making these assignments. This will increase the likelihood that teams each team will select a leader who can effectively perform the assigned role.

While roles can be formally assigned by the instructor, we recommend letting students decide on them based on their experiences during team-building exercises. Consulting projects do not typically start during the first week of the semester. This gives the instructor time to have the students engage in team-building exercises. As students participate in such exercises, they become more familiar with one another and able to better understand each other's strengths and weaknesses. This information can subsequently be incorporated when making role assignments. By allowing the role assignment process to happen naturally rather than be forced, the students are more likely to select the individuals best suited to each role based on direct observation of their performance in team-building exercises. In addition, such exercises can also be employed in the classroom after teams have been formed to strengthen team cohesion and its problem-solving skills (for sample exercises see: Barker and Franzak, 1997; Deeter-Schmelz, Kennedy, and Ramsey, 2002).

Having specific roles allocated to each team member can also reduce the likelihood of another common pitfall: free-riding. Teams that have one or more members who did not contribute to the group in any meaningful manner can negatively affect the motivation of the entire team (Kerr, 1983). Moreover, free-riding is more problematic as the size of the team increases (Deeter-Schmelz, Kennedy, and Ramsey, 2002). As a result, considerable effort should be made to avoid free-riding. Another way to reduce the free-rider problem is to make students accountable for their contributions. This can be done by either formally assigning each student to a section of the project or by requiring that students keep a journal documenting their individual contributions to the project (Hansen, 2006). Both techniques allow the instructor to clearly identify which team members are doing the work and which ones are not. They also have the added benefit of providing greater insight into the peer evaluation process that can help with grading.

Another pitfall that can hinder the performance of student consulting teams is insufficient support from the instructor. While autonomy can be a good thing for teams in the workplace, it actually leads to lower performance in project teams, which are formed for a limited time and are assigned to produce a single output (Cohen and Bailey, 1997). In our experience, the problems with excessive autonomy of student consulting teams are compounded when teaching courses with students that are also working full-time (e.g., part-time MBAs). To minimize the likelihood of this pitfall, we recommend that instructors clearly articulate their expectations for students participating in the consulting projects (e.g., consulting project process, grading criteria, deliverables, deadlines, expected level of research) so as to consistently and continuously guide the behavior of the student consulting teams. This type of guidance is supported by the literature and have we found this to be effective with our own students. In a study of project teams, the teams that were the most likely to meet their goals in a timely manner were those that had managers who exerted control over the behaviors of the team and team members who gave one another constant feedback about their performance (Hendersen and Lee, 1992). Specifically, the study found that managers who helped guide the behaviors of their team by communicating the expected level of performance, developing procedures to guide the team's work, and defining the work assignment were more likely to be part of effective teams.

A final pitfall that can lead to poorly performing teams is a lack of team collaboration. Teams should have students that work together to produce strong research and high-quality recommendations for the client. But we have often evidenced that once tasks have been assigned to each team member, there is little collaboration that occurs. Instead, each student (or pair of students) work in silos. They do not solicit input from team members or provide updates of their progress. Even worse, the team leader often does not know what these students are doing until they document their work for the final report, at which point it is too late to make any significant changes.

EXHIBIT 1: SAMPLE STATUS REPORT

CLIENT:
DATE:

OVERALL STATUS:

	Green	*Yellow*	*Red*	*Reason*
<Task #1>				
<Task #2>				
<Task #3>				

TASK #1
Person(s) Responsible:

Description:

Status:

Activities Performed During this Period:

Activities Planned for Next Period:

Issues / Resolutions:

<u>TASK #2</u>
Person(s) Responsible:

Description:

Status:

Activities Performed During this Period:

Activities Planned for Next Period:

Issues / Resolutions:

<u>TASK #3</u>
Person(s) Responsible:

Description:

Status:

Activities Performed During this Period:

Activities Planned for Next Period:

Issues / Resolutions:

To increase the likelihood of cooperation and collaboration between team members, we suggest providing class time for team meetings and requiring that team leaders submit bi-weekly status reports. Providing students with the opportunity to meet occasionally during class ensures that team members have the opportunity to communicate with each other face-to-face to provide updates and solicit feedback. We typically allocate half a class session at least five times over the course of the term for such meetings. Although instructors should try to spend time with each team during these team meetings, in our experience it is difficult to gain a solid understanding of each team's progress and provide detailed assistance to each team due to the relatively brief meeting period. As such, we recommend requiring teams to submit a status report (a sample status report can be found in Exhibit 1) so that the instructor is able to get complete information on the progress that each team has made to-date, the tasks they still need to complete, and any problems that they are facing. The process of completing these reports requires that team leaders communicate with the rest of their team. It also allows any opportunities for team members who are working on different components of the project to collaborate to become readily apparent. Moreover, these collaboration opportunities also become apparent to the instructor – who can ask the team to act on them if the leader does not. Of course, for these status reports to help increase team collaboration, the instructor should review these reports and provide feedback in a timely manner. To summarize:

> Proposition 3a: Assigning specific roles to students early on can help avoid the pitfalls of free-riding.
>
> Proposition 3b: Communicating instructor's expectations and grading criteria early on in the student consulting process could help avoid the pitfall of students not seeking assistance from the instructor.
>
> Proposition 3c: Insisting on continual reporting from students regarding different aspects of the consulting project will help the instructor offer assistance when it is needed the most.
>
> Proposition 3d: Assigning class time for student collaboration and timelines for group meetings will help to avoid the pitfall of insufficient student collaboration in completing the consulting assignment.

DISCUSSION AND CONCLUSION

In this paper, we have discussed some typical problems arising in the student consulting process with regard to three subjects: (1) student team formation; (2) leadership selection and the instructor's role in helping groups elect the best leader for the purposes of the consulting assignment; and (3) managing student roles in the consulting process. These three subjects certainly do not exhaust the number of themes that need to be addressed in discussing the interaction between the instructor and student teams in the course of the student consulting process. However, we consider these three themes as very critical to success of student consulting and thus deserving a special attention from scholars interested in enhancing our knowledge regarding the SBI-guided student consulting process. Such importance of the subjects of student team formation, leadership and role management has to do with that there are numerous pitfalls identified in this paper that could potentially thwart the success of student consulting.

Such pitfalls, in our opinion, arise first of all in the area of group formation. Both heterogeneous and homogenous teams have their advantages that need to be carefully balanced in the course of group formation. Based on our diverse experiences as instructors teaching both undergraduate and MBA classes in the areas of entrepreneurship and strategy, we argue that while the needs of the consulting assignment such as assembling a diverse group of individuals with complementary skills and expertise should take precedence, it is also important to take into account how students feel about being in a certain group to maximize students' wellbeing and performance.

Serious problems may also arise, as we show, in the area of leader selection for the student consulting team. Some persons that have a very strong desire to be elected may be the least qualified for the job as the example with the confrontations and peremptory group leader illustrates. We have identified a number of personal and behavioral characteristics that do not bode well for the future leader and suggested instructor strategies that could be carried out to help groups elect the best man or woman for the job. Finally, we have examined the subject of minimizing a number of additional pitfalls that often decrease the efficacy of student consulting such as free riding, insufficient instructor support and inadequate collaboration within the student group. In our view, effective collaboration between student teams and instructor as well as effective collaboration between group leaders and their groups, and finally, effective collaboration between group members working on different sections of the project are all critical for success of student consulting. Such success should be measured on numerous scales including first of all the success of the consulting assignment per se including actionable recommendations that can be readily implemented by the client. Student team's success should also be measured on the scale of learning outcomes with regard to the concepts of the course itself. Finally, success should be measured on the dimension of students' enhanced problem solving ability and their mastery of the art of consulting that is principal for many business disciplines.

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USING ADJUNCT FACULTY TO TEACH ENTREPRENEURSHIP AT AN AACSB-ACCREDITED BUSINESS PROGRAM: A CASE STUDY

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ABSTRACT

In 2001, Murray Low pointed out that the demand for entrepreneurship courses continued to grow unabated. Yet, he also pointed out that, "Business schools have met student demand for entrepreneurship courses by using adjunct faculty" (Low, 2001). The use of adjunct faculty presents a real challenge to universities, especially those programs accredited by AACSB International. AACSB International allows instructors to be professionals, but they are required to be professionally qualified (AACSB, 2011).

This research addresses a unique situation in which adjunct faculty were used to teach courses in a graduate entrepreneurship program. Using a case research methodology, we address the issues associated with using adjunct faculty while ensuring they maintain their professional qualifications. We indicate how these instructors are prepared, coached, evaluated, and assigned to courses using a process that parallels the typical human resource management process (Allen, et al., 2010). We conclude with observations on the practical implications of this study as well as a brief commentary on future research.

[***Keywords:*** entrepreneurship education, professional qualifications, adjuncts, AACSB]

INTRODUCTION

In 2001, Murray Low pointed out that the demand for entrepreneurship courses continued to grow unabated. Yet, he also pointed out that, "Business schools have met student demand for entrepreneurship courses by using adjunct faculty" (Low, 2001). The use of adjunct faculty presents a real challenge to universities, especially those programs accredited by AACSB International. AACSB International allows adjuncts to teach courses, but they must be professionally qualified (PQ). Furthermore, the number of professionally qualified faculty may not exceed forty percent of all faculty resources. If the percentage of PQ faculty as a part of overall course offerings rises above forty percent of faculty resources, the business program risks not meeting AACSB Standard 10.

For business programs that offer multiple courses in entrepreneurship, the use of PQ faculty is particularly important. Previous research has shown that the demand for undergraduate and MBA courses in entrepreneurship far exceeds the capacity of business programs to staff these courses with doctoral-trained entrepreneurship faculty (Brush, et al., 2003). In a more recent study, Finkle (2010) notes that the situation has not improved very much; the shortage of entrepreneurship faculty continues to be an issue with 1.6 jobs available per candidate.

It is also true that programs in entrepreneurship are growing so rapidly that the financial resources are not available internally to be able to afford tenure track, academically-qualified (AQ) faculty even if they are available in labor markets. Internally, traditional courses in Management, Marketing, Accounting, etc. also require all available human resources. Most universities have a limited "pie" of resources available and for there to be growth in entrepreneurship courses, other courses cannot be offered. In the short run, it is a zero sum game. Cross training may be one means of retooling faculty to teach entrepreneurship courses. It certainly seems like a reasonable proposition, but tenured faculty are entrenched in some of the disciplines that are waning and they do not often have the skill or interest in moving into the rapidly developing areas of entrepreneurship and small business consulting. Therefore it is very difficult to obtain faculty lines in entrepreneurship unless faculty leave or retire and even then it is often unrealistic due to departmental sustainability of faculty lines and political faculty governance. Thus, even though student demand nationwide for entrepreneurial programs is exploding, the bureaucratic nature of faculty lines, departmental governance, resource availability, and tenure make it very difficult for smaller programs to initiate new Minors and Majors in entrepreneurship even if the demand exists. New and existing courses must be staffed with either PQ or AQ faculty and the supply of these individuals for entrepreneurship is limited at best (Low, 2001; Finkle, 2008).

So, we argue that the growth of entrepreneurship in higher education has been so rapid that many schools are using adjuncts to deliver their programs and courses because the supply of doctorally qualified faculty in entrepreneurship has not kept pace with demand (Brush, et. al., 2003). In addition, many of the entrepreneurship programs are combined with a center or other outreach activities (Finkle, Kuratko, and Goldsby, 2006). Thus, academically qualified faculty have additional activities in which they are engaged other than teaching. This study will use a modified case study to demonstrate the way that one AACSB-accredited College of Business has been able to use adjunct faculty to teach entrepreneurship in their MBA program.

This research fills the apparent gap in the research on how colleges and schools of business can address the shortage of academically qualified entrepreneurship faculty. Using a case research methodology, we describe the efforts of one of the authors to offer multiple entrepreneurship courses at an AACSB-accredited College of Business in the Western US. In the second section, we briefly describe the extant literature with an emphasis on literature about professional qualifications of faculty. This review briefly covers literature on entrepreneurship education in the U.S. in order to provide the proper context for this analysis. The third section presents our research method, followed by our case study of the use of adjuncts in an AACSB-Accredited College of Business. The fifth section discusses the results of the case study which includes a list of insights gained by the process of administering this program. In the final section we offer observations on the implications of this study as well as a brief commentary on future research on using business professionals to teach entrepreneurship.

LITERATURE REVIEW

The literature on entrepreneurship education is still in a developmental stage (Fiet, 2001). This conclusion is startling when one considers just how far entrepreneurial phenomena have come in the last thirty years. Katz (2003) recently demonstrated that interest in entrepreneurship in colleges and universities has been nothing short of incredible. The growth rate has been phenomenal with more than 1,600 colleges and universities offering at least one course in entrepreneurship in the U.S. today. This number contrasts greatly with the fewer than 20 universities that offered entrepreneurship courses in the late 1970s and early 1980s (Fiet, 2001a; Fiet, 2001b).

Entrepreneurship education has been evaluated from a variety of perspectives including what is taught, why it is taught, how it is taught, and how well it works (see Gorman and Hanlon, 1997; Vesper and Gartner, 1997; Solomon, Winslow, and Tarabishy, 1998). The problem with assessing entrepreneurship education is that no generally accepted pedagogical model has been adopted in the U.S. or Europe (Solomon, et. al. 1998). Given that some researchers suggest that the "concept of entrepreneurship is inadequately defined [, and] this lack of a clear entrepreneurship paradigm poses problems for both policy makers and for academics" (Carton, Hofer, and Meeks, 1998, p.1 of 11), the state of entrepreneurial education cannot be too surprising. This creates a direct conflict between the accrediting agencies and university administration as growth rates of new programs exceed university administration's ability to acquire faculty with the credentials specified by the AACSB. This research suggests new ways to staff rapid growth programs with professionally qualified instructors in the absence of academically qualified faculty.

Solomon, et al. (2002), discussed the results of a twenty-year investigation of teaching entrepreneurial education and small business management in the U.S. Their data is based upon six national surveys. They believe a trend exists toward greater integration of practical applications and technology in entrepreneurial education. They note that new venture creation, small business management, and small business consulting remain the most popular courses in the field. However, they do not address the issue of how high quality faculty resources can and should be obtained to meet these needs. This research addresses the gap in the literature related to how to do so.

Faculty Shortage

According to Brush, et al. (2003), the demand for entrepreneurship courses is far above what can be taught by the current supply of doctoral-trained qualified faculty. "Our study shows that the rapid and sustained growth of universities' undergraduate and MBA offerings in entrepreneurship has far outstripped the supply of doctoral-trained entrepreneurship faculty available to deliver those programs and courses" (Brush, et al., 2003, p. 316). Kuratko (2003, 2005) echoes this shortfall in the supply of trained entrepreneurship faculty, noting that there is a faculty pipeline shortage. Katz (2003) also points out the lack of Ph.D. programs to provide pure entrepreneurship faculty. More recent studies suggest the supply of entrepreneurship faculty is improving (Finkle, 2007), but shortages exist with one study showing 1.6 jobs per candidate (Finkle, 200). As a result, according to Low (2001), it has become a necessity to use adjuncts for administrators seeking to schedule multiple entrepreneurship courses.

Professionally Qualified Faculty

As noted, the use of adjunct faculty is a rather common practice in higher education (McPherson, 2003; Hall, 2011; Townsend, 2000). Some studies suggest the percentage of adjunct faculty grew from twenty two percent in the 1970s to 46% in the 1990s(Moser, 2001). These individuals typically teach anywhere between one and six or more courses per year. According to AACSB, most adjuncts are categorized as supporting faculty because they "participate in the intellectual or operational life of the school beyond the direct performance of teaching responsibilities" (AACSB, 2011, p. 39). There are any number of reasons supporting why adjunct faculty are used, not the least of which is the cost-benefit of paying someone far less to teach a college course than the institution would pay a fulltime faculty member. [12]

Yet, when it comes to teaching entrepreneurship, particularly at AACSB-accredited colleges or schools of business, the use of supporting faculty becomes problematic. AACSB International has specific standards related to faculty resources. In particular, in AACSB Accreditation Standard 10, they require academically qualified faculty to be no less than fifty percent of all faculty resources and the combination of professionally and academically faculty to be at least 90% of all faculty resources (AACSB, 2011). Thus, an AACSB program must be careful to categorize their faculty as academically or professionally qualified.

RESEARCH METHOD

The challenge of conducting research about entrepreneurship education is that no generally accepted pedagogical model has been adopted in the U.S. or Europe (Solomon et al., 2002). This was stated earlier. This assertion suggests that entrepreneurship education is still in the exploratory stage (Gorman and Hanlon, 1997). Thus, our choice of a research design was influenced by the limited theoretical knowledge researchers have of entrepreneurial education (Fiet, 2001). In such a situation, it is appropriate to use a qualitative research method in order to gather the necessary information (Eisenhardt, 1989; Yin, 1994). The current research necessitated that we observe the process of assigning students to work with an entrepreneur. Thus, we adopted a qualitative research method described by Audet and d'Amboise (1998) which was broad-minded and flexible. Like their study, our aim was "to combine rigor, flexibility and structure without unduly restricting our research endeavor" (Audet and d'Amboise, 1998, p. 11). This research design has also been used in other research about entrepreneurship education (e.g., Heriot and Campbell, 2004). In our case we provide background information about a private university in the western U.S. Then, we discuss the process that was used to use adjunct faculty to deliver the curriculum of the college's program.

THE CASE STUDY

Background. One of the authors was hired as an Endowed Chair of Entrepreneurship at a private university in the western U.S. Prior to joining the university, he was the Director of Small Business Institute programs at two prior universities where he also served as an endowed chair. At the large public university where he served prior to moving to the western U.S., he was the Executive Director of the Center for Entrepreneurship he created and was

[12] A faculty member assigned to teach six courses per academic year and paid $90,000 annually is essentially paid $15,000 per course. An adjunct may be paid anywhere from between $1,500 to $5,000 depending upon the school.

also the first entrepreneurship endowed chair at this university. In this role, he developed a new entrepreneurship program to include a minor and major in entrepreneurship and a business plan competition. In his new position at the private university, his role was somewhat different. There was an existing Entrepreneurship Center with an executive director and a former occupant of the endowed chair in entrepreneurship who moved back into the faculty to direct the Small Business Institute upon his arrival. . As part of his duties, he is required to make sure entrepreneurship courses are staffed. The endowed chair position is considered to be a partnership with the Executive Director of the Entrepreneurship Center where the endowed chair is responsible for all academic issues and the Director manages the business plan competition, family business institute, and Center activities. Since his arrival the Minor in Entrepreneurship has been developed, a nationally competitive SIFE team has been established, and course offerings at the MBA and undergraduate levels have been developed and stabilized. This charge has been challenging because the university relies heavily on adjuncts while still wanting to maintain accreditation with AACSB in the School of Business.

Program. The Entrepreneurship Program includes a Minor in Entrepreneurship which requires six courses, including an entrepreneurship essentials course, a business plan course, finance and marketing courses, and two elective courses. The MBA program has a specialization in entrepreneurship. This program requires the graduate student to take 18 credit hours, including a practicum, and the completion of a "high-quality" written business plan entered into the business plan competition.

The University and Region. This university has a total student body of approximately 8,000 students. The university offers degrees in Arts, Business, Science and Engineering, Law, Theology, and Education. The College of Business is accredited by AACSB. (See Table 1 for a summary).

