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Proceedings Editor's Letter

Welcome to the *Proceedings* of the 35th Annual Conference of the Small Business Institute®. Included in the *Proceedings* this year are 2 pre-conference workshops, 31 competitive papers, 13 workshops, and 5 best practices.

There are many to thank for their contribution to a successful review process and first class *Proceedings*. First, I would like to thank the authors who submitted their outstanding work for the 2011 conference. These works are both of high quality and diverse in topic, and I think that you will find it worthwhile reading. Secondly, I would like to thank the dedicated track chairs and reviewers who worked diligently to complete their reviews in a professional and timely manner. The following individuals served as track chairs and deserve much of the credit for a smooth review process; Peggy Chaudhry, Howard van Auken, Joe Bell, Bill McDowell, Aysar Philip Sussan, Terrence Paridon, Shawn Carraher, Scott Newbert, Kevin Clark, James Glasgow, and Don Sciglimpaglia. I would also like to thank Justin Streuli, Ted Deligianis, Jan Szelkowski and Jason Windsor from the University of North Carolina at Greensboro for their invaluable assistance in producing the *Proceedings* and CD. I would also like to thank Program Chair Mike Harris for all his assistance.

The 2011 National Small Business Institute® Conference is the result of hard work from numerous individuals, and is the culmination of a successful year under the leadership of Patti Wilbur. Our organization has always been noted for its exceptional collegiality and willingness to work together to promote the SBI brand.

Best wishes for a great 2011 conference!

Respectfully,

Dianne H.B. Welsh, Ph.D.

Proceedings Editor

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NONPROFIT ENTREPRENEURSHIP: THE “Q” IS, WILL EXEMPT ORGANIZATIONS TREAD ON THE TOES OF SMES TO CAPTURE THE FINANCIAL LITERACY AND CREDIT CONSULTING NICHE MARKET?

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Alan Bardwell, The Bardwell Group

Abstract

This paper investigates the delivery of financial and accounting expertise via specialized 501 (Q) exempt organizations. It analyses data from the IRS in context of significant financial and/or economic indicators. It develops a inquiry into the niche credit counseling services industry and reports preliminary findings about the exempt organizations.

Introduction and Literature Review

Financial and Accounting expertise are essential elements necessary to create business profitability, particularly in small and medium enterprises (Sequeira, Carr & Rasheed, 2009). In this new economic reality, which by necessity may favor entrepreneurs (Daly, 2010), the successful entrepreneur must either possess these specialized skills personally (Davidson & Honig, 2003) or outsource these pertinent activities to ensure currency, accuracy and predictability. These knowledge based skills are necessarily deployed in the enterprise to achieve maximum fiscal stability and clarity (DeClercq & Voronov, 2009). For individuals with financial and accounting knowledge, the deployment of this expertise is further enhanced by low technological barriers (Meyer, Wright & Pruthi, 2009) which promote market entry and demonstrate that entry is not barred by high actual or perceived costs.

The delivery of financial and accounting expertise can be seen as an economic truism; human capital in the financial industry is actually a fluid resource. Financial and accounting experts are able to behave like entrepreneurs (Morris & Morris, 2002), to start new ventures, to exploit new opportunities (Kreiser & Davis, 2009), to volunteer as advisors and consultants using their prior knowledge (Shane, S. 2000), and to mop-up after the Securities Investment sector promoted risk-taking investment strategies to the masses.

For example, in 2002, the Securities Industry Association, a trade association representing more than 740 securities firms (including banks, investors, mutual fund companies and brokers) reported its industry had generated over \$300 billion in yearly revenues and boasted, at that time, over 600,000 individuals employed in the industry according to the Foundation for Investor Education (Morris & Morris, 2002). Yet just a short time later, a mere developmental moment in time, the bubble burst and the industry faced enormous pressure to decouple, decentralize and disengage. Real estate, banking and investment experts became a glut on the market heavily motivated to find a comfortable new niche (Shane, Locke, & Collins 2003). This oversupply of financial and accounting expertise after the “official” failure of the lending industry, in July 2008, created a new path to opportunity in the new economy (Besser & Miller 2010)- all as a result of economic turmoil, uncertainty, mergers, downsizing and “early” retirement. The path we examine is relatively new in the NPO sector; we call it the new “q”.

The new “q” refers to a new section of the IRS code governing tax exempt organizations that was enacted in 2006 specifically for credit counseling services. In section “q”, the IRS set up separate rules for reviewing tax exempt applications for credit counseling organizations. Three federal agencies were designated to cooperate to raise ethical practices and oversee credit counselling services, while promoting good faith behaviour and integrity within the credit counselling industry. The overarching goal of these government agencies [especially in their “watchdog” capacity] was aligned with the financial literacy initiative to help individuals obtain reliable high quality services.

The IRS ensures that credit counselling organizations holding themselves out to the public as tax-exempt charitable and educational organizations comply with the requirements for tax-exempt status. The IRS website provides resources for persons needing to verify the tax-exempt status of a credit counselling organization, and information about its initiative to ensure that credit counselling organizations comply with federal tax laws. It also highlights provisions of a new law that establishes standards an organization must satisfy to qualify for exemption under Internal Revenue Code section 501(c)(3) or 501(c)(4).

The Federal Trade Commission (FTC) acts as information receptacle, as well as enforcer in the equation. The FTC brings law enforcement actions against credit counselling agencies for violations of federal consumer protection laws. Consumers, competitors and researchers can obtain information, as well file complaints on the FTC website or use the toll-free telephone hotline for any of these reasons. The U.S. Trustee Program (USTP) at the Department of Justice (DOJ) approves certain credit counselling organizations to provide pre-bankruptcy counselling and pre-discharge debtor education as required under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The USTP's website provides information for consumers about the role of credit counselling organizations in personal bankruptcy proceedings, and offers links to assist consumers in selecting a credit counselling agency from the list of approved providers that fits the consumer's needs. These three agencies provide educational resources about credit counselling intended to assist the public at large as well as the credit counselling agencies themselves. In IRS 501(q) are found special rules for determination of whether credit counseling qualifies for tax exempt status under section 501(c)(3). In the examination of the effectiveness of these three agencies who cooperatively are responsible to both guide and punish, there are a number of very preliminary indications that the credit counseling industry has needed both guidance and punishment in this beginning stage of its life as a tax exempt organization.

Those who understand the importance of the life cycle of an enterprise (Kimberley & Miles, 1980), the influence of the life cycle upon the measurements of success (McCann, 1991) and performance (Covin & Slevin 1990) and who have empirically tested this influence as a factor in change over time (Andries & Debackere, 2007) would be delighted and perhaps a bit surprised to approach the “Tabla Rosa” of the newly minted “q” exempt organization.

As so expertly noted in 2009 by Headd and Kirchhoff in their longitudinal study of small businesses using US Census data, we recognize we are not creating laws...but merely extracting and analyzing evidence to permit greater understanding (Headd & Kirchhoff 2009). The contrast between operation as a tax exempt entity [“q”] versus operation as an S-corp., C-corp. or LLC has not escaped our concern. We look to the findings of other experts who study relative merits of choice of entity (Blair, Marcum & Fry 2009), legal structure type (Hertz, Beasley, White 2009), types of legal issues (Heriot & Huneycutt 2001), entrepreneurial orientation (Bhuian,

Menguc & Bell 2005) and influence of family (Lussier & Sonfield 2009, 2004) upon the enterprise and are enlightened by their observations which have informed our study.

The newness of “q” and the unique attributes of this special type of tax exempt business entity afford a clean slate for inquiry; this is an excellent opportunity for legal, ethical and economic lessons. We surmise our investigation should reveal an ideal yet atypical study because the type “q” exempt organization has not been academically evaluated; this paper commences the investigation with the expectation that this preliminary study of 206 type “q” entities will add to the understanding of factors that affect the success or failure of entities and provide insight to the most unusual type of entrepreneur; the one engaged in a tax exempt and perhaps non-profit enterprise.

Just as theorists of high entrepreneurial understanding surmise that firms must match their strategies to the external environment (Tang, Kreiser, Marino & Weaver 2010); likewise, from the ashes of a lost environment, “q” arose as a new opportunity. In the non-profit sector, a business entity was designed specifically for financial and credit counseling; it would encourage many to adapt to the changing economic environment. This innovation, this new creation within the narrow sector of approved exempt organizations is the hallmark of entrepreneurial thinking (Madrid-Guijarro, A., Garcia & Van Auken, 2009) and is recognized by academic experts to be central to enterprise success.

In an ironic twist, the high ethical goals of creating the new “q” category for credit counseling within the exempt organization or EO category originated in the early 2000’s political-social environment of free market capitalism. “Q” was viewed as a proper companion to the growing home-ownership movement and financial literacy legislation of that era. In 2006, to promote financial and economic education across the curriculum, and to elevate understanding of the principles of free market economics, federal legislation was passed promoting basic education in credit, lending, savings and related topics. Many servant non-profit organizations were created at this time to promote the goal of achieving financial and economic literacy, including sound financial decision making through financial literacy programs (Bardwell, 2009); these include CUNA, a network of over 9,000 credit unions, NEFE the National Endowment for Financial Education, and Jump\$tart, a program to find then cure the deficit in financial literacy and decision-making among America’s youth.

In 2008, the IRS heavily scrutinized non-profit organizations, or NPOS, whose mission was to provide credit counselor services (Willis, Hoffman, Maloney, & Raabe, 2008); the IRS examined the bona fides of many, many “Q” type NPOs engaged in the provision of credit counseling services and revoked the tax exempt status of 41 it had audited. There are counterweights against improper behavior; these include revocation of tax exempt status, as well as imposition of an excise tax on improper income; with UBIT as another sword to defeat improper reliance upon tax exemption. The annual revenue in this industry in 2008 was estimated at \$1 billion; of this over 40% was earned by (EO) exempt organizations credit counselors. (B.L.S. 2009).

It is true that the IRS promotes public awareness of duties held by exempt organizations and invokes penalties for failure to comply with those duties. The Credit Counseling Compliance Project is a current (2010) IRS initiative to educate the public about the duties and the obligations of operating under the umbrella of tax exemption as a 501 entity. The credit industry has always faced significant regulations from the federal government; the most recent regulations

include CCARDA of 2009 [the Credit Card Accountability Responsibility and Disclosure Act in full effect August 2010] which caps some sources of bank revenue related to bounced checks, overdraft fees and other penalties. For years, banks routinely nickel and dimed consumers by adding annoyance costs as well as other fee premiums to standard services; all these were passed on to the hapless consumer of credit related services including credit cards and even debit cards. Bank fees can vary greatly, but a 2009 Wall Street Journal reporter, Robin Sidel, reported that the average monthly fee for falling below the minimum balance on interest-bearing checking accounts was \$12.59; the average overdraft fee in 2009 was \$29.58; the average credit card rate increase since the passage of CCARDA was 16%; and the average late fee for tardy credit card payments was \$39.00 (Sidel, 2009).

As banks try to recoup the lost revenue from the imposition of caps of these user fees under CCARDA, credit counseling exempt organizations are finding it possible and even lucrative to serve two mistresses in the provision of their services. This can occur when exempt organization credit counseling entities receive “fair-share” donations from for-profit creditors [for example, the for-profit creditor “donates” cash to the exempt organization credit counseling service who advises the debtor client/consumer to begin paying on his debt....the debt that is owed to the for profit creditor!].

Research question and study objective

The objective of this study is to investigate the credit counseling and financial literacy exempt organizations whose mission is to provide financial credit counseling services with regard to the issues of whether non-profit or tax exempt status provides an advantage over for-profit providers noting that the vast majority are small providers. There is no previously published research on this question, and the issue itself should provide useful insights into characteristics of business cycles related to this activity. The study utilizes data from known government vetted sources to investigate the niche industry, and uses select economic indicators to develop a nascent theory that financial and credit counseling services provided under the auspices of exemption from taxation weld greater competition advantage, though there may be no assurance of efficiency or effectiveness.

Methodology

From all IRS files of exempt organizations [over 1.68 million] in Fall 2010 we extracted/isolated the 834 credit counseling tax exempt organizations with NTEE Code P51 which describes the credit counseling activity. These files include the following information fields:

EIN, Primary name of organization, in care of name, Street address, City, State, Zip, Group Exemption #, Subsection code, Affiliation code, classifications codes, RULING DATE to recognize EO status, deductibility code for donations, Foundation Code, Activity code [up to 3 activities in field], organization code, EO status code, Advance ruling date, Tax period, Asset Code, Income Code, Filing requirement code, Accounting Period, Asset Amt., Income Amt., Form 990 Revenue Amt. from most recent 990 filing.; NTEE code [National taxonomy of exempt entities], and Sort Name [secondary name].

The data associated with these fields was used to create a singular data-base of all 1.68 million records. From these records, the NTEE Code P51, designating the credit counseling service, was queried resulting in a total of 834 entities identifiable as credit counseling enterprises.

[Note: A second study employs a similar search for for-profit consumer credit counseling enterprises and is expected to yield similar information about comparable for-profit credit counseling and financial services entities.]

This current study includes only the exempt organization summary analysis and will serve as the initial examination model for the comparison of advantages between exempt organization non-profit and for profit entity types.

A summary of our findings in the exempt organizations category includes the top ten income earners, the total and average income of the remaining 824 entities, is found in Table 1.

In Table 2, we display a frequency distribution by state and comparison of bankruptcies.

In Table 3, we display a frequency distribution by state and comparison of foreclosures.

In Table 4, we display a frequency distribution by state and comparison of unemployment rate.

Implications

This preliminary study of exempt organizations whose mission is to provide information to the general public on budgeting, personal finance and saving and spending practices, or assisting individuals and families with financial problems by providing them with counseling as defined by the IRS code section 501(c)(q)(4)(B) 2009 holds great significance for future policy considerations.

The effectiveness of choice of entity, the regulatory oversight afforded by the IRS and DOJ, the investigation of innovation in delivery of services, the issues of conflict of interest are potentially significantly affected by the relationship of exempt organization activities as described in these preliminary findings.

The study of comparisons and competitive advantage from simply the perspective of tax exemption for this important niche field can lead to a more complex understanding of the relationship of mission, goals and objectives in financial literacy services. It will also inform future research on the role of small business management principles, strategic planning, entrepreneurial thinking, governmental regulation and oversight to achieve the ideal result- an educated populace whose financial decision-making is informed, unbiased and logical.

Conclusions and Limitations

This preliminary study has demonstrated a potential relationship between a new type of nonprofit Entrepreneurship whose mission is to benefit the public through education by providing counseling services in what could be described as a cutthroat financial services sector.

The elusive first question we posed, The “Q” is, Will Exempt Organizations Tread on the Toes of SMEs to Capture the Financial Literacy and Credit Consulting Niche Market, remains unconfirmed by our analysis. The question cannot be answered without additional inquiry, including scrutiny of the for-profit credit services industry.

The authors recognize the possibilities for future research, and research by others will add value to this basic study. There are expected potential benefits to society, educators and consultants as a greater understanding of this essential niche industry will be illuminated by building a body of

research that includes a more diverse methodology and includes more qualitative data. We are gratified to have begun a new inquiry into the many facets of entrepreneurial exempt organizations and their relationship to for-profit entities in this niche field.

Table 1.**Annual Income for Top 10 Credit Counselor TEO's (per IRS 2009)**

primary_name	city	st	income_amt	industry_pct
MONEY MANAGEMENT INTERNATIONAL INC	HOUSTON	TX	159,176,202	16.92%
HOMEOWNERSHIP PRESERVATION FOUNDATION	MINNEAPOLIS	MIN	58,773,121	6.25%
GREENPATH INC	FARMINGTN HLS	MI	57,225,684	6.08%
CONSUMER CREDIT COUNSELING SERVICE OF GREATER ATLANTA INC	ATLANTA	GA	45,849,224	4.87%
CONSOLIDATED CREDIT COUNSELING SERVICE INC	FORT LAUDERDALE	FL	40,672,967	4.32%
CONSUMER EDUCATION SERVICES INC	RALEIGH	NC	32,416,423	3.45%
TAKE CHARGE AMERICA INC	PHOENIX	AZ	25,829,921	2.75%
INCHARGE DEBT SOLUTIONS INC	ORLANDO	FL	23,859,784	2.54%
NATIONAL FOUNDATION FOR CREDIT COUNSELING INC	SILVER SPRING	MD	21,387,171	2.27%

As of Sept 25, 2010, there are 834 entities registered with the IRS as Tax Exempt Consumer Credit Counselors (NTEE: P51)

Top 10 Total	465,190,497	49.46%
Top 10 Mean	46,519,050	4.95%
Remaining 824 - Total	475,368,794	50.54%
Remaining 824 - Mean	576,904	0.06%
Industry Total	940,559,291	100.00%
Industry Mean	1,127,769	0.12%

Table 2. Comparing Distributions of Credit Counselors to Bankruptcy Filings

Tax-Exempt Credit Counselor Distribution, Sept 2010			Non-Business Bankruptcy Filings, 2009			Rankings Difference
State	Qty	Rank	State	Qty	Rank	
AK	1	48	AK	894	52	-4
AL	13	21	AL	34,180	14	7
AR	8	32	AR	15,964	28	4
AZ	14	19	AZ	33,022	15	4
CA	96	1	CA	200,806	1	0
CO	9	30	CO	26,883	20	10
CT	5	36	CT	9,867	34	2
DC	12	24	DC	1,067	51	-27
DE	4	38	DE	2,960	45	-7
FL	65	2	FL	92,158	2	0
GA	43	4	GA	72,126	3	1
GU	0	51	GU	215	53	-2
HI	2	44	HI	3,010	44	0
IA	12	24	IA	9,787	35	-11
ID	5	36	ID	7,323	37	-1
IL	41	5	IL	71,778	4	1
IN	13	21	IN	47,289	10	11
KS	4	38	KS	10,607	33	5
KY	2	44	KY	24,619	23	21
LA	15	16	LA	17,911	26	-10
MA	11	27	MA	20,274	25	2
MD	37	6	MD	25,341	22	-16
ME	3	41	ME	3,630	43	-2

Table 2. Comparing Distributions of Credit Counselors to Bankruptcy Filings

Tax-Exempt Credit Counselor Distribution, Sept 2010			Non-Business Bankruptcy Filings, 2009			Rankings Difference
State	Qty	Rank	State	Qty	Rank	
MI	27	9	MI	67,265	6	3
MN	15	16	MN	20,597	24	-8
MO	12	24	MO	30,470	16	8
MS	11	27	MS	14,217	29	-2
MT	6	34	MT	2,621	46	-12
NC	24	11	NC	26,373	21	-10
ND	2	44	ND	1,528	48	-4
NE	4	38	NE	7,239	38	0
NH	2	44	NH	4,691	42	2
NJ	19	15	NJ	34,662	13	2
NM	1	48	NM	5,822	40	8
NMI	0	51	NMI	8	55	-4
NV	11	27	NV	28,830	18	9
NY	35	7	NY	54,124	7	0
OH	29	8	OH	68,748	5	3
OK	6	34	OK	13,615	31	3
OR	14	19	OR	17,787	27	-8
PA	23	13	PA	35,443	11	2
PR	1	48	PR	10,946	32	16
RI	0	51	RI	4,926	41	10
SC	15	16	SC	9,353	36	-20
SD	7	33	SD	1,760	47	-14
TN	21	14	TN	53,138	8	6

Table 2. Comparing Distributions of Credit Counselors to Bankruptcy Filings

Tax-Exempt Credit Counselor Distribution, Sept 2010			Non-Business Bankruptcy Filings, 2009			Rankings Difference	
State	Qty	Rank	State	Qty	Rank		
TX	57	3	TX	50,868	9	-6	
UT	9	30	UT	14,159	30	0	
VA	24	11	VA	35,338	12	-1	
VI	0	51	VI	20	54	-3	
VT	0	51	VT	1,498	49	2	
WA	25	10	WA	30,379	17	-7	
WI	13	21	WI	26,974	19	2	
WV	3	41	WV	6,458	39	2	
WY	3	41	WY	1,270	50	-9	
Total	834		Total	1,412,838		-0.76364	Mean
<i>Source: Internal Revenue Service www.irs.gov</i>			<i>Source: American Bankruptcy Institute www.abi.org</i>			8.37521	SD of Population

Table 3. Comparing Distributions of Credit Counselors to Foreclosed Properties

Tax-Exempt Credit Counselor Distribution, Sept 2010			Foreclosed Properties Inventory, June 2010			Rankings Difference
State	Qty	Rank	State	Qty	Rank	Δ
AK	1	48	AK	386	43	5
AL	13	21	AL	1,910	30	-9
AR	8	32	AR	1,919	29	3
AZ	14	19	AZ	16,510	5	14
CA	96	1	CA	69,143	1	0
CO	9	30	CO	5,854	12	18
CT	5	36	CT	1,796	31	5
DC	12	24	DC	195	46	-22
DE	4	38	DE	717	38	0
FL	65	2	FL	56,877	2	0
GA	43	4	GA	16,366	6	-2
GU	no data	no data	GU	no data	no data	
HI	2	44	HI	1,629	32	12
IA	12	24	IA	630	39	-15
ID	5	36	ID	2,915	27	9
IL	41	5	IL	16,808	4	1
IN	13	21	IN	5,722	13	8
KS	4	38	KS	1,224	34	4
KY	2	44	KY	1,151	36	8
LA	15	16	LA	1,559	33	-17
MA	11	27	MA	4,290	20	7
MD	37	6	MD	4,859	15	-9
ME	3	41	ME	271	45	-4

Table 3. Comparing Distributions of Credit Counselors to Foreclosed Properties

Tax-Exempt Credit Counselor Distribution, Sept 2010			Foreclosed Properties Inventory, June 2010			Rankings Difference
State	Qty	Rank	State	Qty	Rank	Δ
MI	27	9	MI	17,764	3	6
MN	15	16	MN	3,478	25	-9
MO	12	24	MO	4,084	24	0
MS	11	27	MS	588	40	-13
MT	6	34	MT	571	41	-7
NC	24	11	NC	4,844	16	-5
ND	2	44	ND	58	50	-6
NE	4	38	NE	339	44	-6
NH	2	44	NH	820	37	7
NJ	19	15	NJ	4,777	18	-3
NM	1	48	NM	1,158	35	13
NMI	0	51	NMI	no data	no data	
NV	11	27	NV	13,385	9	18
NY	35	7	NY	4,807	17	-10
OH	29	8	OH	13,479	8	0
OK	6	34	OK	1,980	28	6
OR	14	19	OR	4,106	22	-3
PA	23	13	PA	6,525	11	2
PR	1	48	PR	no data	no data	
RI	0	51	RI	404	42	9
SC	15	16	SC	3,389	26	-10
SD	7	33	SD	170	47	-14
TN	21	14	TN	4,265	21	-7

Table 3. Comparing Distributions of Credit Counselors to Foreclosed Properties

Tax-Exempt Credit Counselor Distribution, Sept 2010			Foreclosed Properties Inventory, June 2010			Rankings Difference	
State	Qty	Rank	State	Qty	Rank	Δ	
TX	57	3	TX	14,290	7	-4	
UT	9	30	UT	4,097	23	7	
VA	24	11	VA	5,436	14	-3	
VI	0	51	VI	no data	no data		
VT	0	51	VT	17	51	0	
WA	25	10	WA	6,760	10	0	
WI	13	21	WI	4,293	19	2	
WV	3	41	WV	127	48	-7	
WY	3	41	WY	94	49	-8	
Total	834		Total	338,836		-0.56863	Mean
Source: Internal Revenue Service www.irs.gov			Source: Mortgage Bankers Association, 2nd Qtr, 2010			8.75652	SD of Population

Table 4. Comparing Distribution of Credit Counselors to Unemployment Rates

Tax-Exempt Credit Counselor Distribution, Sept 2010			Unemployment Rates, August 2010			Rankings Difference
State	Qty	Rank	State	% Rate	Rank	
AK	1	48	AK	7.7	34	14
AL	13	21	AL	9.2	20	1
AR	8	32	AR	7.5	36	-4
AZ	14	19	AZ	9.7	15	4
CA	96	1	CA	12.4	3	-2
CO	9	30	CO	8.2	31	-1
CT	5	36	CT	9.1	22	14
DC	12	24	DC	9.9	14	10
DE	4	38	DE	8.4	27	11
FL	65	2	FL	11.7	5	-3
GA	43	4	GA	10.0	11	-7
GU	0	51	GU	no data	no data	
HI	2	44	HI	6.4	46	-2
IA	12	24	IA	6.8	43	-19
ID	5	36	ID	8.9	23	13
IL	41	5	IL	10.1	9	-4
IN	13	21	IN	10.2	8	13
KS	4	38	KS	6.6	45	-7
KY	2	44	KY	10.0	11	33
LA	15	16	LA	7.6	35	-19
MA	11	27	MA	8.8	25	2
MD	37	6	MD	7.3	39	-33
ME	3	41	ME	8.0	32	9

Table 4. Comparing Distribution of Credit Counselors to Unemployment Rates

Tax-Exempt Credit Counselor Distribution, Sept 2010			Unemployment Rates, August 2010			Rankings Difference
State	Qty	Rank	State	% Rate	Rank	
MI	27	9	MI	13.1	2	7
MN	15	16	MN	7.0	40	-24
MO	12	24	MO	9.3	19	5
MS	11	27	MS	10.0	11	16
MT	6	34	MT	7.4	37	-3
NC	24	11	NC	9.7	15	-4
ND	2	44	ND	3.7	51	-7
NE	4	38	NE	4.6	49	-11
NH	2	44	NH	5.7	48	-4
NJ	19	15	NJ	9.6	17	-2
NM	1	48	NM	8.3	28	20
NMI	0	51	NMI	no data	no data	
NV	11	27	NV	14.4	1	26
NY	35	7	NY	8.3	28	-21
OH	29	8	OH	10.1	9	-1
OK	6	34	OK	7.0	40	-6
OR	14	19	OR	10.6	7	12
PA	23	13	PA	9.2	20	-7
PR	1	48	PR	no data	no data	
RI	0	51	RI	11.8	4	47
SC	15	16	SC	11.0	6	10
SD	7	33	SD	4.5	50	-17
TN	21	14	TN	9.6	17	-3

Table 4. Comparing Distribution of Credit Counselors to Unemployment Rates

Tax-Exempt Credit Counselor Distribution, Sept 2010			Unemployment Rates, August 2010			Rankings Difference
State	Qty	Rank	State	% Rate	Rank	
TX	57	3	TX	8.3	28	-25
UT	9	30	UT	7.4	37	-7
VA	24	11	VA	7.0	40	-29
VI	0	51	VI	no data	no data	
VT	0	51	VT	6.0	47	4
WA	25	10	WA	8.9	23	-13
WI	13	21	WI	7.9	33	-12
WV	3	41	WV	8.8	25	16
WY	3	41	WY	6.8	43	-2
Total	834		Mean	8.6		-0.23529
<i>Source: Internal Revenue Service www.irs.gov</i>			<i>Source: Bureau of Labor Statistics, August 2010</i>			15.13156
						SD of Population

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COMPARISON OF ETHICAL BEHAVIOR: INDIVIDUAL PERCEPTIONS AND ATTITUDES TOWARD ENTREPRENEURS

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Abstract

The identification of traits that separate entrepreneurs from the general population has proven unfruitful, leading to favor for a behavioral approach toward the study of entrepreneurship (Gartner, 1988). This approach views the entrepreneur as a role where an individual plays the part of an entrepreneur. In this sense, an entrepreneur becomes a category, composed of individuals, with its own set of defining characteristics. The purpose of this article is to assist in determining the ethical perceptions people hold of individuals characterized as entrepreneurs compared to their self-evaluations. We investigate how these differences affect employer preference, likelihood of new venture creation, and if prior entrepreneurial exposure influences perceptions. Further, demographic characteristics are explored, implications for practice are discussed, and recommendations for future research are given.