Faculty. The university has only one dedicated professor who teaches entrepreneurship. An additional faculty member teaches a course dedicated to field-based consulting (Heriot and Campbell, 2004). Thus, the capacity to offer several entrepreneurship courses in the graduate program as well as 4 sections of undergraduate entrepreneurship courses is quite constrained due to a lack of faculty qualified in entrepreneurship and consulting.

Professionally Qualified Faculty

Staffing a business program with instructors can be a real challenge, especially for a business program concerned about percentages of faculty who are academically qualified and professionally qualified. What follows is a description of the process used to ensure the adjunct entrepreneurs were prepared to actually teach courses. In many respects, the use of adjuncts in this business program in this research parallels the human resource process in any organization (e.g., Allen, Bryant, and Vardaman, 2010). Allen, et al. (2010, p. 56) point out that human resource management may be divided up among "managing organization entry and the work environment". Adjuncts, like employees, must be recruited and selected, trained and developed, assigned to courses, evaluated and compensated. Thus, we will describe the

Table 1: Profile of University and Region

Item	Comment	Profile
Region	Northwest United States	Serves large regional area.
City	Large City	The city has a population of 608,000. The city has developed into a national and regional center for a variety of businesses, including, but not limited to manufacturing, biotechnology, communications technology, retail, food services, and beverage makers.
University	Private University	The university has 8,000 students and offers degrees in Arts, Business, Science and Engineering, Law, Theology, and Education. The College of Business is accredited by AACSB.
Faculty	Fourth year at university	Terminally degreed at the Ph.D. level, with corporate managerial experience as well as entrepreneurial experience (including the prior ownership of a marketing firm).
Programs	Undergraduate and MBA	Minor in Entrepreneurship consists of The MBA Specialization in Entrepreneurship requires 12 credit hours, a practicum course, and a written business plan.

Table 2
Steps
Using Adjuncts to Teach Entrepreneurship

Phase	*Name*	*Comments*
I	Program Evaluation	Established need to use adjuncts.
II	The Process	Developed an "HR" process to the use of adjuncts.
III	Selection	The adjuncts who teach in the MBA program have MBA degrees and at least 30 years of entrepreneurial and/or consulting experience. They have either worked for Accenture for a long time (ex-CIO) or have had their own ventures and are now venture capitalists, angel investors, or otherwise financially independent.

IV	Training	Each fall all the adjuncts take an orientation where they are taught all the necessary standards, approaches, expectations, etc. of the Albers School of Business.
V	Development	Their first experience in teaching a course is typically done in conjunction with an AQ faculty member to learn the various techniques and approaches used by AQ faculty. After one quarter of co-teaching with an AQ faculty member, they then teach courses with strong support from the AQ faculty member.
VI	Staffing	After two times teaching the course, their performance is evaluated to determine if they are prepared to go on their own. At this point, the adjuncts are given full control of their course subject to course evaluations.
VII	Evaluation	The adjuncts teaching in the program over the past two years have averaged between 4.4 and 5.0 on courses taught in the MBA program. AQ faculty averaged 3.9 to 4.8 on the same classes...all on a 5.0 scale.
VIII	Planning	This phase is on-going. The business program has had to make adjustments in staffing due to the economy. As a private university, they have seen a decline in enrollments in their MBA program.

process used to ensure the entrepreneurs were professionally qualified as a series of activities or steps much like the traditional human resource process (Allen, et. al., 2010). In reality, we do so in the interest of explaining the different aspects of employing entrepreneurs as adjuncts. This process has evolved over time at the university. It was not something that occurred spontaneously without some tweaking and revisions.

Program Evaluation. The endowed chair in entrepreneurship in partnership with the Executive Director of the Entrepreneurship Center was largely responsible for staffing all of the entrepreneurship courses in the MBA program. Thus, it was important to take stock of the situation he faced before moving forward. His evaluation revealed that he was required to develop a minor in entrepreneurship, publish in peer-reviewed journals, develop a nationally competitive SIFE team, complete university and community service, and also teach four (five quarter hour) entrepreneurship courses per year. He also observed that the Executive Director of the Center was responsible for acquiring self-support contributions for a $300,000+ budget, develop a major business plan competition, create a successful family business institute program, and numerous other responsibilities. As a result, it was apparent that adjunct faculty were the solution. It was a simple reality that professionally qualified entrepreneurs would need to be hired to teach entrepreneurship courses. In considering this need, the human resource process noted previously was utilized. The following steps were used to ensure the business program met the requirements of Standard 10.

Selection. The adjuncts who teach in the MBA program have MBA degrees and at least 30 years of entrepreneurial and/or consulting experience. They have either worked for an entrepreneurial firm like Accenture for a long time (ex-CIO) or have had their own ventures and/or are now venture capitalists, angel investors, or otherwise financially independent. Their interest is to give back to young people the excitement associated with consulting or entrepreneurship. They are not teaching for the financial compensation. They are part of the Management, Finance, and Marketing Departments. Fortunately, courses other than entrepreneurship are assigned to a lot of AQ people in these departments.

TABLE 3. COURSES IN THE MBA PROGRAM

Course	Description	Required (R), Elective (E) or Practicum (P)
MGMT 583	Entrepreneurship Fundamentals	**R**
Specified Electives	Choose two of the following	**E**
BLAW 575	Legal Issues for New Ventures	**E**
ECIS 562	Internet Marketing	**E**
FINC 551	Entrepreneurship Finance	**E**
MKTG 561	New Venture Marketing	**E**
MKTG 553	New Product Development	**E**
MGMT 574	Entrepreneurship Leadership & Social Entrepreneurship	**E**
MGMT 564	Family-Owned Businesses	**E**
Practicum Requirement	Choose one of the following courses	
MGMT 586	Business Plan Development	**P**
MGMT 568	Community Development & Entrepreneurship Clinic I	**P**
MGMT 569	Community Development & Entrepreneurship Clinic II	**P**
MGMT 576	New Venture Consulting	**P**
Written Business Plan	Program Requirement (Deliverable)	**R**

Staffing. Initially the adjuncts were used to staff two consulting courses: New Venture Consulting and International Consulting. This effort was rather practical because the classes were taught at the same time each week so both classes could be combined to take advantage of special skills of AQ tenured faculty and PQ adjunct faculty. This is still a common practice early in the quarter to take advantage of "research" presentations by library personnel, etc. Since its inception, the program to use professionally qualified faculty to teach entrepreneurship courses has expanded beyond the consulting courses. They also teach the Business Plan Development, New Venture, and other related entrepreneurship courses at the graduate level.

Training and Development. Quite a bit of energy is spent making sure they are in compliance with the PQ standards of the AACSB and that sufficient numbers of AQ faculty are used to offset their percentages. Each fall all of the new adjuncts take an orientation where they are taught all the necessary standards, approaches, expectations, etc. of the School of Business and Economics. Their first experience in teaching a course is typically done in conjunction with an AQ faculty member to learn the various techniques and approaches used by AQ faculty. After one quarter of co-teaching with an AQ faculty member, they then teach courses with strong support from the AQ faculty member.

Compensation. The adjuncts are paid $4,100-4,600 per course. The university uses a quarter-system with each class meeting 3 hours a week for 3 credits. A quarter is approximately ten weeks long as compared to a typical semester which is 15-weeks in length.

Evaluation. After they have taught a course twice, their performance is evaluated to determine if they are prepared to teach on their own. The results have been outstanding with the adjuncts often scoring higher on their teaching evaluations than the long term AQ faculty. The adjuncts teaching in the program over the past two years have averaged between 4.4 and 5.0 on courses taught in the MBA program. AQ faculty averaged 3.9 to 4.8 on the same classes, all on a 5.0 scale.

Continuous Improvement. This issue is important because AACSB stresses continuous improvement. Best practices are shared between all faculty to improve overall performance. Overall performance has increased in terms of teaching evaluations over the past two years as a somewhat competitive environment has evolved with adjunct faculty proud of their performance ratings and AQ faculty trying to remain relevant. The competitiveness is supportive and good-natured leading to benefits for all faculty.

Strategic Issues. The use of professionally qualified faculty to teach entrepreneurship courses at the university in this study has yielded benefits beyond simply ensuring a sufficient number of instructors are available to teach the many courses that are offered. The most obvious benefit is that these individuals are practicing entrepreneurs or individuals who were entrepreneurs, but now invest in new ventures. Students are able to see professional members of the business community who have been successful in their careers. Another benefit has been the actions of these faculty outside the classroom. For example, the adjunct professors have agreed to contribute pro bono to other aspects of program management. They have served on the Board of Advisors for the Entrepreneurship Center, been speakers in other classes, served as mentors for students doing business plans for the business plan competitions, been judges for the business plan competition, and donated to the entrepreneurial program, etc. In fact, one of the senior members of the adjunct faculty donated $1,000,000 to the University to create an endowed chair. So by engaging these experienced individuals in teaching entrepreneurship courses, there is a programmatic increase in performance overall.

The period of time with entrepreneurship has not been entirely positive. The recent issues with the US economy have had a tremendous impact on the university and its budgets. The downturn in the economy has hurt enrollments. MBA enrollment has declined. As a result, class sizes have decreased in the two consulting courses. The combination of regular faculty making salaries of $100,000 to $160,000 per year and adjuncts making roughly $4,400 per course has required the business program leadership to be more efficient with respect to scheduling courses. As enrollment numbers have dropped off; for example, two sections of New Venture and International consulting were combined. The combined course was taught by a professionally qualified faculty member. Academically qualified faculty normally assigned to these courses were reassigned to other courses. This flexibility in scheduling and continued use of adjuncts significantly reduced the overall cost of operation of the School of Business and Economics. In fact, what could have become a real disaster has been a measured improvement in the quality of performance and a significant reduction in labor cost. Yet, this situation is not sustainable with expansion beyond the current levels because it may result in a violation of the standard regarding the percentage of faculty resources that are professionally and/or academically qualified.

LIMITATIONS

Clearly, qualitative research has inherent weaknesses. The most obvious weakness is that the qualitative results of this study do not necessarily generalize to other college or university business programs (Yin, 1994) using entrepreneurs as faculty. We also do not suggest the HR process used in this study is applicable to all AACSB accredited business programs. Yet, the case study does provide rich details of the successful use of entrepreneurs to teach several courses in an AACSB-accredited business program. Thus, the results may be used as a guide to how other programs might consider using entrepreneurs as professionally qualified faculty.

IMPLICATIONS FOR RESEARCH AND PRACTICE

One might ask, "So What?" The answer is quite simple, but powerfully important. This research study demonstrates the effective use of adjunct faculty to staff courses required in a specialization in entrepreneurship in an MBA program. The challenge of using adjuncts is not unique to business or entrepreneurship courses, but it is particularly valuable given the meteoric rise in the demand for entrepreneurship courses in higher education and the lack of doctoral-trained faculty, limitations of acquiring additional faculty lines in one's operating budget, and tenured faculty political territoriality. There is no evidence that business programs offering entrepreneurship courses will be able to staff all of their courses or even most of their courses with academically qualified faculty anytime in the near future. Current enrollments in doctoral programs in entrepreneurship have risen, but they remain below the levels necessary to staff current and future growth in the field. Thus, this study provides a viable solution for using entrepreneurs to teach these courses while meeting AACSB standards for professionally qualified faculty. In fact, this paper may be extended beyond the teaching of entrepreneurship courses. It demonstrates a systematic manner for using any experienced business executives as professionally qualified faculty. In this study, the executives were entrepreneurs, but they quite possibly could have been a former corporate CEO or senior VP.

CONCLUSION

Using a case research methodology, we address the issues associated with using entrepreneurs to teach entrepreneurship courses. While using adjuncts is not always preferred, it has become a necessity for administrators seeking to schedule multiple entrepreneurship courses (Low, 2001). This problem is particularly acute in the field of entrepreneurship which has seen an incredible demand for courses while the supply of academically qualified faculty has not been available (Brush, et. al., 2003).

This research provides a new perspective on credentialing adjunct faculty to teach entrepreneurship courses, particularly applied courses (e.g., small business consulting). If the "professional quality" of faculty can be reviewed in the light of one university's experience, faculty performance in the classroom, and program cost, new combinations of AQ and PQ faculty might provide a win-win situation for university programs seeking to expand entrepreneurial offerings and provide for increasing student demand with limited resources.

The experience of this university's program suggests the use of entrepreneurs must be done using a systematic approach. In many respects, the experience using entrepreneurs to teach courses parallels the human resource practices in any organization (Allen, et al., 2010). The entrepreneurs must be recruited, selected, assigned, trained and developed, compensated, and maintained as professionally qualified faculty to meet AACSB Accreditation Standard 10. Doing so ensures that a college or school of business accredited by AACSB-International may use entrepreneurs to meet their standards for teaching entrepreneurship courses with professionally qualified faculty.

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ASSESSING THE DESKTOP MANAGER'S PRESENCE IN ORGANIZATIONAL LIFE CYCLE STAGES: A WORD OF CAUTION FOR SMEs

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ABSTRACT

The changes of strategy, structure, decision making style, and situation that occur with all organizations, commonly referred to as the organizational life cycle, have been an interest of management researchers for several decades. A recent phenomenon, the *desktop manager*, has added a new wrinkle to life cycle study. With the widespread adoption of the personal computer and the Internet for all types of business functions, the *desktop manager* excels by spending the workday online, plugged in, and tuned out to obvious people needs and problems of the workgroup. In an age when knowledge workers require regular and effective personal discourse with their superiors, desktop managers use technology to avoid direct contact with subordinates. This study examines desktop managers in the context of the organizational life cycle, reinforcing the importance of effective communication with subordinates in SME ventures.

INTRODUCTION

What managers do has been a century-old focus of academic researchers and practitioners. Scholars have studied the actual day-to-day activities of managers, trying to categorize managers as effective or ineffective by timing and describing their daily activities. Harold Geneen, former head of the conglomerate ITT, addressed this issue when he said simply that managers must manage (Geneen & Moscow, 1984)! By this, Geneen meant that managers must do whatever it takes to achieve the goals they have set for themselves and their organizations. Unfortunately, many organizations are hiring and promoting a growing number of managers that do not manage, choosing instead to stay at their desks, attend the occasional meeting, and avoid talking to their people and setting goals (Lester & Parnell, 2006). This phenomenon is referred to and empirically verified as the desktop manager (Lester, Parnell, & Carraher, 2010).

In some respects, the desktop manager is a practical outgrowth of its cousins, the ingratiatory or impression manager and the charlatan (see Chen & Fang, 2008; Davidson, Jiraporn, Kim, & Nemac, 2004; Parnell & Singer, 2001; Rao, Schmidt, & Murray, 1995). Differences in behavioral tactics have been noted, however, between employees who use impression management to be liked and those who do so in order to disguise their productivity deficiencies (Drory & Zaidman, 2007). Successful ingratiators seem to rely on skills such as leaning forward in conversations, animation, eye contact, and the use of facial expressions, whereas self-promoters are more concerned with impressing others with their accomplishments (Barsness, Diekmann, & Seidel, 2005; Bolino, 1999; Godfrey, Jones, & Lord, 1986).

The desktop manager frequently exhibits behaviors akin to ingratiation, impression management, and charlatanism, often lacking the interpersonal skills necessary to perform as an effective manager. With regard to knowledge management, desktop managers utilize the Internet to increase productivity, but too many times it actually hinders performance (Lester & Parnell, 2006).

Many organizations today seem to have moved from an aggressive management perspective to a passive avoidance of people and goals, an observation that is personified by the desktop manager. With more skeptical, less loyal, Internet-savvy workers entering the workforce, it is easier for individuals to masquerade as high performers in positions where they are poorly managed and appraised. Advances in technology and the increasing importance of information management have enabled managers to be more productive while propagating the desktop manager.

Of particular relevance to this study is whether desktop managers are more prevalent in one stage of the organizational life cycle over another. The long-term survival and success of organizations has become increasingly more difficult due to competitive pressures brought on by changes in technology and the global nature of developed economies. Since desktop managers are perceived by their subordinates in a negative light, their presence may be detrimental to new or growing organizations. A study of over 500 employees from the southwest United States reveals the most prevalent presence of desktop managers in declining organizations.

WHAT MANAGERS DO

Early management practitioners defined management in terms of behavioral categories. Henri Fayol (1949) suggested that managers should plan, organize, coordinate, command, and control. Over time, this list morphed into the classic four actions that characterize a manager and are still referenced frequently today: Planning, organizing, directing, and controlling. Gulick & Lyndall (1937) expanded the list of managerial actions by proposing the acronym PODSCORB: Planning, organizing, directing, staffing, coordinating, reporting, and budgeting. The more we understood what managers actually did, the better early researchers believed we could predict what they should do.

Yet these four primary activities, plan, organize, direct, and control, are actually more like objectives, and are somewhat vague as well (Mintzberg, 1989). Mintzberg (1973) moved past these prior vague generalizations through an extensive empirical study of practicing managers, to simply identifying what managers do. He categorized their activities into three encompassing roles—interpersonal, informational, and decisional—within which practically any activity a manager undertook could be classified. Interpersonal roles involved serving as a Figurehead, a Leader, and a Liaison. Informational roles included Monitor, Disseminator, and Spokesman. And, Decisional roles were concerned with being an Entrepreneur, a Disturbance handler, a Resource allocator, and a Negotiator. Any activity or responsibility a manager must undertake, according to Mintzberg (1973), could be found in one or more of these roles. A brief description of each is presented below.

Interpersonal roles

Figurehead – by virtue of position, a manager serves as the head of his workgroup, department, division, and so forth;

Leader – the most significant role, it involves interpersonal relationships and serves as an umbrella covering all other roles;

Liaison – concerns maintaining external, horizontal relationships.

Informational roles

Monitor – focuses on gathering information regarding internal operations, external events, analyses, ideas and trends, and pressures;

Disseminator – communicating both external and internal information to subordinates;

Spokesman – serving as the external face of the organization;

Decisional roles

Entrepreneur – initiating and leading change efforts within the organization;

Disturbance handler – idiosyncratic situations, or crises, that can only be managed by the manager, particularly conflict between two or more employees;

Resource allocator – deciding how time, money, people, technology, and so forth are allocated;

Negotiator – being a negotiator results directly from other roles the manager already fulfills, such as figurehead, leader, spokesman, and resource allocator.

Several points should be made regarding Mintzberg's roles. First, as a manager climbs the organization ladder, so to speak, external relationships and communication become more important and frequent. Lower level supervisors, conversely, spend more time on internal communication. What is striking about past managerial studies of actual activities performed in the work place is the frenetic pace at which most supervisors and managers work (Guest, 1956; Stewart, 1967).

Second, the role of leader is so important, it deserves a bit more clarification. The problem with leadership is, as Geneen noted, "leadership is learned" by doing. (Geneen, 1984, p. 134). Other noted leadership authors and researchers on leadership tend to agree (Bennis & Nanus, 1985), and both Bennis and Mintzberg emphasize the symbiotic relationship between leadership and power. Bennis and Nanus (1985) go so far as to describe power as the reciprocal of leadership. Also critical in the leadership role is motivation, as Mintzberg (1973) relates by stating, "Each time a manager encourages or criticizes a subordinate he is acting in his capacity as a "leader." (1973; p. 61). According to Mintzberg, subordinates focus on actions by their managers for clues as to their leadership style, using these clues to guide their own behavior to mirror what is important to the organization. Indeed, Bennis and Nanus (1985) contend that an organization "short on leadership has little or no chance of survival. It will be reduced to the controls of, at best, efficient clerks in narrow orbits." (1985; p. 20).

A theme running throughout Mintzberg's roles, and scholarly advice from countless others, is the importance of effective, honest communication. Every role requires some level of communication ability.

Meanwhile, another perspective of management behavior, this time from a practitioner, was presented by Geneen and Moscow (1984). Geneen believed that a successful manager was one who set standards of performance for his organization and was not satisfied until those standards were met. As Geneen relates, the successful manager does not give up because one actions failed, but rather " he tried another, and then another …until he achieved his goal" (Geneen & Moscow, 1984; p. 113). Geneen & Moscow (1984) also noted that too many managers refuse to manage, passing unresolved problems on to someone else down the line. Unfortunately, that someone else is eventually the customer. Those who avoid confronting problems are more concerned with their own self-preservation than with accomplishing organizational goals. Instead, they practice ineffective management, delegating and then abdicating, failing to follow up. Geneen and Moscow (1984) also noted the proclivity of ineffective managers for office politics, a practice that left unchecked can destroy vibrant organizations, as managers exhaust their energies through personal maneuverings, spreading malignancy and stagnating companies. His critics notwithstanding, Geneen's relentless dedication to his work earned him the label of the best business manager in the world during his prime, which included 58 straight quarters of earnings growth for ITT.

KNOWLEDGE MANAGEMENT AND TODAY'S DESKTOP MANAGER

Knowledge workers employ their brains rather than their brawn, using knowledge, theory, and concept to contribute to their organization. To manage knowledge workers, one must possess interpersonal skills, or the ability to communicate with subordinates because knowledge workers require regular communication with their supervisors (Drucker, 1966).

Although business schools, consultants, government organizations, and other groups try to reinforce this need for interpersonal skills, organizations continue to promote into management positions technically-skilled workers who are severely lacking in interpersonal skills. This class of workers has been labeled desktop managers (Lester, Parnell, & Carraher, 2010) because they tend to spend most of their time engaged with technology. In many instances, consciously or otherwise, their goal is to avoid interpersonal contact by rigidly maintaining the status quo.

This phenomenon illustrates what has been referenced as the Internet productivity paradox (Lester & Parnell, 2006). Desktop managers frequently exhibit an overreliance on the Internet. Yet it is the computer itself that leads desktop managers to embody the down side of the paradox, over-utilizing e-mail (and alarmingly, texting) for internal and external communication and over-emphasizing reports and self-generated paperwork to the detriment of the needs of subordinates. Strikingly, however, desktop managers are often among the most efficient workers in the organization due to their ability to navigate the organization's latest software or find information on any topic on the Internet (Lester & Parnell, 2006). Effectiveness has been sacrificed for efficiency.

The desktop manager is a direct contrast to the kind of manager many organizations appear to be seeking, one that manages with a strong interpersonal flare, who manages effectively, and does whatever it takes to achieve results, all characteristics of Mintzberg's (1973) roles. As such, the desktop manager is known for three tendencies: Self preservation, conflict avoidance, and appeasement (Lester, Parnell, & Carraher, 2010).

Self Preservation

The primary goal of the desktop manager is self preservation, constantly working to stay on the good side of supervisors, avoiding making decisions, and blaming poor decisions on their superiors. This is more difficult to accomplish as one progresses through the management hierarchy, however it is somewhat facilitated by organizational politics. While internal conflict and political maneuvering can occur in any firm, more mature organizations (where we expect to see the preponderance of desktop managers) seem to breed more political activity (Mintzberg, 1989). While some political activity, such as coalition building, is necessary to get things done, the desktop manager focuses on political activity as a means of self preservation, always trying to present an image, one that many times is a false front.

To manage the ensuing stress associated with greater responsibility, desktop managers focus on *administrivia*, the detail work necessary but not sufficient for a successful, profitable organization. The constant attention to the computer screen keeps the desktop manager up-to-date on everything going on in the company, while subordinates struggle under poor leadership. Reports are finished in a timely manner, paperwork is processed smoothly, and future projections are submitted far in advance, while key concerns of the workgroup go unaddressed. This focus on administrivia is necessary for the day-to-day operation of organizations, but it is not managing. The desktop manager, however, performs administrivia efficiently to mask poor performance at managing people.

Another escape from accountability is the pursuit of new management fads or programs disguised as organizational improvement initiatives. Invariably these pursuits are time-consuming and focused on process, usually to the detriment of outcomes. And, when all else fails, desktop managers have an easy out by blaming their poor performance on the budget.

In sum, self preservation tendencies include:

- Focusing on staying politically connected with superiors;
- Spending hours daily in front of the computer, both at the office and at home, paying particular attention to administrivia;
- Willing to try new management fads because they divert attention from having any real purpose or accomplishing any real goals;
- Blaming tough decisions and an inability to provide vision or direction for the workgroup on the budget.

Conflict Avoidance

The second priority of the desktop manager is conflict avoidance. Staying in front of the computer all day makes one appear too busy to disturb. In years past, ineffective managers tried to look busy by always walking fast and carrying a clipboard or staying behind a closed office door for most of the day, with interpersonal contact carefully screened by a secretary or personal assistant. Today, they accomplish the same objective by focusing on the computer screen, preferably arranged so that the manager's back is to his office door or cubicle opening. When something requires attention and the desktop manager cannot escape, the task is usually accomplished through e-mails or paperwork so human contact and accompanying conflict can be avoided. Unfortunately, conflicts are rarely resolved when they are avoided, often festering into more serious problems.

The tendency toward conflict avoidance reveals one of the serious, yet fundamental shortcomings many managers have, the inability to deal with people in a productive manner. Yet, focusing on administrivia requires no management skills, which is why the truly effective manager utilizes assistants and other employees for many of these duties.

A key issue for knowledge workers is the difference required for managing them, as opposed to the old notion of a blue-collar worker. Because the basis of their qualifications is knowledge, acquired through training, schooling, past experience, research, or some other source, these workers bring opinions and expertise to the work group. The blue-collar worker of the past employed a skill or set of skills applied to a specific task and after an eight hour shift went home, hoping that the job would be there the next day. Knowledge workers, however, are quick to see when there is no end game in sight, when their group is just trying to meet a budget or stay under the radar of upper management. Desktop managers prefer this low lying profile of their workers, focusing attention instead on themselves, while eschewing input and suggestions from their knowledge workers. Setting goals implies accountability, and failure to reach or exceed goals implies failure.

In sum, conflict avoidance tendencies include:

- Leaving problems or issues of conflict unattended until, hopefully, they resolve themselves, confronting difficult situations, particularly those involving people problems, through e-mail and only when forced to do so;
- Setting no specific goals for the workgroup, because not reaching goals implies failure and could also lead to conflict.

Appeasement

The last priority of the desktop manager is the inherent need to appease everyone that he or she comes in contact with, particularly those in upper management. Employees will even refer to desktop managers as "nice people," but they are quick to add they totally lack management savvy. The goal of the desktop manager in this area is concerned with not creating any enemies inside or outside of the firm that cast a negative shadow on their career.

This relates directly to the emphasis on political knowledge as a surrogate for power. Knowing the right things, being plugged into the right channels, particularly the informal ones, and protecting that information until just the right time to release it provides the desktop manager with a false sense of power. This is also an issue for subordinates who feel totally left out of important information loops when they hear something important about their firm after the fact because their manager has chosen to keep it from them to protect a source of power.

In keeping with the appeasement theme, desktop managers also strive to develop a strong external network of allies. Much of this work is accomplished through club or association affiliation, volunteering for service activities that put the desktop manager in a public eye, garnering him praise or recognition and creating a positive external profile. These activities allow the manager to be removed for periods of time from the work group as he pursues these external functions.

By appearing to be efficient, working well with external peer groups, and putting requests from superiors above the actual needs of their employees, desktop managers not only survive, but often thrive. Whether their organizations thrive as a result of their performance – or lack thereof—is a much more complicated issue.

In sum, appeasement tendencies include:

- Fostering disharmony unknowingly by trying to stay on everyone's good side;
- Believing that *political* knowledge is power, not facts;
- Working hard to build external allies through active participation in clubs or associations to create the perception in the local community that the Desktop Manager must be a valued employee.

Not every manager that would be categorized as a desktop manager can be characterized by all of these profiles. However, there are several strong indicators of the presence of a desktop manager. Specifically, they fear confrontation, avoid personal or customer contact, defer making decisions whenever possible to avoid mistakes, and shun suggestions or input from employees. A desktop manager either defers to upper management for goals for his workgroup or sets unrealistic goals so that easy excuses can be made when the goals are not met. Top managers may be impressed with the desktop manager's efficiency, but members of his workgroup are rarely fooled.

THE ORGANIZATIONAL LIFE CYCLE

Of particular interest to this study is the question of whether there is a preponderance of desktop managers in any one particular stage of the organizational life cycle. Life cycle research, adapted from the life sciences, is intuitively appealing, as it is obvious that at some point organizations are born (Tichy, 1980), they attempt to grow in different forms (Mintzberg, 1989), and eventually die (Kimberly & Miles, 1980). While the life sciences construct is distinctly deterministic, organizational life cycle research has questioned this perspective and found it wanting (Kimberly & Miles, 1980; Lester & Parnell, 1999; Lohdal & Mitchell, 1980; Miller & Friesen, 1984). The life cycle is a collective interpretation of the organization's environment based on an assessment by top management. Most firms do not pass inexorably from one stage to another in the traditional biological sense (Lester & Parnell, 2002; Miller & Friesen, 1984).

A five-stage model that has been empirically tested (Lester, Parnell, & Carraher, 2003) is used to assess the stage of life cycle of the survey participants' organizations. The purpose is to determine if desktop managers are prevalent in any one stage of development. The five-stage model is presented below.

Stage One: Existence

Commonly referred to as the entrepreneurial (Quinn & Cameron, 1983) or birth stage (Lippitt & Schmidt, 1967), Existence (Churchill & Lewis, 1983) marks the beginning of organizational development. The focus is on viability, or simply identifying a sufficient number of customers to support the existence of the organization. Decision-making and ownership are in the hands of one, or a few, and the environment is considered to be unanalyzable (Daft & Weick, 1984). Organizations in this stage tend to enact or create (Bedeian, 1990) their own environments.

Stage Two: Survival

Stage two, Survival, is where organizations seek to grow (Adizes, 1979; Downs, 1967), develop some formalization of structure (Quinn & Cameron, 1983), and establish their own distinctive competencies (Miller & Friesen, 1984). Goals are formulated routinely in this stage, with the primary aim being the generation of enough revenue to continue operations and finance sufficient growth to stay competitive (Churchill & Lewis, 1983). The Survival stage provides several interesting alternatives: Some organizations grow large and prosper, becoming stage three firms, others struggle but survive, earning marginal returns in some fiscal cycles, and still others fail to generate sufficient revenue and cease operations. Most organizations in this stage view the environment as analyzable (Daft & Weick, 1984).

Stage Three: Success

Referred to by many organizational researchers as maturity (Adizes, 1979), the Success stage represents an organization where formalization and control through bureaucracy are the norm (Quinn & Cameron, 1983). A common problem in this stage is what most businesses have long referred to as “red tape” (Miller & Friesen, 1984), a condition of wading through layers of organizational structure and process to get anything accomplished. Job descriptions, policies and procedures, and hierarchical reporting relationships are very formalized. Such organizations have passed the survival test, growing to a point that they may seek to protect what they have gained instead of targeting new territory. The top management team focuses on planning and strategy, leaving daily operations to middle managers. Since many firms reach their largest size during this stage, internal politics play a pivotal role, as competition for promotion and greater responsibility is intense. The environment is viewed as analyzable (Daft & Weick, 1984).

Stage Four: Renewal

Organizations in the renewal stage display a desire to return to a leaner time (Miller & Friesen, 1984) where collaboration and teamwork foster innovation and creativity. This creativity is sometimes facilitated through the use of a matrix structure, and decision-making is very much decentralized. The organization is still large and bureaucratic, but organizational members are encouraged to work within the bureaucracy without adding to it. The needs of customers are placed above those of organizational members.

Stage Five: Decline

Firms may exit the life cycle, or cease to exist, at any stage. The Decline stage primarily is thought to identify those that grow through the entire cycle, falling prey to tougher competitors, triggering their demise. The Decline stage is characterized by politics and power (Mintzberg, 1984), as organizational members become more concerned with personal goals than they are with organizational goals. For some organizations, the inability to meet the external demands of a former stage has led them to a period of decline where they experience a lack of profit and a loss of market share (Miller & Friesen, 1984). Control and decision-making tend to return to a handful of people, as the desire for power and influence in earlier stages has eroded the viability of the organization.

Based on this discussion of the organizational life cycle, it could be predicted that the decline stage would contain a preponderance of desktop managers. Success firms, being at their largest and most mature stage, create opportunities on multiple levels, but competition for those opportunities is fierce. Managers of Decline organizations tend to focus on personal goals, to the detriment of the success of the organization, which should indicate a strong presence of desktop managers. Quicker, smaller and more nimble firms in the existence and survival stages would be predicted to have managers more concerned with effectiveness than efficiency.

With knowledge workers proliferating today's organizations and seeking more open, verbal communication and feedback, the desktop manager's presence is predicted to negatively affect job satisfaction. The tendencies toward self-preservation, conflict avoidance, and appeasement do not lend themselves to the kind of organizational climate that modern workers seek.

HYPOTHESES

The desktop manager has been established as a valid construct (Lester, Parnell, & Carraher, 2010). This study extends that research by ascertaining the prevalence or lack of desktop managers in each stage of the organizational life cycle. In addition, the impact on employee job satisfaction due to the presence of desktop managers is examined.

> *H1*. Desktop management is negatively associated with job satisfaction.
> *H2*. Desktop managers are more prevalent in organizations in the success and decline stages of the organizational life cycle than the existence, survival, or renewal stages.

METHODS

The Desktop Manager scale was distributed to 30 organizations in a southwestern state. Each organization identified 20 adult employees to be surveyed. The organizations represented a range of industries including retailing, government, manufacturing, education, banking, medical, and hospitality. A total of 539 responses were deemed suitable for analysis.

Twenty-four items were developed to serve as possible measures of the three-factor desktop manager scale. An initial test of 117 employees in various organizations and a subsequent analysis of item wordings reduced this number to ten. The first four items reflect conflict avoidance, the second three self-preservation, and the last three appeasement. Results of a forced three-factor solution rotated with a varimax algorithm appear in table 1. Following Gorsuch (1983) and Carraher, Buckley, and Cote (1999, 2000) a six-item, single-factor short version of the Desktop Manager scale was created (see table 2). The correlation between the short and long versions was .957 indicating that the short form serves as a parsimonious surrogate of the scale.

Job satisfaction was measured via Schreisheim and Tsui’s (1980) six-item scale. Coefficient alphas ranging from .73 to .78 have been reported in earlier studies (Tsui, Egan & O’Reilly, 1992). Factor loadings ranged from .581 to .798 and a coefficient alpha of .766 was calculated in the present study (see table 3).

TABLE 1: DESKTOP MANAGER SCALE- 3-FACTOR SOLUTION

	CA	App	SP
Conflict Avoidance			
1. My manager usually leaves problems alone, hoping they will solve themselves	.793	.270	.201
2. My manager sets no specific goals for our workgroup	.718	.344	.136
3. My manager tends to avoid situations that have the potential for conflict	.752	.194	.260
4. My manager shies away from confrontation when needed to solve a problem	.750	.262	.276
Self-Preservation			
1. My manager spends much of the day reading and writing e-mails to superiors in our organization	.160	.374	.660
2. My manager spends a lot of time on reports and other administrative functions that could be done by others	.266	.101	.738
3. My manager spends hours daily in front of the computer paying particular attention to administrivia	.190	.170	.792
Appeasement			
1. My manager has a better reputation with those outside of our organization than with those inside due to participation in external clubs or associations	.228	.828	.183
2. My manager tries to stay on friendly terms with everyone, but actually ends up fostering disharmony	.433	.640	.247
3. My manager believes that political knowledge—not facts—is power	.387	.677	.252

TABLE 2: DESKTOP MANAGER SCALE- 6-ITEM SHORT VERSION*

Item	Factor Loading
1. My manager has a better reputation with those outside of our organization than with those inside due to participation in external clubs or associations	.724
2. My manager tries to stay on friendly terms with everyone, but actually ends up fostering disharmony	.817
3. My manager usually leaves problems alone, hoping they will solve themselves	.789
4. My manager rarely has workgroup meetings because of the potential for open disagreement or because of his or her own lack of self-confidence	.793
5. My manager avoids addressing difficult problems in our workgroup by choosing to spend time unnecessarily on e-mail, reports, and trivial matters	.827
6. My manager seems to think that problems will go away if left alone	.835

*coefficient alpha=.886

Convergent and divergent validities for the Desktop Manager scale were assessed via correlations with the other variables in the study. It was also factor analyzed with the two scales found to have the highest correlations with the short version of the Desktop Managers scale. As can be seen in Table 4 there were significant negative correlations between job satisfaction and the Short version of the Desktop Manager scale. There were not significant correlations between annual revenues, sources of revenues, number of employees and the Desktop Manager scale.

There were found to be significant negative correlations between being in the Success stage in terms of Life Cycle, utilizing the five-item organizational life cycle scale in the appendix, and the Desktop Manager scale. An organization was categorized in the life cycle stage with the highest score. If there was a tie between scores in two or more stages, the organization was categorized in the most advanced stage among those tied. Results of analysis of variance (ANOVA) testing demonstrate that the lowest desktop manager scores were found in the existence and renewal stages, and the highest scores were found in the decline stage (see table 4).

TABLE 3: FACTOR ANALYSIS RESULTS-RELATED SCALES

Scale	Item	Loading
Job Satisfaction	JS1	.694
(alpha = .766)	JS2	.689
	JS3	.581
	JS4	.615
	JS5	.705
	JS6	.798
Organizational Commitment	OC1	.704
(alpha = .922)	OC2	.811
	OC3	.696
	OC4	.783
	OC5	.844
	OC6	.827
	OC7	.822
	OC8	.781
	OC9	.790
Organizational Citizenship Behavior	OCB1	.760
(alpha = .897)	OCB2	.817
	OCB3	.702
	OCB4	.836
	OCB5	.807
	OCB6	.814
	OCB7	.761
Zest-Enthusiasm-Vitality	ZEV1	.665
(alpha = .825)	ZEV2	.597
	ZEV3	.705
	ZEV4	.782
	ZEV5	.672
	ZEV6	.611
	ZEV7	.726
	ZEV8®	.465
	ZEV9®	.500
	ZEV10®	.513

® = recoded

TABLE 4: ANALYSIS OF VARIANCE

Life cycle stage	N	Mean	Std. Dev.
Existence	76	-.142	.950
Survival	82	.041	1.119
Success	81	-.018	.856
Renewal	143	-.222	.933
Decline	151	.285	1.029

F-value = 5.233

Significance = .000

DISCUSSION

Hypothesis one (H1) was supported as a negative correlation was found between desktop managers and the job satisfaction of subordinates. These findings put desktop managers in a negative light as their focus on work they enjoy and are adept at, that is anything involving the computer and the Internet, fails their subordinates by avoiding their social and interactive needs in the workplace.