Introduction

Up to this point, the ethics of many categories of business people have been examined from different perspectives. Cole and Smith (1996) compared perceptions of business people to the typical person from the perspectives of both students and business people. Peppas and Diskin (2001) compared business students with and without formal classes in ethics. Bucar and Hisrich (2001) compared the self-reports of ethical practices of business managers to entrepreneurs. Medlin & Green (2003) compared the ethical attitudes and perceptions of small business owners/managers employing less than 100 employees. And finally, Longnecker, McKinney, and Moore (1989) investigated the unique ethical issues of small firms compared to large firms. The purpose of this article is to fill one of the remaining gaps by comparing the self-report of business students to their perceptions of entrepreneurs concerning ethics. Thus, some important questions remain; do students perceive themselves to be more ethical than entrepreneurs, are the ethics of students closer to their perceptions of business managers or entrepreneurs, what factors may contribute to these differences in perception, and are students that perceive entrepreneurs to be highly ethical more likely to start their own business?

Our analysis uses a sample of business students because they simultaneously represent two stakeholder groups - employees and customers. As business students, they are either already employed or in training to become future employees. As future employees, they are resource that businesses must attract to survive. Their perceptions play an important role in where they will search and eventually find employment. As customers, their perceptions of entrepreneurs are relevant because they may be more inclined to purchase from entrepreneurs if they place value on ethical behavior and perceive them to be more ethical.

Literature Review and Hypotheses

Taken as a whole, entrepreneurs are associated with responsible ethical behavior when compare to other groups (Lepoutre & Henne, 2006; Solymossy & Masters, 2002; Teal & Carroll, 1999) and also perceive themselves to be more ethical than others (Tillery, 2000; Vitell, Dickerson, & Festervand, 2000). Based on self-report data from entrepreneurs and managers, Bucar & Hisrich (2001) found entrepreneurs to rate themselves more ethical. This body of research paints a clear picture that most groups perceive entrepreneurs to be more ethical than traditional business managers who are employed by others. Explanations for higher ethical standards among entrepreneurs include a greater commitment to the expectations of society (Solymossy & Masters, 2002), social contract theory (Bucar, Glas, & Hisrich, 2003), use of personal values (Bucar & Hisrich, 2001), and stakeholder and agency theory (Batchelor, Gibson, & Harris, 2010).

Students express a general concern about ethics in business (Beltramini, Peterson, & Kozmetsky, 1984). Cole and Smith (1996) found that students hold a lower ethical view of business people than business people do of themselves. Interestingly, they also found that the same group of students was more accepting of questionable ethical responses than business people. It seems somewhat confusing that these students view themselves ethically superior to business people, yet report to be more accepting of questionable ethical behaviors. This may be explained by research supporting the idea that people, in general, tend to rate themselves as more ethical than others (O'Clock & Okleshen, 1993; Tyson, 1992). Based on the overall trend that entrepreneurs are generally perceived as being more ethical individuals, particularly compared to business managers, we believe entrepreneurs and business students should hold very similar ethical beliefs. But, the tendency of individuals to upwardly bias reports of their own ethical beliefs leads us to predict that students will rate themselves more ethical than entrepreneurs, leading to the following hypotheses.

H1. Business students will self-report higher ethical responses than their perceptions of the ethical responses of entrepreneurs.

Partly due to their agency relationship, business managers are required to compromise their personal values, aligning them with those of their company, more often than are entrepreneurs (Bucar & Hisrich, 2001). Additionally, entrepreneurs are likely to be more sensitive to the expectations of society than their corporate counterparts (Humphreys, Robin, Reidenbach, & Moak, 1993).

Agency and stakeholder theories are often used to understand the differences between the ethical behaviors of entrepreneurs and business managers. Agency theory describes the relationship that most business managers have with their organization. It is one whereby a party (the principal) delegates his or her authority to another party (the agent) by engaging the agent to perform some service or action on behalf of the principal. This relationship results in an implied contract where the actions of the agent (business manager) are limited and or guided by the wishes of the principal (organization) (Hill & Jones, 1992; Jensen & Meckling, 1976; Ross, 1973). The contract mentioned here may be one that limits the actions of the business manager to those that will either maximize profit or performance, thus at times limiting their ability to act ethically.

Because entrepreneurs are self-employed, they do not answer to a principal, instead they have obligations to stakeholders. This point is explicitly stated in our questionnaire for the purpose of removing confusion respondents may have. Stakeholder theory proposes that when entrepreneurs make decisions, they should take into account the interest of all who have a stake in the organization (see Jensen, 2002, concerning general stakeholder relationships). These stakeholders generally include shareholders, customers, employees, suppliers, and the community at large (Bucar et al., 2003). Here, stakeholder theory can be understood to imply that entrepreneurs do not have an implied fiduciary contract, as do business managers, who are limited in their ability to act ethically. Instead, they have relationships to maintain with stakeholders that may induce them to behave more ethically than they would otherwise.

Thus far, we used the terms small business owner and entrepreneur interchangeably. This is common in much of the entrepreneur literature (Solymossy & Masters, 2002). We are sensitive to the differences some may find between these two groups but find drawing a distinction irrelevant to the topic at hand. This is primarily because both entrepreneurs and small business owners lack traditional agency. Solymossy and Masters (2002) state the following, “Both entrepreneurs and small business owners/managers act as principal as well as agent in their businesses, exempting them from a number of agency issues facing larger organizations” (p. 236). We believe that their justification applies equally as well to our analysis. Additionally, it is reasonable to assume that the students responding to our questionnaire are not aware of the fine distinctions between the two groups. Thus, dividing the groups in our discussion would be misleading.

While business students may not be aware of the theoretical underpinnings just mentioned, it is reasonable that they may have some intuitive understanding that stakeholder and agency relationships exist. They must understand that most, if not all business people employed by others answer to a higher authority and must therefore act according to their wishes. Further, they should understand that entrepreneurs are, for the most part, free to make ethical decisions based on their own personal belief system instead of relying on corporate policy to dictate their actions. This is in line with the view that small business may serve to reduce the “bureaucratic pressure to act unethically” (Longenecker et al., 1989, p. 31) that exists in large firms.

By comparison, students and entrepreneurs are very similar. They do not report to any one centralized authority on a regular basis. Instead, they have interactions with many different stakeholders. Student stakeholders are parents, professors, and fellow students which compare nicely with the financial, customer, and employee stakeholders of entrepreneurs. Often, parents provide financial support to students like banks do for entrepreneurs, customers provide monetary feedback in the same way professors provide feedback as grades, and fellow students and friends interact with students on a daily basis much as employees do with their entrepreneurs. In all these stakeholder relationships, entrepreneurs and students are free to act as ethically as they choose without reporting to one centralized authority, yet need to maintain favor with these stakeholders. Thus, viewing the entrepreneur and student subject to stakeholders and managers subject to agency restrictions, it follows that students and entrepreneurs will be able to employ their personal values in a way that leads to similar ethical behavior, leading to the following hypothesis:

H2. Business students reported ethical beliefs will be more similar to their perceptions of entrepreneurs than business managers.

Prior research has established a link between ethical beliefs and exposure to information pertaining to the business environment. Cagle and Baucus (2006) found that students have a more favorable view of business people after completing case studies informing them of how business people stand up to corruption. In regard to work experience, Ruegger and King (1992) found that students with limited work experience were less ethical than students with more work experience. In further refining what type of work experience increases positive attitudes toward business, there is evidence that work with small businesses (Peterman & Kennedy, 2003) and family businesses (Reitan, 1996) lead to higher ethical perceptions of business ownership. With respect to family business exposure, it is likely that the perceived similarity between the individual and business owner is likely to lead to higher levels of liking and perceived morality, as compared to dissimilar others (see Byrne, 1961). For these reasons we propose that prior family business exposure will lead to more ethical perceptions of entrepreneurs, as stated in the following hypothesis:

H3. Business students with prior family business exposure will rate entrepreneurs higher than students without prior family business exposure.

The premise of similarity attraction theory is that, "Similarity on attributes such as attitudes, values, and beliefs will facilitate interpersonal attraction and liking" (Mannix & Neale, 2005, p. 31). This theory is especially relevant here because it applies to perceptions of strangers. Byrne (1961) finds that similar strangers are perceived to be better liked, more intelligent, and more moral than dissimilar strangers. The students in this study specifically evaluate entrepreneurs but in a more general sense, they are evaluating strangers. Based on the tenants of similarity attraction theory, students that ranked entrepreneurs high on ethics should perceive entrepreneurs to be more like themselves than students rating entrepreneurs low. Other findings in the attraction paradigm state that similar attitudes and beliefs lead to higher levels of attraction (Newcomb, 1961). Taking into account that people in general tend to rate themselves more ethical than others (O'Clock & Okleshen, 1993; Tyson, 1992), students that rate entrepreneurs to be more ethical than themselves should fundamentally share at least the same level of views on ethical behavior. Thus, this shared view of ethical behavior should lead to perceptions of similarity leading to attraction. This attraction to entrepreneurs may cause these students to view self-employment to be a desirable career choice leading to a higher desire to start a business in the future, resulting in the following hypothesis:

H4a. Business students ranking entrepreneurs to be more ethical than their self-reports will be more likely to desire to start their own business.

This perceived similarity with entrepreneurs may be due to having family members that own a small business. Because family members should share some sense of similarity, and similarity leads one to perceptions of higher morality (Byrne, 1961), students with immediate family members owning a small business should be more likely than others to perceive entrepreneurs to be highly ethical (indicated by ranking entrepreneurs to be more ethical than themselves).

H4b. Business students ranking entrepreneurs to be more ethical than themselves will be more likely to have immediate family members that own a small business.

We now turn our attention to how demographic categories affect whether students ranked entrepreneurs or themselves to be more ethical. Specifically, we look at ethnicity and gender.

The research on differing ethical beliefs between ethnicities is sparse at best. What is available provides little direction on which to base a direction for our hypothesis. Early research from England (1975) points that it is reasonable to assume that different cultures do have differing ethical beliefs. Specific findings on these differences range from Caucasians being more ethical (McCuddy & Perry, 1996), to Caucasians and African Americans holding similar beliefs (Tsalikis & Nwachukwu, 1988), to minority subjects being more ethical on one dimension (Atkins & Radtke, 2004). Findings specific to a business context suggest that minority students may have lower ethical perceptions of businesses than their Caucasian counterparts (Tat, 1981). Batchelor et al. (2010) found that minority students judged both entrepreneurs and managers to be less ethical than Caucasians. These results lead us to suppose that there will be differences in how minorities and Caucasians specific to rating either entrepreneurs or themselves to be more ethical. Because minorities have been shown to rate both entrepreneurs and managers lower than have Caucasians, we predict that they will be less likely to rate entrepreneurs higher than themselves relative to Caucasians.

H5. Minority business students will be less likely to rate entrepreneurs to be more ethical in their self-report than will Caucasian students.

Taken as a whole, past research on ethics concerning sex differences show there to be either no gender differences (Brady & Wheeler, 1996; Hagerty & Sims, 1978; McNichols & Zimmerman, 1985), or females to be more ethical than males (Beltramini et al., 1984; Betz, O'Connell, & Shepherd, 1989; Ruegger & King, 1992). These findings seem to indicate that if there is a difference in ethical beliefs based on gender, it points toward females being more ethical. When analyzing entrepreneurs, Bucar & Hisrich (2001) found that female entrepreneurs are slightly more ethical than their male counterparts. Female students have also been shown to perceive entrepreneurs more ethical, than do male students (Batchelor et al., 2010). We are not aware of any research to date that compares female self ratings to their ratings of business people. It is possible female students, while unaware of research on the topic, perceive themselves to be more ethical than males. Thus, when perceiving entrepreneurs as a group containing, females may view the male representative to produce a downward effect on the group as a whole. This leads us to hypothesize that females will give themselves higher ethical ratings than entrepreneurs viewed as a mixed group collective.

H6. Female business students will be less likely to rate entrepreneurs to have higher ethical standards than their self-report, compared to their male counterparts.

Methodology

Participants

Participants consisted of students enrolled in two large southeastern universities. A total of 150 surveys were completed. Some were returned incomplete resulting in a final set of 114 usable surveys. The sample population was fairly diverse: 43% male, 72.7% Caucasian, and an average age of 26.7 with ages ranging from 18 to 57. While technically “students” many respondents were either employed full-time (47%) or part time (32%).

Procedure

Beginning in the summer of 2009 through the spring of 2010 business students were asked by their instructors to complete a voluntary, anonymous online survey. The purpose of the research

study was stated as examining the ethical perceptions of entrepreneurs, managers, and business students. Survey completion was completely voluntary, but some students did receive extra credit for their participation.

Measures

Students' personal ethical beliefs and their perceptions of the ethical beliefs of entrepreneurs were measured with an instrument based on the model used by Bucar and Hisrich (2001). Students were given 32 behavioral descriptors and asked to indicate their extent of agreement; first based on their personal ethical beliefs, then as they believed the typical entrepreneur would respond, and finally, how they believed a typical business manager would respond. The items were rated with a five-point Likert scale ranging from 1 "Never" to 5 "Always." The alpha reliabilities of all three scales were all high, specifically .91, .93, and .88 for entrepreneurs, managers, and students respectively.

In addition to the behavioral descriptors just mentioned, respondents were asked two questions, using the same format as the behavioral questions, pertaining to their likelihood and intentions of starting a business in the future. Additionally, students were asked to respond either yes or no to the question "Has anyone in your immediate family ever owned a small business?" Finally, participants were asked to provide basic demographic information such as age, sex, and race.

Analyses

Unless otherwise noted, independent sample t-tests were performed to determine if significant differences existed between the groups analyzed in this study. It was necessary to use one-way ANOVA when the means of a third group (business managers) were added to our analysis.

Results

In order to assess whether students rated themselves to be more ethical than entrepreneurs and if student self-ratings were more similar to entrepreneurs than managers, a one-way ANOVA was performed to test the means of the three groups. The results of this test are listed in Table 1. Consistent with hypothesis 1, students did significantly rate themselves to be more ethical than their perceptions of entrepreneurs. The mean score of 72.252 for students was lower than the mean score for entrepreneurs 76.688, with a lower score indicating a more ethical rating. The difference between these means was significant at the $p < .05$ level, thus providing support for hypothesis 1.

Hypothesis 2 predicted that student self-ratings would be closer to their ratings of entrepreneurs than business managers. The results from Table 1 show that the differences between the means of all three groups analyzed (students, entrepreneurs, and managers) were significantly different ($p < .05$), and that the student rating mean of 72.252 is closer to the entrepreneur mean of 76.688 than the mean manager rating of 79.766. These results provide clear support for hypothesis 2.

Table 1. Differences Between Groups

Student	Entrepreneur	Manager	Sig.
(N = 114)	(N = 114)	(N = 114)	

Overall Ethical Behavior Score	Mean	72.252	76.688	79.766	.003*
	SD	14.307	16.987	19.720	

* Significant at $p < .05$.

As predicted in hypothesis 3, we expected prior family entrepreneurial exposure to affect student perceptions of entrepreneurs; however, this hypothesis was not supported. The ethical perceptions rating of entrepreneurs were very similar for students with and without prior entrepreneurial exposure, 76.395 and 77.143 respectively. As indicated in Table 2, these values did not differ significantly, failing to provide support for hypothesis 3.

Table 2. Differences Based on Family Member Owning Business

		Prior Ent. Exposure (N = 65)	No Prior Ent. Exposure (N = 49)	t
Entrepreneur Ethical Rating Total Score	Mean	76.395	77.143	-2.39
	SD	17.303	16.653	

* Significant at $p < .05$.

Hypotheses 4a and 4b tested differences between groups based on participants ranking entrepreneurs to be more ethical than students. To test these two hypotheses students were split into two groups, those that scored entrepreneurs to be more ethical than their self-reports and those with self-report scores more ethical than entrepreneurs. A very small number of respondents that provided equal ratings of both groups were not included in this analysis.

A combined score from two items designed to test each student's desire and intention to start his or her own business was used to test whether the two groups (students scoring themselves to be more ethical and students scoring entrepreneurs to be more ethical) differed significantly. As Table 3 shows, students that ranked entrepreneurs more ethical than themselves were significantly more likely to have entrepreneurial intentions, thus supporting hypothesis 4a.

Hypothesis 4b was tested in a similar manner to hypothesis 4a with the immediate family small business exposure variable substituted for the desire/intention to start a new business variable. As Table 3 shows, the means of these two groups (1.400 and 1.348) differed very little. This difference did not reach significance, failing to support hypothesis 4b.

Table 3. Differences Based on Starting Business / Family Member With Business

		Ent. More Ethical (N = 35)	Stud. More Ethical (N = 69)	t
Desire/Likelihood to Start Business	Mean	7.885	6.609	2.710*
	SD	2.040	2.378	
Immediate Family Member Owns Business	Mean	1.400	1.348	.518
	SD	.4971	.4780	

* Significant at $p < .05$.

Hypothesis 5 predicted that minority students would be less likely than their Caucasian counterparts to score entrepreneurs to be more ethical than their self-reports. Table 4 shows the means of the two groups to be almost identical .3378 to .3333. Understandably, these values did not differ significantly, failing to provide support for hypothesis 5.

Table 4. Differences Based on Race

		Caucasian (N = 73)	Minority (N = 31)	t
Rated Entrepreneurs More Ethical Than Student	Mean	.3378	.3333	.061
	SD	.4762	.4795	

* Significant at $p < .05$.

Finally, hypothesis 6 indicates that female students would be less likely than their male counterparts to score entrepreneurs to be more ethical than their self-reports. Table 5 shows the means of the two groups to be different, with males (.4255) more likely to score entrepreneurs more ethical than their female counterparts (.2632). Although these results are in the predicted direction, they just failed to reach significance at the $p < .05$ level, failing to provide significant support for hypothesis 6.

Table 5. Differences Based on Sex

		Male (N = 47)	Female (N = 57)	t
Rated Entrepreneurs More Ethical Than Student	Mean	.4255	.2632	1.753**
	SD	.4998	.4443	

** Significant at $p < .10$

Discussion

What is ethical depends on many different factors such as the perspective of the individual making the decision, the environment in which the decision is made, and the expected implications of the decision on others. In a sense, it is important to understand not only which groups are more ethical than others, but which groups' ethical beliefs are more aligned. Toward this goal, this study examined the business student's personal ethical perspectives and their perspectives of the ethics of entrepreneurs. Understanding the perspective of business students is important because they represent two stakeholder groups, potential employees and customers. Additionally, their perceptions of entrepreneurs are especially important because their creation and entry into small and medium sized ventures is essential for sustained economic growth and development (Teo & Poon, 1994).

Business students rated themselves more ethical than their perceptions of entrepreneurs. The finding that students' self-ratings are more closely aligned with the perceptions of entrepreneurs than business managers is important. While most studies show that entrepreneurs self-report to be more ethical (Bucar & Hisrich, 2001) and are perceived to be more ethical than other groups (Lepoutre & Henne, 2006; Solymossy & Masters, 2002; Teal & Carroll, 1999), we are not aware of any other single study that has measured and compared the ethics of business students, business managers, and entrepreneurs simultaneously. Our finding that students' ethical beliefs are more closely aligned with those of entrepreneurs than those employed by others is unique.

It is possible that ethical scandals such as Enron, WorldCom, and AIG, which have tarnished the view of many young adults toward large business, may not have exerted the same effect on their perceptions of entrepreneurs. Young adults may feel a closer tie to entrepreneurs than to faceless organizations because they are perceived to share similar ties with the same communities and are both vested in the community's success. Further, the positive work environments and diverse responsibilities (Harris, Grubb, & MacKenzie, 2006; Teo & Poon, 1994) often associated with employment within entrepreneurial firms may cause business students to hold more positive views of entrepreneurs leading to higher ethical ratings.

These findings on group perceptions are also consistent with the contentions of stakeholder and agency theories. Agency theory presumes that the implied contracts to maximize wealth or goals that business managers have with their organization may limit their ability to behave ethically in some situations. Entrepreneurs are free from these limitations, instead answering to stakeholders such as employees, customers, and the community at large (Bucar et al., 2003). Being held accountable by these groups, as opposed to an agency contract, entrepreneurs may be inherently bound to act more ethically than business managers. As described in this article, business

students answer to their own set of stakeholders such as parents, professors, and colleagues which closely mirror entrepreneurial stakeholders. It is possible that the similarity in the accountability structure between business students and entrepreneurs explains their similarity in ethical ratings.

Consistent with prior research (Batchelor et al., 2010), business students with immediate family members owning small businesses in our study did not rate entrepreneurs significantly differently than those without such exposure. Additionally, prior research on entrepreneur ethical ratings show that entrepreneurs are scored lower by minorities than Caucasians and perceived to be more ethical by females than males (Batchelor et al., 2010). Because these basic differences on how groups of business students rate entrepreneurs have been explored, we decided to turn our attention to understanding which groups of business students rated entrepreneurs more ethical than their self-reports.

Most individuals who start their own business do so because they simply do not like working for others (Shane, 2008). It is possible that the behavioral regulations limiting ethical behavior associated with agency theory and implied contract obligations are responsible for some of the discomfort associated with working with others. Additionally, stakeholder theory supposes that obligations to stakeholders (employees, customers, and the community at large) could potentially cause entrepreneurs to act more ethically than they might otherwise. These suppositions assist in understanding our findings that business students who ranked entrepreneurs more ethical than their self-report were more likely to express intent to form their own venture in the future. Those that rated entrepreneurs at a high level may intuitively understand that working for someone else may limit their ability to act ethically, while the stakeholder obligations inherent in self-employment may cause entrepreneurs to act more ethically than they would otherwise.

Our findings that those with immediate family members owning small business were not significantly more likely to rate entrepreneurs higher on ethics than their self-report is consistent with our finding that the same group of individuals did not significantly rate entrepreneurs more or less ethical than those without this exposure. These findings are consistent with current legitimacy theory suggestions that entrepreneurs are often required to misrepresent facts in order to gain legitimacy (Rutherford, Buller, & Stebbins, 2009). It's possible that business students with close family members owning small businesses are aware that entrepreneurs are often tempted to misrepresent facts in their favor. Knowledge of such misrepresentations by these business students may offset the positive view many have of entrepreneurs compared to business managers.

Our lack of support for differences in ethical perceptions of those that rated entrepreneurs more ethical than student self-reports further muddies the water of racial ethics research. These findings are surprising, because a similar study found that there were indeed differences in how minority students as a whole rated entrepreneurial ethics (Batchelor et al., 2010). Our findings indicate that there may be subgroups within the minority population that regard entrepreneurs differently. The existence of at least two subgroups would explain how some researchers find that minorities and Caucasians have differing ethical beliefs (McCuddy & Perry, 1996) and others find their beliefs are very similar (Tsalikis & Nwachukwu, 1988). Tat (1981) looks to environmental differences, similar to socioeconomic status, to explain these influences. It is possible that the inconsistencies in findings may be explained by socioeconomic differences within the minority community.

While not significant, our findings did show males more likely to rate entrepreneurs higher than their self-report as compared to females. This is consistent with most prior research pointing to females being more ethical than their male counterparts. It's possible that the male students in our sample inherently view females to be more ethical than males. Viewing entrepreneurs as a mixed gender group, the higher ethical scores of the female entrepreneurs should raise the mean of the group as a whole, resulting in perceptions of entrepreneurs as a group being more ethical than the average male.

Implications and Conclusions

Our findings provide entrepreneurs with a tool to increase accessibility to one of their most important resources, quality employees. Unfortunately, many young adults currently view employment with small businesses, such as most entrepreneurial firms, as a second choice to large organizations (Moy & Lee, 2002). This is often due to concerns pertaining to pay, benefits, and job security (Teo & Poon, 1994), extrinsic benefits upon which many entrepreneurial firms cannot compete. Our findings support the idea that entrepreneurs can capitalize on intrinsic perceptions regarding ethics as a strategic advantage in recruitment of young adults. In a time when public corporate scandals and misdealing are at an all-time high, new graduates and other highly qualified young adults may view employment in entrepreneurial firms with close ties to their communities as an appealing alternative to other forms of employment.

Small and medium sized companies, such as entrepreneurial firms, experience difficulty attracting recent graduates (Moy & Lee, 2002). Recent graduates are often vital to new venture survival. Often, small and new organizations cannot afford to hire experienced employees and choose to train younger more inexperienced individuals at a lower cost. Thus, attracting and hiring young adults and recent graduates is vital to small business survival. Practitioners can use our findings to capitalize on the benefits of their reputations as ethical players on the business field. Firm reputation can provide a competitive advantage to attract and employ young and high-caliber applicants (Turban & Cable, 2003).

The pursuit of opportunity, innovation, and growth of market and financial results are the three primary activities of entrepreneurs (Hannafey, 2003). This research has identified one strategic advantage entrepreneurs can develop in the pursuit of these goals. Higher ethical perceptions are one of the few advantages small entrepreneurial firms have over large corporations that may be exploited in their struggle for survival. Future research should investigate why young adults tend to rate entrepreneurs to be similar to them in ethical beliefs, if these perceptions predict employment preferences, and if so, how can these preferences be most efficiently exploited.

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ANGEL INVESTMENT TAX CREDITS: IMPLEMENTATION AND EFFECTIVENESS IN A SAMPLE OF STATES REPRESENTATIVE OF DIFFERING GEOGRAPHICAL AREAS OF THE UNITED STATES

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Abstract

Over the past decade more than twenty states have begun to offer tax credits to angel investors in an attempt to increase economic growth in their respective areas. The tax credits are intended to increase new venture investment, create jobs, and increase tax revenue collections, but there is some debate over the costs and benefits associated with these credits. This paper will address the role angel investors play in start-up companies and examine the implementation and effectiveness of tax credit programs in Hawaii, Louisiana, Wisconsin, Minnesota, Oregon, and Vermont. These states were chosen for the research sample based on their differing physical locations within the United States and the uniqueness of the characteristics of each state's chosen tax credit program. Recommended criteria for achieving an optimal outcome of tax credit incentives will also be outlined based on the success, trial, and error of various state programs.

Introduction

Most economists agree that entrepreneurship is essential to the vitality of any economy; creating new businesses, generating jobs, increasing technological competition, and aiding productivity of the state. In the United States, for example, approximately 75% of the new jobs added to the American economy each year are generated by small businesses and small businesses represent 99% of all U.S. employers (Holden, 2007).

Entrepreneurs provide innovation which leads to economic growth. Small firms provide far more innovation than do large firms. According to the Small Business Administration, small technology companies produce nearly 13 times the number of patents per employee than large firms. They represent one-third of all companies possessing 15 patents or more (Holden, 2007). In response to the budget crunch however, some states are putting a stop to tax credit and incentive programs intended to foster entrepreneurship and create jobs. Those in favor of the cuts argue that the tax policies have little influence on businesses' investment decisions. The effectiveness of tax credit programs has been called into question by several state policymakers.

Angel Investors

Angel investors are people who provide interest-free money to entrepreneurs who are launching, expanding, or acquiring a new business, in exchange for part ownership in that company. Angels typically invest between \$25,000 and \$2 million of their own money. They are investors not lenders, therefore if the company fails the entrepreneur is not required to repay the money. If a company succeeds the angel investor gets a piece of the company's profits, a portion of the sale price of the company, and/or shares in the company should it eventually go public on the stock exchange (Smith, 2007). They often assist "seed stage" companies, filling the void left in the marketplace when venture capitalists began shifting their focus toward funding later stage companies due to the lower associated risk.

Angel investors vary on a number of characteristics. Some angels invest alone while some prefer to invest in groups. Some are very knowledgeable about start-up businesses and others are more naïve. Angels can be passive or active investors, focus on early or later stage companies, high or moderate risk investors, accredited or non-accredited. Some investors prefer to become highly involved with the start-up company and others prefer a more arms-length transaction (Shane, 2005). The best angel investors not only have money, but business and technical expertise, contacts, and a desire to provide ongoing support after the initial investment. Those who find the right angel investor, not only gain the funds they need, but a valuable business partner as well (Smith, 2007).

Financial returns are the primary reason angels invest. Initially, angels evaluate any business proposal on financial criteria. They must feel confident that they will see a higher rate of return on their money by investing in the company in question as opposed to a less risky alternative, such as stocks and bonds. They invest for a number of other reasons as well including the thrill of entrepreneurship, to support their local community, to search for a balanced investment portfolio, to remain engaged in the business community beyond retirement, and out of a desire to keep learning (Smith, 2007).

Tax Credits

Tax credits for angel investors are available in a number of states. However, with economic downturns over the past 2-3 years, some states are questioning the need for tax credits as part of their annual budgets. Some officials are suggesting tax credits be cut from the budget, while others argue that the credits are a necessary part of their budget in order to boost economic growth.

National surveys of entrepreneurs indicate that there are five critical factors that state governments can influence in the area of entrepreneurship: Diversity in sources of capital, an enabling culture, strong local networks, supportive infrastructure, and entrepreneur-friendly government (National Governors' Association, 2010). Entrepreneurial activity tends to gravitate toward areas that promote its growth and success in the marketplace. Many government officials are taking notice and pushing for tax credit programs of their own to keep entrepreneurs from entering neighboring states where tax credits already exist.

Tax credits represent a dollar-for-dollar reduction of the angel investor's tax liability and programs vary greatly from state-to-state. Some states offer a 100% credit while others offer a more conservative 10%. Some states set a cap on the amount of the tax credit offered per investment or per year. They can be refundable or nonrefundable. Refundable credits are of higher value to the investor because any additional credit above the investor's tax liability is paid directly to the individual. Most tax credits, however, are nonrefundable and intended to eliminate an investor's income tax liability. Excess nonrefundable tax credits are sometimes lost, although most states have provisions for a carry forward period allowing the credit to be applied to future tax liabilities.

In addition to the intricacies of the states themselves and the way each is structured politically, geographically, economically and financially there is enormous variety in the way each has implemented angel tax credits. As can be expected, this is a cause for differences in effectiveness which is sometimes translated as a shortcoming of angel tax credits as a whole. In breaking down a variety of state programs and the number of claims submitted for the tax credit

and the revenue generated by the companies financed by angel investors it is relatively easy to see that success is proportionate to the commitment by state governments to their respective programs.

Sample States Offering Angel Investor Tax Credits

(For a complete listing of states offering Angel Investor Tax Credits refer to Appendix A)

Hawaii

Hawaii is an excellent example of a state identifying a need for a change in the program initially introduced. Hawaii's program began in 1999 with a 10% credit. In a relatively short period of time government officials along with angel investors realized that while the incentive was a step in the right direction, it lacked the needed leverage to entice a significant increase in angel investing. In 2001 the tax credit rate was raised to 100% for qualified high technology businesses (QHTB). In addition to the 100% credit for the Hawaiian investor, credits for out of state investors in partnerships with Hawaiian investors can be transferred such that the Hawaiian investor can receive up to 200% in tax breaks for angel investing for a tradeoff of equity in the company (Hayter, 2008).

There are obviously a few reasons the State of Hawaii has taken such drastic measures. First, the remote geographical location to the rest of the United States isolates the already limited angel resources. There is a close tie with California investors, and the transferable credits to business partnerships in exchange for company equity for the out of state investors is a great lure and one many states not in the same geographical situation would not need. Secondly, the higher cost of living in Hawaii reduces the amount of pool investment dollars available for new businesses. Lastly, Hawaii's traditional economic drivers have been tourism, real estate, and agriculture. Diversifying the total economy of the state with specific credits for technology better positions Hawaii for future growth (Williams, 2008).

Much like the other states to be discussed, there is a verification process to ensure the tax credits are going to businesses creating the type of return specified in the legislation creating the angel tax credits. Hawaii's program is administered by the Department of Taxation and their responsibilities are twofold. This department is tasked with receiving the requests for the angel tax credit, analyzing the request to ensure the company meets the standards of the legislation, and granting or denying the required QHTB status. Secondly, the Department of Taxation must also measure and quantify the results of the tax credit given to these companies. As will be a consistent theme for most states analyzed, this is neither easy nor standardized. The most recent published data is from October of 2007 and it states that \$195.6 million of credits were claimed from the program's inception in 1999 until 2005. Also during that period the businesses which received the angel funding associated with the tax credits received \$821.6 million in investments by angels – over four times the amount recovered in tax credits. These numbers help to dispel the myth that elimination of much of the risk associated with angel investors is a welcomed step towards increasing overall dollars found to capitalize small businesses waiting for venture capital money.

Louisiana

Louisiana's program, which ended at the close of 2009 and is currently under debate for reinstatement this year, offered a 50% incentive with a \$5 million annual cap. There were similar stipulations as to the types of businesses which were eligible as well as investors which

would be qualified under the law. As is consistent with all states researched, the investment business had to be located within the state. The verification process, with respect to investors, provided guidelines for net worth of angel groups, individual angels, and what holdings could be used in those calculations. Oversight of the program was the responsibility of the Louisiana Department of Economic Development (LED).

Louisiana is a state which has seen the promise of an angel tax incentive program only to lose it due to budgetary constraints. Originally started in 2005, the legislation was sunsetted at the end of 2009 despite signs of considerable success. In the five years the original package was in place 94 companies received \$61 million from 686 angel investors despite the tax credit not being nearly as lucrative as the Hawaii plan. During that time applications overran the funding set aside for the program, and along with budgetary shortages, the plan was allowed to sunset with the provision it would be revisited in a manner more conducive to long term stability for the state.

Senate Bill 500 seeks to do just that. The \$5 million annual cap from the previous legislation is maintained, however due to budgetary constraints any investment started in 2010 will not have an impact on state revenue until no earlier than 2012. Additionally there will be a renewed focus on businesses specific to the biosciences, technology, and digital media (Alario, Appel, Cheek, Dorsey, Gautreaux, B., Gautreaux, N., Herbert, Jackson, Long, Morrell, Muri, 2010). It remains to be seen just how the state can provide a worthwhile incentive and not see a revenue impact for two years or how effective potential Louisiana angel investors will view any new legislation, but the acknowledgment of the success of the program itself and the shortcomings on its original induction are very real.

Wisconsin

Wisconsin is an example of a state that has seen great economic growth since implementing angel investor tax credits in 2005. In 2003, Wisconsin was looking at a \$3.2 billion budget deficit. Although a leader in innovation, Wisconsin fell far behind its neighbors in venture capital investments. Legislators began focusing on angel and venture capital, specifically investing in “seed stage” companies, as a way to increase economic development.

When Governor Jim Doyle took office in 2003 he focused on an economic development plan known as “Grow Wisconsin.” As with most investment incentive programs, Grow Wisconsin targets businesses that are in the high-growth, high-tech, and bioscience fields (Williams, 2008).

The Grow Wisconsin program is made up of two independent organizations, one private and one public. The Department of Commerce is the public entity and they approve the businesses that qualify for the tax credit and administer the tax credit to the investor. The private entity is the Wisconsin Angel Network (WAN). They operate under the Wisconsin Technology Council, a non-profit entity not part of the government. The Wisconsin Angel Network has several goals including aiding in the formation of angel networks, streamlining the deal-flow process, providing educational opportunities for angel investors, measuring results, and providing any other assistance needed in the service of angel networks. The WAN does not invest money of their own or make recommendations on investments. Instead the WAN enhances communication between the private and public sectors so that they work in harmony (Williams, 2008).

Due to the state's budget deficit in 2005, Wisconsin did not have the resources to commit large amounts of money to the project. Therefore, the initial program agreed upon by legislature was a \$3 million annual state cap on angel tax credits, based on a 25% credit on the individual investment split over two years. A proposal of 40% was previously rejected. They established a \$250 thousand dollar cap on individual investments also split over two years. The Wisconsin tax credit is nonrefundable, but has a carry forward period of 15 years (Williams, 2008).

According to reports from the Wisconsin Angel Network, since they were founded in 2005 they have assisted in over 60 entrepreneurial success stories. Between 2005 and 2008 the amount of angel money invested jumped from \$5.3 million to \$15 million. The initial success of the program led to a revision in 2008 known as "Accelerate Wisconsin." This package includes a \$5 million a year grant and loan program that provides seed money to start-up businesses and provides the matching funds required for federal research grant applications. It allows individuals a limited 100% capital gains tax exclusion of up to \$10 million when they reinvest long-term capital gains in qualifying Wisconsin businesses. The new program has also proposed to raise the current cap of \$1 million per business in tax-creditable angel investments to \$4 million and a gradual expansion of existing angel investor tax credits to \$100 million by 2015 (National Governors' Association, 2008).

Since 2002 the number of angel investment deals in the state has increased by 300 % (Williams, 2008). According to 2008 analysis by the Price Waterhouse Cooper National Venture Capital Association, venture capital investments in Wisconsin have risen from \$39 million in 2003 to \$73 million in 2006. Currently, Wisconsin has \$6 million available in angel tax credits for the year 2010 with over \$10 million in credits still available from previous year carry-overs (Wisconsin Department of Commerce, 2010).

Minnesota

Minnesota is a good example of a state that felt the pressure to propose a tax credit to compete with their entrepreneur-friendly neighbor, Wisconsin. Harry Norris, CEO of Rapid Diagnostek, told a joint hearing of the Minnesota House of Taxes and Bioscience Committees that he moved his firm from St. Paul, Minnesota to Hudson, Wisconsin last year to take advantage of Wisconsin's tax provisions, which give investors an income tax credit for investing their money in risky, high tech ventures. He stated "I knew we had to move to Wisconsin to get it funded (Shaw, 2010)."

Those opposed to the Minnesota tax credit argued that because Minnesota has so much more venture capital activity per capita than Wisconsin, that it would take an over abundance of state money to provide incentives that would entice those venture capitalists who already planned to invest their money in the state of Minnesota regardless of the tax laws. Some argued that those who stand to benefit from the tax credit are in the top income tax bracket, and therefore might lose 30 percent of the value of the credit to federal taxes. House Taxes Committee Chair, Ann Lenczewski, responded, "Thirty percent of a tax credit goes to the federal government. You better have a mammoth multiplier to justify it (Shaw, 2010)."

Instead, Lenczewski proposed a grant program of her own that would raise \$50 million over the course of three years for grants to high-tech, biotech, medical device, or green manufacturing firms that have raised at least \$100,000 in private investment. Instead of awarding tax credits to investors, Lenczewski's bill would provide grants directly to the companies, ignoring the expertise that accompanies angel investments and aid in the long term success of the business. Under this bill, the state would determine which companies deserve funding, decisions that some argue would best be left to experienced angel investors (Lee, 2010).

Lawmakers in favor of the tax credit struggled to find a way to fund it in the face of a \$2 million budget deficit and strict opposition to any new taxes from Minnesota Governor, Tim Pawlenty. Supporters of the tax credit originally proposed a \$40 million credit over the course of four years, but lawmakers could not approve such extravagant spending given their current economic situation (Lee, 2010).

After months of debate, the Minnesota Angel Tax Credit was signed into law on April 1, 2010. The 5 year credit provides a 25% individual income tax credit for qualified investors. It is refundable and allows a maximum credit of \$125,000 per year, per individual. It allows a maximum credit of \$250,000 for those married and filing jointly. Of the \$11 million in tax credits available for the year 2010, \$10,450,000 remains available as of August, 10, 2010. Funding for years 2011-2014 is set at \$12 million per year ("Angel Tax Credit," 2010).

At this point it is far too soon to draw any conclusions regarding the effectiveness of the Minnesota Angel Tax Credit although Minnesota officials are certainly hopeful it will bring business back to their state and discourage entrepreneurs from crossing their borders into Wisconsin to receive funding for their business ventures.

Oregon

Oregon has taken a slightly different approach to the concept of angel tax credits, providing a plan for investments in state universities rather than companies. The plan which began in 2005 provides a fairly generous 60% tax incentive and there is no restriction on invested amounts since the infusion of angel money would be considered a charitable donation. The split of dollars received is \$14 million and the allocation is based on the size of each university's research enterprise. The credit is nontransferable and any additional credit remaining may be carried over indefinitely into future years (Williams, 2008).

In choosing this direction with their angel investment program, Oregon has greatly reduced the need for increased oversight by some government or external entity in reviewing and qualifying companies in certain preferred industries by going directly to institutions vetted by the state university system. Secondly, by directing the money specifically to university research, the start-up and early formation companies generally associated with research have a direct tie to the angel investors or groups who have already been donating and monitoring the progress of the research for which their money has been earmarked.

The most obvious criticism of the program is that the only realized benefit directly associated to angel investors is only the tax break and not the highly sought return on investment which is usually the driver for angel investing. The program in essence provides an extension of charitable donation tax write-offs at a much higher rate than normal and a closer association to potential investment opportunities. This is not usually the type of action and return associated

with angel investing. Additionally, some would argue that in this format the mentoring aspect, which can be invaluable to companies receiving angel investing and advisement, is almost completely lost. If a consistent measurement of state benefit were used nationally almost assuredly this system would rate less favorably than even states which do not offer as lucrative a tax credit percentage, and Oregon's lack of substantial commitment to angel investing ultimately has and will hinder the real economic gain the passing of angel tax benefits were intended to provide.

Vermont

Vermont is a more prime example of a state with excellent intentions by way of introducing a program for angel investors while simply failing to adequately research and implement the type of incentive in their program. The program, which was initiated in 2006, ran for two years and only saw one application for the credit (Angel Venture Capital Credit). The primary complaint of angel investors in that area was the 10% credit which was offered and a much more inductive situation in nearby Maine. Rather than adjusting the program to compete, Vermont chose to disband the program. Since that time Connecticut has initiated a program which would mean any future angel tax credits for Vermont would now have to include another state with a program much better than its original offer.

Measuring the Effectiveness of Angel Investor Tax Credits

Some states are finding it difficult to accurately quantify the effectiveness of the programs they have implemented. While some have delineated a specific measure of effectiveness, others have created a less structured program which has led to questions regarding its worth to the state. To better measure the effectiveness of their high technology business investment tax credit, Hawaii passed Act 206 requiring qualified businesses that accept investments to file an annual electronic survey before June 30th of each year (for the five years following the investment). Maryland, although not a state chosen as part of this paper's sample, has chosen to measure the effectiveness of their primarily biotechnology-based program by issuing annual reports reflecting the number of biotechnology companies assisted by the program and the number of jobs created. (Nwosu, 2009). In Wisconsin, a variety of data collection methods have been adopted to measure effectiveness. A consulting firm surveys angel investment. The Department of Commerce collects information from tax credit claims. Attorneys voluntarily disclose equity investments that pass through their offices. Data from these sources are cross-examined, analyzed, and reported back to policymakers (National Governors' Association, 2010).

Implications for Future Tax Credit Programs

The introduction of a state angel investor tax credit program by those states currently without one may be a vital component of statewide economic growth and success. Additionally, the careful management and assessment of the goals of the state program is crucial to its success as an argument opposing tax credit programs is the lack of valid measures of effectiveness. States would benefit from a very structured process to evaluate the success of their chosen tax credit programs. Utilizing the following list of criteria during program formation may result in greater confidence by lawmakers in the program's overall effectiveness and a greater commitment to program success.

- Identification and agreement of program goals – Each state has different economic gifts and drivers. To ignore these would be foolish, but to place your state's economic hopes in traditional revenues only is equally short-sighted. By utilizing government and private industry experience and working together with angel investing groups, local businesses and research universities, the right goals can be identified and set for each state's program.
- Adequately and correctly choosing incentives – As with the case of Vermont, failing to provide what angel investors would deem to be real incentives can and do severely limit and may ultimately destroy a program and waste taxpayers money. Again, only through collaboration of all parties involved and careful education of the state's constituency will the proper balance be struck. This is crucial to sustained success.
- Metrics which are quantifiable and in line with program scope – If the goals of the program are to increase local employment there needs to be a manner by which to assess the rate of success or failure of that goal. This step should be done in conjunction with the identification of program goals. Most every example of resistance to angel tax credits stems from a perceived lack of quantifiable success. This concern should be mitigated early in the planning process.
- Period of evaluation of metrics and commitment to adjustments – If the goals of the program are not being met and the metrics are being compiled accurately each state must have a mechanism of reevaluation of the goals to see if they were initially identified correctly. If the goals are the same, program modifications must be identified and implemented. If the goals of the program are incorrect, the process should begin anew with all affected parties collaborating on a new plan complete with metrics.

Conclusion

The purpose of this paper is to investigate the implementation and effectiveness of angel investor tax credit programs in a sample of states representing different geographical areas of the United States. The states of Hawaii, Louisiana, Wisconsin, Minnesota, Oregon, and Vermont were chosen based on their physical location within the U.S. and the uniqueness in approach and implementation of their chosen tax credit incentive programs. The following conclusions can be drawn based on the research conducted:

The indisputable facts are these:

1. According to the Center for Venture Research, in 2007 angel investors fed \$26 billion into 57,120 companies. Most of these dollars were centered in California and Massachusetts, traditional venture capital hotbeds (Sohl, 2008).
2. No less than 21 states have initiated or revamped angel tax credit programs since 2000 in an attempt to lure or keep businesses local, shifting the ratio of angel investing from those two states.
3. The federal government is currently discussing the implementation of a national angel tax credit of 25% after seeing the effectiveness of programs in the states offering these types of credits (Belk, 2010).

The chief argument of opponents to angel tax credits in any state is what is deemed by some to be a lack of quantifiable measures of success. Some have argued that these tax incentives are providing a tax shield to people of higher wealth for investments they would have made

regardless of the implementation of these state programs. Others feel that tax credits are invaluable to the entrepreneurial and economic growth of the state.

The overall intent of most credits is to encourage local angels to invest in local companies which can stimulate the local economy and put local people to work in jobs well above the median salary of the individual state. Businesses are recognizing and relocating to states with these incentives in place, further positioning themselves for economic development through diversity. Any program offered needs to have a specific end result in mind or the opportunities for either failure or the lack of achieving the intended outcome are indeed very real. This is where using one standardized measure to quantify success is not a realistic goal. Just in the states mentioned in this paper it is evident that states have very different outcomes in mind. Carefully outlined goals and methods of periodic review combined with valid measures of effectiveness established at the outset of the program are essential to the perceived success of any tax credit program.

Appendix A
List of States with Angel Investment Tax Credit Programs

<u>State</u>	<u>Status</u>
Alabama	Currently being discussed
Alaska	No program, nothing in research
Arizona	Jun-06
Arkansas	2007
California	No program, nothing in research
Colorado	2010 Pilot Program
Connecticut	2010
Delaware	No program, nothing in research
Florida	No program, nothing in research
Georgia	2010
Hawaii	1999
Idaho	Currently being discussed
Illinois	2010
Indiana	2003
Iowa	2002
Kansas	2005
Kentucky	1998
Louisiana	2005-2009, discussion to reintroduce
Maine	1988
Maryland	2005
Massachusetts	No program, nothing in research
Michigan	2005
Minnesota	2008
Mississippi	Currently being discussed

<u>State</u>	<u>Status</u>
Missouri	Legislation failed in 2009
Montana	Currently being discussed
Nebraska	No program, nothing in research
Nevada	No program, nothing in research
New Hampshire	No program, nothing in research
New Jersey	2009
New Mexico	2007
New York	1999
North Carolina	1999
North Dakota	1989
Ohio	1996
Oklahoma	2001
Oregon	2005
Pennsylvania	No program, nothing in research
Rhode Island	2006
South Carolina	No program, nothing in research
South Dakota	No program, nothing in research
Tennessee	No program, nothing in research
Texas	No program, nothing in research
Utah	No program, nothing in research
Vermont	2006-2008
Virginia	1999
Washington	No program, nothing in research
West Virginia	No program, nothing in research
Wisconsin	2005
Wyoming	No program, nothing in research

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ENVIRONMENTAL ACCOUNTING AND REPORTING BENEFITS TO SMALL BUSINESSES

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Abstract

This paper looks at the need for the accounting profession to help small businesses with their environmental reporting. Looking at both consulting work and environmental management accounting practices, a need is present for accountants in the area of environmental reporting for many reasons; these include: government regulations and fines, energy initiatives' cost implementation, and costs to maintain more energy efficient operations.

Although advice from lawyers or other professionals may be most effective when considering government regulations, small businesses can also rely on accountants for basic insight on government rules and regulations concerning the federal environmental acts, as well as their related fines.

Introduction

Small business and corporate citizenship is said to be “a firm’s sense of responsibility towards the community and environment (both ecological and social) from which it operates and draws resources and sustenance. Firms express this citizenship (1) through their waste pollution and reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources (“Corporate Citizenship, *BusinessDictionary.com*)” Although this focus has been better adapted within larger corporations, smaller companies are also now seeing a need for the design of controls and business practices that reduce their impact on the environment. Advertisements and “go green” campaigns are making small business owners and managers more aware of how their operations fit into the big picture. These small business owners are motivated to make changes within their companies and even request the assistance of environmental reporting for the end goal of improving their public image and reducing costs.

Environmental reporting is “public disclosure by a firm of its environmental performance information, similar to the publication of its financial performance information (“Environmental Reporting, *BusinessDictionary.com*).” The accounting profession may be able to provide knowledge and insight on how small businesses can achieve the environmental results that they desire by looking at the numbers. Although bettering the environment is an important goal to keep in mind, many businesses are eager to implement “greener” practices for the sole purpose of generating revenues and cutting costs—which is where accountants come in with consultation and preparation for future business practices. As one business owner summed it up, “We don’t do things just to be good. We don’t do things just to be, for example, tree huggers,” Tiernan said. “We do select things that have a brand value to them, but most of the things that we do, it has to make business sense (O’Carroll).

Most recently, the accounting focus on environmental reporting has been placed on environmental management accounting (International Federation of Accountants, comp.). Environmental Management Accounting is a form of full-cost accounting that serves to allocate all related costs, including environmental and social costs, to some part of business operations. Rather than placing a value on the specific effects a company has on the environment as

measured through environmental audits, accountants focus on the monetary translation of a business' operations on the environment. An example of this would be that while an engineer may measure the amount of energy used, an accountant would then take this information and translate it into dollars that could be saved through a new company-wide energy initiative. Accountants can use information collected through full-cost accounting to show how energy initiatives can be translated into savings at the unit, batch, process, plant, or entire company level.

Government Regulation

Small businesses are viewed differently than larger corporations when environmental regulations are created by the government, but they are not exempt from regulations altogether. "The Regulatory Flexibility Act requires that the impact of new regulations on small businesses be studied before they go into effect (U.S. EPA, *Practical Guide*).” The Act, originally passed in 1980 and amended in 1996, was created to ensure that small businesses are treated fairly under environmental regulation acts. Prior to this Act, entities were burdened with high legal, accounting, and consulting costs, when trying to keep up with regulatory demands designed primarily for large corporations. The Regulatory Flexibility Act recognizes that there is usually a direct relationship between business size and the business' impact on the environment and regulatory demands are scaled accordingly (Regulatory Flexibility Act).

Some of the more prevalent regulations affecting small businesses are the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Emergency Planning and Right-to-Know Act, the Toxic Substances and Control Act, and the Federal Insecticide, Fungicide, and Rodenticide Act (U.S. EPA, "Pollution Prevention"). Each of these Acts target different industries within the small business sector, but the three argued to receive the most attention are the Clean Air Act, the Clean Water Act, and the Safe Drinking Water Act. These Acts directly protect American's health by monitoring our air and water supply.

The Clean Air Act

The Clean Air Act is the law that defines the U.S. Environmental Protection Agency's responsibilities for protecting and improving the nation's air quality and the stratospheric ozone layer" (U.S. EPA, "Clean Air Act"). Compliance with the Clean Air Act does not depend on business size and therefore applies to some small businesses. Although earlier versions of the Act regulated "larger sources of air pollutants," environmental studies concluded that without including small businesses in the Clean Air Act regulations, the U.S. "would not achieve the desired level of air quality (Shepherd, Hornback, Furst, Holloway, and Jacoby).

The most recent amendments to the Clean air Act were enacted in 1990 and entail different levels of compliance that depend upon a business' location, types of chemicals, and amounts of chemicals that they use. A variety of small businesses that in some cases are affected by the Clean Air Act consist of agricultural chemical applicators, auto body shops, bakeries, dry cleaners, furniture repair shops, gas stations, general contractors, lawn mower repair shops, pest control operators, printing shops, air conditioning/refrigeration services, and wood finishers. Small business could be expected to monitor their emissions of chemicals, limit their hours of production, or even install specific control equipment based on the nature of their business (Shepherd, Hornback, Furst, Holloway, and Jacoby).

The Clean Water Act and Safe Drinking Water Act

The goal of the Clean Water Act is “the protection and maintenance of the chemical, physical, and biological integrity of the nation’s waters (U.S. EPA, “CWA Statute”). In comparison, “the Safe Drinking Water Act is the main federal law that ensures the quality of American’s drinking water. Under the Safe Drinking Water Act, EPA sets standards for drinking water quality and oversees the states, localities, and water suppliers who implement those standards (U.S. EPA, “CWA Statute”).

Fines for Non-Compliance

Although it may seem that the majority of environmental fines are placed on large businesses, in reality fines for small businesses have been increasing over the last decade. Small businesses need to be aware of their responsibilities in maintaining compliance with these acts. Financial and criminal penalties may be imposed on companies that, even negligently, do not comply, while stricter punishment is enforced for those that purposefully ignore the Acts (Shepherd, Hornback, Furst, Holloway, and Jacoby).

The Environmental Protection Agency has come down on small businesses across a variety of industries and the fines have totaled anywhere from \$1,000 to well over \$100,000. Fines of this size may be immaterial to big businesses, but could cause financial trouble for smaller operations. The fines not only require the payment itself, but also incur legal fees for the company in resolving their issue with the EPA.

Another cost to businesses because of these fines is the requirement that they report a description of the fine within the notes of their financial statements which are submitted to the Securities and Exchange Commission, for any fines totaling over \$100,000. As with other contingent liabilities, even firms in litigation over environmental issues must disclose the possible fines they face for noncompliance, if the fines are able to be reasonably estimated and the company is probable to lose the suit. With the information on their environmental fines being made public through this filing with the SEC, businesses on average lose 1.6% of their stock price (O’Carroll).