The second hypothesis (H2) was partially supported, as desktop managers were present in organizations in the Decline stage of the life cycle but not in the Success stage. The prediction was that organizations in a mature, or Success, stage would tend to have a preponderance of desktop managers. This finding is somewhat surprising given the red-tape issues and policy-and-procedure-driven cultures of success organizations as opposed to the more organic and fast-paced culture of survival firms. One possible explanation is that Success (and Renewal) organizations are many times among the healthiest and most profitable, indicating employee satisfaction with communication channels with their supervisors. Decline organizations, however, presented a clear presence of desktop managers and poor job satisfaction of those surveyed.

The first two stages of the organizational life cycle, Existence and Survival, indicated that the presence of desktop managers was neither particularly strong nor particularly weak.

IMPLICATIONS

One possibility for the finding to H2 is that new or growing firms in the Existence and Survival stages are not experiencing the turf wars and infighting typified by Decline organizations. When firms are growing quickly and are not yet very large, day-to-day personal interaction is regular and necessary. Organizational members are wearing more than one hat as they struggle to deliver their product or service to the customer base.

As a small firm begins to grow at an accelerated pace, however, pressure mounts on the founder to continue to do more just to keep up. Time pressures notwithstanding, many founders fail or refuse to recognize that SMEs grow more profitably through delegation to trusted subordinates. When the founder tries to maintain total control, opportunities are missed and others that are pursued are not as successful as they might otherwise be. The effort to shorten the time it takes to accomplish tasks leads many founders to communication shortcuts, in particular the substitution of e-mail and texting for face-to-face communication with subordinates.

Growing organizations in the Survival stage confront ever-increasing competition and the pressing need to find, train, and retain loyal and capable knowledge workers. Workers at all levels, from those who populate factory floors and warehouses to those that occupy the top floor management suite, are being asked to bring with them to the workgroup technology understanding, interpersonal skills (including verbal and written communication skills), critical thinking skills, an understanding of how to allocate resources such as money, time, and materials, and the ability to comprehend systems so they can monitor performance and make corrections where necessary.

As for Decline organizations demonstrating a clear presence and negative effect of desktop managers, organizations in decline typically feature a political internal culture. This type of culture is characterized by power struggles (Mintzberg, 1984), where attention is focused away from innovation and change as managers choose to defend loyal customers rather than trying to grow. According to Lester, Parnell, and Carraher (2003), Decline organizations reported dissatisfaction with performance and conservative decision making.

CONCLUSIONS

The detrimental effects of desktop management have not escaped some organizations. Executives have begun to notice and question the usefulness of the deluge of email, for example, that seems to be passed among managers. Some firms are even banning e-mail lists (Kirkpatrick, 2005).

Validation of the scale notwithstanding, recognizing the desktop manager is not always easy, however. By its very nature, the successful use of impression management techniques akin to the desktop management requires that the target be unaware that it is being used (Farmer, Maslyn, Fedor, & Goodman, 1997).

SME founders are ultimately responsible for promoting or hiring desktop managers. Two alternatives are available to avoid this error. The first is to screen applicants for management positions more closely, assessing people skills by talking to coworkers, suppliers and customers, supervisors, and anyone who can attest to their ability to communicate. Second, training can help reduce the preponderance of desktop managers in an organization. In many instances the problem is not that a given manager is unwilling to manage effectively, but rather that he or she lacks the skills and experience necessary to do so. Founders of growing firms must understand the importance of integrating employees' goals with those of the organization and institute annual subordinate evaluations of supervisors and actually utilize the results. While the need for subordinate perception of supervisory effectiveness seems intuitively obvious, thousands of organizations have yet to implement the process.

One other possible explanation for the prevalence of desktop managers is the need for greater technical skills on the part of managers. Organizations are hoping that an emphasis on technical savvy will translate into management ability. If managers serve in informational, interpersonal, and decision-making roles, as Mintzberg's (1973) research demonstrated, technical expertise declines in value. This problem is not new to the information age or the proliferation of the knowledge worker. However, it has become much more acute as the modern demands of technology, globalization, and information management have increased.

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APPENDIX: LIFE CYCLE DESCRIPTIONS

Please respond to each item below based on your perception of your organization as a whole. Selections are 1) Strongly Disagree (SD), 2) Disagree (D), 3) Neutral (N), 4) Agree (A), and 5) Strongly Agree (SA).

	SA	A	N	D	SD
1.My organization is small in size, power is in the hands of the founder(s), structure is simple, and information processing is not sophisticated.	5	4	3	2	1
2.My organization has some specialization in jobs (such as accounting or engineering), an information processing system that monitors performance and facilitates communication between departments, and a group of managers who make decisions.	5	4	3	2	1
3.My organization is larger than most of our competitors, the structure is formal and organized into functional departments, and information processing is sophisticated and necessary for efficient production and to earn adequate profits.	5	4	3	2	1
4.My organization is widely dispersed, the structure is divisional along product or geographic lines or matrix in format with highly sophisticated control systems, information processing is complex, and most decisions are made by managers, task forces, or project teams.	5	4	3	2	1
5.My organization has a centralized structure with few control systems, a lack of sophistication in information processing that is badly needed due to lost market share, and decisions are made by a few managers who take a conservative, internally political approach.	5	4	3	2	1

THE EFFECT OF VIRTUAL GROUP PROCESS ENABLERS ON EFFECTIVE GROUP PERFORMANCE

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ABSTRACT

In this paper six virtual student teams from a global product development course are compared using qualitative analysis to explore the relationship between virtual group process enablers and effective group performance. Case studies are used to examine these relationships in depth and over time. Findings are discussed and implications for business organizations are enumerated.

INTRODUCTION

The purpose of this paper is to explore the relationship between virtual group process enablers and effective group performance. In order for virtual groups to function effectively, certain enablers can facilitate group processes, and increase group effectiveness. Communication enablers can include email, instant messaging, and video conferencing. In addition, team cohesion and division of labor strategies can also affect performance. This study examines these variables and the interactions among them with the goal of providing useful insight for those businesses that are increasingly using virtual teams.

A case study approach is used in order to provide a more in depth analysis of the complex dynamics that exist among group processes and group outcomes. Six virtual student teams were studied and a comparative analysis of the three stronger-performing teams and the three weaker-performing teams was performed. The paper will discuss how performance is evaluated, and then it will explore virtual group process enablers and their effect on the performance spectrum as well as the implications for business organizations.

TEAM PERFORMANCE EVALUATION

The teams were composed of students in a global product development course. Both the professor and the course participants evaluated the team's ability to execute project tasks based on several criteria, categorized as either project or process outcomes. The project outcome evaluations focused on the performance related to the deliverable itself. The course had outlined expectations for each of three design reviews and the quality of the deliverable for the design review was the primary indicator of a team's performance at that instance. In addition to the deliverable, a team's performance was also evaluated on the amount of rework required after each design review. In addition, the teams were evaluated on the quality of their process. For instance, because of the course's tight schedule, the ability to manage time effectively was taken into consideration. Process quality was also evaluated by smooth and efficient task execution.

The course consisted of 8 student teams, however, only the stronger and weaker performing teams are considered for this analysis. Two criteria were used to identify the stronger performing teams (Teams 4, 5, and 8) and the weaker-performing teams (Teams, 1, 2, and 6): the absolute level of performance and the association with group enablers. All three strong teams were consistently at the high end of performance and also followed the linear trend of a strong association between the virtual group enablers and performance. On the contrary, the weaker-performing teams were low on the performance scales and failed to effectively use group enablers to strengthen their performance. Both the professor's evaluations of team performance and the students' evaluations of their respective team performance also supported the selection of the stronger- and weaker-performing teams. The professor rated Teams 4, 5, and 8 as the best-performing teams and Teams 1, 2, and 6 were evaluated as part of the weak-performing group of teams. The student self-ratings of performance illustrate the same categorization of stronger- and weaker-performing teams.

A Comparison of Strong and Weak Teams

Table 1 shows a description of the final project deliverable that the teams executed. In addition, each team is given a descriptive name that will be used instead of the designation by team number.

Table 1: Team Project Description

Category	Team	Project Description
Strong Teams	Communicate	Wooden refrigerator console
	Strong Finish	Window with a device attached to the window that opens and closes the window based on simulated weather data; also calculates the amount of energy saved
	Camaraderie	Foldable shopping cart that can be placed in vehicle trunk upon shopping completion
Weak Teams	Weak Finish	Can crusher with four sensors: aluminum can, empty can, can count, full bin
	Confusion	Community refrigerator cabinet with different compartments that locks and unlocks based on card swiped
	Detached	Recycling sorter that sorts waste based on material or other desired category

Team 4 is identified as Team Communicate due to its strong and consistent communication practices throughout the semester. From the onset of the project, Team Communicate established both synchronous and asynchronous means of communication based on the accessibility that all team members had to different communication tools. Social interactions were somewhat fragmented at the beginning of the course, however, consistent communication and the utilization of a project leader to facilitate task delegation improved team effectiveness. Team Communication's investment in establishing a solid communication practice was instrumental in overcoming the fact that two of the team members were unable to attend the first face to face meeting and one member was unable to attend the second face to face meeting. Team Communicate received a grade of A in the course.

Team 5 is identified as Team Strong Finish, based on the challenges that the team had to overcome from their initial poor start. Team Strong Finish began the course as the worst performing team after the first design review evaluation. They initially had poor communication practices due to scheduling conflicts and the time zone differences. Furthermore, the team's first face to face meeting was unsuccessful in many respects: group members were unable to gel and bond as a team, and poor team collaboration resulted in the poorly evaluated design review. However, the members persisted, and they focused on using the expertise that each individual member contributed to the team to improve on their performance. Ultimately, Team Strong Finish concluded the course as the best performing team with a grade of A+.

Team 8 is identified as Team Camaraderie. Throughout the semester, this team maintained a high level of non-task interaction. Thus, the members were comfortable communicating virtually; their social interactions occurred frequently and separately from group task meetings. The team created a systemized schedule at the beginning of the course to aid in managing the project. Furthermore, Team Camaraderie believed that the expertise distribution within the team was more homogeneous than heterogeneous so it was challenged to find appropriate tasks for each individual. The members decided to employ a project manager to help facilitate task assignment. Through their strong team cohesion and successful use of both face to face meetings, Team Camaraderie received an A at the conclusion of the course.

Team 1 is identified as Team Weak Finish. Although Team Weak Finish was the best performing team initially, they were unable to sustain this performance for the rest of the project. Before the first face to face meeting, Team Weak Finish did not invest in many performance enabling activities. The members reported that communication tool accessibility impacted their ability to interact early on and they were relying on the first face to face meeting to make significant progress on the project. Fortunately for Team Weak Finish, they were able to successfully utilize the first face to face meeting. The motivation of the members coming into the meeting was high, especially due to their inability to communicate and accomplish much work beforehand. Team members took the initiative in volunteering for specific tasks based on interest and there was a committed approach to accomplishing these tasks. After the first face to face meeting, Team Weak Finish was mildly successful but was unable to conduct effective decision-making via virtual communication, especially with frequent absenteeism from virtual collaboration meetings. Team Weak Finish had a similar approach to the second face to face meeting in that they were hoping to make up for lost time. Therefore, they were not too concerned after they realized that they were behind schedule. Unfortunately, unlike the first face to face meeting, Team Weak Finish was unable to effectively utilize the second meeting to accomplish task requirements and the team members ended up giving themselves the worst performance evaluation of all the student team self-evaluations. They received an A- in the course.

Team 2 is identified as Team Confusion because the team was unable to develop a clear structure and approach to executing its project throughout the semester. For the most part, the members were able to communicate virtually over the course of the semester, and initially utilized the Google Spreadsheets tool to coordinate tasks, however, the team was negatively impacted by several communication failures. There was no formal information exchange of individual skill; and although Team Confusion developed an awareness of skill through interactions, there was no clarity on person-task assignments. Therefore, there was a lack of validation of task completion. The team interacted well socially but the camaraderie did not usually carry over to task-related work. The lack of specified assignments and task completion validation resulted in individual responsibility and decision-making. Team members reported being confused as to the direction and goals of the team. Overall the lack of structure and defined roles and responsibilities led to Team Confusion receiving one of the lower grades (A-) in the course.

Team 6 is identified as Team detached, and unlike Team Camaraderie which exhibited the strongest cohesive unit, Team 6 was unable to gel as a team throughout the project. Team Detached began the course with very effective virtual collaboration using several tools to communicate frequently. However, at the first face to face meeting, the team indicated that there was not much social development due to outside obligations and the members of Team Detached ended up bonding with members from other teams. Furthermore, they expressed difficulty in selecting a project due to their homogeneous skill background: all members were either mechanical or electrical engineers. After the first face to face meeting, absenteeism became frequent and the lack of checks-and-balances within the team exacerbated this problem. Team Detached did not invest in social interactions as a team, and as a result the team developed cliques within the team which resulted in more team dissension and ineffective decision-making. Team Detached ended up receiving the lowest performance evaluation from the professor as well as a grade of A- in the course.

Virtual Group Process Enablers

The teams utilized a variety of communication tools to collaborate during the course, such as email, instant messaging, and video conferencing. The faculty advisors organized weekly 30 minute video conference sessions that each team could utilize. Usually, the assigned faculty advisor to a team would sit in during the team’s video conference session to observe the team’s progress and answer any questions that the team might have. The course administrators also maintained a general course website where information and announcements were posted, and teams could also manage their projects on this course website. Teams were encouraged to utilize any virtual tool(s) that they felt would help them execute their projects effectively. By far the most common tools across all teams were email, instant messaging, and video conferencing. It was the approach to collaborative tool use that distinguished the stronger performing teams from the weaker performing teams. Furthermore, the stronger performing teams were able to better adjust to the cultural diversity that existed within their teams.

Team Communicate was the most consistent in utilizing the virtual communication enabler effectively throughout the semester. Team members unfailingly attended their video conference sessions each week and they indicated that the video conference sessions and other forms of frequent virtual communication were instrumental in the initial development of the team goals. Based on the effectiveness of the video conference sessions, the team sought to utilize other similar channels and found that the Yahoo online conferencing was also effective. Due to their consistent and established communication practices, team members were able to readjust tasks when necessary.

Team Camaraderie established strong communication practices from the onset, which set the tone for the semester. Although Team Camaraderie established collaborative tool use early on, they initially spent more of their virtual communication time on non-task discussions as the team appeared to focus on team cohesion from the beginning and throughout the semester. A course website was one of Team Camaraderie's preferred collaboration tools because participants found that storing files and documents on the website was useful in enabling members to access the most updated files. Furthermore, the website facilitated better project-management, especially with larger files. In addition, the discussion feature on the website allowed them to access files while holding discussions.

Team Strong Finish displayed the most dramatic transition of all teams. This team started out as the worst performing team and finished the course as the best performing team, according to professor evaluations. In the early stages of the course, the team exhibited weak utilization of virtual collaborative tools, and this led to scheduling conflicts that made virtual communication challenging in the beginning, however, the team members overcame this by establishing standing electronic conferences using Skype. These standing meetings were scheduled to occur immediately following the weekly video conference sessions, which all members attended dutifully. According to participants, these Skype sessions lasted anywhere from three to five hours. Since a faculty advisor also attended the video conference sessions, the Team Strong Finish was able to utilize the advisor's feedback from the video conference session in their Skype meeting that followed. It is interesting to note that Team Strong Finish was the least interactive team in terms of interaction with other teams; rather, they focused their efforts internally.

In contrast to Team Strong Finish, Team Weak Finish was unable to sustain its initial stellar performance from the beginning of the course. However, in exploring the communication practices of Team Weak Finish, we find that the team appeared to rely primarily on the face to face meetings, and not virtual communication, to accomplish its tasks. Team Weak Finish tried to maintain the positive momentum from the team's success, but virtual collaboration continued to be a challenge for the team. The members were able to utilize some virtual communication tools but not effectively. Instant messaging was used more frequently between local participants for clarification purposes. Members were consistently absent from video conference sessions, which resulted in additional time spent on relaying information.

Team Confusion, which began the course with innovative and successful virtual communication, saw their virtual communication frequency decline over the course of the semester. The team reported that use of a relatively novel tool known as Google Spreadsheets was particularly useful in initial decision-making and securing inputs from all team members. However, as the team progressed through the different project phases, the

Google Documents tool became less relevant, and the team was unable to sufficiently transition to using more adequate collaborative tools. Team Confusion expressed that the video conferencing tool was not ideal because the team did not properly prepare for these meetings and the team's goals and agendas were not addressed during these video conference meetings, resulting in a lack of structure and task responsibility. The team found emails to be useful for high-level discussions of plans, but not for more immediate team coordination. Overall, although Team Confusion communicated frequently via virtual tools, they were not effective in clarifying project aims and managing the project. Unfortunately the team's use of the face-to-face meetings did not overcome their virtual communication limitations.

Team Detached also began the course with successful virtual communication. Team members expressed that video conferencing and frequent virtual communication were instrumental in the initial development of team goals. Recall that Team Detached was unable to gel as a team even as the semester progressed; thus the team experienced a decline in communication frequency after an initial strong effort in using collaborative tools. In terms of collaborative tools, Team Detached indicated an initial preference for the phone, but time zone differences and scheduling made it increasingly difficult to continue to use the telephone as a consistent means of communicating. Although the team indicated a preference for other communication tools such as email, instant messaging, and video conferencing, the team was unable to successfully use these tools to establish project clarity among all team members. Furthermore, this team suffered from frequent video conference member absenteeism as the semester progressed, which contributed to project ambiguity.

DISCUSSION

Several observations can be made about the interaction between virtual group process enablers and team performance as we compare the stronger- and weaker-performing teams. First, there is no significant variation in tool preference between the Strong and Weak Teams. All the teams expressed a preference for synchronous collaboration tools (video conference, instant messaging) as a necessity for making significant progress on their work. Although they also used asynchronous tools (e.g. email), they expressed that the lag time in communication responses was not desirable for the 13-week project that required constant attention. There was a difference however, between the stronger-performing and weaker-performing teams in their approaches to tool use, which could be affected by other factors or virtual group enablers. The stronger-performing teams communicated frequently and established standing meetings.

In addition, there were observable differences in team socialization and group work. Both Team Confusion and Team Strong Finish indicated that their social interactions did not carry over to their work. However, while Team Strong Finish was able to remain focused on executing the project, Team Confusion experienced motivation and task confirmation challenges. The qualitative data suggests that the first face to face meeting played a prominent role in determining the social networking practices that each team engaged in over the duration of the project. Team cohesion developed trust within stronger-performing teams like Team Camaraderie, which also improved their collaboration efforts. A lack of team cohesion resulted in individualistic approaches and ongoing team conflicts within Team

Detached. Virtually all of the teams reported that individual personalities within the team impacted team cohesion development.

Clearly defined and structured tasks were characteristics of the division-of-labor strategies in stronger-performing teams. These teams utilized a reciprocal interdependence approach during face to face meetings and Teams Communicate and Camaraderie also employed a project manager to assist in facilitating tasks. Members on the weaker-performing teams were more independent in executing their tasks, especially towards the conclusion of the project where we observe a utilization of a pooled interdependence approach. There was an association between the teams' investment in group cohesion and the teams' task interdependence approach. The stronger-performing teams, enabled by the reciprocal interdependence strategy (maximum work flow and communication) that they employed, were better able to utilize the team cohesion that developed within their teams. In the weaker-performing teams, there was a connection between a pooled interdependence task approach (at the end of the project) and the inability to overcome individual personality differences. The formation of cohesive subsets of teams in Team Weak Finish and Team Detached did not support the establishment of a common ground among all team members.