In 2002, the EPA fined a woodworking company for violations of environmental laws. “Laminated Products Inc. of Kenosha, WI was fined \$9,625 for alleged violations of planning, training, record-keeping and reporting requirements for hazardous air pollutants. The cabinet and countertop manufacturer also agreed to an environmental project costing at least \$298,000 that will modify its production process to use a water-based adhesive, cutting volatile organic carbon emissions by 17.5 tons annually.” In the same year, “the EPA also cited another woodworker Parenti & Rafaelli Ltd. For use of non-complying coatings that exceed VOC limits at its Mount Prospect, IL plant, and proposed a \$127,600 penalty.” The company only had 30 days from receipt of the complaint to file an answer and request a hearing (“EPA Fines Three Midwest Firms”).

In 2006, “two Alaska seafood processors agreed to pay fines totaling \$28,000 for violations of the Federal Clean Water Act.” “Both companies were found to be in violation of the National Pollutant Discharge Elimination System permit program, authorized by the Clean Water Act.” North Pacific Processors Inc. had to pay fines totaling \$23,000 for wastewater violations and Island Seafoods Inc. had to pay \$5,000 for violations. The two firms had each been in litigation with the claims for two to three years before the ruling, so they likely incurred considerable legal costs on top of the amount of their fines (Bauman).

Also in 2006, the EPA “settled with Bay View Industries of Oak Creek, WI for violating federal hazardous waste regulations, including storing hazardous waste without a permit. The EPA set a \$27,300 penalty against the furniture manufacturer for violating the Resource Conservation and Recovery Act requirements for managing hazardous waste, including failure to keep manifests on file, train personnel, record inspection reports and maintain a contingency plan and emergency procedures (Wood & Wood Products).”

As recently as December 2009, Charles Duhigg of the *New York Times* reported that “an analysis of EPA data shows that Safe Drinking Water Act violations have occurred in parts of every state.” With deficiencies in enforcement of this Act being brought to light, small businesses can expect that government agencies, such as the EPA, will begin cracking down even harder on infractions in these areas. In the same article by Duhigg, it was stated that “the EPA is expected to announce a new policy for how it polices the nation’s 54,700 water systems.” Although many of these water systems may be operated by local governments, small companies in this industry should expect these changes to affect them as well (Duhigg).

Preceding this article in October 2009 was the EPA citing of two Alabama entities, a local developer and public utility. The developer and utility were fined \$20,000 and \$900, respectively. The EPA is stated as saying, “By taking these enforcement actions, we are sending a strong message about the importance of protecting rivers, lakes and streams across the Southeast.” This statement leaves no doubt to the Environmental Protection Agency’s commitment to increase enforcement of the Federal Environmental Acts. Within the same week of these citings, the EPA issued a Clean Water Act Enforcement Action Plan to further their cause (Spencer).

Business Cost of Environmental Accounting and Reporting

When considering whether to adopt a new environmental initiative, small businesses are considering not only the cost of possible fines from noncompliance, but also the cost of implementing these initiatives. The accounting profession can assist the client in comparing alternatives and calculating a realistic value for the money that will have to be spent and the savings that a business owner can expect to receive from the initiative.

The EPA lists the following costs for businesses to consider when analyzing a possible environmentally focused business change: initial startup costs, changeover costs, operating costs, environmental management and compliance costs, and avoided costs (U.S. EPA, “Pollution Prevention”).

Keeping Environmental Initiative Costs Down

Although initial capital outlay may be required to begin using “greener” processes, over time most small businesses will see a return on this environmental investment. Just as a financial audit points out a company’s weaknesses in financial reporting, an environmental audit can show a company their weaknesses in environmental practices and most small companies are eligible for free or inexpensive energy audits from local utilities (Energystar.gov). Usually these audits will be performed by an engineer or local environmental professional and consist of assessing a facility’s compliance policies, practices, and controls in regards to environmentally wasteful activities. These audits can be a good starting point for a business because managing and avoiding environmental costs requires recognizing that these costs exist (Conway-Schempf). However, the shortfall of these audits is that the focus is on consumption of energy and effects to

the environment, which may be difficult for a business owner to translate in what his practices are costing him monetarily.

The EPA has suggested companies work on less consumption and waste through the following practices that small businesses may easily be able to switch to: purchasing durable, long-lasting materials, eliminating raw materials that are not incorporated into the final product or service, using products that are free of toxic materials, reducing the amount of packaging, conserving water and energy, and implementing process recycling (U.S. EPA, “Pollution Prevention”). Many local governments have developed pollution prevention and energy conservation groups based on these guidelines that small businesses can join to show their communities that they are focused on decreasing the impact their company has on the environment. With the general population becoming increasingly aware of various activities that affect the environment on the corporate, small business, and even individual level, the opportunity is available to even use pollution prevention and energy conservation practices as a marketing tool.

Many environmental control technologies are available and support can be found through numerous non-profit organizations and government initiatives. Small businesses have a wide range of options for assistance in the areas of environmental technology development, technology selection, technology profiles, air pollution control technologies, and training in each of these areas.

Energy Star Partnership

One of the most well-known resources for small businesses is the Environmental Protection Agency’s Energy Star Partnership. This program “assists in measuring current energy performance, setting goals, tracking savings, and rewarding improvements (Energystar.gov).” The Energy Star website offers small businesses help with energy management, design guidelines for energy efficient buildings, as well as networking and training opportunities (Energystar.gov). Many small businesses and small non-profit organizations are already a part of the Energy Star Partnership from industries such as education, food sales, retail sales, healthcare, and warehouse and storage. Roughly 8,500 small businesses and congregations from all parts of the United States currently belong to the Energy Star Partnership (Energystar.gov, “By State”).

The Energy Star Partnership is easy for small businesses to join. Basically, the business “pledges to improve the energy efficiency of their facility and to buy Energy Star qualified equipment when possible (Energystar.gov).” In return, the partnership offers small businesses free advice on how to conserve energy and cut costs. Simple suggestions provided include turning off lights, equipment, and other electrical devices when not in use, changing out lights from incandescent light bulbs to compact fluorescent light bulbs, and using green power if possible. The partnership also encourages the energy audits, as mentioned earlier.

A Need for the Accounting Profession Within Environmental Reporting

Although there are already some environmental audits and programs in place to assist small businesses in their efforts to be more “green,” accountants can assist the environmental effort by using their knowledge to show companies how they can save money in a monetary format. From an accountant’s perspective, it may be easier to appeal to businesses looking to cut costs. Not all firms are necessarily threatened with fines by the EPA, and may not see a need to change to greener practices if they are not yet hearing complaints from their clients or community. In these cases the only way a business owner may make sense of “going green” is if costs incurred now

will actually save the company money. A client who has a successful long standing business may be especially wary of change or newer, more environmentally sound practices, but an accountant can provide concrete numbers that may shift the business owner's outlook on their environmental impact. Due to this fact, accountants will have the most success within environmental reporting by working with environmental engineers and other field experts.

“As with legal liabilities, accountants must rely on the work and opinions of experts in other fields to determine the impact of environmental issues.” It may be that audits are more easily provided and able to estimate actual environmental impact when performed by these experts. Accountants can contribute to the equation by “recommending ways to attain regulatory compliance and areas where business can improve cost efficiency.” This scenario is similar to accountants enlisting other experts for estimating liabilities within a financial audit, but the focus is on estimating a firm's environmental impact/liability (Coate, Frey, and Sakuvich).

Incorporating an accountant's knowledge of financial auditing and reporting is a logical starting point for environmental auditing and reporting. Although accountants may be looking at different types of accounts, the process of preparing for financial engagements and reviewing internal controls is similar. Cost accounting is closely tied to environmental accounting, because of the process it uses to allocate all relevant costs to a unit, a batch, a process, or a plant. The results of an environmental audit by an engineer or other environmental professional can help an accountant come up with monetary amounts needed to show clients where environmental costs are affecting their businesses and by how much.

Environmental Management Accounting-Internal Position

One of the newest terms used to describe this type of full-cost accounting is environmental management accounting (International Federation of Accountants, comp.). Environmental management accounting refers to “the management of environmental and economic performance through the development and implementation of appropriate environment-related accounting systems and practices. While this may include reporting and auditing in some companies , environmental management accounting typically involves life-cycle costing, full-cost accounting, benefits assessment, and strategic planning for environmental management (International Federation of Accountants, comp.).” With this definition it may be that an accountant's opportunity in this field is better used within a company, such as an internal accounting and reporting position. This type of position may allow for the accountant to make more suggestions and improvements over environmental practices than an outside auditor.

There are two broad areas of environmental management accounting which create an easy division of responsibilities between environmental engineers and accounting professionals. These two areas are the collection of “physical information on the use, flows and destinies of energy, water and materials (including wastes) and monetary information on environment-related costs, earnings and savings (International Federation of Accountants, comp.).” Where engineers and other organizations can assist in conducting energy efficient audits and measurement of the uses of energy and natural resources, accountants can provide knowledge on the possible environment-related costs and savings (International Federation of Accountants, comp.).

Although accountants within a company may have easier access to environment-related financial data, there are still quite a few challenges associated with collecting the data they really need. The problems that environment management accountants come across most often are: “communication/links between accounting and other departments are often not well developed; environment-related cost information is often “hidden” in overhead accounts; materials use, flow and cost information often is not tracked adequately; many types of environment-related cost information is not found in the accounting records; and, investment decisions are often made on the basis of incomplete information.

“Most corporate managerial accounting systems do not track costs closely. Easily identifiable costs, such as labor or raw materials, are often finely tracked and allocated to particular product or process lines, but many costs—such as administration costs and environment, health, and safety costs, are considered to be indirect or overhead costs and are allocated broadly across product and process lines.” “Placing a cost in an overhead account allows it to be shared across activities, but generally removes cost responsibility from any one particular product line or manager. If no one is responsible for a cost, it is likely to be ignored, or in the worst case, may increase as a result of efforts to reduce other costs (Conway-Schempf).

To combat these problems and appeal to business owners or other managers within the company an environmental management accountant must successfully allocate environmental costs into different categories that can then be presented to the managers responsible for that area of the company. The idea is that once these managers see in numbers the environmental impact their operations are having on the company as a whole, they are better equipped and encouraged to make changes benefiting the environment and their department’s bottom line. The most common environment-related cost categories are: materials costs of product outputs; materials cost of non-product outputs; waste and emission control costs; prevention and other environmental management costs; research and development costs; and other less tangible costs.

Some businesses have already seen measureable monetary success in their environmental efforts such as, Clyde Butcher, a nature photographer from southern Florida. “Electricity bills at his Big Cypress Gallery...have dropped 60% from \$360 to \$150 a month. He did it by changing light bulbs, specifically replacing his halogen bulbs with special 7-watt L.E.D. bulbs (Deneen).” Another measureable example of saving costs is with the adoption of Energy Star qualified compact fluorescent light bulbs (CFL). These CFL bulbs will save about \$30 over their lifetime and pay for themselves in about 6 months. They also use 75% less energy and last about 10 times longer than an incandescent bulb (Energystar.gov).

Sustainability Consultation-External Position

Although an internal position may give an accountant the most insight into a company and ways to help them develop environmental controls due to the costs of hiring a professional, small businesses may rather use an accountant on a consulting basis as they need to make improvements, instead of hiring someone for an internal environmental accounting position full-time. The International Federation of Accountants (IFAC) has a framework they published in February 2009 addressing accountants’ role in the sustainability within businesses. “Professional accountants in all types of organizations have a significant role in: challenging conventional assumptions of doing business; redefining success; establishing appropriate performance targets; encouraging and rewarding the right behaviors; and ensuring that information flows to support decisions to monitor and report performance go beyond the traditional ways of thinking about

economic success. Being sustainable requires an organization to take full account of its impact on the planet and its people (International Federation of Accountants, “Sustainability Framework”).”

IFAC suggests a sustainability framework that would help accountants focus on four perspectives useful to look at when consulting with clients on sustainability. The four perspectives are business strategy, internal management, financial investors, and other stakeholders. “Organizations that have successfully embraced sustainable development to add value to the organization and its stakeholders have usually taken action on all four perspectives.” This idea gives accountants a guideline to follow when helping businesses create more environmentally responsible practices and also incorporates the necessary function of cutting costs. At times the objectives or needs of these four different views may be competing. This helps the accountant work with the client through cost/benefit decisions in creating a situation where benefits outweigh the costs but also keep outside investors and stakeholders happy about the company’s environmental decisions (International Federation of Accountants, “Sustainability Framework”).

Implications

Small businesses can not only help the environment, but cut costs if they properly use environmentally sound techniques. This paper looks at the environment from both the accountants’ and small businesses’ perspective. It has good citizen implications, as well as legal implications, which, if followed correctly, could affect the bottom line of the small business.

Conclusion

When small businesses choose what makes sense for their company in terms of spending capital on environmental projects they use some form of a cost/benefit analysis. Businesses in each type of industry must consider what amount it makes sense to spend for their organization. This analysis considers costs previously mentioned; such as, the impact of environmental regulations on their operations, possible fines associated with noncompliance with environmental acts, the cost of implementing a new environmental initiative, and the cost of maintaining their environmental goals. Assuming a business is operating with profits in mind, their choice for environmental spending is one that generates the company more revenue or cuts the company’s costs. When considering the environment, although it is nice to be socially responsible, a firm wants the benefits they receive to outweigh the costs.

The cost/benefit analysis considered by small businesses helps accountant’s target which types of small businesses will most request and benefit from their services concerning the environment. Very small businesses, such as a company that leases minimal space, if any, and employs few people are unlikely to benefit from contributing the amount of capital necessary to receive environmental reporting advice from an accounting professional. The companies will likely see the outcome of their cost/benefit analysis pointing them in the direction of simple environmental changes, such as switching out their light bulbs for more efficient energy or joining the Energy Star Partnership. These types of environmental changes have a minimal cost for the small business that they can be assured they will recover and generate savings from implementing these practices.

The need for environmental management accounting will be seen within the range of mid-level to larger small businesses. These companies likely cover more space, employ a substantial amount of employees, and generate more waste than very small businesses. For these reasons, these companies may be inclined to spend more on adding environmental initiatives to their operations. They may have more capital available to use to generate greater savings down the road.

Mid-level sized small businesses would most benefit from environmental accounting services in a consultation format. Whereas these businesses may not see enough cost savings from employing an environmental management accountant full-time, they could be willing to spend capital for an outside accountant's expertise on environmental measures. This external position could use a method similar to the International Federation of Accountant's process of considering the business' strategy, internal management, financial investors and other stakeholders.

As with a usual accounting firm's sliding scale of prices for the different level of services they offer and the amount of work performed, accountants offering environmental consulting could charge based on the depth of the project. Some services that an accountant may provide for mid-level businesses are variance reports on year to year or month to month environmental expenditures or financial projections on results of implementing a specific environmental initiative under consideration.

A cost/benefit analysis within a larger small business may result in a benefit seen from employing an environmental management accountant full-time. For the company to get a true picture of the full-cost of their expenses on their environment, it may be necessary for someone to work for the business year-round. In this position the accountant would do similar tasks as at the consulting level, but also go more in depth in considering the full-cost of operations on the environment. An accountant in this position would also have greater control over the actual implementation of energy saving initiatives rather than just making suggestions through a consultation.

Larger small businesses are likely to have more flexibility in the amount of capital they are able to contribute to energy initiatives. With the ability to use more resources, these businesses may be the only category of small businesses that would be able to make sense of employing a full-time environmental management accountant. These businesses may also be the only type of small business with complex operations that require someone on staff full-time to monitor environmental impact. A mid-level or very small business would not benefit as much from a full-time environmental management accountant because they may not have complex enough operations to need the constant attention larger more complex small businesses take advantage of in a full-time employee.

GENERATIONAL DIFFERENCES IN FAMILY BUSINESS LEADERSHIP: A CASE STUDY

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Abstract

The primary subject matter of this case is small family business management, specifically comparing the leadership styles of a family business leader and his successor and quantifying those differences as reflected in the financial performance of the company. Comparisons are made through the use of ratio analysis. I also examine some of the complex interactions among family members as a business moves from second to third generation management and ownership. Appropriate for junior and senior level undergraduate courses, the case can be taught in one class hour and requires roughly three hours of outside preparation by students. The events described in this case are based on real world experiences, but all names have been disguised.

Introduction

The afternoon thunder storm boomed across the tropical skies of West Palm Beach, Florida as it did most summer days at 3PM give or take an hour. The electricity flickered briefly, but stayed on. Safely ensconced at his desk, tucked away in the back corner of the office area of the Wright Furniture Company's store, Thomas Wright, Jr. stared at the cancellation notices on his desk in shock and disbelief. Once again his father had wiped out two weeks of his work at the Furniture Market in Hickory and High Point, North Carolina. "Why did he bother to send me up there, if he was just going to cancel everything once I got back home and he saw the purchase orders," Thomas wondered to himself as he stewed over the batch of cancellations. "I found some real deals at Broyhill and Stanley with dating (extended payment terms) and freight discounts. I know the merchandise would sell quickly - practically walk off the floor - well before we would have to pay for it. What is he worried about? Why is he so conservative?"

Rather than approach his father while he was steaming, Thomas, who was wise for his forty years, chose to cool off and drink a cup of coffee. After a few minutes, the back of his neck and ears slowly turned back from their temporarily bright red color and Thomas regained control of his emotions. "It just wouldn't do any good to let Father see me in an angry state," Thomas mused to himself. Now, he rose from his desk, and strode forward to face his father, Thomas J. Wright, Sr., (hereafter referred to as T.J.) who was busily engaged in one of his favorite occupations, opening the afternoon mail. This task, while seemingly innocuous, signified the possession of power at Wright Furniture. The person who opened the mail saw the bills, payments, invoices, and other correspondence of importance first and directed that correspondence to the accounts payable clerk, the accounts receivable clerk, the secretary, the advertising manager, or whoever else may be concerned.

T.J. Wright Sr.'s desk was positioned strategically in the middle of the store's office area, looking into the showroom. The desks of the secretary, Mrs. Ruby Woodall, and the advertising manager, A. D. Rogers were in front of T.J.'s desk and butted up against the low wooden railing and gate that separated the office from the showroom. T. J. looked up as his son approached and spoke calmly in his melodious southern accent, "What can I do for you, son?"

"Father, why have you cancelled my orders from the Furniture Market?" asked Thomas.

"Tommy, I believe that you worked very hard and I am sure that you made some remarkably good purchases at the Market, but the timing just isn't right. We cannot have those orders coming in during July and August, which are our slowest retail months of the year. West Palm Beach practically shuts down in the summer. We would not be able to sell that merchandise until December or January," replied T.J.

"Perhaps, that is so, but I negotiated for excellent dating and freight discounts from the manufacturers. We will not have to pay for the furniture until January any way," Thomas asserted.

"I understand that, Tommy, but I do not want to take on the risk of overloading our inventory. We have to pay our bills and I do not want to jeopardize our financial standing. You may choose to do things differently in the future, but for now I am in charge and I am sorry, but this is the way I want to run the company," said T. J. with finality.

Company History

In the early 1920s, the boll weevil, a beetle measuring about six millimeters in length, migrated from Central America to the southern United States. This devastating pest destroyed the cotton crops of the region and forced thousands to relocate to other areas of the country (Wikipedia, 2010). John B. Wright owned and operated a general store in Forsyth, Georgia for over forty-four years, but following the advice of his oldest son, T. J. Wright, Sr., John agreed to leave central Georgia. In contrast to the rest of the region, an economic boom was underway in southeast Florida, occasioned by the opening of Henry Flagler's Florida East Coast Railway (Standiford, 2002). Extending his railroad two hundred and fifty miles south of St. Augustine, Flagler pioneered the development of Palm Beach with the construction of two large hotels, The Royal Poinciana and The Breakers. The hotels drew wealthy winter visitors to Palm Beach for the first time. To service the hotels and his mansion, White Hall, Flagler encouraged the founding of West Palm Beach across Lake Worth (the present day intra-coastal waterway) on the mainland. The town officially incorporated in 1894 (Drake & Marconi, 2006). John and his wife, Victoria, along with six of their children and their families, decided to move to West Palm Beach.

Starting the Business

Again following the advice of his oldest son, T.J., John Wright chose to start a retail home furniture store in West Palm Beach, departing from the general store format used in Georgia. The family formed Wright Furniture Company and opened an 11,000 sq. ft. store at 711 North Dixie Highway in West Palm Beach ("Furniture Company," 1935). With an investment of \$10,000, John Wright became president of the company. Each of his three sons invested \$1000 in the business. Leonard became vice president, T.J., Sr. was the secretary-treasurer, and Richard served in sales for the company.

The Second Generation: Three Sons

T.J. Wright, Sr., the sixth child and oldest surviving son of his parents, John and Victoria, was born in the family home in Forsyth, GA. T.J. attended a military prep school, Gordon College (Named for Confederate General Thomas B. Gordon), and graduated from Alabama Polytechnic Institute (later known as Auburn University) with a degree in electrical engineering. He served

in the U.S. Army earning the rank of captain. At six feet three inches in height, T. J. was a handsome man and possessed the charm and grace of a southern gentleman. While at home from the army, he met Pearl Norton in his father's general store and later married her.

After finishing his career in the U. S. Army, T.J. worked first for Westinghouse in Pittsburgh, PA as an engineer. Quickly tiring of the northern climate and engineering, T.J. and Pearl moved back to Atlanta, GA, where T.J. worked at Mather Furniture, a retail company, for four years before deciding to move to Florida with the majority of the Wright family. At Mather, T. J. acquired knowledge of the furniture industry, which was instrumental in the subsequent founding and development of the family business. T.J. and Pearl had three children: Mary Wright Gordon, Karen Wright Miller, and Thomas Wright, Jr.

Both of T. J.'s surviving brothers came into the family business. R. Leonard Wright, who was a few years younger than T.J., moved with the family to West Palm Beach and received about 30 percent of the stock ownership in Wright Furniture. However, the retail life style did not suit Leonard and he left Wright Furniture for a career on the road as a manufacturer's representative for the Broyhill Furniture Company. Leonard retained his stock ownership in Wright Furniture and the title of Vice President for many years.

T. J.'s youngest brother, Richard F. Wright, also grew up in Forsyth, GA. Richard moved with the family to West Palm Beach and originally bought into the Wright Furniture Company with an investment of \$1000. However, five years after the store opened in West Palm Beach and three years after Leonard left to work for Broyhill, Richard decided to open his own business. With initial financial assistance from his father, Richard moved to Miami and opened a furniture store, which he operated independently. In a series of transactions, Richard relinquished his stock ownership in the West Palm Beach company. So, after five years, the Wright Furniture Company only had one active second generation family manager - T.J. Wright, Sr.

T. J. Wright, Sr.'s Leadership

Eight years after moving to West Palm Beach and opening Wright Furniture, John B. Wright passed away. T.J. Wright, Sr. became president of the company and acquired 54 percent of the company's stock by inheritance from his father and the buy-out of his brother, Richard. The remaining 46 percent of the company's stock was spread out among T.J.'s siblings and their children with the largest amount (30 percent) belonging to Leonard Wright and his descendants. Under the leadership of T. J. Wright, Sr., the company purchased and remodeled a larger store (18,000 sq. ft.) that was in the center of the city's business district at 333 Datura St. and T.J. moved the headquarters and center of operations of the company from 711 North Dixie. The company operated successfully through several terrible hurricanes that directly hit West Palm Beach, the stock market crash and great depression, and the rationing and scarcity of consumer goods occasioned by the Second World War.

In the years just before the U.S. entered World War II, the military began a steady build-up of troops and training facilities. The warm climate and flat terrain of south Florida was especially conducive to military training in general and aviation training in particular. The U.S. Army Air Corps moved into Morrison Field in West Palm Beach (Drake & Marconi, 2006). As part of their patriotic war effort, the citizens of West Palm Beach regularly invited soldiers into their homes to entertain them and prevent homesickness. Pearl Wright practiced this hospitality by inviting soldiers who attended the First Baptist Church over to her house for dinner on Sunday

afternoon. In this manner, both of her daughters - Mary and Karen met their prospective husbands.

After the war ended and the economic restrictions on the production of consumer goods were lifted, T. J. Wright, Sr. led the company to open two additional stores. The first store was located in Delray Beach at 314 Atlantic Ave (the old downtown), which is 20 miles south of West Palm Beach. Later, the store was moved to 1648 North Federal Highway (on the major road of the day - US Highway 1). T.J. Wright, Sr. chose Eric Miller, the husband of his daughter, Karen, as the manager of the Delray Beach store. During this time period, T.J Wright, Sr. opened a store in Lake Worth at 813 Lake Avenue (the old downtown). The Lake Worth store was located roughly half-way between West Palm Beach and Delray Beach. These two additional stores were much smaller than the West Palm Beach store and served towns with lower populations. T.J. Wright, Sr. served as president of the company for 35 years. His tenure as president was marked by very steady annual profits and a generous dividend policy in which the family stockholders received payments each year. Due to his conservative management approach, the company acquired cash reserves, but remained small with just the three stores.

Third Generation: A New Direction

As soon as he finished college, Thomas J. Wright, Jr. joined the company full-time. Within another two years, Thomas married Doris Pike, a young lady from West Palm Beach. Doris met Thomas while attending Palm Beach High School, but she went on to finish her college degree at Mary Washington College of the University of Virginia. Thomas and Doris also became the parents of two daughters and a son just as T.J. Wright, Sr. and Pearl had in the preceding generation. Family tradition reports that T. J. Wright, Sr., delighted with the news that a grandson had been born, remarked, "Now, we have someone to run the business for another generation."

In his will, T.J. Wright, Sr. gave his three children: Mary, Karen, and Thomas Wright, Jr. equal amounts of his Wright Furniture stock, meaning each child received 18 percent of the company's stock. However, Thomas received the right to make all management decisions for the company. Neither Mary, nor Karen worked for the company. Mary married a college professor and lived in Macon, GA. Karen's husband managed the Delray Beach store for approximately twenty years until his retirement due to health concerns.

Following the death of T. J. Wright, Sr., Thomas consolidated his control of the company in a transition period. Then, within a few years, he embarked on an expansion program. First, Thomas bought property at U.S 1 and Northlake Blvd. in North Palm Beach (10 miles north of West Palm Beach) and built a two-story 30,000 sq. ft store. Although the distance from West Palm Beach is small, the North County area is considered a separate shopping area in Palm Beach County. The North Palm Beach store immediately became the flagship store for the company and maintained the top sales position for many years. Next, Thomas purchased property at Belvedere Rd and I-95 in West Palm Beach and opened a second West Palm Beach store there. During this time period, the downtown areas in South Florida and across the country as well began to decline as retail centers. The Datura St. store steadily declined in sales as consumers preferred shopping in the suburbs. The Belvedere Rd. store grew steadily in sales and surpassed the Datura St. store. Subsequently, Thomas Wright purchased property on U.S. 1 in Lake Worth and moved the store from its old downtown location and doubled the square footage of selling space in the process. Under Thomas Wright's leadership, the sales of the company

tripled, but Thomas could not maintain the dividend policy that his father followed. With the expansion of the company, funds were no longer available to pay dividends to the family stockholders. Understandably, tensions began to grow among the relatives.