Teams tended to prefer either Virtual Communication or face to face meetings initially to carry out their project work. However, towards the end of the semester, the more successful teams were able to effectively balance both communication approaches. The weaker-performing teams that relied too heavily on the initial face to face meeting to accomplish tasks were unable to do the same with the second face to face meeting. The type of communication tool preferred was not as important as the teams' approaches to using the tools.

IMPLICATIONS

As business organizations continue to emerge from a traditional, hierarchical structure toward a more networked, flatter structure, the importance of effective teamwork increases. In addition, modern technologies and more globalized economies will lead to an increase in virtual teams in business organizations. Likewise, student consulting teams often operate virtually, and so it is necessary for both businesses and consulting teams to be aware of the dynamics that affect the performance of virtual teams and to take appropriate actions to enhance the performance of those teams.

Since preference of communication enablers is not a determinant of team performance, teams should have access to a variety of communication enablers. The study has shown that teams will use these enablers differently, and stronger teams will communicate more frequently. In addition, virtual teams should have access to synchronous communication enablers such as video conferencing. Teams will use asynchronous communication, but there is a lag in asynchronous communication.

Team leaders should pay special attention to the initial meeting of the virtual team, especially face to face meetings. Socialization patterns are established during these early face to face meetings, and these patterns will affect subsequent team performance. If patterns of trust and cohesion are not established early, then members will approach team tasks in a more individualized manner, and this will lower team performance. In addition, high performing teams are more reciprocally interdependent as opposed to lower performing teams whose interdependence is simpler and pooled. The trust and cohesiveness that is established early on will lead to a higher level of interdependence more commonly associated with teams whose performance is superior.

Finally, it is important to properly balance the type of communication that teams use throughout a project. Although there is a natural tendency for teams to prefer face to face communication, this can result in an imbalance of communication strategies over the course of a project. The ideal is a balanced approach that does not over rely on face to face communication in order for the team to function effectively. Team leaders especially should be mindful of the team's preferences for face to face communication and take steps early that allow the members to become more comfortable with virtual communication tools.

THE BENEFITS OF eCRM TECHNOLOGIES WITH RESPECT TO PERSONALIZATION

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ABSTRACT

Electronic CRM (Customer Relationship Management) technologies have evolved with the Internet Revolution in the promotion of e-commerce and the ways businesses serve their customers. eCRM is not solely a technological ideal, but a strategy that embraces technology, business processes, and organization and management practices. Personalization is one of the distinctive attributes of eCRM and through research, the benefits of this dimension will be discovered with respect to both the EC (electronic commerce) firm and its customer. Strengths from the personalization aspect of eCRM strategy will be synthesized through the analysis of key methods. The outcomes of the research will identify the rationale for e-service strategies employed by EC firms, and to create a future-thinking e-strategy for management moving forward in the continuously evolving e-commerce market.
Keywords: *CRM, eCRM, personalization, analytics, strategy, electronic commerce, business, e-business, management, customers, business process engineering, risk analysis, small business.*

PURPOSE OF PAPER

The purpose of this paper is to review eCRM technology and how it benefits both the customer and small businesses (EC firm) from a personalization standpoint as it relates to underlying assumptions of strategic theories from experts in the field, based upon rational thought, revolution, competitive advantages, and technology leadership. The following list of learning objectives will outline the intention for the paper:

1. Explore and analyze the eCRM business model, its planning and implementation.
2. Identify the components of a strong, successful e-business strategy in support of eCRM.
3. Analyze the integration of eCRM functions within the EC organization.
4. Identify and analyze critical challenges and issues for eCRM over the next five years.
5. Draw a conclusion and create a management e-strategy for the EC firms through synthesis of the eCRM technologies and personalization theories and practices.

An Analysis of eCRM Technologies and Personalization as They Relate to the Strategic Benefits for Both the Customer and the EC Firm

Tomorrow’s successful [EC firm should] be a collection of skills and capabilities ever ready to pounce on brief market anomalies. Any useful strategic plan, or planning process, must focus upon the development and honing of these skills (which translates into readiness to seek and exploit opportunities), rather than emphasize static approaches to market development. That is, the strategy should focus primarily on such things as the time and energy to be devoted to creating revolutionary quality improvement or getting linked up fast with almost all of [the company’s] customers. (Peters, 1987, p. 616)

The Research Question: Why do eCRM technologies benefit both the EC firm and its customer with respect to personalization?

"Big companies have been using CRM for decades. They spend millions on them in the hopes of identifying and pursuing sales leads, improving customer retention, refining market efforts, and serving customers better" (Briody, 2010, para. 4). Articles have been written about how these large-scale implementations have been disastrous due to software not integrating well with data bases and the complexity of the proposition (para. 4). "The risks and costs associated with adopting CRM technology for small businesses are far smaller" (para. 5). The reward is realized when employees consistently utilize the application and customers repeatedly visit the small business' website because of the *look and feel* of the personalization experience.

Historical insight of how CRM practices were developed and have been practiced over the past several years; and its evolution in support of e-commerce applications.

"The term CRM, was first put into the public domain around 1993, when Tom Siebel came up with it. Many executives [were] under the misconception that CRM [was] principally an IT (information technology) implementation [which accounted for much of its misunderstood use and failures in its early history]" ("CRM Best Practices," n.d.). CRM is a strategy; it should improve ROI (Return on Investment); when it is utilized as a technology, it is a means, not an end; it should be implemented with the idea of a 360 degree view of the customer; and it is not CRM unless it affects the customer experience.

CRM and e-commerce developed a synergy for the first time in 1997. Business pressures in the digital environment forced the collaboration of the following categories: market and economic, societal, and technological. Turban et al. (2004, p. 22) relate these categories to the causal pressures as follows:

1. Market and economic pressures.
    a. Strong competition.
    b. Global economy.
    c. Regional trade agreements such as NAFTA.
    d. Extremely low labor costs in some countries i.e. outsourcing trends.
    e. Frequent and significant changes in schizophrenic markets.
    f. Increased power of the consumer i.e. e-customers Internet savvy.
2. Societal pressures.
    a. Changing nature of the workforce due to competitive restructuring.
    b. Government deregulation as a result of competition.
    c. Shrinking government subsidies.
    d. Increased importance of ethical and legal issues.
    e. Increased societal responsibility or organizations.
    f. Rapid political changes.
3. Technological pressures.
    a. Increasing innovations and new technologies i.e. Internet and market driven.
    b. Rapid technological obsolescence.

c. Increases in information overload i.e. dissemination of the *right information at the right time*.
d. Rapid decline in technology cost versus performance ratio.

More than ever, firms became to rely upon strategic systems for advantages to enable "them to increase their market share, better negotiate with their suppliers, or prevent competitors from entering into their territory (Callon, 1996)" (Turban et al., 2004, p. 22). Firms also must be better focused upon continuous improvement efforts and business process engineering. "However, [some EC firms found that] continuous improvement programs [were] not a sufficient solution for some business problems" (p. 22). The solution to this issue was business process reengineering (BPR) where it frequently inter-related with e-commerce initiatives due to synergistic value.

Customers are fundamentally changing the dynamics of the [e-marketplace]. The market has become a forum in which [e-consumers] play an active role in creating and competing for value. The distinguishing feature of this new marketplace is that consumers become a new source of competence for the [EC firm]. The competence that customers bring is a function of the knowledge and skills they possess, their willingness to learn and experiment, and their ability to engage in an active dialogue. (Prahalad & Ramaswamy, 2002, p. 5)

Customization is the key to the new form of conducting business [where] cultural change, and the diversity of global demand, [makes] it increasingly difficult to resort to standardized, mass production to satisfy the [e-market]. On the other hand, economies of scale still count, prompting the need for high-volume production as a way to lower marginal costs per unit. (Castells, 2001, p. 77)

The right mix of volume and customized production can be achieved through the operation of an economized-scale network of production. The customization of the final product (goods or services) to the individual e-customer can be accomplished through eCRM practices such as interactive personalization and automated profiling.

The Modern Approach to the eCRM Business Model

The bottom line is: In the new economy, a [business] still needs to maximize the chances that customers will be aware of its existence, take a liking to its products or services, decide to buy them, and be happy about the overall experience - - preferably in their own language, [culture, and personal preferences. Businesses must] anticipate the impact of demographic characteristics when entering [local or] foreign markets, or risk misallocating resources. (Guillen, 2002, p. 42)
eCRM is available in numerous best-fit solutions, and there are thousands of services that can be tailored to any size business or company (Briody, 2010, para. 5).

The Planning and Implementation Process Realized

[eCRM] efforts that are not properly aligned with [a firm's] strategy will likely produce efficiency and other gains in operational effectiveness but rarely improve [a] competitive advantage [through customer satisfaction realized]. It is important to keep in mind that lasting gains in revenue, market share, and customer satisfaction can come only through strengthening the organization's advantage in the marketplace. (Bligh & Turk, 2004, p. 55)

Seybold and Marshak (2004) highlight the following steps for an effective EC strategy that is customer-centric:

1. "Focus on the end customer;
2. [Focus on the] systems and business processes that are designed for ease of use and from the end customer's point of view; and
3. [Focus on the] efforts to foster customer loyalty (the key to profitability in EC)" (Turban et al., 2004, p. 150).

For a successful implementation of these steps, the EC firm must (1) deliver personalized services, (2) target the right e-customers, (3) help customers fulfill their goals, (4) enable customers to serve themselves, (5) streamline business processes that properly impact the customer, (6) *own* the customer's total experience by providing every possible customer contact, and (7) provide a 360-degree view of the customer relationship (pp. 150-151). "Tan et al. (2002) suggest the following five factors that are required to implement a CRM program effectively:

1. Customer-centric strategy. [The customer-centric strategy should be sponsored by the executive level or TMT and funneled downward for full organization-wide adoption.]
2. Commitments from people. [The transformation of the CRM strategy will be dependent upon the acceptance and commitment from the people across the organization in support of the implementation, learning curve, management, and maintenance of the new business systems and processes.]
3. Improved or redesigned processes. [There will be challenges in this transformation process due to the nature of CRM. CRM is inherently full of surprises where it is difficult to identify the correct processes that are necessary during the customization period. This can lead to frequent redesigns during CRM pre-implementation.]
4. Software technology. CRM software can record business transactions, create operations-focused databases, facilitate data warehousing and data mining, and provide decision-making support and marketing campaign management tools. [EC firms must be ready to select the appropriate CRM packages to address the organization's requirements] as well as to enable integration with the legacy enterprise applications such as the ERP [and SCM systems. There exist many choices of free and open source software that are available for start-up or small business firms. These include Zoho, Free CRM, Salesforce, SugarCRM, vtiger, Highrise, BatchBook, and Daylite (Kovach, 2010).
5. Infrastructure. [In order to support an effective eCRM integration,] suitable business [infrastructures should include] network setup, storage and data backup, computing platforms, [cloud technology,] and Web servers" (Seybold & Marshak, 2004, p. 151).

Components of a Successful e-strategy Incorporating eCRM

The components of a successful e-strategy incorporating eCRM are similar to the five factors to effectively implement a CRM program. They are as follows:

1. “Attain executive sponsorship and alignment.
2. Define the strategic context and business case.
3. Build a balanced team.
4. Align with [a customer-centric] strategy.
5. Develop a roadmap.
6. Implement [the CRM application] rapidly.
7. Address all aspects of change [with respect to organization, process, and technology].
8. Avoid technology traps” (Bligh & Turk, 2004, p. 166).

Benefits for the Customer

The e-customer drives the EC firm’s behavior with respect to CRM strategy, implementation, and customer service. “One way to determine how much service to provide is to compare a [business] against a set of standards known as metrics [which can be quantitative or qualitative]. Some Web-related metrics a company can use to determine the appropriate level of customer support [are]: response time, [web] site availability, download time [for the user], timeliness [of material], security and privacy, on-time order fulfillment, return policy, and navigability [ease]” (Turban et al., 2004, p. 152). The customer facing applications must provide a favorable customer experience to encourage repeat business. CRM technology should provide the ease, flexibility, and convenience to visit merchant or business websites any time of the day from anywhere in the world. It should support the mobility and fast-paced life of the e-customer to make his or her day’s experience *just a little bit better*.

Customer-touching applications such as personalized web pages, e-commerce applications, campaign management (Twitter, Facebook), and web self-service provide a means for the e-customer to *feel* like a special client getting ready for the *shopping* experience. This virtual experience demonstrates to the consumer the respect of a valuable commodity called time. That is, his or her time where time is precious.

Benefits for the EC Firm

Customer-centric applications support customer data collection, processing, and analysis for the firm. The CRM data needs to be collected, processed, and stored in data warehouses to support the customer lifecycle management (CLM) process.

[CLM] is mapping customer data to define customer behaviors so that the processes of a [business] are fully occupied in acquiring, selling to, and maintaining a long-term relationship with a customer. The META Group defines CLM as “engage, transact, fulfill, and service”. (Greenberg, 2002, pp. 95-96)
Methods to capture e-customer data include online networking such as user or topic forums, chat rooms, Usenet groups, email newsletters, and Blogs.

The CLM involves “an optimized, intermingled conglomerate of methodology and process, technology, and tools that will add to the customer lifetime value (CLV) or, minimally, help define CLV. [CLV] is a staple of one of the earlier incarnations of CRM, database marketing [and] has [become increasingly paramount] due to contemporary customers’ freedom of choice" (Greenberg, 2002, p. 96). Freedom of choice is the one challenging variable for the EC firm in the quest for customer acquisition and loyalty which transcends CLV.

There are a substantial number of factors that will determine the final CLV for any group of customers for a specific company: actual customer retention rate, the average dollar value of an order per customer and the number of orders per customer per year, the costs of customer acquisition, other direct and indirect costs, profit per order, and net present value (NPV) considerations. (p. 97)

eCRM Practices as They Relate to Personalization

It is very important for EC firms to distinguish personalization from customization in consideration of the CRM proposition. "Customization assumes that the manufacturer will design a product to suit a customer's needs, [whereas], personalization is about the customer becoming a cocreator of the content of their experiences" (Prahalad & Ramaswamy, 2002, p. 13). "Personalization can let users custom tailor the interfaces of Web-based applications to suit their own work habits, as they've grown accustomed to doing with desktop applications; [modifications such as] a color palette can improve a user's experience on a site" (McAllister, 2001).

In the early marketing of e-commerce ventures, energies were spent on winning customers and building marketshare. In today's tough and ever challenging e-market, the concentration has moved to the strengthening of existing customer relationships to foster loyalty and retention.

According to Harvard Business Review, it can cost six to ten times as much in marketing and advertising costs to acquire a new customer as to retain an old one. Clearly, maintaining long-term relationships with customers is the way for [e-businesses] to [realize returns on their investments]. (McAllister, 2001)

True personalization of the channel is described as how people want to be communicated to. The idea is to personalize the message or the offer. (Greenberg, 2002, p. 211)

Personalization is the process of customizing any interaction with a customer based on his or her explicit interests and preferences, or interests and preferences that are derived from other data about the customer. The personalization of the interaction can take on any or all of the following forms: personalized offer, personalized message into which the offer is carried, and personalized preference for communication channel. (p. 212)

A COMPARISON AND CONTRAST OF KEY METHODS

Before any personalization technology can be applied to the eCRM environment, the user base must be properly targeted which is a complex process. The core of the process involves personalization engines that provide three basic functions: profile management, user segmentation, and content targeting.

Profile management is the most basic concept of personalization where each customer or user has a specific record or profile that contains information such as the user's name, the last five items he or she purchased, and the last time the EC firm's web site was accessed by the user. Software personalization packages generally provide the capabilities to store, retrieve, edit, and analyze user profiles. However, some information gathered and stored is anonymous in nature and does not imply personal identification about a specific user. Some personalization engines allow EC firms to create anonymous profiles.

These are created the instant a user first accesses the site, and stored either in cookies or by passing identifying codes in URLs. Anonymous profiles don't divulge any user information except their behavior on the site – which is often the most important information. (McAllister, 2001)

Once the user profiles have been gathered that cover their interests and habit, the users or customers can be segmented for marketing, promotions, or customized content. Business rules must be developed in a form that the personalization engine understands.

Correct representation of those rules often requires input from non-technical staff; therefore, if [the EC firm] has complex user segmentation requirements, special attention [must be made in the process of the selection] of any personalization package [with respect to the user interface]. The user segmentation portion should [allow for the editing of] user classification rules in a straightforward, intuitive manner, without sacrificing flexibility. (McAllister, 2001)
Once all the segmentation rules are defined, "the personalization engine must employ analytics to determine which [customers] fit into which categories, based on the information that's stored in their profiles. This process may operate based on explicit rules, data intuited from usage patterns, or both" (McAllister, 2001).

Analytics are the collection, extraction, modification, measurement, identification, and reporting of information designed to be useful to the [EC firm] using the analytics. It includes multidimensional online analytical processing (OLAP) techniques as well as calculations, logic, formulas, and analytic routines/algorithms against data extracted from operational (OLTP) systems (the "T" stands for "Transactional," where the data is too granular to be useful for analysis). (Greenberg, 2002, p. 215)

There are descriptive and predictive analytics. Descriptive analytics is also known as performance analytics, effectiveness analytics, or operational analytics. "These analytics are designed to provide [the firm] with a complete description of customer history, behavior patterns, and activities up to the present moment. [These] can track [the customer (and the firm's)] performance against the corporate metrics set for monitoring those behavior patterns" (Greenberg, 2002, p. 215). This information can only show the firm what events led up to the present; yet description analysis prepares the foundation for predictive analysis. Performance successes depend upon predictive analytics, especially when preparing a marketing campaign for a new product. Decisions based upon such information must be made as to which customer segment to target for the campaign or how many resources to hire to telemarket to those customers. Predictive analytics can save money, but the can lose money too depending upon the proper mixture of the data and intuition.

The analytic process consists of profiling, modeling, and scoring. Modeling uses data mining that identifies which profiled customers are best suited for a successful campaign. A preferred modeling method is to compare results from different techniques such as regression, neural network, or decision trees. Scoring is a process of applying the model (a complex arithmetic equation) to the target audience and associating a number value (score) with each individual (Greenberg, 2002, p. 219). The scores are graphed and this is where the descriptive analytics are reviewed for the response level of the test sample and actual campaign. "By looking at the various response rate changes, recurring and nonrecurring costs, or factors such as new types of previously unidentified customer behavior, this could give rise to new customer segments or brand new models that will work with the existing or new customer segments that are accounted for" (p. 220).

With the accumulation of customers comes risk. Risk analysis must be accounted for the following factors: customer loyalty, competitive offering, payment, credit and fraud risk, and changing economic conditions. "Risk analysis is risky [and in] using analytics to identify what consequences a potential result or action might [lie in the forefront can provide for nebulousness]. The [analytic] methodology [has the potential for] the risk of failure [that is] built into its fiber" (Greenberg, 2002, p. 222). Greenberg (2002) posits to use it as one's own risk.

The analytics *scorecard* is that of measurement and tracking. Analytics are the automated form of a limited type of cognition. It is a linear or non-linear automated form of decision planning. (Greenberg, 2002, p. 223)
It is not meant to be a substitute for the human mind or the human creative, but as a business tool. It is one way to measure success in the personalization process.