Buying Out the Relatives

According to Jack Anthony, Thomas' friend and advisor, "T.J., Sr. did not do Thomas any favors concerning the stock ownership situation. I can only imagine that he had some different goals in mind. The way the stock was distributed benefited the extended Wright family - the aunts and cousins, but it did not benefit Thomas as the direct heir and manager of the company. He left a tremendous burden on Thomas to clear up the ownership of the company." To quell the complaints of the relatives and to gain complete control over the company, Thomas embarked on a lengthy campaign to buy-out the stockholding relatives one-by-one. Over a fifteen year period, Thomas re-purchased the stock of a dozen relatives at the cost of over 1.5 million dollars. Uncle Leonard's daughter, Laura, and Thomas' oldest sister, Mary, proved to be most difficult in the process. According to Thomas, "Unfortunately, Mary and Laura, who both live in Georgia and have rarely visited the stores here, have little idea about the trials and tribulations of the furniture business. They tend to have unrealistic expectations of our profitability. Also, they tend to think of the company as 'using my father's/ uncle's capital to make money.'"

Family Business Studies

Family business researchers have proposed that successors differ from founders by nature (Cater & Justis, 2009). Founders may risk everything they have to start a business. Then, at the end of their careers, founders may appear to be risk averse because they perceive a possible loss of their career's work. Successors are not entrepreneurs who are starting their own businesses, rather successors are managers who enter a going concern with a complex set of challenges that they did not create. As opposed to the founder of a family firm, the successor typically enters the firm on a lower level and works his way up through the ranks as he acquires knowledge of the firm (Cabrera-Suarez, De Saa, & Garcia-Almeida, 2001). The successor must wait until the founder steps down and turns over the leadership of the business (Stafford, Duncan, Danes, & Winter, 1999). This view of the successor entails growth and development from student to manager to top executive. The process of succession involves trust between the incumbent and successor generations (Handler, 1990). The practice of letting go of the family firm may be difficult for incumbents (Dyck, Mauws, Starke, & Mischke, 2002) as the process of development may be difficult for the successors (Fiegener, Brown, Prince, & File, 1994).

Conflict is common among leaders in family firms, but a good working relationship between the predecessor and the successor is vital to any transfer of power (Cabrera-Suarez et al., 2001). The incumbent must be willing to let go of the control of the business (Dyer, 1986), delegate responsibility, and allow the successor to make decisions and mistakes (Handler, 1990). Some incumbents refuse to train or coach their chosen successor, resorting to a type of undermining behavior, while some owners simply envy their children (Morris, Williams, Allen, & Avila, 1997). Still others act as if they are immortal and need no successor (Bjuggren & Sund, 2001) or determine that they will die in office (Howorth & Ali, 2001).

The perceptions of their role in the family firm may differ between the generations (Birley, 2002; Eddleston, 2008; Sharma & Irving, 2005). In the process of succession, parents take some risk that their children will perform honorably and successfully in the family firm (Barach & Gantisky, 1995).

Decision: Expansion or Caution?

Seated in the thickly comfortable leather office chair, Thomas swiveled to face the conference table, placed his elbows on the dark mahogany surface, and rested his head in his hands as he waited for the appearance of Lou Shapiro, the sharp young CPA. Thomas lifted his head, stared out the huge glass window of the eighth-story office of Cahill, Lewis, and Carter, P. A., and marveled at the shimmering blue beauty of the Intracoastal waterway and the precise rows of royal palm trees planted at the entrance to the island of Palm Beach. Thomas thought to himself, "This young CPA is about to tell me how to run Wright Furniture. Having never managed a furniture store, he will look at the financial statements and impart his wisdom unto me. I have twenty years of experience as president of this company and yet here I am subjecting myself to this scrutiny."

Lou popped his head through the door and greeted Thomas, "Good morning, Mr. Wright, how are you today?"

"Hello, Lou, I am doing just fine. Tell me, how are the statements looking now?"

"Well, Mr. Wright, here is the latest set of financial statements for the year just ended, hot off the press. We have the latest profit-and-loss statement for Wright Furniture Company (See Table 1.) and the latest balance sheet (See Table 2.)," Lou responded as he handed the documents to Thomas. "Mr. Wright, I know that you are concerned with the progress of the company, both short term and long term. So, I thought that today we might take a look not only at the most recent statements, but also go back and compare some past statements."

"Yes, I have often wondered if I am using the right strategy with my expansion program. For several years after my father passed away, I did not make any significant changes to Wright Furniture. Now in the past few years, I have opened two new large stores and expanded the other stores," said Thomas.

Let's look at the present financial statements and then compare them to the statements from the end of your father's tenure as president of the company. Here are the Wright Furniture Company statements from the last few years before your father, T.J. Wright, Sr. passed away, both the income statement (See Table 3.) and the balance sheet (See Table 4.)," Lou replied. "We should run a comparative ratio analysis. Even before running that analysis though, some changes are readily apparent. During your father's tenure, the company sold merchandise on installment. Customers bought the furniture with a little money down and then came into the store weekly to make payments."

"Yes, the dollar down and a dollar per week payment program worked great for many years, but we began to suffer larger and larger write-offs for bad loans. It became more and more difficult for us to collect the payments as people became more transient, moving in and out of the area. Times change and the days of doing business with a hand shake and a promise have passed. We had to get out of the credit business and that is reflected in our financial statements," explained Thomas.

"The other thing that immediately stands out to me is a change in the financial structure of the company from a position of very little debt under your father's leadership to the use of leverage under your direction," remarked Lou.

"My father believed in paying bills as soon as they hit his desk and operating the company without borrowing from anybody. This may have been as a result of surviving the Great Depression and the World Wars. You will see that there is no interest expense on his statements and no long term debt. In my case, the expansion program has introduced a higher level of risk into the business because of the need to borrow," admitted Thomas. "At the same time, we are a much stronger company, have increased our market share here in the West Palm Beach area, and may be able to defend our position against the encroachment of national retail chains and the strong furniture retailers in Miami and Fort Lauderdale that may move into our market area."

"In reviewing the income statements for the current year and the past two years, I see some volatility in your profitability. Your father had steady revenues and profits," stated Lou.

"The days of steady, linear increases in sales and profits may be past for our company," Thomas answered. "We face a growing but unpredictable market in Palm Beach County, subject to cyclical fluctuations. Nevertheless, I am optimistic about our future and I plan to expand up the coast and open new stores in Stuart (40 miles north of West Palm Beach) and Vero Beach (80 miles north of West Palm Beach)."

"Mr. Wright, as your accountant and from my review of your financial statements, I feel that it is my duty to advise you to exercise caution and restraint in such an expansion program," Lou stated with admonishment.

"Thank you for your advice, Lou, and I understand what you are saying, but I am the retailer here and I think that the market is wide open for growth and expansion. Someone will sell furniture to all those people who are going to move to South Florida in the next few years - why not Wright Furniture?" Thomas questioned.

Table 1: Wright Furniture Company
Income Statement
For the Current Year Ended June 30
(Thomas Wright, Jr. - CEO and President)

	Current Year	Prior Year	2 Years Prior
NET SALES	5,458,443	6,568,127	5,162,287
COST OF GOODS SOLD			
Beginning Inventory	1,698,943	1,544,530	1,457,080
+ Purchases	<u>2,712,152</u>	<u>3,690,945</u>	<u>2,904,773</u>
Goods Available for Sale	4,411,095	5,235,475	4,361,853
- Ending Inventory	<u>1,523,702</u>	<u>1,698,943</u>	<u>1,544,530</u>
COST OF GOODS SOLD	2,887,393	3,536,532	2,817,323
GROSS PROFIT	<u>2,571,050</u>	<u>3,031,595</u>	<u>2,344,964</u>
OPERATING EXPENSES			
Administrative	663,952	551,256	553,736
Occupancy	332,838	311,793	244,872
Interest	112,327	107,115	85,868
Advertising	383,570	328,576	298,382
Selling	515,270	614,329	504,369
Handling	193,289	216,330	186,278
Delivery	<u>222,129</u>	<u>224,179</u>	<u>237,227</u>
Total Operating Expenses	<u>2,523,375</u>	<u>2,353,578</u>	<u>2,110,732</u>
OTHER INCOME	16,013	34,501	18,647
NET PROFIT BEFORE INCOME TAXES	<u>63,688</u>	<u>712,518</u>	<u>252,879</u>
PROVISION FOR INCOME TAXES	<u>17,958</u>	<u>321,764</u>	<u>74,860</u>
NET INCOME AFTER TAXES	<u>45,730</u>	<u>390,754</u>	<u>178,019</u>

Table 2: Whitaker Furniture Company
Balance Sheet
For the Current Year Ended June 30
(Thomas Wright, Jr. - CEO and President)

<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash			128,737
Accounts Receivable			113,836
Merchandise Inventory			1,698,943
Prepaid Expenses			<u>20,313</u>
Total Current Assets			1,961,829
<u>FIXED ASSETS</u>			
	<u>Cost</u>	<u>Accumulated Depreciation</u>	
Land	354,908		
Buildings	1,612,163	586,838	
Delivery Equipment	134,727	84,724	
Warehouse Equipment	51,607	29,522	
Office Equipment	150,651	47,547	
Leasehold Improvements	<u>92,116</u>	<u>73,393</u>	
	2,396,172	822,024	1,574,148
<u>OTHER ASSETS</u>			
Cash Surrender Value of Executive's			
Life Insurance		97,528	
Investment - Downtown Properties, Inc.		16,200	
Utilities Deposits		<u>823</u>	<u>114,551</u>
			<u>3,650,528</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Current Maturities of Long-Term Debt			71,933
Accounts Payable			206,595
Deposits on Undelivered Merchandise			85,045
Sales Tax Payable			1,466
Income Taxes Payable			87,764
Other Accrued Expenses			94,928
Total Current Liabilities			547,731
<u>LONG-TERM DEBT</u>			878,491
<u>STOCKHOLDERS' EQUITY</u>			
Capital Stock -\$100 Par Value -			
Issued 1,500 Shares		150,000	
Retained Earnings		<u>2,074,306</u>	<u>2,224,306</u>
			<u>3,650,528</u>

Table 3: Wright Furniture Company

Income Statement

For the Fiscal Year Ended June 30, 1980

(T. J. Wright, Sr. - CEO and President)

	<u>June 30, 1980</u>	<u>June 30, 1979</u>	<u>June 30, 1978</u>
NET SALES	1,414,918	1,237,012	1,058,315
COST OF GOODS SOLD			
Beginning Inventory	186,225	197,141	182,969
+ Purchases	902,713	705,647	617,051
Goods Available for Sale	1,088,938	902,788	800,020
- Ending Inventory	253,876	186,225	197,141
COST OF GOODS SOLD	<u>835,062</u>	<u>716,563</u>	<u>602,879</u>
GROSS PROFIT	<u>579,002</u>	<u>520,449</u>	<u>455,436</u>
OPERATING EXPENSES			
Administrative	110,226	102,215	89,577
Occupancy	142,661	117,357	122,588
Advertising	68,652	48,935	44,590
Selling	103,354	97,104	83,062
Handling	25,276	22,147	19,544
Delivery	<u>28,200</u>	<u>25,554</u>	<u>22,801</u>
Total Operating Expenses	<u>478,369</u>	<u>413,312</u>	<u>382,162</u>
NET PROFIT BEFORE INCOME TAXES	<u>100,633</u>	<u>107,137</u>	<u>73,274</u>
PROVISION FOR INCOME TAXES	<u>30,409</u>	<u>34,894</u>	<u>22,111</u>
NET INCOME AFTER TAXES	<u>70,224</u>	<u>72,243</u>	<u>51,163</u>

Table 4: Whitaker Furniture Company

**Balance Sheet
For the Fiscal Year Ended June 30, 1980
(T. J. Wright, Sr. - CEO and President)**

ASSETS

CURRENT ASSETS

Cash	140,513
Accounts Receivable	657,220
Merchandise Inventory	<u>253,876</u>
Total Current Assets	1,051,609

FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	
Land	149,900		
Buildings	150,930	107,756	
Delivery Equipment	30,477	20,188	
Warehouse Equipment	51,607	29,522	
Office Equipment	5,700	4,987	
Leasehold Improvements	<u>65,910</u>	<u>57,304</u>	
	454,524	219,757	234,767
<u>TOTAL ASSETS</u>			<u>1,286,376</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	113,728
Accounts Payable - Stockholders	12,698
Sales Tax Payable	1,745
Other Accrued Expenses	<u>1,589</u>
Total Current Liabilities	129,760

STOCKHOLDERS' EQUITY

Capital Stock -\$100 Par Value - Issued 1,500 Shares	150,000	
Retained Earnings	<u>1,006,616</u>	<u>1,156,616</u>
		<u>1,286,376</u>

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Generational differences in family business leadership: a case study, instructor's note

Introduction

This case compares the leadership of a family business owner and his successor. While both leaders were successful, their goals and strategies differed markedly. After serving thirty-five years as president of Wright Furniture Company, T. J. Wright, Sr. appeared to be very conservative in the eyes of his son. Soon after gaining control of the company, Thomas Wright, Jr. repurchased the company stock of relatives and launched an ambitious expansion program – two bold initiatives that required considerable capital outlay. In retrospect, Thomas wondered if his strategy was the right one, but he still planned to embark on further expansion by opening two new stores as soon as possible. The purpose of this study is to aid students in their understanding of the challenges involved in family business leadership in general and more specifically to quantify the results of small family business leaders' decisions as reflected in comparative financial statements. To this end, the author employs a ratio analysis.

Methodology

Multiple in-depth qualitative interviews with the key actors in the case, including Thomas Wright, Doris Wright, and Jack Anthony were performed. These interviews were semi-structured in nature and conducted individually. The author enjoyed full access to company documents, records, reports, and annual statements covering a thirty year period. The author visited on site, making physical observations and also gathered newspaper and magazine articles, advertisements, company catalogs, and other documents.

Teaching Approach

The case's focus on small family business leadership and the application of ratio analysis makes it appropriate for use in Entrepreneurship or Small Business Management courses at the undergraduate level. The author highlights issues that may develop when family business successors modify the business strategy of their predecessors. The case serves as an appropriate companion exercise in Entrepreneurship or Small Business textbooks, especially in chapters dealing with family business issues or financial planning. Students should read the case after the class covers the family business or financial planning chapter. Each student should individually prepare written answers for the discussion questions attached to this Instructor's Note. During the next class period, the instructor should first introduce the case, lead a general discussion of the facts, and then apply principles from the textbook. The instructor may lead a case discussion, having students explain the different vantage points of the older generation leader, the successor, and the financial advisor.

Case Overview

The case opens with a scene depicting conflict between a successor and an incumbent family business leader. Thomas Wright, Jr. discovers that several weeks' worth of his efforts at the Southern Furniture Market in North Carolina have been wiped out by his father's cancellation of the entire series of purchase orders. T.J. Wright, Sr. asserts his authority as the leader of Wright Furniture and declares that his conservative buying strategy will prevail.

Then, in a flashback, the history of Wright Furniture is described. After moving from central Georgia, John Wright along with three of his sons, including T.J. Wright, Sr., started the company in West Palm Beach, FL. Within eight years, John Wright passed away and two of his sons moved on to other interests, leaving T. J. Wright, Sr. as the sole second generation family

business leader at Wright Furniture. T.J., Sr. led the company for thirty-five years, consistently earning annual profits and paying regular dividends to stockholding relatives. T.J., Sr. did open two small stores south of West Palm Beach, but his leadership was conservative albeit successful.

After serving Wright Furniture for many years in sales, advertising, buying, and financial management, Thomas Wright, Jr. assumed the mantle of leadership following his father's death. Thomas embarked on a substantial expansion program, opening two large stores and expanding the showroom space of the three existing stores. At the same time, Thomas consolidated the ownership of Wright Furniture in his own hands, paying over 1.5 million dollars over a fifteen year period to his sisters, aunts, uncle, and cousins to repurchase their stock.

The case closes as Thomas meets with Lou Shapiro, his accountant, to analyze the financial status of the company and to discuss strategic plans. Like many accountants, Lou advises caution as Thomas expresses the desire to open two new stores north of West Palm Beach. Students are left with the challenges of analyzing the company financial statements through a comparative ratio analysis and determining the best strategy for the company - expansion or caution.

Learning Material

Through analysis of this case, students will be expected to:

Analyze key financial factors in a small family business through a comparative ratio analysis.

Compare the impact of small family business leaders' strategic decisions on the financial standing of the company.

Propose a strategic direction for a small family business based on an evaluation of the company's financial statements.

Assess the impact of generational differences on small family business leaders.

Discussion Questions

1. Conduct a ratio analysis to measure the financial performance of Wright Furniture under the leadership of Thomas Wright, Jr. From the information provided in Table 1 and Table 2, compute the following ratios for the current year ended June 30.

a.) Current Ratio

b.) Quick Ratio

c.) Debt Ratio

d.) Times Interest Earned Ratio

e.) Average Inventory Turnover Ratio

f.) Gross Profit to Net Sales Ratio

g.) Net Profit to Sales Ratio

h.) Net Profit to Equity Ratio

Answers:

a.) Current Ratio = Current Assets/ Current Liabilities $1,961,829 / 547,731 = 3.58$

b.) Quick Ratio = Current Assets - Inventory / Current Liabilities

$$1,961,829 - 1,698,943 = 262,886 / 547,731 = 0.48$$

c.) Debt Ratio = Total Debt / Total Assets $1,426,222 / 3,650,528 = 0.39$

d.) Times Interest Earned Ratio = Earnings Before Interest and Taxes / Total Interest Expense

$$63,688 + 112,327 = 176,015 / 112,327 = 1.57$$

e.) Average Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

$$\text{Average Inventory} = 1,698,943 + 1,523,702 / 2 = 1,611,322 \quad 2,887,393 / 1,611,522 = 1.79$$

f.) Gross Profit to Net Sales = Gross Profit / Net Sales $2,571,050 / 5,458,443 = 0.47$

g.) Net Profit to Sales Ratio = Net Profit After Taxes / Net Sales $45,370 / 5,458,443 = 0.01$

h.) Net Profit to Equity Ratio = Net Profit After Taxes / Owners' Equity $45,370 / 2,224,306 = 0.02$

2. Conduct a ratio analysis to measure the financial performance of Wright Furniture under the leadership of T. J. Wright, Sr. From the information provided in Table 3 and Table 4, compute the following ratios for the Fiscal Year Ended June 30, 1980.

a.) Current Ratio b.) Quick Ratio c.) Debt Ratio d.) Times Interest Earned Ratio

e.) Average Inventory Turnover Ratio f.) Gross Profit to Net Sales Ratio g.) Net Profit to Sales Ratio h.) Net Profit to Equity Ratio

Answers

a.) Current Ratio = Current Assets/ Current Liabilities $1,051,609 / 129,760 = 8.10$

b.) Quick Ratio = Current Assets - Inventory / Current Liabilities

$$1,051,609 - 253,876 = 797,733 / 129,760 = 6.15$$

c.) Debt Ratio = Total Debt / Total Assets $129,760 / 1,286,376 = 0.10$

d.) Times Interest Earned Ratio = Earnings Before Interest and Taxes / Total Interest Expense

$$100,633 / 0 = \text{Undefined}$$

e.) Average Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

$$\text{Average Inventory} = 186,225 + 253,876 / 2 = 220,050 \quad 835,062 / 220,050 = 3.79$$

f.) Gross Profit to Net Sales Ratio = Gross Profit / Net Sales $579,002 / 1,414,918 = 0.41$

g.) Net Profit to Sales Ratio = Net Profit After Taxes / Net Sales 70,224 / 1,414,918 = 0.05

h.) Net Profit to Equity Ratio = Net Profit After Taxes / Owners' Equity 70,224 / 1,156,616 = 0.06

3. Compare the results of the ratio analysis for Wright Furniture under the leadership of Thomas Wright, Jr. and the leadership of T. J. Wright, Sr. Complete the following table. Then, explain the results.

Ratio	Thomas Wright, Jr.	T.J. Wright, Sr.	Industry Average
Current	3.58	8.10	1.61
Quick	0.48	6.15	0.38
Debt	0.39	0.10	0.64
Times Interest Earned	1.57	Undefined	2.00
Inventory Turnover	1.79	3.79	4.03
Gross Profit/Sales	0.47	0.41	0.42
Net Profit/Sales	0.01	0.05	0.05
Net Profit/Equity	0.02	0.06	0.05

The comparative ratio analysis shows a healthy Wright Furniture Company under the leadership of both T.J. Wright, Sr. and Thomas Wright, Jr. The current ratio is very high under both leaders. The quick ratio shows a far greater emphasis by Thomas to invest in inventory, but his quick ratio is still above the industry average. The debt ratio shows extremely low debt under T.J., Sr., but the ratio is still significantly better than the industry average under Thomas. This shows that there is still excess borrowing capacity. The times interest earned ratio is undefined under T.J., Sr. because there was no long term debt, nor interest expense. Inventory turns under Thomas' leadership slowed below the industry average, meaning that Thomas may have carried too much inventory to support the company's sales. Thomas' buying strength is reflected in a gross profit nearly five percentage points above the industry average. This means that the products he purchased commanded a premium price at retail and that he may have capitalized on discounts and special purchases from manufacturers as highlighted in the opening scene of the case. The profitability ratios reflect the steady profits earned under T.J., Sr.'s leadership. The profits for one year reported under Thomas' leadership were low.

4. From the information provided in the Wright Furniture Company Income Statements in Tables 1 and 3, compare the trends in Net Sales and Net Income After Taxes for the company under the leadership of Thomas Wright, Jr. and the leadership of T. J. Wright, Sr.

The company showed sales increases and profitability under the leadership of both Thomas Wright, Jr. and his father, T. J. Wright, Sr. during the comparative three-year periods. Both leaders were successful. The sales and profits under Thomas Wright, Jr. showed greater volatility in that the prior year was far better than the current year. Under the questioning of Lou Shapiro, Thomas explained that this variance should be expected because of the greater cyclical swings in the South Florida economy. In contrast, T.J. Wright, Sr. led a smaller company in a steadier environment toward the end of his tenure as president of Wright Furniture Company. Greater variability in sales and profits may also have occurred because of Thomas' more aggressive approach to store expansion, inventory management, and advertising expenditures.

5. The case ends as Thomas Wright, Jr. and Lou Shapiro discuss the possibility of expansion - the opening of two new stores for Wright Furniture north of Palm Beach County. Evaluate the situation. Should Thomas Wright, Jr. open the two new stores? Explain the major concerns and then clearly state your recommendation.

The major concerns involved in an expansion program for Wright Furniture stem from a probable increase in funding through the use of debt. Any time a small business borrows money, the risk of losing the entire company increases. Conservative small family business leaders, such as T.J. Wright, Sr., attempt to avoid such risk. In this situation, Thomas Wright would likely have to borrow money to buy properties or to buy merchandise to fill new showrooms. An economic recession could have a devastating impact on sales. Consumers typically defer purchases of durable goods, such as home furniture, during an economic downturn. Given the boom and bust history of the South Florida economy, such concerns are serious.

However, most economic experts would agree that the South Florida economy will grow tremendously over time, given some fluctuations. Thomas Wright, Jr. is correct in his assertion, "Someone will sell furniture to all those people who are going to move to South Florida in the next few years." The debt ratio for Wright Furniture also compares favorably to the industry average. Therefore, the best recommendation for the company would be to proceed with the expansion plans in a timely, but not hasty, fashion.

6. According to family business studies, successors differ from founders in some basic ways. Describe some of the generational differences between T. J. Wright, Sr. and his successor, Thomas Wright, Jr.

T.J. Wright, Sr., the second generation leader of Wright Furniture, was involved with the founding of the company. At the company's inception, T.J., Sr. risked everything he had to move from central Georgia to West Palm Beach. Over his thirty-five year tenure as president of Wright Furniture, T.J., Sr. built a strong company and invested his career and life's savings in the business. Thus, by the end of his career, T.J., Sr. had everything to lose in the business (Cater & Justis, 2009). Understandably, he adopted a conservative leadership approach.

In contrast, Thomas Wright, Jr., grew up in the family business and advanced through the ranks of the company from student to manager to top executive (Cabrera-Suarez, De Saa, & Garcia-Almeida, 2001). Although the two family business leaders worked respectfully and cooperatively together, T.J. Wright, Sr. had difficulty letting go (Dyer, 1986) and allowing Thomas to make decisions and mistakes (Handler, 1990). After waiting for T.J., Sr. to step down as president or pass away (Stafford, Duncan, Danes, & Winter, 1999), Thomas was ready to

change the direction of the company and adopted a more aggressive growth strategy. T.J. Wright, Sr. correctly took the risk (Barach & Gantisky, 1995) that his son, Thomas, would perform honorably and successfully for the company although employing his own leadership style.

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ASSESSING THE B2G OPPORTUNITIES FOR MINORITY AND WOMEN BUSINESS ENTERPRISES

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Abstract

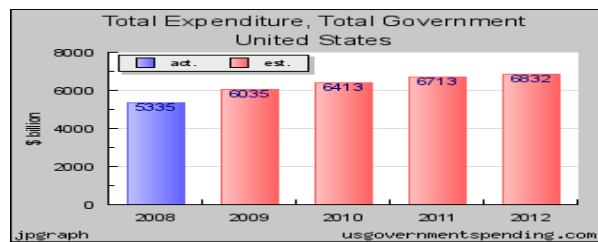
This study provides an initial overview of ways to foster business-to-government (B2G) sales revenue for minority and women business enterprises. The General Services Administration, the FedBizOpps.gov, the Minority Business Development Agency and the Small Business Administration's 8(a) program to represent 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 Pertzsch Design, Incorporated and the how this entrepreneur cultivated B2G opportunities to survive during the recession.

Introduction

In today's turbulent economic times small business owners are 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* proclaims that the recent financial crisis that tumbled finance and insurance giants such as Lehman Brothers and AIG will trickle down into more mainstream businesses. The recent article states, "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. However, in August (2008), 10% of businesses surveyed by the National Federation of Independent Business said loans were harder to get than they were three months earlier" (Lahart et al, 2008, p. A3). 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).

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/>).

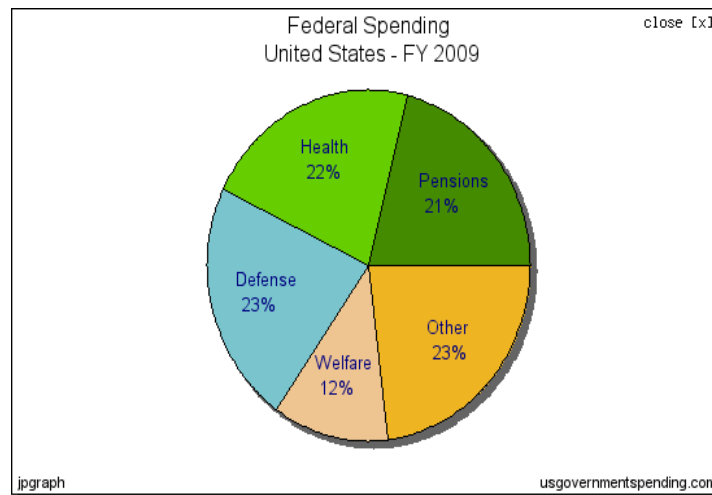
Figure 1



As seen in Figure 2, the big three areas that consume government expenditures are defense, health care and pensions. 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.

Figure 2



The B2G Institute website claims that \$327 billion of government contracts will be available to business in 2008 and that approximately \$70 billion will be reserved for small businesses (www.b2gintstitute.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 5 largest recipients of government contracts in 2010 and compared to small business contracts in 2007 is given in Table 1. Clearly, the defense industry dominates the top five lists for non-small business owners with Lockheed Martin, Boeing, Northrop Grumman, and the like. The contract revenues for GTSI, categorized as a small business, stem from defense contracts also.

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

Company	2010 Contract Revenue	Small Business	2007 Contract Revenue*
Lockheed Martin	\$16,700,588.328	GTSI	\$411,140,380
Northrop Grumman Corp.	\$11,145,533,497	Nana Regional Corporation	\$332,528,981
Boeing Co.	\$10,462,626,196	RS Information Systems	\$327,677,852
Science Applications International Corp.	\$ 5,474,482,582	Chenega Corporation	\$313,059,297

Source: www.washingtontechnology.com

* Figures not available for 2010 small businesses

Unfortunately, the website no longer gives the top government contractors for small businesses, but now reports its 2009 Fast 50 list where they rank the 50 fastest growing small businesses in the government market, such as HMS Technologies and Technical and Project Engineering (TAPE) with compound annual growth rates of 258.6% and 233.0% respectively (<http://washingtontechnology.com/fast50lists/fast-50-lists/2009.aspx>).

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)

Ethnic Group	1997 Total Firms	2002 Total Firms	Percent Increase In Firms	Total Gross Receipts 1997	Total Gross Receipts 2002	Percent Increase In Gross Receipts
Hispanic	1,200,000	1,574,000	31%	\$186.3 Billion	\$226.5 Billion	22%
African American	824,000	1,198,000	45%	\$71.2 Billion	\$92.7 Billion	30%

Asian	894,000	1,105,000	24%	\$304.0 Billion	\$343.3 Billion	13%
American Indian & Alaska Native	197,000	206,000	4%	\$32.3 Billion	\$26.4 Billion	-23%
Hawaiian / Pacific Islander	19,000	32,000	67%	\$3.9 Billion	\$5.2 Billion	27%
Minority Totals	3,039,000	4,116,000	35%	\$591.3 Billion*	\$694.1 Billion	17%
Total U.S. Firms	20,822,000	22,977,000	10%	\$18.6 trillion	\$22.6 Trillion	22%

The MBDA report offers the following key observations based on this table for the 1997—2002 time frame (MBDA Strategic Plan, p. 19):

- The number of African American firms increased by 45% and generated \$93 Billion in gross receipts.
- Likewise, Native Hawaiian and Other Pacific Islander firms increased by 67% with \$5.0 Billion in receipts.
- Hispanic-owned firms grew by 31% with \$226 Billion in gross receipts.
- Asian Firms grew by 24% with \$343 Billion in gross receipts.
- American Indian & Alaskan Native Firms increased 4% with \$26 Billion in gross receipts.
- Average gross receipts for all minority firms decreased 13% from 1997 to 2002.

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.

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

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%

Industry	All U.S. Firms	All Minority Groups	African American	American Indian and Alaska Native	Asian	Hispanic	Native Hawaiian and Other Pacific Islander
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

Based on the data in Table 3, the MBDA makes these key points (MBDA Strategic Plan, p. 20):

- American Indians and Alaska Natives and Hispanics have a high concentration in Construction 16.0% and 13.5% respectively.
- African American firms have a high concentration (20.5%) in the Healthcare and Social Assistance.
- Asian firms have a high concentration (13.9%) in Professional, Scientific and Technical Services and followed closely by Retail Trade (13.7%).
- Native Hawaiian and Other Pacific Islanders have a high concentration (14.3%) Healthcare and Social Assistance

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 just releasing preliminary data from its 2007 survey of small business owners at <http://www.census.gov/econ/sbo/>. The major highlights of this 2006 report, *Women-Owned*

Firms 2002, are listed below:

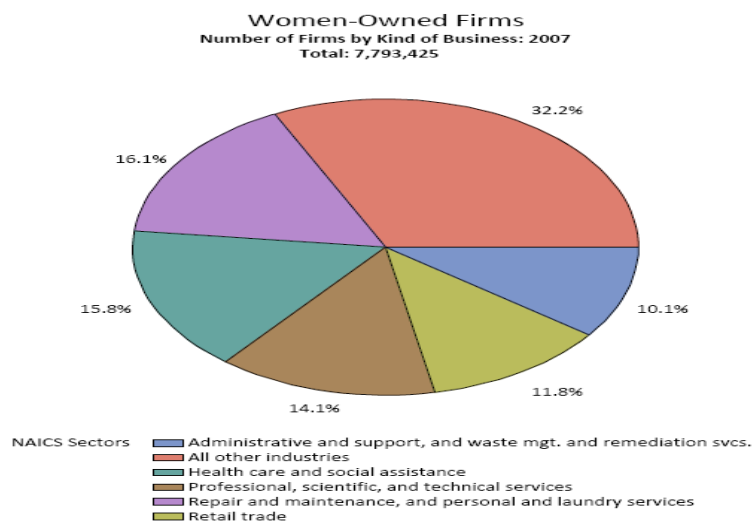
- In 2002, nearly 1-in-3 women-owned firms operated in health care and social assistance, and other services, such as personal services, and repair and maintenance. They owned 72 percent of social assistance businesses and just over half of nursing and residential care facilities.
- Wholesale and retail trade accounted for 38.3 percent of women-owned business revenue.
- There were 117,069 women-owned firms with receipts of \$1 million or more.

- There were 7,240 women-owned firms with 100 employees or more, generating \$275 billion in gross receipts.
- States with the fastest rates of growth for women-owned firms between 1997 and 2002 were Nevada (43 percent), Georgia (35 percent), Florida (29 percent) and New York (28 percent).
- Counties with the highest number of women-owned firms were Los Angeles County, Calif. (265,919); Cook County, Ill. (130,418); Miami-Dade County, Fla. (88,173); New York County, N.Y. (86,364); and Harris County, Texas (86,042).

Concentration of WBEs by Sector

Women-owned firms are clearly underrepresented in industry sectors that target the B2G sector, such as defense and construction. Figure 3 reveals the concentration of women ownership based on the U.S. Census Bureau, 2007 Survey of Business Owners that was released on July 13, 2010. 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.

Figure 3



Source: http://www2.census.gov/econ/sbo/07/prelim/women_ind_pie.pdf

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. Figure 4 below illustrates their homepage that is designed to match the needs of private sector business with government buyers.

Figure 4



Source: <https://www.fbo.gov/index?cck=1&au=&ck=>

A guidebook for potential vendors, *FBO.GOV Vendor Guide 1.4* is linked to this government site (https://www.fbo.gov/downloads/FBO_Vendor_Guide.pdf) and offers a 58-page resource for companies on how to actually set up an online account, provide company information and the

like. 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.sba.com/sba_8\(a\).htm](http://www.sba.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.sba.com/sba_8\(a\).htm](http://www.sba.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 (www.ccr.gov) 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. The CCR claims that there are currently 467,961 active registrants at its website.

- *Small Business Enterprise (SBE)* - an independently owned and controlled business with annual gross receipts of \$750,000 or less when averaged over the past three years.
- *Minority Business Enterprise (MBE)* - an independent business 51% or more owned and controlled by racial/ethnic affirmative action group members.
- *Woman Business Enterprise (WBE)* - an independent business 51% or more owned and controlled by women.
- *Disadvantaged Business Enterprise (DBE)* - an independent business 51% or more owned and controlled by socially and economically disadvantaged individuals. Size restrictions as regulated by the U.S. Small Business Administration in 13 CFR apply (Targeted Business Enterprise Program, 6).

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 illustrated in Figure 2, 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.

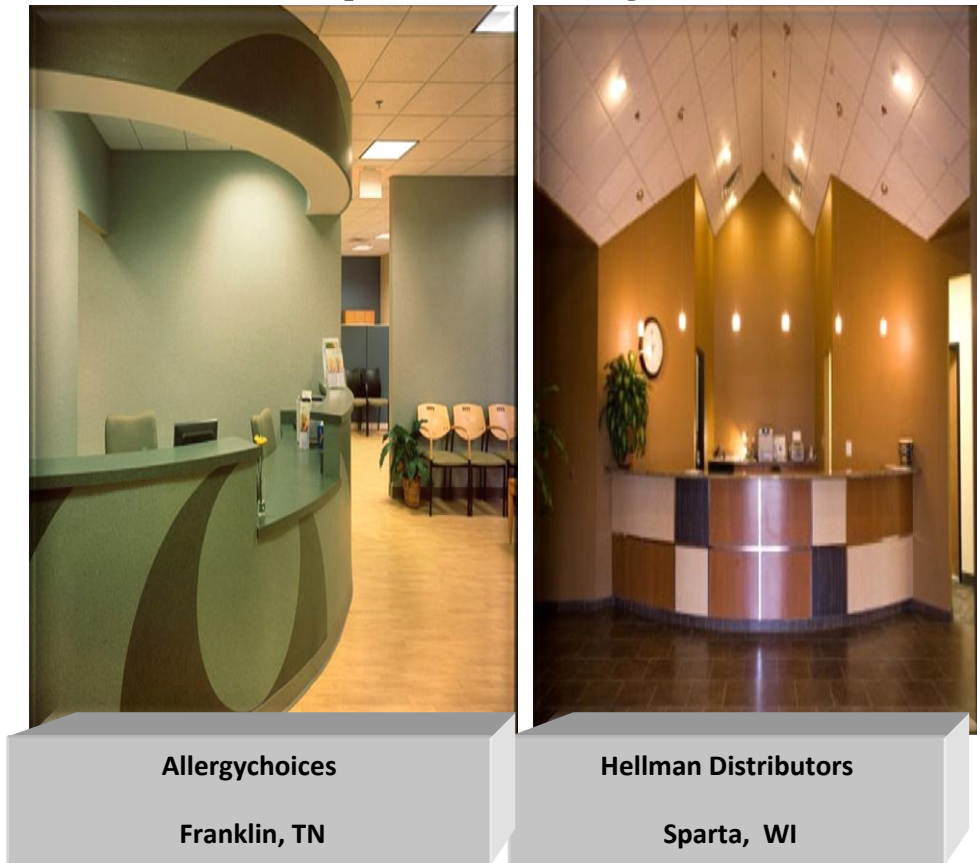
Implications—So What?

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. We specialize 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. For example, Figures 5 and 6 show traditional work that the firm had completed in the private sector prior to entering the B2G market in 2007.

Figures 5 and 6
Examples of Pertzsch Design Work



Source: www.pertzschdesign.com

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 our NCIDQ certification, we also fulfill the 5% Small Business Set-Aside component for bidding on federal projects. We are 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 us 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. We quickly learned that we are 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 Fed Biz Ops, 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 range 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.

Our experience has been very diverse varying from base to base. 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.

Our 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. Figure 7 depicts a rendering of the Armed Forces Reserve Center below (<http://www.tciaec.com/>).

Figure 7



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 opening its doors to a two-story 86,000-square-foot facility this fall 2010. The facility includes office and training space, weapons simulators, and a maintenance shop. We are optimistic we will procure 3-5 projects of this nature for the upcoming 2010-2011 calendar.

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. We found a few regression analyses that were conducted using 2002 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. 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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CAVEAT EMPTOR: THE QUESTION OF ACCURACY IN COMMERCIAL DATABASES

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Abstract

Entrepreneurial researchers typically utilize databases on new and emerging businesses which provide the contact data and other demographic information for research samples. Based on a literature review, the integrity of this data is often assumed, and the vendor's claims as to its accuracy are relied on. This article tests the accuracy and reliability of one such database, the New Business database from ReferenceUSA. Specifically, these businesses were contacted to test the validity of the information provided. The research findings suggest that the New Business database from ReferenceUSA is not a vetted database, and researchers cannot rely on the vendor's promise of accuracy.

Introduction

Most research requires a data sample. Historically, business researchers would develop their own samples, purchase directories from associations or chambers of commerce, or use some other source. Today, there is the internet, and the proliferation of commercial databases for research information. This data choice is growing and libraries are typically the first place where these kinds of resources are found. A typical commercial database allows you to gain information about literally thousands of businesses. Much like phone books or other directories, these databases have basic demographic data (name, address, phone number) and more specialized information (number of employees, date of creation, industry type, etc.). From this information, researchers can segment these firms and contact them for specific information pertaining to an individual research study. However, regardless of what research questions are asked, a key element of any study has to be the accuracy and reliability of the data used.

In the entrepreneurial/small business world, questions relating to the startup process, financing options, growth potential, market research, competition, etc... can be typical topics being researched. Given the economic crisis that began in 2008, and continues today with its high unemployment levels, understanding the job creation process continues to be a major focus of policymakers and researchers. More specifically, since job creation and growth has historically come from new and small growing ventures (Adranghi, Allender, and Anderson, 2001; Bedmarzik, 2000; Longnecker, et. al, 2010), there is a renewed focus to better understand the entrepreneurial process. Specific databases that focus on new/emerging businesses are even more critical as researchers focus in on new venture creation.

For researchers using commercial databases, a fundamental question relating to this information is its accuracy: how vetted is this information? For example, when the database lists contact information, are the phone numbers accurate? Is the address correct? If the number of employees is listed, did the firm actually have that number when they were contacted and entered into a database by the list owner?

This accuracy issue is very important when measuring something like failure rates of new firms, or growth rates of new/small ventures. For example, if one assumes that the survival rate for a brand new firm is likely to be about 100 percent (hopefully the firm is capitalized enough to try the marketplace for at least a couple of months), then over time, as some of those businesses fail,

the survival rate would worsen. One would expect that not all firms survive to even six months of age, and fewer yet make it to one year, etc.

You can test this survival assumption by doing a time series analysis using the same firms, or by contacting firms that are a year old and compare how many are left to the total number in the sample (if you assume that when the new firm was put into a database, its initial survival rate should be about 100 percent. Or put it another way- if firms are contacted immediately after they appear in a database, you would expect to be able to reach them all). The database that is the focus of this article is the New Businesses database from ReferenceUSA. This is a database of firms that are brand new to up to one year old.

Literature Review

A very thorough scan of the literature reveals that although ReferenceUSA has been used more and more in scholarship, the validity of the data has rarely been tested. Most articles about ReferenceUSA cite the ease of use of the interface and explain the usefulness of the data to both businesses and researchers. Many of these articles were written by librarians or other information professionals and uniformly repeat the assertions of the vendor as to the data quality and scope. A good example of this is an article from the newsletter "The Information Advisor" which compared several sources of local business information (Berkman, 2008). Harris InfoSource, Thomas Register, CorpTech and Hoover's were compared to ReferenceUSA on the basis of media (whether print, online or CD), source of data, number of entries, criteria for inclusion in the data, regions covered and information included in each entry, among other features. The report did not differentiate between the various databases offered by ReferenceUSA, but the features examined were for the main database, U. S. Businesses. As is common in articles about information sources, no one source is recommended, but rather the features and benefits of each were compared to allow a librarian to select the source most useful to the majority of the library's constituents. A paragraph on each vendor further detailed the strengths of each one. In the paragraph on ReferenceUSA, the company's claims of data reliability were reported but the author did not independently verify a sample of the data (Berkman, 2008).

A further search for literature that discusses the evaluation of this data source led to a thesis by Susan H. Keese, which she wrote in pursuit of her master's degree in library science at the University of North Carolina (UNC) (2004). Ms. Keese evaluated one of ReferenceUSA's other databases, U. S. Healthcare. This database has "detailed information on 675,000 doctors and 180,000 dentists" in the United States ("U. S. Healthcare," n.d.). The thesis looked at finding physicians in North Carolina to serve diabetics. In her examination of ReferenceUSA, Ms. Keese compared the mailing list of office-based physicians available commercially through the ReferenceUSA website and the results from searching the database at the UNC library. In the first, ReferenceUSA identified 53 office-based physicians operating in the four counties she searched. The results from the library database totaled 65. When the 65 entries were contacted for verification, the list totaled 34 (Keese, 2004).

An argument could be made that the vendor's claims are only for their largest database, U. S. Businesses. The company's literature, however, does not distinguish between the databases when describing the reliability of their data. From their website:

ReferenceUSA, an Infogroup company, provides the highest quality data in the industry....Each record is examined by hand for quality and completeness to by one of more than 700 database specialists. Our business and residential databases are continuously updated from more than 5,000 public sources. We place more than 26 million phone calls per year to verify and collect additional information on businesses ("Data Quality", n.d.).

In a sample of 27 studies that used ReferenceUSA data, the researchers rarely mention the name of the specific database used, but rather refer to the source as ReferenceUSA with no further qualification. No study was found that specifically stated the researchers had used the New Businesses database. A careful reading of the methodologies and focus of study of some of the samples reveals that they used the U. S. Businesses database.

Looking at the methodologies of some of these articles was very interesting. In a recent work, Morris, Spivak and Allen did a search using a geographic criterion (New York State), a size criterion (firms with at least 10 employees), and a selection of NAICS codes (2009). A list of 1218 firms was generated and of those, 61 were confirmed as having undeliverable addresses (Morris, Spivak, & Allen, 2009, p. 294). At first glance, a 5 percent error rate does not seem to be too bad, however since there is no easy way to test the validity of the number of employees or the NAICS assignment, the original list may not be correct. The response rate was 13.8 percent and there is no way to know if some of those surveys were not returned because the questions did not pertain to their business (they weren't in the selected NAICS group) or did not pertain to the size of their business (Morris, Spivak, & Allen, 2009, p. 294).

Researchers doing a study on business process digitalization created a list for a telephone survey. Out of 414 businesses on the list, 50 firms did not have correct information (Li, Merenda, & Venkatachalam, 2009, p. 54). Still another article, this time examining businesses near the Mississippi and Missouri Rivers, mentioned a further problem (Rice & Urban, 2006). Their list of businesses was found to have duplicate records, and in their methodology Rice and Urban explain that "...if a business appeared in the database multiple times, each under the same name and address, only the first occurrence was included" (2006, p.11). The fact that they felt the need to be clear on this point indicates it was likely not an isolated occurrence.

Vanchan and MacPherson found a discrepancy between the number of design firms listed in ReferenceUSA and in the U. S. Economic Census (2008). The Census had a total of 1600+ businesses in the category and the 2005 ReferenceUSA data had 759. The researchers assumed that this was due to the fact that presence in the commercial database is voluntary, but they verified with phone calls that 74, or almost 10% of the 759, were wrongly coded (Vanchan & MacPherson, p. 267). Whereas individuals may not want to be included in a residential database owned by ReferenceUSA, it is not immediately clear why a business would decline to participate. There is a procedure to opt out on the company website under Frequently Asked Questions but declining is an active step, whereas inclusion is the default ("FAQ", n.d.).

It is not our purpose to call into question the validity of the studies mentioned, especially since the methodologies examined above were described so clearly and thoroughly, they allowed us to identify possible problems beyond the scope of the original research. It is interesting, however, that in the case of the largest database (U. S. Businesses), the problems seem to be the same as for the two smaller databases - including the New Businesses one we utilized.

Methods

As noted, we were using the New Businesses database from ReferenceUSA and our initial research required business owners to be able to recall their planning activities prior to start up. Hence, we were looking to interview relatively new firms. We chose counties from New Jersey as our geographic focus. We also specified businesses that were started in a commercial space (vs. a home based business) because we were initially interested in any business planning that would have occurred prior to the firm's creation. Given the expense to rent a business location, we believed that more formal research would have been conducted prior to startup in these circumstances because potentially more money was at risk than would be with a home-based venture. This also served to give us a sample that would be even more likely to survive a month after startup, especially considering that most leases have a minimum amount of time in the first contract. In addition, as only about 70 percent of the firms in this database have phone numbers, we took only firms with phone numbers for our sample.

Within ReferenceUSA's New Business database, these firms can be selected by a number of criteria, including date of creation. We downloaded information on New Jersey firms that were created over the most recent 12 month period. We selected a random sample from this list to interview. We chose every 5th firm in three categories: firms that were 1 month old, 6 months old, and 1 year old.

We began calling firms who were 1 month old to see how difficult it would be to reach the owners. We experienced a number of different responses which we categorized as follows: the phone number was no longer valid, we reached an answering machine, we talked to an employee (non-owner), or we reached the owner. Much to our surprise, a number of these phone numbers were not working numbers even in the newest group. As this data should have been vetted by ReferenceUSA, we changed the focus of this paper to determining the validity of the data. If it had problems, then any research would be suspect as it might fall under a "garbage in, garbage out" situation.

Given our problems with reaching firms, we also wanted to verify the accuracy of the stated number of employees, as employee growth is often used to reflect economic wellbeing; particularly in circumstances where sales and/or profit data is not available. Further, if this data was going to be used for a time series, having accurate starting data was critical. To check the number of employees, we focused on a sample of firms that we were able to confirm were in business, and began with the one month old group. We focused first on the one month old firms as we wanted as accurate representation of the number of employees the business had when it began as possible (if we spoke to employees that were in a firm that was a year old, they may not recall the employment level at startup or may have not been with the company from the beginning). These phone calls asked for two simple data points: 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 mid-2009-mid 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 and asked to complete our survey. 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 an answering machine, we considered them in business. Bad numbers were considered out-of-business.

Hypotheses

Since these firms were identified by ReferenceUSA as viable entities when they were put into the database, you would expect that all of the one month old firms would still be in business. One would hope that these brand new firms had enough working capital to survive at least through their first month. Again, we were only looking at firms with business addresses, not home-based businesses. 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, 3/15/2004, p.1). ReferenceUSA then describes their vetting process and the number of phone calls made to verify the data. The implication is that this database is the best source of accurate information about new ventures. The alternative to these claims would be that these businesses were not actually vetted by ReferenceUSA prior to database entry and, therefore, the accuracy would be suspect. Given the possible use of this data by other researchers, and the assurances by the vendor that the data was vetted, we tested the following hypothesis:

H1: Firms contacted one month after their listing in the New Businesses database would still be in business.

As noted earlier, we would expect that the survival rate for one month old businesses to be nearly 100 percent. We would expect that survival rate to drop over time for any given group of businesses as some firms would not survive in any economy, but particularly in this severe recession. Further, since all 730 ventures contacted would have been started from early 2009 on, all firms would have begun in recessionary economic conditions, and the impact of a poor economy would have been felt throughout the life of all of them. Given this, we would expect the failure rate to be higher for firms that are one year old than for firms that are one month old, and tested the following hypothesis:

H2: The number of firms that fail would be higher for ventures in the New Business database that are twelve months old than for ventures that are one month old.

We also were interested in the number of employees reported in the New Business database. Some of the performance data that could be reported in the database are sales, profit and number of employees. Sales and profit were often left blank as these startup firms did not have enough history to report that data, or refused to provide that information. The number of employees was reported in all cases, and the range varied from no employees to thirty. We need to know if this number is accurate as employee growth is often used to reflect economic wellbeing. Future research will also look at employee growth over time so we needed to know if we could rely on this number's accuracy. Upon examining the data, there appeared to a problem related to employee size. Specifically, the database had numerous firms listed at zero employees, despite being in a business that would appear to need staff, i.e. a restaurant. Hence, it appeared that information collected by ReferenceUSA related to employees was not accurate, and we tested the following hypothesis:

H3: The number of employees at startup that is reported in the New Businesses database is not accurate.

Findings

Descriptive statistics: The frequency of the results for all 730 respondents is shown in Table 1. As Table 1 shows, approximately 37% of all respondents were bad numbers, with approximately 63 percent still in business.

Table 1

	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	

Breaking that down further between the one month, six months, and twelve months old firms, tables 2, 3 and 4 describe these responses :

Table 2: One Month Firms

	Frequency	Percent	Cumulative Percent
Interviewed owner	6	2.5	2.5
Talked to employee	90	37.5	40.0
Answering machine	50	20.8	60.8
Bad number	94	39.2	100.0
Total	240	100.0	

Table 3: Six Month firms

	Frequency	Percent	Cumulative Percent
Interviewed owner	10	4.1	4.1
Talked to employee	103	41.9	45.9
Answering machine	48	19.5	65.4
Bad number	85	34.6	100.0
Total	246	100.0	

Table 4: 12 month firms

	Frequency	Percent	Cumulative Percent
Interviewed owner	10	4.1	4.1
Talked to employee	65	26.6	30.7
Answering machine	77	31.6	62.3
Bad number	92	37.7	100.0
Total	244	100.0	

As you can see in tables 2-4, the percentage of firms that had bad phone numbers were quite similar, ranging from about 35-40 percent. The data does not appear to show a decrease in the survival rate over time (or an increase in the number of failures). This will be discussed further in the results of our hypotheses testing.

Hypothesis one: If the database was vetted and the firms' information was checked prior to entry in the database, we would expect that almost all of the firms would initially still be viable. We first coded the phone call responses as being in business if we talked to the owner, talked to an employee, or reached an answering machine. Next, using a one sample non-parametric test, we

looked to see if the percentage of one month old firms still in business was significantly less than 100. The difference was highly significant, with $p=.001$. Hence, hypothesis one was rejected, as a significant number of firms in the New Businesses database were not in business one month after they appeared.

Hypothesis two: Given that we presumed that the failure rate was greater for 12 month old firms than for one month old firms, we compared the results for the two groups. We first divided our data into two groups- firms that were still in business versus those that were not. Using a Chi-square analysis, the failure/survival rates were very similar between the two groups. The one month group had 39 percent of its businesses gone whereas the twelve month group had 37 percent of its firms out of business. There were no significant differences between these two groups ($p=.741$). Therefore, hypothesis two was rejected.

Hypothesis three: We called a selected sample of the firms to determine the employee size at startup. As noted earlier, we focused on the one month old firms first to increase the likelihood of an accurate recall. Specifically, we contacted all 146 one month firms that were still in business and were able to get an employment answer for 40 firms. We also then sampled approximately 100 six month and twelve month old firms who had zero reported employees, and gained 46 more responses. We then calculated the difference between the number of employees reported in the database and what our phone calls revealed. If the number of employees from ReferenceUSA was accurate, there should not be any significant differences between that data and the results of our verification. We decided to be conservative and to assume that since we were asking for recalled data, there might be some variance in the number of employee based on memory and time. Hence, using a one sample t-test, we set the test standard at 2. This meant that the difference had to significantly exceed 2 employees instead zero, in order for the hypothesis to be invalidated. The findings indicated a mean difference of over 6 employees, with a significance level of $p=.000$. Therefore, hypothesis three was confirmed.

Discussion and Conclusion

As shown by the results of the hypotheses, the data in the New Businesses database has not been vetted. Whereas this may not pose a problem to a sales representative who can look at a list and if a business's information is not correct, simply move to the next business, it does create serious questions for researchers. If this information is not what it appears, then studies will have internal validity problems. In the one month sample, almost forty percent of the firms had invalid phone numbers. This is from a sample of commercial businesses that were listed with the phone numbers. If these firms were being checked prior to database entry, the problem would have been discovered and they could have been entered without the phone number, like about 30 percent of the other firms. In theory, it is possible that these were valid businesses upon entry into the database, and they had such a significant failure rate that 40 percent were gone by the time we called them. However, we are talking about 40 percent in a little over a month! Whereas researchers and policymakers do not track failure rates in that short a period of time, the results of hypothesis two would indicate that something is wrong with the data. The percentage of firms that were still in business one year after entry into database was actually slightly higher than firms that were one month old. The survival percentage of a distinct group of firms has to either decrease over time or stay the same. Since firms are not being added to the sample, the number of firms which survived cannot increase (and neither can the percentage). It is possible that the economic conditions could change the outcomes of two sets of businesses that were

started at different times. However, both sets of firms began in the current severe recession – one in mid-2009 and one in mid-2010. Hence, it would seem unlikely that macro-economic conditions would be that different. In fact, the economy has improved somewhat in 2010 when compared to 2009.