Once all the customer or user categories have been defined, the content must be classified. Questions must be addressed to appropriate the correct information for the types of users and when the information should be delivered. "This process usually involves assigning metadata to individual content entities and flagging them for targeted delivery" (McAllister, 2001).

Variations on profile management, user segmentation, and content targeting functions will invoke personalization engines to react based upon the business rules implemented. "All of these effects are the result of explicit choices the user has made in the past, which then trigger pre-defined responses from the personalized engine" (McAllister, 2001). In some cases, a more sophisticated level of customization is required, where the support of intuitive personalization is needed.

Intuitive personalization allows the engine to develop user profiles based upon information intuited from customer behavior on the site. Usage patterns not foreseen by the site's designers can assist the web site to adapt to and target unknown customers.

Content-based filtering stores metadata from previously accessed pages into a user's profile. "Over time, the personalization engine is able to recommend other content based on the user's track record, [for instance, a keyword may trigger a response for a specific and potential product of interest]" (McAllister, 2001).

Collaborative filtering generates personalize recommendations based upon a *like* customer's taste in product purchased and forward that information onto the online customer. This is achieved by "using a form of mathematical analysis, known as an approximate nearest neighbor search, to compare a given user's profile to those of others who may have performed similar actions" (McAllister, 2001). An alternative to this method is a filtering technique that involves user-contributed ratings based upon users ranking of products or preferences.

The last form of intuitive personalization is usage tracking. This is the most sophisticated and complex form for an engine to process where visitor (customer) profiles are based upon his or her behavior. "The primary way to achieve this profile is through log mining, where Web server usage logs are regularly processed to reveal visitors' movements within the site. Having a click-tracking server collect usage information in real time can generate more immediate responses; but such solutions are difficult to scale, as they can be very CPU-intensive"(McAllister, 2001). This type of usage tracking software is complex where such analysis techniques used are neural nets, fuzzy logic, or genetic algorithms to divide patterns in the customer behavior. This method is probably the least-often deployed due to its inability to capture most marketers' imaginations; however, it is possible to simulate usage tracking with the more accepted rules-based approach.

Evaluate the eCRM practices and classify them as strengths or weaknesses. Analyze the strengths found and separate the outstanding features for the final step.

"The technology that sits behind the personalization of the information is extraordinary. In the optimal system, a customer data warehouse will gather information on individuals from all customer touch points [and they include]:

1. Website information gathered through forms.
2. Point of sale (POS) information.
3. Information from ERP data warehouses.
4. Sales force automation customer information.
5. Information gathered in varying marketing venues:
    a. Data from marketing automation applications.
    b. Attitudinal data collected from surveys.
    c. Responses to direct mail campaigns.
    d. Email marketing feedback.
    e. Demographic data feeds from departments such as marketing, [customer services], and sales that might be directly inputted.
6. Any other customer data source" (Greenberg, 2002, p. 225).

One way to measure success of the eCRM personalization element is by testing the assumptions made during the content targeting and user segmentation phases of the development. Were the measurements validated by the EC firm's user's actions since the implementation of personalization? Were the *touch points* made? How effective were they?

Greenberg (2002) posits of the risks involved with personalization and analytics, especially when outcome is dependent upon the results of explicit choices the customer has made in the past; this triggers a pre-defined response from the personalization engine and may not provide the proper level of customization to support the targeted segment over time. Models of customer behavior grow and change over time which may require more intuitive personalization capabilities such as content-based filtering, collaborative filtering, and usage-tracking. The strength in intuitive personalization is the enablement of a closer one-to-one marketing philosophy in contrast to the explicit personalization scheme. The relationship will provide a more *real time* 360-degree view of the EC firm's customer. If the firm has the *well rounded* view of its customer, the benefit of the customer experience will be rewarding for both the user and the provider of the experience itself.

As the personalization engine is a very critical component of eCRM, the strength in a successful CRM implementation is that the EC firm must adopt a customer-centric strategy; it must have a solid plan; it must have executive sponsorship across all business units; it must have commitment from its people; it must make room for new processes or changes to existing processes in support of the new technology; and it should provide for the proper infrastructure in support of the new platform. Change management is another key element required for successful organizational adoption of the new infrastructure or else failure of the application will ensue due to internal customer invocation a.k.a. adversity to change. The choice of a CRM vendor and its software should be based upon the how the eCRM strategy fits into the corporate business plan; the plan drives the choice of software; the technology should not drive the plan. The eCRM practitioner must stay true to the firm's e-strategy in serving its customer and to build a long-lasting relationship.

Combine and integrate the selected eCRM practices' strengths that are best suited to integrate with an e-strategy that will focus on personalization to benefit both the e-customers and the EC firm, and to create a future-thinking model to enhance the online customer experience moving forward.

"Strategy is about making choices, trade-offs; it's about deliberately choosing to be different" (Hammonds, 2001, p. 152). "By understanding the business and technology components involved, [firms] can follow a roadmap to successfully implement a functional customer insight infrastructure. Customer insight should be treated as a science, not an art" (Bligh & Turk, 2004, p. 115).

Seybold and Marshak (2004) have created eight critical factors in the design of organizational and technological e-initiative strategy and they are:

1. Target the right customer.
2. Own the customer's total experience.
3. Streamline business processes that impact the customer.
4. Provide a 360-degree view of the customer relationship.
5. Let customers help themselves.
6. Help customers do their jobs.
7. Deliver personalized service.
8. Foster community.

"In looking for best practices in Web-based electronic business [initiatives, they have] discovered that all of the successful ventures have one key attribute in common: They make it easy for their customers and prospects to do business with them" (Seybold & Marshak, 2004, p. 2). Each element nourishes and feeds the other to the next step. With these critical factors in mind, focus will now begin with an integration of the best eCRM practices discovered within the research process of this paper as they relate to the strategy of customer personalization.

Once the vision of an e-customer-centric strategy is decided upon, the charter will be the design of an information technology infrastructure that supports the entire firm's customer-facing business processes. The most important criterion for success in support for the charter or strategy is the gain of executive sponsorship across all of the firm's business units. The TMT must share in the vision and the thought process and can be supported through focused meetings that will *train the trainer* to assist in spreading the message amongst the units for *top down* support. Every business should have an enlisted executive sponsor who also has traits of a visionary, change management skills, and shares in the excitement of the eCRM initiative. This is only part of the battle where budgets, analysis, case studies, and the like will need to be prepared as part of the *hype* for the project. Future investors and stakeholders will want to understand the bottom line and how soon ROI can be realized, if it can at all.

The next step of the strategy will involve mapping out the current and future conceptual architecture. What does the firm's internal environmental scan show for the organizational, technological, and procedural architecture? How well will the current applications integrate with the new eCRM and personalization applications? The EC firm may have to outsource the systems integration piece of the project if the in-house talent does not exist.

[It may be realized] that the best way to architect [the] solution would be to rely [upon] a set of underlying shared services (directories, databases, transaction services, middleware services, etc.) that [the company cannot] afford to design and deploy [for this project alone]. There [may be] other groups within the [organization] that have other initiatives underway that could probably use many of the same underlying services. (Seybold & Marshak, 2004, p. 21)

This is where the sharing the vision across the business organization benefits the plan and the process through a collective mental model.

The third step involves the recruitments and organization of the eCRM team as well as the selection of analysisand design tools. It is recommended to find a CRM software vendor provider whose *canned* software best fits the e-strategy of the firm and utilize either in-house talent or the vendor's professional services for the *tying of the hooks* for the systems integration of the software (Briody, 2010). If the vendor only provides software, maintenance, and support, then the solicitation of a third party vendor will be required to integrate the legacy and new software systems. The roles of the team will depend upon the scope of the project to determine if internal resources can play multiple roles or possibly, new hire or contracted recruitment is required. The team will need tools for the analysis and design stage of the project. Web-based or PC-based applications are recommended to support fluent automated process modeling and business object modeling tools. The configuration management and repository systems will be critical tools to capture the various dimensions of the project and benchmarking purposes. These tools will be necessary for reporting back to the TMT with respect to the progress of the eCRM project.

The next step involves the customer's point of view when considering the business process design. The goal is to obtain the 360-degree view of the customer; that is, the current view versus where the EC firm wishes to take that view into the future. The environmental scan from the second step should have revealed current customer processes; the challenge is to solicit customers' input as to how the processes should support them in the future. Prototypes can be developed from customer-facing sales or customer service personnel. Once the prototypes have been internally piloted and refined, the EC firm can actively invite its *real* customers to enter the pilot program and provide feedback. Allow the customer to express his or her preferences. This will expedite the process for personalization in the planned production environment. This is the launching pad for personalization.

While the process and design work is occurring, the fifth step involves the capturing of business events. It is "important to capture these at the right level of abstraction; a business event is something that makes a difference to the outcome for the customer" (Seybold & Marshak, 2004, p. 25). The beauty in capture is that these processes will repeat themselves and the systems designers can specify the high-level interfaces required to support each business unit such as marketing, sales, and customer service.

Step six involves the development of the business rules required for customer profiling and personalization. Business objects (such as customer, visits, bills, and the like), business processes, and business models "serve as a semantic bridge between the business community and the technologists" (Seybold & Marshak, 2004, p. 25). Most of the database fields needed for the user profile application will be extracted from the business object model and is part of the process, even for a pre-packaged software solution.

Step seven defines the customer profiles in the storage development of the data warehouse. An existing customer database may already include demographic, account, and billing information. The profile should also include attributes such as order history, website visit history, and customer service history. Preferences such as credit cards, methods of contact, shipment methods, and the like should also be entered into the profile by means of customer-facing or customer-touching applications. Such information is invaluable for sales, marketing, and customer service in order to fulfill the customer-centric culture and strategy of the firm.

Step eight begins with the realization of the knowledge base. Since the idea of explicit analytics is risky due to past historical data, it is recommended to engage the use of intuitive analytics which provide for *real time* data in building the customer profile. Ultimately, the application's reaction to the customer's feedback on the website should be current and result in an expedient response to the customer to reduce wait time or frustration. Customers will appreciate the elegance in design and coordination of the business rules (taxonomies) as they relate to the code supporting the analytical response.

Prototypes are ready to launch with the internal groups invited to participate in step nine. Once the pilot has been successfully deployed and gone through the iterative process of redesign/redeployment, the invited customers can be alerted for their pilot and participation. The customers are a key element in the entire eCRM strategy as their feedback is priceless with respect to preferences, improvements to be made, and customer loyalty. The feedback information is invaluable and will assist the designers with fine-tuning the business rules as they relate to the analytics and the overall customer service process.

Step ten integrates, implements, and deploys the eCRM application into the production environment. The processes of development, integration, and deployment fall under the guise of continuous improvement and redesign. The market, technology, and the customer will force the EC firm to continuously examine business rules and processes to create a better personalized experience for the e-customer due to complex requirements. This is a never ending spiral and the strategy continues in the ten-step cycle. The end result is that "customers see a continuously improving, dynamically evolving organization that becomes easier and easier to do business with over time" (Seybold & Marshak, 2004, p. 31).

CONCLUSION

Why do eCRM technologies benefit both the EC firm and its customer with respect to personalization? The keyword is balance. Peters and Waterman (1982) suggest a nichemanship strategy. "Five fundamental attributes of those companies that are close to the customer through niche strategies [are]:

1. Astute technology manipulation;
2. Pricing skill;
3. Better segmenting;
4. A problem-solving orientation; and
5. A willingness to spend in order to discriminate" (Peters & Waterman, 1982, p. 183).

The eCRM strategy requires a form of balance between technology, process, and organization. If the strategy can balance these key elements, this indeed becomes a nichemanship strategy for the EC firm.

CRM is a business philosophy as it relates to its e-business initiatives. The EC firm has adopted a customer-centric culture as it drives into the adventure of personalization. "The philosophy extends to support customer managed relationships (CMR) where the customer is in the driver's seat, determining the rules of the relationship. [Indeed, organizations] that adopt this customer-focused and customer-driven approach are, thus, customer-centric" (Seybold, 2002, p. 5).

"Ultimately, the success of personalization efforts should be measured relative to [the EC firm's] business goals. Personalization enables a one-to-one marketing philosophy, in which total share of each customer's lifetime value (CLV) is maximized" (McAllister, 2001). When eCRM is planned, designed, tested, and deployed effectively, personalization is crystallized; the relationship between the EC firm and its customer is strengthened, transcending the methodology into a forward-thinking e-strategy that benefits both the customer and the firm.

FURTHER RECOMMENDATIONS

The era of wireless communications has created another level of personalization. How much more personal can one's wireless phone possibly be? People keep their wireless phones in their purses, attached to their waist belts, and pockets. Integrated cell phones, iPhones, iPads, tablets, and Blackberries are not only a *tool of the trade*, but a personal necessity in today's human ecosystem.

Traditional CRM applications cannot fill in the information gap with respect to time delays, incomplete information, and higher incidence of errors which ultimately frustrate the customer or end user. "In Internet time, [customers] want not only products [or services] customized to their personal needs, but they also want them immediately or at some specific date [("available to promise" – ATP)]" (Chaudhury & Kuilboer, 2002, p. 408).

eCRM enables and empowers the customer with information that can be tailored or personalized, and delivered to the e-customer whenever and wherever needed. This level of personalization is much closer than that of the delivery of information through a PC due to the mobile nature of the integrated cellular phone, hand-held device, and or a tablet. This presents a major *touch point* advantage for the EC firm. EC firms can optimize their eCRM investment with such a *push* technology to better inform and serve their customers. Hence, further exploration on eCRM applications would provide a beneficial experience for all parties interested. It is recommended that a couple of qualitative case studies be conducted with small businesses that have chosen this adventurous path and share their results in another work of research.

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MCCONN COFFEE COMPANY

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ABSTRACT

The McConn Coffee Company was founded in 1996 on the campus of Indiana Wesleyan University. It was led by a group of 5 SIFE students who ran the company in order to gain practical experience for their business degrees. From 1996 until 2002 the business operated at a slight net loss and failed to exceed $10,000 in annual sales at which point two SBI projects were completed designed to restructure and reorient the business. In 2000 annual sales were $5,368 while in 2001 they were $6,035 and in 2002 they were $9,801 with net losses of $163, $1511, and $2137 respectively. The projects found that the business had failed to market itself properly and that the pricing strategies were such that the most popular products were sold at below cost. In 2003 the business was reoriented and the business broke even with revenues topping $80,000. For the 2003-2004 academic year sales were $111,815 with a gross profit of $88,461 and a net profit of over $50,000. In 2011, still under student management, the business has grown to be the second highest grossing coffee shop in the state of Indiana with sales exceeding $800,000 and profits exceeding $200,000. To this day it continues to be a keystone to the experiential education process at IWU.

HISTORY

The McConn Coffee Company was founded in 1996 on the campus of Indiana Wesleyan University. It was led by a group of 5 SIFE students who ran the company in order to gain practical experience for their business degrees and for SIFE credit as it was their first SIFE project . From 1996 until 2002 the business operated at a slight net loss and failed to exceed $10,000 in annual sales at which point two SBI projects were completed designed to restructure and reorient the business. The two projects were completed in Marketing and Entrepreneurship classes and soon focused on the operation of the business.

In 2000 annual sales were $5,368 while in 2001 they were $6,035 and in 2002 they were $9,801 with net losses of $163, $1511, and $2137 respectively. The projects found that the business had failed to market itself properly and that the pricing strategies were such that the most popular products were sold at below cost. In 2003 the business was reoriented and the business broke even with revenues topping $80,000. For the 2003-2004 academic year sales were $111,815 with a gross profit of $88,461 and a net profit of over $50,000. In 2011, still under student management, the business has grown to be the second highest grossing coffee shop in the state of Indiana with sales exceeding $800,000 and profits exceeding $200,000. The McConn Coffee Company is an example of the success of SBI projects playing a key part in an on-going educational experience employing 5 student managers per year and between 20 to 30 other student employees and interns.

OBJECTIVES

When first approached by the McConn Coffee Company to complete SBI projects the following 6 objectives were set for the projects:

1. To create a comfortable and inviting atmosphere for IWU students and employees with the goal of becoming the favorite gathering place on campus.
2. To offer the highest quality products and services, educating the community about fine coffees.
3. To provide an alternative to traditional campus food service offerings by serving a limited menu of fresh baked goods and dessert items.
4. To develop and implement a variety of innovative services across the campus.
5. To utilize all available marketing techniques to promote the offerings of the coffeehouse.
6. To operate under a profitable business model, earning a profit over associated costs that could be reinvested in the business to develop new offerings and services.

Value Proposition

McConn Coffee Company believed that their value proposition was that they offered high quality products reasonable prices.

What is innovative?
This project was – and is – innovative in that it shows that students can successfully run on-campus businesses in a profitable manner and that SBI projects can effect large meaningful change. SBI continues to work with the McConn Coffee Company and students continue to be educated through the operation of the enterprise. Student groups from Indiana University, NorthWestern University, and Stanford University have traveled to study the operations and management of the McConn Coffee Company. Having overseen over 600 SBI projects this is one of the best that the senior author has seen in terms of the level of detail and the true application of real world management knowledge. Two of the most interesting factors include that in the marketing research customers kept talking about reducing the price of the product and running product specials while the recommendations were all that prices be raised and secondarily that the initial pricing problems were caused by a combination of a lack of understanding of how pricing should take place as well as basic mistakes in knowledge for instance previously those pricing products thought that a 1 liter bottle had 1000 ounces of product rather than 1000 ml.

This type of experiential exercise is of great value to students and provides a differentiating factor for students who are involved in the management and operations of the Coffee Shop while providing a living laboratory for business students to experiment with Marketing, Accounting, Management, Product Design, and Pricing. SBI is currently working in order to increase sales to over $1million a year as well as expanding the business. Full Quickbook results and Marketing Research information shall be provided as part of the presentation. The profits earned beyond that needed to operate and expand the business go into scholarship accounts for business students.

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ACCESS SUCCESS: PARKLAND COLLEGE ENTREPRENEUR

Mark Kesler, Parkland College

Business owners who embrace emerging industries and technologies make east central Illinois an attractive region for future employers. That's why the Parkland College Entrepreneurial Program aims to develop strong, educated leaders for today's workforce. The entrepreneurial program aims to increase the number of graduates with a strong work ethic and commitment to excellence that supports existing industry. The program provides scholarship opportunities to students demonstrating potential for growth as future managers, leaders, and innovators, for immediate entry into District 505 industries and companies. The entrepreneurial program also supports local leadership development through its campus-based "Access Success" lecture series. Access Success invites to campus local business, industry, and technology leaders making a difference in District 505 through cutting-edge and/or entrepreneurial work, to share their success stories and secrets with students.Community-based support is vital for developing good business/industry leaders. Established in 2009, Parkland's Entrepreneurial Program is the result of a partnership between the College and community members committed to workforce development and area industry advancement.

Parkland College has invited 12 business leaders and successful entrepreneurs to the campus to speak to hundred's of students interested in the "entrepreneurial spirit" over the past two years. Many students take the information given to further discuss the opportunities of entrepreneurship in their own curriculum of study, and some have pursued the opportunity to work or study with the various organizations represented. See student comments in Appendix A.