The number of employees also shows that this data has not been checked prior to its release. As our research continued, one of the authors contacted ReferenceUSA to ask about the employee number and the presence of zero in a substantial number of entries. A ReferenceUSA employee indicated he was not sure but thought that it might be a placeholder used if there was no information (personal communication, 2010). Since employee sales and profits were left blank when no data was provided, using a zero for the same situation for employees made no sense.

Shortly after this conversation, we found that ReferenceUSA had changed the zeros to blanks in the businesses that we re-checked. We can take the change as confirmation that our concern was correct. Despite this recent change, anyone who collected the data before has an incorrect data set. Also, by making what appears to be a systemic change from zero employees to a blank record, this has resulted in removing the employee information from firms that were correctly reported as having no employees.

Further, in the discussion with the ReferenceUSA employee, he explained that businesses were moved from the U.S. New Businesses database to the U. S. Businesses database after one year (personal communication, 2010). However, we were able to find at least one business that was recorded in both places, despite being much less than a year old. We did not expect this, but did not check others as this issue was peripheral to our study.

We believe that our study is the first to examine the validity of the New Businesses database, and what we have found clearly gives us pause as to the accuracy of the data. The way that new businesses are captured by ReferenceUSA and the lack of vetting means that researchers need to verify all data before collecting other information as the sample parameters may not be what the researchers wanted. Our literature review revealed that the validity of any of the databases of ReferenceUSA, even the most prominent, U.S. Businesses, has rarely been questioned. Further testing to determine the accuracy of this data would be warranted as more and more research relies not only on the individual data records, but the summary totals as accurate descriptors of business conditions.

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COMPARING TO UNDERSTAND: AN EVOLVING APPROACH AND EMPIRICAL RESULTS FROM THE STUDY OF SME ACTIVITIES

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Abstract

Comparing two situations helps understand both of them. Comparison is fundamental to research in social sciences, whichever the preferred paradigm. In the field of business studies, the way is now open to case study research. This presentation, based on overt comparisons, submits details and results of two studies on practices of SMEs facing specific challenges. The process follows the path of Robert Yin's and Kathleen Eisenhardt's earlier work. It leads to the fabrication of configurations of presumably valuable business practices.

The report exposes a certain evolution in the application of the method discussed. It could inspire colleagues to attempt its utilization and to contribute to such a constant evolving approach.

Comparison is fundamental to research. A phenomenon appears in a context and does not in another. Comparing situations to one another is surely the corner-stone of rigorous research in social sciences. The researcher who asks the question: *How many times does this or that occur, here or there*, obviously embarks in a process of observation and choice. If he, furthermore, needs to know to what extent specified occurrences lead to favorable outcomes, he will, of course, compare data scores, manually or with the help of a statistical computer software. And he or she, then, hopes for findings sufficiently significant for extension to a defined population. The researcher who rather asks: *How and why this or that happens* will examine occurrences and non-occurrences of events and compare conditions and outcomes. Such an overtly comparative process is aimed at better understanding, not at unduly extending conclusions.

A multitude of studies have been conducted according to the first perspective, in all fields, including that of business and SME. Most prominent journals still openly favor the publication of work based on its paradigms. For instance, analyses without numbers have generally not benefited from easy acceptance. Only recently, could we notice a growing number of publications originating from more descriptive and interpretative undertakings (Eden, Hermann & Li, 2005). The exhibition of such work on the functioning of SMEs is now made more possible. Its potential contribution to the advancement of our field could be inspiring.

This paper presents a condensed description of constructs and results from two empirical studies with which we have been associated. In the first study, the authors are interested in better understanding SME export success. In the second, they study the nature and effectiveness of strategic scanning activities in firms of small size. Both studies address the question *why* or *how* an outcome was attained. Both conducts were inspired by the literature on case study research and especially follow the paths of Robert Yin (1984) and Kathleen Eisenhardt (1989). The chronologically earlier endeavor was a first such structured research experience, the later one was more technically developed, but also riskier. The text primarily highlights the comparative methodological aspects of the processes utilized. Generally well-known particularities of qualitative techniques, such as interviews, content analysis, coding, etc., are not repeated here. The reader should not be surprised when noticing evident and intentional loose ends in the writing.

The purpose of the presentation is multi-fold:

- Communicate essential elements of evolving research methodologies applicable to SME studies.
- Expose empirical work, based on such methodologies, realized in SMEs.
- Show that the approach disclosed is feasible, convivial and rewarding.
- Convince that it can lead to interesting results for scholars as well as useful ones for practitioners.
- Gather feedback to realistically enhance the acceptance and the rigor of future work.

The General Approach

Both studies were conducted and are described according to the following essential steps:

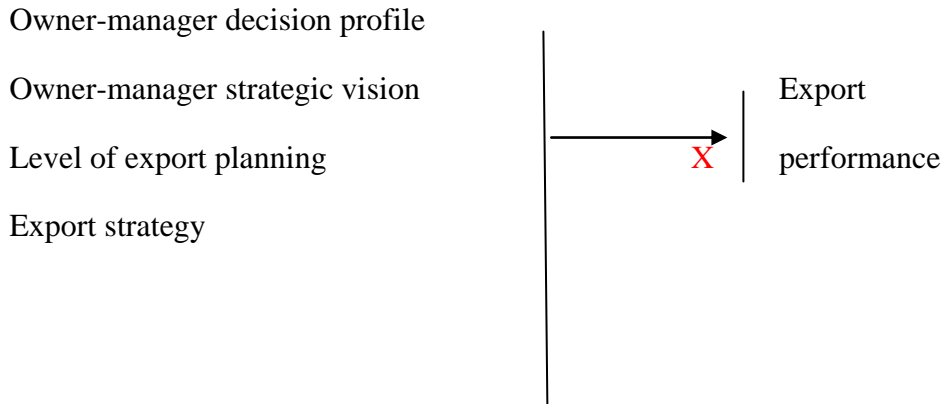
Formulation of a specific research question	It sets the purpose of the study. Its nature largely determines methodology
Development of an a priori theoretical construct	Based on prior research and interaction assumptions.
Choice of the units of analysis	Relying on an overt structure for the comparison of situations and variables. Focus is on the discovery of similarities and differences.
Results: plausible configurations	Composed of lasting dimensions of original construct and emergent variables
(d'Amboise & Audet, 2005)	

A cross-case comparison

Many small and medium-sized businesses are creative and develop innovative products. But usually, the more demanding challenge for them, especially in manufacturing industries, is to put those on the market. And sometimes, a potential regional market is too small to assure profitability; the access to outside markets, consequently, becomes crucial to survival and growth. Known SMEs succeed in that task. The leading researcher of this investigation wanted to know how they did. The research question put forward is: *Which factors can help explain export performance of certain manufacturing SMEs?*

The construct adhered to, at the outset of the study, follows. It represents the set of variables or characteristics to be empirically observed in each participant firm. Those were selected from earlier work on SME business strategies and international success. They were assumed to lead to export performance. As suggested by Yin (1984), formal propositions were elaborated, respecting his insistence on a hypothetical-deductive logic.

CONSTRUCT EXPORT SUCCESS FACTORS



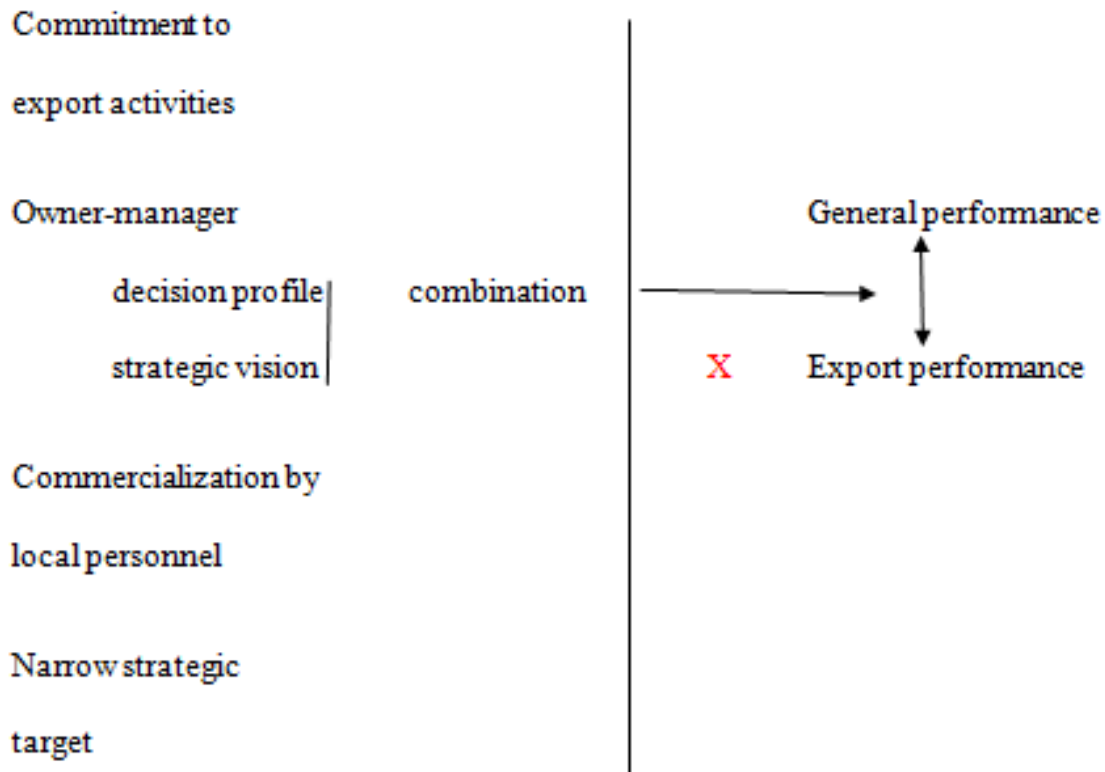
The definitions of the above variables are presented in appendix A.

It was chosen to compare the mentioned characteristics from the available data of nine participating SME firms. Five were high export performers and four were experiencing low export performance. Yin reminds that the volume of information from a much larger number of units could rapidly become analytically cumbersome. It should also be pointed out that entering establishments and collecting the needed information is, in itself, a very demanding chore. The observed pertinent characteristics of the export performers were compared to one another. The similar ones, from each of those firms, were identified. The former were then compared to the similarities found in the less successful exporting operations. Examining both combinations, only those characteristics unique to export performers were, finally, kept to form the export performing emergent configuration (Thibodeau, 1994). The pertinence of some outset variables was confirmed, that of others was not. The importance of usually less mentioned factors was also revealed by the findings. The resulting configuration includes all emerging factors.

It shows that commitment to export activities by the management team would be essential to export success. This was factually manifested by obvious concrete moves to enter new markets. A rather surprising relationship was also evidenced between the decision profile and strategic vision of the owner-managers and export performance. The artisan type entrepreneur must maintain a strong strategic vision in order to perform on new external markets. But the manager type of owner will succeed there in concentrating his views on the short term. This study also confirmed regular previous findings concerning the importance of targeting narrow customer market segments and the merit of hiring target market residents for marketing and distribution functions.

RESULTING CONFIGURATION

EXPORT SUCCESS FACTORS



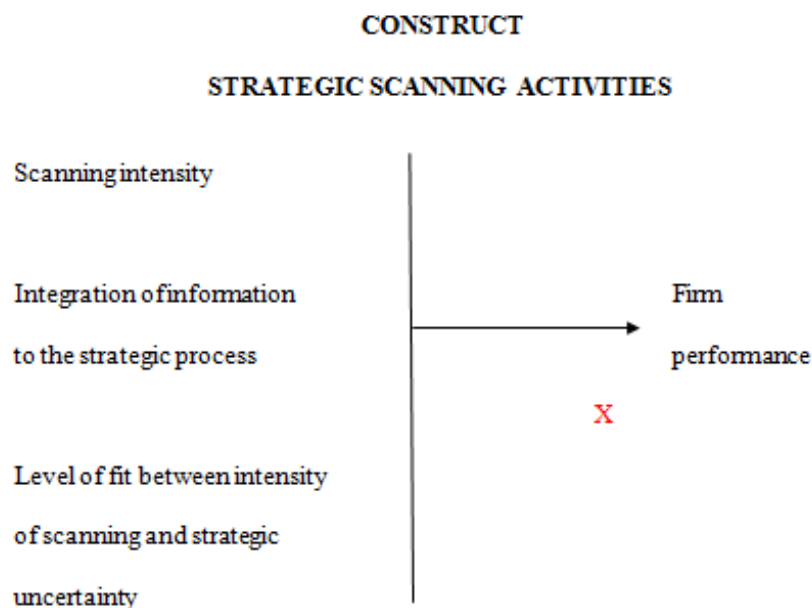
The research results demonstrate that it is possible to deepen the understanding of managerial practices otherwise than through the more traditional research canons. Comparing operating managerial characteristics of export performing establishments illustrates the technique of literal replication. The confrontation to the less export performing configuration rather corresponds to the suggestion of also testing evidence through theoretical replication i.e. the negative cases. The present findings are interesting, reliable and concrete. It is clear that they are not statistically generalizable, in spite of their plausibility. It was no one's ambition to apply them to the whole world of exporting SMEs. The combinations of variables or characteristics, nevertheless, represent constant recurrences. The elements of the final resulting configuration are present in all the cases of the performing subgroup; their uniqueness is substantiated by their absence in all the firms of the other subgroup. It then meant encouragement to continue working in the same methodological direction.

A multi-site comparative study

The case method of teaching has popularized the utilization of single cases. They have, since long, been used, and are still, in educational contexts, for the study of business challenges and practices. In most minds, cases, consequently, have a limited purpose, which is pedagogical. Quite recently, surfaced the appellation of case study research which created mild confusion

(Flyvberg, 2006). As some recall, first oppositions were mainly due to unclear discernment of objectives. And for purists, writing-up cases, or even comparing their information, was far from doing serious research. The open discussions after Eisenhardt's 1989 publication were enlightening for most and did stress the continuously evolving status of the approach. Clearly, case study research is not synonymous to the case method of teaching, whatever the intrinsic overlaps. But skepticism has not disappeared, in certain circles. We feel that we still have sufficient reasons to favor another appellation in our work. We adopt the expression *multi-site* rather than *cross-case* or *multi-case*. *Site* and *multi-site* are, at present, in use in other fields of knowledge, in psychology and medical research, for instance.

The *multi-site comparison* approach definitively builds from Yin and Eisenhardt's work. It is somewhat more formalized than that of the usual comparisons of events. It is a process meant to compare situations, organizations as well as characteristics of individuals. It can be considered as a blend of methodologies from both precursors, favoring deductive and inductive reasoning together, theoretical grounding with inductive openness. It is technically developed to identify similarities and differences between successful and unsuccessful outcomes as, for instance, in business operations. It can lead to the discovery and building of useful configurations of management practices, as attempted in the previous study and as more clearly shown in this second one. Scanning is, undoubtedly, important to any business organization, whichever its product or size. All SMEs operate in more or less uncertain waters where everyday decisions are based on information, actual facts, and envisioned possibilities. Until recent years, few studies have been conducted on scanning activities of small and medium-sized businesses. A new contribution to the field was considered to be worthwhile. The study attempts to answer the question: *Which characteristics of strategic scanning activities are associated with the success of SMEs?* The original theoretical framework includes only the three scanning dimensions linked, by previous authors, to the performance of firms. The dimensions, essentially preliminary to the study, are those shown in the construct below. Their definitions are presented in appendix B.



In order to broaden the research perspective, exploratory variables were added to the above for the interviews with the participants. The starting scheme was to be gradually modified by the empirical findings that emerged from the field.

The units selected for comparison represented polar types relative to two predetermined criteria: the performance of the enterprise and the level of uncertainty in its environment. Selecting SMEs along performance proved to be quite difficult. It was much easier along the other criterion. It was assumed that high technology firms engaging in international activities evolved in highly uncertain environments, as opposed to local firms operating in traditional industries. Interviews were conducted in eight SMEs, two in each of the desired categories (High performance/High technology; High performance/Low technology; Low performance/High technology; Low performance/Low technology).

A *within-site* analysis was firstly written-up for each participant firm. It comprised a description of the organization and its business environment and a detailed account of strategic scanning activities i.e. relative to the three variables from the original framework or construct, the exploratory variables and other information that emerged from the field. The search for patterns was first executed along the performance scale, thus characterizing the group of the four high performing firms and the group of the four low performing firms. Practices of each firm within a group were iteratively compared to each other in order to identify their similarities and differences. Similarities were retained to form configurations of scanning activities. The final comparison was made in order to identify the strategic scanning activities that emerged as truly unique to high performing organizations. Uniqueness requires that a characteristic has to be shared by all performing firms and to be found in none of the low performing units. Scanning practices that are unique are presumed to be positively associated with the success of the enterprises.

The first series of analyses along the performance criterion did not yield the expected results: no strategic scanning activity proved to be unique to the four high performing firms of the sample. Not only was the initial theoretical framework rejected but there was no emerging framework either! This would have been a very disappointing conclusion to a noticeably demanding process.

Analyzing the data along the environment uncertainty perspective suggested that strategic scanning practices in the SMEs were indeed more closely associated with the level of uncertainty in a firm's environment than with its level of overall performance. Splitting the samples, two sets of analysis were performed, one for the high technology firms and a second for SMEs from the traditional sectors of the economy. The new sets of analysis led to very interesting results, as several scanning activities revealed to be unique to the high performing enterprises of each of the two subgroups.

ENTREPRENEURSHIP AND SMALL BUSINESS PROFESSORS' REACTION TO SELECTED ENTREPRENEURIAL AND SMALL BUSINESS FINANCIAL PLANNING AND MANAGEMENT CONCEPTS

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Abstract

Financial planning and management have been cited as causes of small business failure. The purpose of this research was to determine if and to what extent professors of entrepreneurship and small business think and whether we even agree on selected concepts in financial management and planning during the small business firm life cycle. We found that most entrepreneurship and small business professors agreed; there were some concerns about some of the concepts. This raises the issue of what our students are getting from the curriculum and the courses in colleges of business and particularly entrepreneurship and small business management.

Introduction

The rate of failures and discontinuances among small businesses is high especially during the first few years after startup. An often mentioned cause of small business failures is poor management, particularly poor financial planning and management that results in undercapitalization. Many colleges of business have established entrepreneurship and small business classes and programs to prepare students for careers as entrepreneurs and in small business. Those programs, however, often use the standard corporate finance class in the program. While these courses cover the general concepts, they do not focus on small business financial planning and management issues. This may cause problems for budding entrepreneurs who probably need more focus on new venture creation and small business management financial planning and management. If our students are not getting enough of the right type of instruction finance in the standard corporate finance class, we will need to be sure that we provide it in our entrepreneurship and small business classes.

The purpose of this research was to determine what professors of entrepreneurship and small business think and whether we even agree about several important aspects of financial management and planning during various phases of small business firm life cycles. In particular, their knowledge about planning and managing fixed and current assets and presumably what they could or would teach their students about financing and managing assets during start up, survival, growth, and through various phases of the firm life cycle. It is important for us to understand and teach the important concepts our students need to know.

Literature Review

Primary reasons for small business failure in academic and popular literature are poor financial planning and management. Undercapitalization, a startup problem, the emphasis among authors seems to be on a failure to anticipate cash needs to reach cash flow break even. Early text authors in small business management saw this as a problem. Baumbach, Lawyer and Kelly (1973, p. 191) indicate that, "...entrepreneurs must allow for a reasonable period of time to elapse, usually three to six months, before income from the business will cover expenses" including personal income. Cheatham, Dunn, and Cheatham (1993, p. 112) assert that "To prevent cash flow problems after startup, the small business operator must be careful to not

finance long-term and permanent current assets with funds which must be repaid in the near future. Only self-liquidating uses should be financed with short-term funds....” More recent literature echo the same sentiments. Dunn and Liang (2002) Suggest that proper attention should be given to the proper length sources of funds to finance the basic asset structure of the firm. That means that fixed and permanent current assets should be financed using long or longer-term equity or debt. Any debt should be long enough to allow the conversion of debt to equity through normal operations in an orderly fashion. Short-term sources of funds can be used for variable (usually seasonal) current asset financing.

Baron and Shane (2005) suggest that negative cash flow in the early days of most new ventures is likely to lead to failure if additional cash is not injected into the business. In the periodic literature Perry (2001) found that there was a significant relationship between firm failure and lack of planning. Gaskill, Van Auken, and Manning (1993) found that the major reasons given for failure centered on poor management and planning, finances and working capital management, the competitive environment and growth. Xu and Wang (2007) also recognize that a widely recognized cause of failure is poor financial management. Cassar (2004) emphasized that how a business obtains startup funding is critical in determining adequacy of capital, the firm’s financial performance and the probability of failure.

Mason (2008) also suggests that small business failure is the result of a lack of management skills and/or a lack of proper capitalization. Smythe (2007, p. 1) emphasizes that, “The lack of start-up capital is a problem most small businesses encounter.” Clark (1997) says that money that must be properly planned. He suggests that breakeven for a startup company usually takes much longer than entrepreneurs expect. He suggests that entrepreneurs need at least three times longer than projected to get to break even.

Small business management and entrepreneurship textbook authors typically suggest that financial planning is a potential problem for entrepreneurs. Kuratko and Hodgets (2004, p. 253) for example say that entrepreneurs should ...“Remember, it is not enough for a small business to get started, it must be able to survive at least 90 days without further inflows of funds.” Scarborough and Zimmerer (2008, p 390) indicate that “Too often entrepreneurs are overly optimistic in their financial plans and fail to recognize that expenses initially exceed income (and cash outflow exceeds cash inflow) for most new ventures”. This gap may range from a few months to several years. Longenecker, Moore, and Petty (2000, p. 515) indicate that, “More businesses fail because of a lack of cash than because of a lack of profits.” Vesper (1996, p. 300) also suggests that, “The ultimate evidence of error in venturing is a shortage of cash. Either too little came in, or it went out too fast or both. The ultimate pitfall of venture financing is to run out of cash.”

Many internet sources of information for entrepreneurs and small business emphasize the importance of financial planning and management. Businesswealth.com, suggests that inadequate cash reserves are the single most common cause of business failure and that entrepreneurs need six months or so of extra cash at startup. KSA Business Recovery and Insolvency Services (ksabr.com) clearly says that poor cash management is the main reason for small business failures. Specific mistakes cited that cause poor cash flow are: increases in inventory, poor credit control, increased days in receivables, bad debts, late billing, poor forecasting, failure to plan for capital and/or exceptional expenditures. Similarly prweb.com, suggests that financial management (cash flow) is a factor that causes failures and” cash flow

problems are responsible for over 70 percent of business failure with their first year.” Videouniversity.com cites poor cash flow management and inappropriate sources of finance are causes of failure.

Clearly, poor financial planning and management create problems for entrepreneurs and small business owner/managers. Entrepreneurs and small business owners should plan and manage current assets (cash, receivables and inventories), some standard texts used in basic finance courses indicate, not particularly specific terms, that there are three options for financing assets: 1) the aggressive approach that suggests financing fixed assets and the permanent portion of current assets with long term sources, 2) the matching approach that suggests financing assets with terms that match their life, and 3) the conservative approach that suggests financing fixed assets, permanent working capital and a portion of seasonal working capital with long term sources (Lasher, 2003 and Brigham and Houston, 2007). While correct, these do not provide very specific guidance to potential entrepreneurs.

Small business management text authors are a bit more specific and seem to take the more conservative approach. Carland and Carland (1998, p. 444), for example, indicate that, “Treating the permanent portion of current assets as long lived and using long term debt to finance it can make sense.” Osteryoung, Newman, and Davies (1997, p. 137) say that. “As a general working principle, assets should be financed from a source with a maturity commensurate with the cash-flow generation of the asset.” These authors clearly indicate that long term assets, permanent current assets included, should be financed with long-term sources of funds. Baron and Shane (2005, p. 182) suggest that ...”experienced entrepreneurs often say that it is best to look for money before the need arises. That way, it will be available when, as almost always happens, expenses are larger than anticipated and cash inflows are slower than expected.”

The logic is clear, when small businesses start, assets need to be financed using a source of funds long enough to allow the firm to reach cash flow breakeven in an orderly way. If that is the case, those of us who teach finance, entrepreneurship and small business management should provide our student entrepreneurs and small business owners with a good background in entrepreneurial financial planning and management. The purpose of this paper was to determine the understanding of good financial planning and management practices among entrepreneurship and small business management professors.

Methodology

A questionnaire was designed to gather pertinent demographic information and to pose several start up finance and/or financial management situations to which an entrepreneur or small business person might be required to or at least be expected to react. The assertions about financial management were presented to entrepreneurship and small business professors, to which they were asked to strongly agree, agree, disagree, or strongly disagree. The questionnaire was uploaded to the internet at the SurveyMonkey site. A list of entrepreneurship and small business management professors was not available to the researchers. Therefore the link to the site was emailed to entrepreneurship and small business networks with a request that they forward the address to their members. The networks included the Association for Small Business and Entrepreneurship, the northeastern Small Business Institute group, the national Small Business Institute, and the Entrepreneurship and Education Network. There were 98 individuals who opened the questionnaire and responded to some of the demographic questions,

but only 79 responded to most of the financial assertions. These latter responses are included in the current analysis.

Findings of the Study

Table 1 shows that the majority of respondents were male, over 45, Ph. D.'s, and had taught for more than 10 years taught, primarily in entrepreneurship and small business. Most had fields in management, marketing, business, and other. Reflecting the current state of entrepreneurship, only 10 percent had entrepreneurship as a major field of study. The respondents came from 24 states and 4 countries other than the U.S.

Table 1			
Entrepreneurship and Small Business Professor Demographics			
Gender	Percent	Degree	Percent
Female	26.6	Masters	24.4
Male	73.4	Ph. D.	75.6
Total	100.0	Total	100.0
n	79	n	78
Age	Percent	Year Taught	Percent
26 - 35	3.8	< 6	12.5
36 - 45	15.0	6 - 10 Years	6.3
46 - 55	23.8	11 - 15 years	20.0
56 - 65	35.0	> 15	61.3
Over 65	22.5	Total	100.0
Total	100.0	n	80
n	80		
Table 1 continued			
Major Field	Percent	Teaching Area	Percent
Management	28.8	Small Business	17.7
Entrepreneurship	10.0	Entrepreneurship	51.9
Business	15.0	Business	3.8
Marketing	16.3	Marketing	8.9

Table 1			
Finance	8.8	Finance	3.8
Economics	6.3	Economics	3.8
Other	15.0	Other	10.1
Total	100.0	Total	100.0
n	80	n	79
State, Territory or Country			
AL	7.4	NY	3.2
AR	5.3	OH	1.1
CA	6.4	OK	11.7
DE	1.1	PA	1.1
FL	2.1	SC	1.1
IA	1.1	TN	1.1
KS	2.1	TX	9.6
KY	1.1	VA	1.1
LA	6.4	VT	1.1
MA	1.1	Canada	1.1
MO	1.1	Northern Ireland	1.1
NC	5.3	Portugal	1.1
NH	1.1	South Korea	1.1
NJ	4.3	Total	100.0
NM	1.1	n	94

Table 2 summarizes the responses to the series of financial planning and management assertions by entrepreneurship and small business professors. Eighty-one percent of the respondents correctly agreed that equipment and fixtures (fixed assets) should be financed using long term sources of funds. To do otherwise invites cash flow problems. The vast majority agreed with the assertion that working capital needs in startup situations are usually low. This probably comes from the optimism or a lack of understanding about how long it will take them to reach

cash flow breakeven among entrepreneurs. The majority of respondents disagreed with the assertion that using owner's money to finance buildings and land would be better in startup situations. Since financial institutions are hesitant to lend for working capital and survival cash, owner's funds will be critical to survival and should not be used in fixed asset financing. Basic inventory is normally considered a permanent investment in the firm and should be financed using longer term sources of funds; 59.7 percent of respondents agreed. Many entrepreneurs think that inventory can be financed with trade credit which often creates a cash flow problem early in the business.