Access Success is a part of our overall Entrepreneur Scholar Program offered by Parkland College. Our program supports local leadership development through our lecture series. Access Success invites to campus local business, industry, and technology leaders making a difference in our campus-wide district through cutting-edge and/or entrepreneurial work, to share their success stories and secrets with students. Community-based support is vital for developing good business/industry leaders. Established in 2009, Parkland's Entrepreneurial Program is the result of a partnership between the College and community members committed to workforce development and area industry advancement. The entrepreneurial program was endowed at $270,000 with donations to the Parkland College Foundation.

Our District 505 includes five surrounding counties representing Parkland College, including Champaign, our home county. Industries represented by our lecture series include; venture capitalists, small business owners, local media celebrities, large corporate executives, and many entrepreneurs who started their own business or purchased existing businesses, both locally and globally.

Industries represented by our lecture series include; venture capitalists, small business owners, local media celebrities, large corporate executives, and many entrepreneurs who started their own business or purchased existing businesses, both locally and globally.

Appendix A:

Entrepreneurial Scholars sound off on program

"This program will give me the tools I need to accomplish my goal of being self-employed. I'm studying Heating, Ventilation, and Air Conditioning Service and Building Construction and Repair at Parkland. My future goal is to own a business in either HVAC or home remodeling."
–Anthony L. Cole, HVAC major, Champaign

"Being able to get involved in the Entrepreneurial Scholar Program is an honor to me. I can learn from people who had the courage to start their own small businesses and be successful. What I am studying now as a Business major at Parkland will make me more prepared for the challenge of work or business competition in the future."
–Dewi Kusumawati, Business major, Indonesia

"I want to make a positive difference in the lives of others, and working towards entrepreneurship is one way of achieving that goal. I have been in retail management for 20 years and will graduate in May 2011 with a degree in Business Management from Parkland. I enjoy helping people and look forward to opening a consulting firm."
–Estella M. Hood, Business Management major, Mahomet

"I would like to operate an ethical establishment that serves its customers and treats employees fairly. Studying Business Management at Parkland, I believe I am on the right path to achieve my purpose in life as an entrepreneur."
–Laura Garcia-Guillen, Business Management major, Champaign

"I'm interested in the entrepreneur scholar program, as I've been working on a neighbor's vegetable farming business and am planning on taking it over when he retires in a couple of years. I want to be able to do farming as a full-time job, and think it would benefit me to see how other business owners have used innovation and creativity to successfully run their businesses."
–Ben Oberg, Diesel Technology major, Villa Grove

"Seeking an AAS degree in Business Management at Parkland, I was introduced to Entrepreneurship by Professor Mark Kesler. I hope to take these skills and open my own successful business after graduation—hopefully, a retail establishment or recreation center."
–William Board, Business Management major, Urbana

ENVIRONMENTAL SCANNING: THE NEED FOR SMALL BUSINESS INSTITUTE, BUSINESS STRATEGY AND ENTREPRENEURIAL PLANNING STUDENTS TO BECOME INFORMATION LITERATE

David Lynn Hoffman, Debora Gilliard, Metropolitan State College of Denver
William Tietjen, University of Colorado at Denver

ABSTRACT

Society's information overload of credible and not so credible information and the barriers to effective searching have led to increasingly inadequate information searches in three classes: Small Business Institute (SBI), entrepreneurial, and business strategy. This deficiency is most apparent in these three classes because the students' conclusions must be grounded in adequate environmental scanning. Without adequate environmental scanning, firms may have an incomplete understanding of their current and future environments. Our students must have adequate information literacy skills in order to meet the needs of their future employers. While time and effort expended are typical barriers so are students overuse and reliance on informal searches using Google. More disturbing is the fact that students are searching only until the search meets minimal criteria. This behavior can be explained by Simon's theory of bounded rationality (Daft & Marcic, 2008) and Adam's Equity theory (Dessler, 2008). Namely, that "Students will put in the minimal effort to obtain a seemingly sufficient search based on their preconceptions of how much effort a search should take on Google."

To deal with the increasing need for better search skills, the authors and an academic librarian embedded the librarian in an SBI course. The academic librarian developed specific web pages listing databases tailored to the consulting client's industry. The SBI instructor explained those general and specific issues that were expected which drove the selection of databases included on the web page for that consulting team. The example given was that databases were intended to force the students to discover what, if any, additional governmental regulations may change their client's plant pesticide operations.

The paper recommends more use of embedded librarians, more faculty to library collaboration, and continued improvement of efforts to enhance information literacy skills.

INTRODUCTION

Our current society is characterized by information overload (Anderson and May, 2010) from credible and non credible sources with the simultaneous need for tomorrow's employees to find accurate information (Koltay, 2009) quickly for adequately grounded decision making. Many organizations face turbulent environments that require effective environmental scanning to survive (Daft & Marcic, 2008). Therefore our business graduates need to have the information literacy skills to meet their future employer's needs. Concurrently, accreditation agencies are increasingly concerned with information literacy and have added standards to address it (ACLR, 2002). These standards require that such institutions develop, monitor, and assess information literacy (Campbell & Cook, 2010; Belliveau, Peluso, & Cook, 2008).

Although all business students need to be information literate, this paper focuses on just three classes that must do environmental scanning: business strategy, entrepreneurial planning, and Small Business Institute consulting. This requires that SBI, business strategy, and entrepreneurial planning instructors help develop and then assess these skills.

WHY IS ENVIRONMENTAL SCANNING IMPORTANT?

Traditionally environmental scanning has been used to understand the business and industry environment in order to make better decisions about the direction a company should take. When significant changes occur in the external environment, business managers, leaders and decision makers need sufficient time to react to the change and make appropriate decisions for their company (Morrison, 1992).

In today's business environment it is very likely that students will be involved in a company's strategic planning process long before reaching a high-level management position. When companies engage in strategic planning today it is not limited to just top managers. Today companies will involve new and long-term employees, entry level employees and managers, and even external stakeholders as they engage in the analysis phase of their internal and external environments, develop goals, and begin the implementation phase. For students to add value to a firm as new or entry-level employees, they must not only understand the strategic planning process, they must also engage in environmental scanning. Recent graduates who are new employees must be able to spot changes in trends, identify driving forces that may affect the company and industry as well as bring their perspectives to the table.

Environmental scanning also becomes important to students as they engage in job hunting as new college graduates. They must be able to identify industries and companies that meet their intrinsic needs. Are these new graduates interested in working in a stable environment with relatively little change or do they want to work in a fast-paced environment? New graduates must be able to identify industries that are in decline and which ones are emerging so they can better evaluate and plan their careers. For example, today's journalism majors are facing a very different environment than journalism graduates did ten years ago. This industry is witnessing print media declining and internet/electronic media growing. What skills will these new journalism majors need? What types of jobs will be available to them? What are the long-term prospects in this industry?

ENVIRONMENTAL SCANNING AND BUSINESS STUDENTS

What is environmental scanning?

Environmental scanning has been defined as "surveillance of a firm's external environment to predict environmental changes and detect changes already under way" (Dess et. al 2010), and as "a kind of radar to scan the world systematically and signal the new, the unexpected, the major and the minor" (Morrison, 1992). In other words, it suggests that business people must continually (typically on an informal basis), and actively read news that may reveal changes in the firm's external environment. These general trends will often occur in the firm's general, or macro, environment. Scanning may reveal changes in demographic trends; society's lifestyles, beliefs, or values; new laws, regulations or governmental policies; development of new technologies; changes in the economic condition of the region, nation, or foreign countries; and changes in foreign countries that may affect competition.

As trends in an environment or industry are recognized and determined that they may impact an industry, it becomes necessary to move to environmental monitoring to actually track specific changes over time.

Thompson et. al (2012) suggests there are 12 major drivers of change in an industry:

- Changes in long term industry growth rates. As demand grows or declines the intensity of rivalry in an industry is affected along with the likelihood of new entrants.
- Increasing globalization. Such things as growing consumer demand, reduction of trade barriers, opening of country markets, and wage differences will affect the diversity and number of competitors.
- Changes in who buys the product and how they use it. As buyer demographics change the demand for products will shift.
- Technological change. Advances in technology may introduce new substitutes, make information gathering easier, allow mass-customization, change barriers to entry, and eliminate steps in the production process which may change buyers' power or rivalry.
- Emerging new internet capabilities and applications. New internet applications may change business strategies as buyers have access to more information and products/services.
- Product and marketing innovations. Changes in competition result from new product innovations and new marketing ideas that change the way buyers receive information about products and services.
- Entry or exit of major firms. Rivalry changes as new firms, especially foreign firms, enter a market or major companies leave an industry.
- Diffusion of technical know-how across more companies and more countries. Products may become commoditized as information becomes readily available.
- Improvements in cost and efficiency in closely adjoining markets. Introduction of or changes to current substitute products alter the competitive environment.
- Reductions in uncertainty and business risk. Entry into new markets or new industries have high risk, but as knowledge and conditions become better known and risk decreases the competitive nature of an industry change.
- Regulatory influences and government policy changes. Foreign markets may be easier to enter as government policies shift and barriers to a market or industry may change as laws are enacted.
- Changing societal concerns, attitudes and lifestyles. As more research is conducted bring new information to society, attitudes about products and services may shift.

Environmental Scanning in Business Strategy Courses

The AACSB accreditation body requires business strategy courses as part of undergraduate and graduate business curriculums (AACSB, 2011). These courses typically require the students to analyze an organization's internal, task and general environments (Daft & Marcic, 2008). The subcategories include: for internal- employees, management, and culture; for task- customers, competitors, suppliers, and labor markets; and for the general environment - technological, socio-cultural, economic, legal/political and international. After these and other analyses the students must determine alternative courses of action and recommend solutions.

Environmental Scanning in Entrepreneurial Planning Courses

Typically these classes require students to develop a formal business plan which includes a description of the business, environmental scan, industry analysis, marketing plan outlining the target market and marketing techniques, a financial plan, and other sections that meet the needs of the proposed business (Hatten, 2009; Timmons & Spinelli, 2009; Katz & Green, 2009). While some debate exists as to whether or not a "complete formal business plan" is always necessary (Castrogiovanni, 1996), Campbell and Cook (2010) note that many outsiders (academicians, financial institutions, and investors) expect an environmental analysis (Hatten, 2009; Timmons & Spinelli, 2009). This analysis has to determine if a viable opportunity exists including: what is the target market (who are the customers), why or how will they use the product or service, is the market large enough to sustain the proposed firm, is it reachable, what are competitors doing, will the current or future environment including regulation be positive and supporting (Timmons and Spinelli, 2009)?

Environmental Scanning in Small Business Institute (SBI) Consulting Classes

SBI cases are delivered in many different formats from pure strategy or marketing, to consulting and other formats. However, an environmental scan is always required (SBI Student Manual, 1996-2011). From the environmental analysis the SBI team needs to determine alternatives and recommend solutions. Without adequate recommendations the SBI teams would not have the impact on job creation that Bradley and Rogers (1996) documented or be considered as pedagogical models in other countries (Carraher, 2008).

BACKGROUND TO INFORMATION LITERACY

The Association of College and Research Libraries defines information literacy as "a set of abilities requiring individuals to 'recognize when information is needed and have the ability to locate, evaluate, and use effectively the needed information" (ACRL, 2002). They also discuss critical thinking skills so that students can not only find information but evaluate it and use it both effectively and ethically. Koltay (2009) further develops critical thinking to include the ability to:

- Distinguish between content and its presentation.

- Differentiate between fact and opinion.
- Examine underlying assumptions.
- Look for explanations, causes, and solutions.
- Identify fallacious arguments, ambiguity, and manipulative reason.
- See the whole picture.
- Look for reputable sources.
- Abstract the information.

Koltay (2009) mentions communication as the last skill but does not explain it. To further refine his comment the authors believe that in these three classes the students must take the results of their environmental scanning, condense it, communicate their results to an audience, and explain or defend their results. All of these are higher order activities on Bloom's taxonomy (www.oru.edu). The audience may include: consulting team's classmates, the instructors, the client in the SBI course and investors or financial institutions targeted by the entrepreneurial planning students.

Barriers and errors to effective information searches

Unfortunately there are several barriers to the development and use of these skills. Anderson and May (2010) found that many students believe they have adequate information search skills but actually overstate them. When asked how they search, a typical student answer is "just Google it." Currently, Google searches comprise 65.09% of all searches with Bing at 28.99% (Tu, 2011) leaving Wikipedia and all others at 5.92% . In the UK Google is at 92% (Young, 2011). Archer et al. (2009) explains these findings by observing that many students might be comfortable with library searches but rely on key word searches or searches that work on Google.

Although a generic search on the internet may provide good information, students do not always think about specific sources of information, may not be familiar with databases available at college libraries, and may not determine the credibility of a source. Students acknowledge that Wikipedia is a suspect source of information, but that does not stop them from using it as a sole source. Students do not usually think about sources they have used in other business classes and how those sources apply to a different class.

In addition, students do not understand how search engine algorithms work, or how to assess search accuracy and understand search results that rank (Archer et al, 2009). They conclude that successful searches happen by luck.

Students are not the only groups overusing these techniques. Even scholars favor informal techniques such as word of mouth and footnotes as their primary information seeking strategy (Archer et al., 2009). Ninety eight percent of historians use leads and citations in printed sources and only 80% use their own library catalogue. Only 58% use bibliographic utilities to locate primary material (Archer et al., 2009).

Brasley (2006) explains that there may be generational differences. The millennials, Generation X, Generation Y, and 'Net Geners' use chat, Google, instant messaging, email, games and music to stay connected. The danger is that these search techniques may not be accurate but will be overused.

When students are asked to identify specific good sources of information, they will eventually list (with guidance from the instructor) sources such as SEC reports, company annual reports, Hoover's online, and financial analysis websites (such as Yahoo Finance). Seldom do students identify trade journals or trade reports, government reports, or databases found at libraries such as Lexis/Nexis, ABI Inform, IBIS World, etc. Thus, it becomes more important for instructors to take class time to discuss these sources of information and to expect students to use these sources in their research, papers, case analyses, etc. required in a strategic management course.

Students do not understand the difference between primary and secondary sources or when and how to merge them. Students often do not consider primary information that they, or companies, may use to aid environmental scanning activities. As an aid to environmental analysis authors suggest extensive boundary scanning (Daft & Marcic, 2008). This could include: talking with customers, suppliers and other external stakeholders to gather information as appropriate. To gain information about competitors, students may be guided to company websites, visiting the company, reading news reports about the company, and talking to external stakeholders.

A THEORETICAL BASIS FOR LIMITED INFORMATION SEARCHES

A possible theoretical explanation is that students, like managers, follow the administrative model of decision making which describes how individuals actually *make* decisions (descriptive) not how they *should* make them (normative) and equity theory. Herbert A. Simon proposed that individuals have limits on the time, energy, and ability to make decisions – his bounded rationality concept (Simon, H.A. quoted in Daft & Marcic, 2008). Therefore instead of searching for the maximum amount of information and finding the best solutions, decision makers satisfice by engaging just enough time and energy to meet minimal criteria with a solution which seems to satisfy the problem.

Adams equity theory states that individuals believe there is a correct balance of inputs to output (Dessler, 2008). For example, if employees bring a certain level of inputs such as experience, time, training, and skills to a job they expect a certain amount of salary and benefits.

It is possible to combine these two theories to explain student information search techniques. Students behave by putting in just the minimal amount of time and effort to achieve the grade they expect for that level of input. (This explains why they are dissatisfied when this marginal effort yields a lower grade than they expected). Similarly, they also input the amount of time and effort they thought an information search should take based on their experiences with Google and therefore 'satisfice' by accepting whatever they find and conclude the search without examining the credibility of their sources.

RECOMMENDATIONS

The above theories confirm what the authors have suspected- there are some deficiencies and behaviors that limit our students' information literacy. For some years, the authors have not been satisfied with the quality of searches that our students have put into the SBI, business strategy, or entrepreneurial planning classes. In addition, other academic librarians have argued for an increased role of the librarian particularly in SBI classes (Holler, 2009).

Recommendation one- The faculty or librarian should cover all of the sources that might be available in a general session.

As faculty, we or the librarian should take class time to cover all of the sources that are available. Each library has a unique set of in house and available databases.

Recommendation two- Embed the librarian into the SBI, Entrepreneurial Planning and Business Strategy courses:

The reality is that undergraduate students today, even those in their senior year, may be unfamiliar with the wide range of resources available to them. For students the expectation is that information literacy and critical thinking go hand in hand. A quick summary of all the above yields the following requirements: students must be able to determine:

- What information they need.
- Where to find it effectively and efficiently
- Whether the information is accurate, credible, and trustworthy.

Academic librarians are particularly suited and familiar with these kinds of information seeking scenarios. They understand the use and applications of a wide range of business resources at hand. They are in a unique position to provide value-added assistance to the student as consultant and their clients. The librarian is embedded in the SBI class, signs a non disclosure agreement, and provides the following:

- An introduction to specific consulting problems and scenarios by the Faculty member
- Consultation with the student project teams regarding their research objectives
- Lecture, demonstration and hands-on approach to key library resources (databases, journals, etc.)
- Creation of online class resources such as web pages
- Availability of the librarian in the classroom or through the course management system.
- Re-direction by the librarian for student teams that encounter difficulties finding information.

Recommendation three- Teach how to analyze the credibility of a source

To aid students in analyzing the credibility of a source, the librarian and faculty should discuss the following with students: (Montecino, 1998; Struthers, 2005).

- The Author: Is the author identified? Is the author an expert in the field? Is the author associated with a credible institution or organization? Does the author include contact information? Does the author have other publications? Are the publications peer-reviewed? Is the author respected by other professionals in the field? Are there any indications that the author is biased – is the author taking a personal stand or promoting a product?

- Currency: Is a copyright date listed? Is the 'creation' date listed? Is the site updated regularly? Is the information current?
- Perspectives: Are the goals of the author or paper easily identified? Are all sides presented? What is the perspective of the paper and is it appropriate?
- References: Is a list of references or a thorough bibliography included?
- Type of web site: Is the source from a personal webpage, a special interest site, or a professional organization's site? Is the site from a known news source? Is the source a commercial website that may be biased?
- Other: Does the site/paper include links to its sources? Are material/facts/information presented comparable to information found at other sites?

A discussion of the above criteria will help students better analyze their sources of information used in course assignments. It will also help student analyze the information they gather when conducting environmental scanning activities.

Recommendation four- Utilize the librarian's skills in developing online "pages" for that class.

Starting with the spring 2011 semester, the academic librarian developed online web pages that are "summaries of databases" for each of the SBI consulting teams. Each summary lists specific databases that the librarian and instructor expect the team to search. The page/summary is tailored to that consulting client's specific industry and industry issues. This requires the instructor to think ahead and anticipate what issues the team should investigate. Although each team is guided by these expectations they are still required to the search for themselves.

For example, a current case involves an arbor company that does tree removal and pesticide applications. The web page summarizes trade associations, databases that might cover the industry and databases that might have information on pesticides. The latter was added because the team needs to search for any additional changes in government regulation of pesticides. Such environmental scanning data is critical because a government effort to force all pesticide applicators to be certified or licensed would remove some of the consulting client's less skilled competitors and be a positive factor for the client who is a certified applicator.

Recommendation five – Involve the librarian in the final presentations and reports

The librarian observes the final presentations and reviews the final reports. This feedback enables the faculty to evaluate the effectiveness of their efforts.

FUTURE RESEARCH

Future research should examine the following questions:

Will students spend significantly less time on research with the assistance of a librarian than without such assistance?

- Is this an acceptable goal?
- What would be other acceptable goals?
- How would we test this?
- How would we measure the cost-benefit of using an embedded librarian for this kind of coursework?
- What Is Our Research Methodology, if any?
- What works and does not work and needs to be changed to further enhance the library-faculty collaboration?

Once these classes have improved their information searching performance, another consideration is how to teach students how to transfer their skills to their clients. Certainly we can improve our students, but can we meet the criticism that these skills should also be transferred to clients (Castrogiovanni, 1996)?

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Appendix 1
Interface of the Auraria Academic Library Program

The Auraria Library serves a customer base of over 50,000 students and more than 5,500 faculty and staff across three institutions, University of Colorado, Community College of Denver, and Metropolitan State College of Denver.

As an academic library, the Auraria library has a subscription base of 275-300 databases that index over 35,000 academic and trade journals. In addition to a print collection of over 750,000 volumes, the library has consortia agreements with 41 academic and public libraries in the State of Colorado. These agreements provide additional access to 10,000,000 unique titles and over 30,000,000 copies as well as non-print media and special collections resources. The Auraria Library Instruction program provides a variety of classroom-based and online resources to students of all three institutions. In 2010-2011, the Library taught 825 course-related library use classes. Embedding library instructors in classroom based or online learning environments is one aspect of the library's instructional program.

Appendix 2
Description of the SBI Course

The course is MGT 490B – Organizational and Management Consulting. The context is the real life experience of business consulting, an elective course for management students at Metropolitan State College of Denver.

An essential part of this student experience is grounding in the use academic library resources. These resources may not be restricted only to the library. Particular attention is also given to community resources, including federal, state, county and local governments. The introduction to these resources is often handled by an academic librarian, preferably one with professional business experience. In addition, the model for this course may require that the librarian is embedded within the course as a continuing resource for the students throughout the semester. Just as students in this particular course sign a "non-disclosure agreement" with their clients, so also does the academic librarian.

IWU REVIEW

Shawn Carraher, Indiana Wesleyian University

ABSTRACT

IWU Review is a student owned and operated business designed and run by SIFE as an outreach to the local university community of 16,000+ students. The business has been in operation for 2 years and is currently managing an inventory of over 10,000 items. It allows students to rent DVD's and video games which they own to fellow students and university employees at the cost of $1 a night. Students and the store share in the profits.
Making money while watching movies is a luxury most do not get to enjoy, but for the students at Indiana Wesleyan University this is to become an everyday occurrence. Students will be provided with a simple, convenient way to make money and the opportunity to rent movies, buy specialty popcorn, and enjoy "old-time" candies. Ninety-two percent of Indiana Wesleyan University students wish they could rent movies and video games on campus. IWU RE-View seeks the most sound, educated processes to achieve its mission of providing a modern way to connect with media and entertainment, while establishing a futuristic idea of making money.

RE-View uses advanced technology and computer programs to run the company. Both Microsoft Office Access 2007 and QuickBooks Simple Start 2009 are vital computer programs by RE-View that amplify the company above all competition.Our target market is Indiana Wesleyan University and all persons associated.

RE-View focuses on three specific segments of our target market; Indiana Wesleyan University Students, Indiana Wesleyan University Faculty and Staff, Indiana Wesleyan University Dormitory Front Desks. With a wide variety of advertising and promotional material RE-View is sure to captivate its target market.

RE-View is a profitable company. The costs of operation are nominal, promoting business success. There are four managers and 6 student employees for the organization – not including its expansion in to the selling of IWU student art in its gallery.IWU RE-View encourages students, faculty, and dormitories to bring IWU appropriate DVDs and video games into our store for a semester or the entire year. The owner's is paid in monthly checks, at the end of a month. When the end of the semester or year approaches RE-View returns the movies and games to the appropriate owner, and compensates for any damages or lost media.

It is a best practice in that other schools should have SBI and SIFE teams opening businesses which allow them practice in running and operating businesses using their current assets and skills. On the next pages are examples of the products sold and a screenshot of the inventory management system.

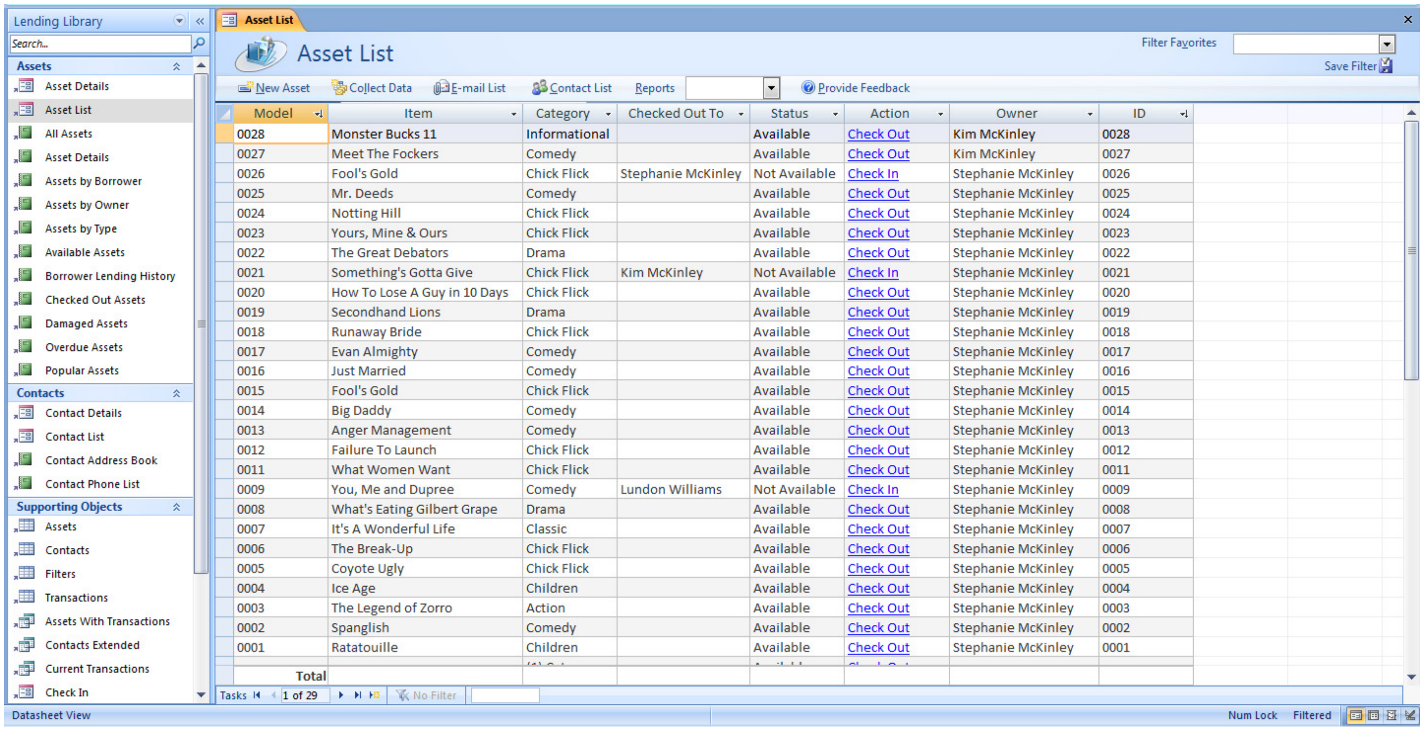

NOT JUST
POPCORN
Over 250 Premium Flavors
WE OFFER...
Group Tours, Sports Logo Tins, Corporate Gifts
Popcorn Poppers, Fund Raising Programs
Raw Corn By the Pound,
Special Events Color and Flavor Coordination
Wide Variety of Tins, and
Wholesale Available to Licensed Businesses.
Monday & Tuesday 10am to 5pm
Wednesday through Saturday 10am to 6pm
Sunday 12 to 5pm
We accept MasterCard, Visa, Discover, and American Express.
116 E. Main Cross Street
Edinburgh, Indiana 46124-0460
Phone: (812) 526-8256
Toll Phone: (800) 231-5689
Fax: (812) 526-8488
Website: notjustpopcorn.com
Email: notjustpopcorn@sbcglobal.net

GOURMET FLAVORS

Sample Bag $1.15 ½ lb. Bag $4.60
¼ lb. Bag $2.30 1 lb. Bag $9.20

Amaretto • Apple • Apple Cider • Apple Harvest • Autumn Splendor • Banana • Banana Split • Berries 'n Cream • Black Cherry • Black Cherry Cola • Black Raspberry • Blueberry • Blue Raspberry • Blue Raspberry Lemonade • Boo-rific • Bubble Gum • Butter Rum • Butterscotch • Caffeine Crazy • Candy Apple • Cappuccino • Caramel • Caramel Apple • Cherry • Cherry Cola • Cherry Vanilla • Cheery Cherry Watermelon • Chocolate • Chocolate Marshmallow • Chocolate Mint Cappuccino • Chocolate Mocha Cappuccino • Chocolate/Vanilla • Cinnamon • Citrus Madness • Coconut • Coffee • Cola • Confetti • Cotton Candy • Cranberry • Cream Soda • Crème DeMenthe • Dreamsicle • Dutch Apple • Eggnog • English Toffee Capuccino • French Vanilla • Fruit Punch • Fruiti Bubblegum • Grape • Green Apple • Green Grape • Holiday Mix • Honey • Ice Cream • Irish Cream • Kahlua • Kahlua & Cream • Key Lime • Lemon • Lemon-Lime • Lemon Raspberry Tart • Lemonade • Licorice • Lime • Mai Tai • Malted Milk • Maple • Mango • Margarita • Marshmallow • Peach Margarita • Praline & Creme • Mint • Mocha • Orange • Orange-Pineapple • Passion Fruit • Patriotic Punch • Peach • Peaches & Crème • Peanut Butter • Peanut Butter & Banana • Peanut Butter & Jelly • Peppermint-red • Peppermint-white • Pink Strawberry • Pina Colada • Pineapple • Pistachio • Praline • Pumpkin Spice • Rambo • Red Pop • Red Raspberry • Root Beer • Root Beer Float • Saltwater Taffy • Sassafras • Spearmint • Spring Fling • Strawberry • Strawberry Banana • Strawberry Daiquiri • Strawberry Kiwi • Strawberry Lemonade • Strawberry Margarita • Strawberry Shortcake • Summer Daze • Tangerine • Toffee • Tom Collins • Tutti Fruiti • Vanilla • Vanilla Butternut • Vanilla Cola • Very Berry • Watermelon • White Grape

- RE-View uses the online supplier, http://candy-crate.stores.yahoo.net/index.htmlfor all of our candy purchases. RE-View focuses on candy from "when you were a kid." Some of the candy we have in store is shown below:
  - Bazooka Bubble Gum
  - Dum Dum Pops
  - Sugar Daddy Pops
  - Tootsie Pops
  - Whirly Pop
  - Candy Necklace
  - Caramel Squares
  - Airheads Candy
  - Atomic Fireballs
  - Bit O Honey
  - Bottle Caps
  - Candy Buttons
  - Cow Tales
  - Fun Dips
  - Fruit Stripes Gum
  - Milk Duds
  - Raisinets
  - Rock Candy
  - Sixlets
  - Smarties
  - Sour Patch Kids
  - Twizzlers



Model	Item	Category	Checked Out To	Status	Action	Owner	ID
0028	Monster Bucks 11	Informational		Available	Check Out	Kim McKinley	0028
0027	Meet The Fockers	Comedy		Available	Check Out	Kim McKinley	0027
0026	Fool's Gold	Chick Flick	Stephanie McKinley	Not Available	Check In	Stephanie McKinley	0026
0025	Mr. Deeds	Comedy		Available	Check Out	Stephanie McKinley	0025
0024	Notting Hill	Chick Flick		Available	Check Out	Stephanie McKinley	0024
0023	Yours, Mine & Ours	Chick Flick		Available	Check Out	Stephanie McKinley	0023
0022	The Great Debators	Drama		Available	Check Out	Stephanie McKinley	0022
0021	Something's Gotta Give	Chick Flick	Kim McKinley	Not Available	Check In	Stephanie McKinley	0021
0020	How To Lose A Guy in 10 Days	Chick Flick		Available	Check Out	Stephanie McKinley	0020
0019	Secondhand Lions	Drama		Available	Check Out	Stephanie McKinley	0019
0018	Runaway Bride	Chick Flick		Available	Check Out	Stephanie McKinley	0018
0017	Evan Almighty	Comedy		Available	Check Out	Stephanie McKinley	0017
0016	Just Married	Comedy		Available	Check Out	Stephanie McKinley	0016
0015	Fool's Gold	Chick Flick		Available	Check Out	Stephanie McKinley	0015
0014	Big Daddy	Comedy		Available	Check Out	Stephanie McKinley	0014
0013	Anger Management	Comedy		Available	Check Out	Stephanie McKinley	0013
0012	Failure To Launch	Chick Flick		Available	Check Out	Stephanie McKinley	0012
0011	What Women Want	Chick Flick		Available	Check Out	Stephanie McKinley	0011
0009	You, Me and Dupree	Comedy	Lundon Williams	Not Available	Check In	Stephanie McKinley	0009
0008	What's Eating Gilbert Grape	Drama		Available	Check Out	Stephanie McKinley	0008
0007	It's A Wonderful Life	Classic		Available	Check Out	Stephanie McKinley	0007
0006	The Break-Up	Chick Flick		Available	Check Out	Stephanie McKinley	0006
0005	Coyote Ugly	Chick Flick		Available	Check Out	Stephanie McKinley	0005
0004	Ice Age	Children		Available	Check Out	Stephanie McKinley	0004
0003	The Legend of Zorro	Action		Available	Check Out	Stephanie McKinley	0003
0002	Spanglish	Comedy		Available	Check Out	Stephanie McKinley	0002
0001	Ratatouille	Children		Available	Check Out	Stephanie McKinley	0001

INTEGRATING THE SBI PROGRAM INTO REGIONAL AND STATEWIDE ECONOMIC DEVELOPMENT

Patti Wilber, PhD and Stephanie Huneycutt Bardwell, JD, LLM

This workshop will redefine economic development and describe its relationship to the SBI mission. Economic Development is an integral feature of most local economies. Success in Economic Development efforts requires employing effective means to identify, create and foster achievable and sustainable economic development. Economic Development efforts must include determining significant methods to measure key aspects of economic development, such as job creation, quality of life, sustainability and economic impact.

This workshop will showcase the efforts of two unique programs from diverse regions in the USA; each program will be described through the lenses of the SBI mission, including the goals to foster entrepreneurship and small business success. The program in Oklahoma explores the strategic efforts of the Economic Development Council (EDC) operated through the State Regents office. Each college/university in Oklahoma has a representative who sits on this council—25 educators who meet monthly and serve as an advisory group to the university/college Presidents. In Virginia, the SBI® spearheaded an economic development survey in the region to assess and capture data indicators of social entrepreneurship and economic development.

This workshop demonstrates how integrating the SBI program into statewide and regional economic development can be achieved and provides guidance for creation of models throughout the United States. SBI is the link between business, education and community; it is the goal of this workshop to show effective best practices via student team consulting, related entrepreneurship education, research and consulting activities to improve local economic development efforts.

TEACHING ENTREPRENEURSHIP: A NEW FINANCIAL TEMPLATE FOR PREPARING BUSINESS PLANS

William E. Wise, Metropolitan State College of Denver

INTRODUCTION

We, teachers of entrepreneurship, have all seen the following 2006[13] & 2008[14] statistics:
Proportion of New Businesses that Fail:

Year	2006		2008
1	25%		15%
2	55%		30%
3	55%		38%
4	55%		45%
5	60%		50%

Certainly, the failure of each specific firm is different. But one problem seems to be common throughout: An inability of entrepreneurs to budget more than one year into the future. Without assessing blame for this failure, it is fair to say that most of our students do not have the requisite accounting knowledge to prepare either a five-year statement of estimated cash receipts and disbursements much less the full set of financials required for a professional business plan. Now, this is possible using the new financial template described in this workshop.

SYNOPSIS

Over the century few fields of study have experienced the type of growth that entrepreneurship has seen. The number of colleges and universities offering programs and classes in entrepreneurship has increased to 3,000 and more.

Specifically, entrepreneurship classes are designed to teach students how to create start-up businesses including business plan writing.

I. The Problem

Most, if not all, entrepreneurship textbooks tell the students that their business plans **NEED** a full set of financials. The textbooks do not tell students **HOW** to prepare the requisite financial statements needed for a professional-looking business plan – one that can be presented to a banker, supplier, or potential investor.

II. The Solution

[13] Data comes from a special tabulation by the Bureau of the Census produced for the Office of Advocacy of the U. S. Small business Administration

[14] http//blog.globalbx.com/2008/10/06/small-business-statistics-and-failure-rates/

This workshop's purpose will be to demonstrate my template © prepared on Excel [i] © for enabling students to prepare a set of financial statements, an Economic Profile, and Ratio Analyses.

Taking values predominately generated in their Marketing Section plus estimates, students fill out the GENERAL ASSUMPTIONS SHEETS. Excel does the rest of the work.

III. Workshop Talk

Discuss:

1. GENERAL INSTRUCTIONS FOR ALL FINANCIAL TEMPLATE INPUT SHEETS
2. GENERAL ASSUMPTIONS SHEETS used for the 3 different types of firms
3. The financial statements, Economic Profile, and Ratio Analyses that are automatically prepared.
4. How the ANNUAL CASH FLOW schedule can be used as a budget.
5. How the template determines start-up capital requirements, and
6. How to determine if the students' answers meet real-world parameters.

V. Ratio Analyses

In my experience, when I begin to discuss financial ratios, I see a class full of glazed stares. Yet, this is one of the first places a banker or a potential investor turns. So whether the students see the relevance of ratios, their Business Plans need them to be deemed professional.

VI. In Conclusion

In short, the students fill out GENERAL ASSUMPTIONS SHEETS. All the above mentioned financial statements, Economic Profile, and Ratio Analyses are automatically prepared by the template.

VII. Your Questions and Comments

ENTREPRENEURSHIP AND MENTORING

James Wilbanks, John Hendon, Joe Bell, David Dearman,
University of Arkansas at Little Rock

ABSTRACT

This workshop will explore the potential value and benefit of mentoring for both aspiring entrepreneurs and entrepreneurial education. Mentoring in the workplace has been studied extensively over the past thirty years and many positive benefits have been identified for protégés as well as for the mentors themselves. Recently, more universities and governments have been attempting to use this powerful tool in an attempt to develop potential entrepreneurs. While a great deal of research has examined the key requirements for formal mentoring programs within established organizations, less is known about how the demands for effective mentoring change in the entrepreneurial context.

The program will begin with a brief overview of the research findings on mentoring relationship quality and the established guidelines for effective formal mentoring programs. Next, participants will be led through a discussion on the unique demands of the new venture environment, the student led case competition team environment, and how mentoring may be adapted to fit those environments most effectively.

The session will cover the basics of effective mentoring, how the demands of mentoring change in the entrepreneurial context, recruiting mentors from the local community for both student led case competitions and mentoring networks for aspiring and new entrepreneurs, and finally how best to facilitate these developmental relationships to maximize benefit for the individuals and communities involved.