Reserving owner's funds for working capital and survival cash is usually advisable for the same reason suggested previously. Financial institutions are very reluctant to finance working capital and even more reluctant to finance survival cash needed to reach cash flow breakeven. The majority of entrepreneurship and small business professor respondents, 90.8 percent, agreed with the assertion. Seasonal inventories are "self-liquidating" if properly planned. That is, they should be sold and the cash generated to allow small business owners to pay off the short term source of funds used, whether trade credit or loan from financial institutions. Almost 90 percent of the respondents agreed with the assertion.

The assertion regarding the use of savings and certificates of deposits often creates disagreement with some of our colleagues. If entrepreneurs cash CD's or use savings, they tend to use the cash unwisely or at least imprudently. For that reason the experience of small business advisors suggests that using these as collateral will result in a different attitude and results in more prudent management of these reserves. Over 60 percent of the entrepreneurship and small business professors responding disagreed with the assertion. In a properly managed small business, the anticipation of a decline in the economy among small business people should result in management actions that will increase the cash in the balance sheet. These actions include, but are not limited to, cutting expenses, cutting inventory purchases and collecting accounts receivables. Respondents agreed with the assertion 70.7 percent.

Table 2 Agreement/Disagreement with Financial Planning and Management Assertions

Startup equipment and fixtures should be financed using long term sources of funds.		Small business borrowers' estimates of working capital needs in startup situations are usually low.		In startup situations, using owner's money for purchasing buildings and land would be better than using the money for working capital.	
	Percent		Percent		Percent
Strongly Agree	17.7	Strongly Agree	41.6	Strongly Agree	7.6
Agree	63.3	Agree	54.5	Agree	16.5
Disagree	16.5	Disagree	2.6	Disagree	49.4
Strongly Disagree	2.5	Strongly Disagree	1.3	Strongly Disagree	26.6

Total	100.0	Total	100.0	Total	100.0
N	79	N	77	N	79

Table 2 continued					
In startup situations, basic inventory probably should be financed using terms longer than trade credit and/or other short term sources of funds.		During start up, owner's money should be reserved, as much as possible, to cover operating needs to cash flow breakeven.		Seasonal inventories can be reasonably financed using trade credit or short term sources of funds.	
	Percent		Percent		Percent
Strongly Agree	7.8	Strongly Agree	27.6	Strongly Agree	8.9
Agree	51.9	Agree	63.2	Agree	81.0
Disagree	37.7	Disagree	7.9	Disagree	8.9
Strongly Disagree	2.6	Strongly Disagree	1.3	Strongly Disagree	1.3
Total	100.0	Total	100.0	Total	100.0
N	77	N	76	n	79
Normally, it is better to cash certificates of deposits or use savings in the business rather than use them as collateral for loans.		Rapid growth often creates cash flow problems for small businesses.		Survival cash should be arranged for when negotiating start up financing.	
	Percent		Percent		Percent
Strongly Agree	6.3	Strongly Agree	58.2	Strongly Agree	32.5
Agree	25.3	Agree	39.2	Agree	62.3
Disagree	58.2	Disagree	2.5	Disagree	5.2
Strongly Disagree	10.1	Strongly Disagree	0.0	Strongly Disagree	0.0
Total	100.0	Total	100.0	Total	100.0
N	79	N	79	n	77

Cash balances should increase as a small business moves into the initial (downturn) phase of the business cycle.			Small business borrowers tend to overestimate sales and underestimate costs and expenses when planning a small business.			In startup situations, small businesses that will extend credit should get enough cash to support anticipated basic accounts receivables using terms longer than 90 days.	
Percent				Percent			Percent
Strongly Agree	12.0		Strongly Agree	67.5		Strongly Agree	16.7
Agree	58.7		Agree	31.2		Agree	60.3
Disagree	29.3		Disagree	1.3		Disagree	19.2
Strongly Disagree	0.0		Strongly Disagree	0.0		Strongly Disagree	3.8
Total	100.0		Total	100.0		Total	100.0
N	75		N	77		n	78

Growth, often viewed by small business owners as great, may result in cash flow problems if it is not managed. Unmanaged growth can be avoided by properly planning for growth and controlling growth through price policy or other strategies such as intentionally cutting sales in contract situations. A vast majority of respondents, 97.5 percent, agreed.

When small businesses start, entrepreneurs often assure their banker that the amount they have and are borrowing is sufficient. Going back in six months asking for more is not viewed as good by bankers. For that reason alone, it is important that proper funding be planned in advance and that unnecessary borrowing (or sleepless nights and sweaty palms) avoided. Often, good planning involves the negotiation for survival cash when negotiating startup funds is advisable and 94.8 percent of the respondents agree. Most entrepreneurship and small business professors agreed with the assertion regarding estimates of sales and expenses by entrepreneurs. Either optimistic or poorly prepared, entrepreneurs often overestimate sales and underestimate costs and expenses. Most, 98.7, percent of the respondents agreed with the assertion.

Accounts receivables are sometimes the result of unintended extension of credit by new small business owners. Extending credit should be avoided by most small businesses selling to ultimate customers. Credit cards, checks, and cash are preferred. If businesses are selling to other businesses and sometimes to ultimate customers, it may be necessary to extend credit. If that is the case, proper planning requires funding accounts receivables asset through longer term sources of funds as with inventory. The asset is considered permanent, 77 percent of the respondents agreed.

Most of the entrepreneurship and small business professors agreed/disagreed with most of the financial planning and management assertion as expected. However, a few did not! While

additional research is needed, the study point to a need to consider college of business curricula and courses.

Implications of the Research

Cheatham, Dunn, and Cheatham (1993) in a study of one college of business's students found that students surveyed did not have a grasp of the basic financial concepts small business operators needed to survive. Most of the respondents for this study agree/disagreed with the assertion as expected. As a growing field in colleges of business and other colleges, entrepreneurship and small business need to be sure that we attend to the practical knowledge and skills our students need to start and manage their own small business successfully. Colleges of business have been geared for a long time to the preparation of middle and upper managers. The curriculum and the content of individual courses were designed with that in mind. It is important that the curriculum and course content for entrepreneurship and small business programs be adjusted to meet the needs of these students. This does not, for example, diminish the importance of basic finance, but that knowledge needs to be adjusted or supplemented with information similar to the information that is the topic of this paper. It is entirely possible that other standard courses such as basic marketing, management, operations and so on, or their content need similar adjustment or supplementation.

Many of our students who deal with entrepreneurs and/or small business people should also receive an education adequate to the task they face. For example, future accountants, bankers, and consultants in agencies such as the Small Business Development Center need good preparation. They may learn the needed knowledge and skills over time, but how many entrepreneurs and small business people will have been hurt by the time that happens?

Perhaps we need to do additional research on college of business curriculum and course content to ensure that our entrepreneurship and small business students get the preparation they need for their careers. For example, would a course in QuickBooks or some other bookkeeping software help our students?

Since most of those of us who teach entrepreneurship and small business may have been prepared under the "standard" college of business curriculum and not in either entrepreneurship or small business, it might well be desirable to supplement our own knowledge and skills.

Conclusions

The purpose of this research was to determine if and to what extent professors of entrepreneurship and small business think and whether we even agree on several important aspects of financial management and planning during phases of small business firm life cycle. In particular, the planning and managing fixed and current assets and what they could or would teach their students about financing and managing assets during start up, survival, growth, and the firm life cycle. The results of the study indicate that most did agree with specific concepts, but a few did not agree. Financial planning and management have been cited as causes of small business failure. That being the case, we are obligated to help overcome those failures for our students in entrepreneurship and small business and for our students who will become key players in small business finance—accountants, bankers, and consultants.

We need to be sure that we know and provide instruction to our students that will ensure their success as small business people or as advisors to small business people. If we cannot or will

not provide the instruction; perhaps, discussions with our colleagues about our students needs seems appropriate as a minimum.

Based on the findings of this study, we may want to extend this type research to other curriculum components and courses in colleges of business and other colleges as appropriate.

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EVALUATING THE LEGITIMACY OF ENTREPRENEURSHIP AND SMALL BUSINESS AS A FIELD OF STUDY: AN EXPLORATORY STUDY

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Abstract

It is well established that interest in teaching entrepreneurship and small business in colleges and universities in the US has grown at enormous rates (Solomon, 2006). As our interest in these subjects has grown, so has our interest in the place they have as academic fields of study. An interesting debate has emerged between Don Karatko (2004, 2005) and Jerry Katz (2005, 2006) about the maturity and legitimacy of entrepreneurship as a field of study in higher education. In this study, we evaluate the issue of legitimacy by using the academic and professional credentials of faculty that teach in this area as a proxy for legitimacy.

The empirical results of a survey completed by 112 college entrepreneurship instructors reveals that the fields of entrepreneurship and small business may not be viewed as legitimate based on the academic and professional credentials and the scholarly productivity of their instructors. In particular, a significant percentage of our sample of college instructors did not have a doctorate in entrepreneurship, nor did they study entrepreneurship in their curriculum. The overwhelming number of respondents had either significant experience as small business owners, working as private consultants, or supervising student consulting teams. Our findings suggest that it is not surprising that entrepreneurship may not be considered legitimate due to the limited academic credentials of the instructors assigned to teach these courses.

We discuss the implications of our findings on the field of entrepreneurship, preparation of new college professors, and future research on the subject.

Introduction

An extraordinary proliferation of entrepreneurship and small business courses and programs was and still is underway in colleges and universities worldwide (Solomon, 2006). The 28 published articles and chapters cited below are but a sampling of the scholarly writing about the “revolution” that entrepreneurship education has educed in academic institutions (Ahiaiah, 1989, Anslem, 1993, Block & Stumpf, 1992, Brockhaus, 1993, Brush et al, 1995, Carland & Carland, 1997, Carroll, 1993, Charney & Libecap, 2000, Donkels, 1991, Garavan & O’Cinneide, 1994, Gartner & Vesper 1994, Gibb, 1993, Hills, 1988, Hisrich, 1992, Katz, 2003, Katz & Green, 1996, Kuratko 2003, Meyer, 2001, Plaska & Welsch, 1990, Porter, 1994, Robinson & Hayes, 1991, Shepherd & Douglas, 1997, Solomon et al, 2002, Solomon & Winslow, 1998, Solomon et al, 1994 Solomon & Fernald, 1993, Solomon & Fernald, 1991, Vesper & Gartner 1997, Vesper, 1993). Paralleling this evolution in entrepreneurship education and theories related to the teaching of entrepreneurship is an interesting point of discussion that has emerged between Don Karatko (2004, 2005) and Jerry Katz (2005, 2006) about the maturity and legitimacy of entrepreneurship as a field of study in higher education. He notes, “Katz (2003) argues that the presence of entrepreneurship courses in all AACSB business schools as well as over 1,000 non-accredited schools points to a maturing of the entrepreneurship field. He adds the infrastructure numbers of 300 endowed positions, 100 centers, 44 academic journals, and the “legitimization” of the field by the mainstream media (*Business Week* and *U.S. News & World Report*). This is all true and I agree that it points to legitimization but I respectfully disagree about maturity” (Karatko, 2004, p. 16 of 32). Katz counters this argument when he states, “The field of

entrepreneurship and small business are characterized as mature, but only marginally legitimate, a view contrasting one proposed by Kuratko (2004, 2005)” (Katz, 2006, p. 2 of 55).

Thus, Kuratko (2004, 2005) argues that the field is legitimate, but not mature, while Katz (2003, 2006), argues that the field is mature, but only marginally legitimate. Both scholars offer rather convincing arguments. However, the fact remains that they both assert opposing views that are defended using their own interpretation of secondary data.

In this study, we address this stalemate by focusing on what Katz (2006) calls the cognitive form of legitimacy. Referencing (Aldrich and Fiol, 1994; Aldrich and Martinez, 2001), he defines the term. “Cognitive legitimacy refers to the level of acceptance or taken-for-grantedness of the new product, process, or service” (Katz, 2006, p. 5 of 55). Katz uses the term “product” as a euphemism for small business and entrepreneurship as an academic field in the larger market for higher education.¹

Our contention is that legitimacy in the academe is very much influenced by the perception that the scholars in a field have among their colleagues. In fact, in his evaluation of legitimacy of social entrepreneurship, Nicholls points out the need to evaluate “the development of social entrepreneurship in terms of its key actors, discourses, and emerging narrative logics” (Nicholls, 2010, p. 611). We note his emphasis of the term “key actors” to describe the scholars that are driving the field (Nicholls, 2010, p. 612). Clearly, the people that teach entrepreneurship and conduct research in the field are the actors in this academic field of study.

Surprisingly, the existing literature has not focused on this aspect of the arguments presented by Katz (2006) or Kuratko (2005), and previously argued by Meyer (2001) and Stephenson (2000). Kuratko argues that entrepreneurship faculty are not well respected because they are often not given tenure purely due to their research and teaching in entrepreneurship, because they do not rise through the ranks to become department chairs and deans, and because entrepreneurship journals are not listed among the top-tier “A” journals required by business schools require. Kuratko has observed performance evaluations and drawn conclusions about this process. Katz has similarly focused on his own criteria, endowed chairs and entrepreneurship centers, for measuring maturity and legitimacy. This evidence is compelling yet it focuses entirely on the end result of a process. It ignores the perception our colleagues in other disciplines may have of scholars in our field. These outcomes are only one important aspect of the issue of legitimacy. What other empirical measures may exist? We propose using the actors, as Nicholls labels them, as an additional measure of academic legitimacy. This information is the proverbial missing link. Thus, the purpose of this study is to address the legitimacy of faculty teaching entrepreneurship by evaluating the academic and work experience they had to prepare them to be collegiate faculty.

In the next section, we will very briefly review the literature as it relates to the issues of legitimacy and maturity of small business and entrepreneurship. In the third section, we will explain the research design we employed to gather information from among small business and entrepreneurship educators. Lastly, we will discuss the results and the implications of our findings on future research on entrepreneurship education as well as the practical implications for scholars and administrators that confront this issue in schools and colleges of business.

Literature Review

In a recent address at the United States Association for Small Business and Entrepreneurship annual conference, Professor George Solomon talked about the revolution that has occurred in the study of entrepreneurship at campuses across the nation (Solomon, 2006). He cited 28 published articles that discussed a variety of perspectives associated with teaching entrepreneurship. Rather than focus on these many studies, we will review literature as it specifically relates to the instructor of these courses. Perhaps the most interesting, or maybe surprising thing about most of these studies is that they tend to ignore the central individual in the process of entrepreneurship education, the instructor. Regardless of the pedagogy that is employed, the instructor is central to the teaching and study of entrepreneurship in institutions of higher learning.

The field of entrepreneurship has also been observed by other scholars. Rather than review all of the relevant literature, we address two studies that immediately preceded what Katz and Kuratko observed.

Howard Stephenson proudly exclaimed that entrepreneurship has won. He asserts that “progress in entrepreneurship has been enhanced by the societal environment in which it flourished and by the strong development of theoretical underpinnings” (Stephenson, 2000, p. 1). We agree that the world we live in is essentially conducive to entrepreneurship. However, progress in the practice of entrepreneurship is different from the study of entrepreneurship as an academic discipline. Stephenson points to the focus on research that focuses on entrepreneurial firms as evidence of the field’s theoretical underpinnings.

Following Stephenson’s insights, Meyer (2001) specifically attacks the issue of the validity of entrepreneurship as an academic field. He notes that business schools have ideological foundations that are organized around business functional areas. “Of these, finance, accounting, sometimes marketing and now information sciences possesses the greatest clout” (Meyer, 2001, p. 2). The unit of analysis for these disciplines is the large corporate form. This emphasis contrasts with the focus on change and creativity that is inherent in the study of entrepreneurship.

In addressing these issues, Meyer (2001) sets out to “focus on the long-term institutional legitimacy of entrepreneurship education” (Meyer, 2001, p. 7). Yet, upon reviewing his manuscript, it appears that he does not distinguish between entrepreneurship as a scholarly subject as opposed to entrepreneurship as a topic that one teaches.

Fiet (2001) specifically addresses this issue when he observes the large number of adjuncts that teach entrepreneurship. “Students must learn theory in order to understand the future consequences of their entrepreneurial decisions. Thus, it seems improbable that adjuncts can effectively teach the course. Teaching theory is rarely the strength of adjuncts” (Fiet, 2001, pl. 9). Interestingly, Meyer (2001) addresses Fiet’s commentary. “I have a rather fundamental and huge critique of Fiet’s article and would love to debate him. Nevertheless, his criticism of adjunct faculty is on the record. Yet, the reality is that adjuncts are carrying the field of entrepreneurship and tenure-track scholars need to support their contribution.” We cannot wonder what Meyer was thinking. First, he responds to Fiet as if he said something that was not accurate. He actually states that “Fiet blatantly derogates adjunct faculty” (Meyer, 2001, p. 5). This seems to be an extraordinary overreaction. Secondly, Fiet was correct, for if he was not, then what is the point of doctoral education in any field of study than to give one a stronger theoretical

foundation? The use of adjuncts is a reality of teaching in higher education, but it clearly can raise questions about the legitimacy of the field of entrepreneurship since they are such a prominent part of the process.²

Finkle and Deeds (2001) concluded, “During this period entrepreneurship has moved from a predominantly secondary and tertiary requirement for a position to the primary field for over 1/2 the positions advertised in 1997/1998” (Finkle and Deeds, 2001, p. 613). While this increase is an improvement, it is hardly a testimony to the legitimacy of the field as an academic discipline. Thus, we turn to evaluating this issue which we explain in the next section.

Research Method

In the present study, we evaluate the backgrounds and pedagogies employed in a sample of entrepreneurship educators. We created a survey to gather information about the professional and academic background of instructors that taught entrepreneurship or small business in a university or college. The survey is available from the authors upon request. The survey was pre-tested by three scholars that were familiar with survey research. They offered only a few clerical suggestions which were incorporated into the final survey.

Sample

Three hundred nineteen college instructors were sent an email to ask their participation in our study. They were provided a chance of a \$50.00 gift certificate as an incentive for their participation. The instructors were all members of a group within a larger academic organization dedicated to the study of entrepreneurship in its many forms. This group of instructors had especially expressed an interest in Teaching and Pedagogical Issues. Only instructors in the United States and Canada were included in the mailing list of instructors to ensure commonality in culture and educational systems. The respondents were given a link to a website at a university that is specifically designed for the administration of surveys. The link was pre-tested to ensure it worked properly before the instructors were contacted.

Findings

Some, but not all, of the results are shown in tabular form because of space limitations in Table 1. One hundred twelve of the three hundred nineteen college instructors in our population responded to the survey for a 35.1% response rate. An analysis of the geographic location of respondents to non-respondents did not show a bias toward a particular region of the U.S. or Canada. Using the Chi-Squared Goodness-of-fit Test, we were not able to reject the Null Hypothesis that we had an equal distribution of responses from among the South, East, Midwest, West, and International geographic regions.

Descriptive Statistics.

We highlight a few of the answers to the individual questions in this section referencing Table 1. Sixty one of the 112 participants describe their academic discipline as entrepreneurship. Only seventy two of the respondents indicated they completed a Ph.D. of any kind. Only eleven of the respondents described their field of study in their doctoral program as entrepreneurship. Forty-five of the 72 respondents that completed a Ph.D. did not study entrepreneurship in their doctoral program.³ Thirty-two of the 72 respondents with a doctorate did not have a dissertation focused on entrepreneurship. Forty-four of the respondents teach three or fewer courses in entrepreneurship. Since only 34 of the respondents regularly teach three or fewer total courses

per year, we can conclude that faculty that teach entrepreneurship are assigned to teach other courses. This information is later verified when we cross tabulate individual questions.

Sixty of the respondents teach at least one specialty course in entrepreneurship. An interesting finding is that ninety one of the 112 respondents currently own or previously owned a small business. This suggests a strong degree of professional qualification among these instructors which is significant according to the most recent standards used for AACSB accreditation. Sixty of the 112 respondents assign students as consultants to small businesses. This finding is consistent with Solomon's (2006) findings on the use of this pedagogy. In addition, ninety two of the 112 respondents were consultants to small businesses. Of these ninety two respondents, 61 indicated they had worked with five or more clients in the past year. Lastly, eighty one of the 112 respondents required their students to complete a business plan, feasibility study, or both. Thirteen of the participants used only feasibility studies in their courses while forty used only business plans. This question captures the fact that many teachers in the field may not recognize the theoretical distinction between feasibility studies and business plans along the continuum of pre-venture to start-up to existing business (Barringer and Ireland, 2008). The combined use of these two pedagogies among our respondents, however, does reinforce the findings of Solomon (2006) regarding their overall popularity.

The data on research activity was a little less promising. Twenty-four of the 112 respondents are not currently active in research which is important as only 15 of the respondents were part-time instructors. Of the total sample of respondents, only 55 indicated they conducted "most" or "all of" their research in the field of entrepreneurship. Twenty four respondents conduct some research in the field of entrepreneurship.

Cross-Tabulation

We chose to use a simple cross-tabulation of some of the questions in the survey with a focus on educational and professional background.⁴ This information is highlighted in Table 2 for some of the more significant cross-tabulations of questions from the survey. Let us turn our attention to teaching assignments. Sixteen instructors of 29 in our sample that teach entrepreneurship indicated they teach exclusively in entrepreneurship/small business.

We also observed the course loads they had. Forty-four of the 68 respondents taught three or fewer sections of small business and entrepreneurship per year, including 22 of the 41 faculty that described themselves as predominantly teaching in the area of entrepreneurship and small business. This situation suggests one of two possible issues. First, entrepreneurship and small business are not considered worthy of being the sole teaching area for a faculty member in our sample. Second, there is not sufficient demand for these topics on an exclusive basis. Of the faculty that categorized themselves as entrepreneurship or small business, forty one of 112 teach courses other than entrepreneurship or small business per year. Thus, these faculty do not teach exclusively in entrepreneurship even though they label themselves as teaching in this area.

Finally, we address research productivity. Our survey results reveal that seventeen of the 43 faculty self-described as entrepreneurship or small business conduct only some or no research in their teaching field. Only 20 of the 61 instructors that conduct research indicated that most or all of their research was in entrepreneurship.

Discussion and Implications

Our findings paint a distressing picture of the academic qualifications of the faculty assigned to teach entrepreneurship. In addition, the results were disappointing for the research productivity of faculty in the field. The fact that so many of them view themselves as entrepreneurship and small business faculty reinforces the significance of our findings. In general, we find empirical evidence in our sample that entrepreneurship and small business may not be viewed as a legitimate field due to the academic credentials and the extensive professional credentials of their instructors. In particular, a significant percentage of our sample of college instructors did not have a doctorate in entrepreneurship, publish a dissertation in the field, or formally study entrepreneurship in their doctoral courses. Can we imagine someone in the field of human resource management, economics or finance that had a similar experience when completing their dissertation?

Our findings suggest that it is not surprising that entrepreneurship may not be considered legitimate due to the limited academic credentials of the instructors assigned to teach these courses. In addition to little or no academic preparation in the field, less than 45% of the respondents to this study publish in the field. More importantly, even the individuals self-described as entrepreneurship or small business did not exclusively teach in that field. Can we imagine economists teaching outside of the field of economics? What about a finance or accounting faculty member?

The individuals that teach entrepreneurship and small business in this study clearly had a practical approach to this discipline. A very large percentage of the respondents had owned a small business, required students to conduct feasibility studies or business plans, or assigned students to work with small businesses. These findings were consistent with Solomon, et al. (2002) and Solomon (2007). Yet, a practical approach to entrepreneurship is not necessarily a positive factor when contrasted with the efforts of other academic disciplines.

From a practical viewpoint, it is important to understand that the field of entrepreneurship is one of many fields of study that compete for resources in higher education. The poor research record of the respondents of this study paints a poor picture of their scholarly efforts. These actors, as Nicholls (2010) describes them, have an influence on the legitimacy of the field of entrepreneurship. Resources are often times directed toward faculty that are productive researchers. These individuals have a measureable indicator of scholarly work.

These observations may not resonate with the people that self-describe themselves as entrepreneurship or small business, but there is a clear implication from these results that this academic field of study contrasts greatly from other disciplines. Our findings demonstrate a focus on the practical activities rather than scholarly activities as measured by research productivity.

Conclusion

Let us return to the debate between professors Karatko and Katz that was the point of departure of this research. Our findings support Professor Katz's view that entrepreneurship may not be perceived to be legitimate. Yet, the reason may not be entirely due to the reasons he asserts to be the cause, but rather to the lack of academic preparation scholars in the field have. In conclusion we find that the academic credentials of faculty in entrepreneurship and small business are not consistent with what one would expect of faculty in other business or non-

business disciplines. Many of the faculty in our sample also teach outside the field of entrepreneurship and small business. We assert that the same cannot be said about other faculty in colleges or schools of business in the US, many of which are accredited by AACSB International which emphasizes academic qualifications. Economists teach economics. Scholars in human resource management (HRM) similarly teach introductory courses in HRM, compensation, and staffing. The same is true of faculty in finance, quantitative analysis, and organizational behavior (OB), respectively.⁵ Thus, is it really surprising that entrepreneurship and small business may not be viewed as legitimate if the faculty are not academically prepared to teach in the field and also teach other business courses? We compared our findings with the academic status of faculty in other disciplines, especially those in a business field. Our informal review of faculty at two different academic institutions revealed over 90 percent of them had a doctorate in the same field of study in which they taught.⁶

Entrepreneurship is often viewed as a rather eclectic field. Like the field of strategic management with which entrepreneurship is often tied (Ireland and Webb, 2007), entrepreneurship borrows heavily from other disciplines in business and outside of the halls of business schools. Kuratko laments the fact that scholars in these fields are not rewarded for a pure devotion to their academic discipline. Yet, we believe that Kuratko and Katz are ignoring the impact that the diverse foundations of entrepreneurship have on our disciplines and its scholars. Entrepreneurship and small business are simply eclectic fields of study. It is eclectic because an entrepreneur or a small business owner must be jacks of all trades. Unlike their colleagues in other business disciplines, scholars in entrepreneurship and small business are studying a phenomena that by its very nature draws from several fields of study. It is eclectic because its theoretical foundations are based upon many disciplines. To an outsider looking toward this field of study, it is clearly confusing. How do they evaluate the productivity of a field that is by its very nature diverse?

This theoretical background is a critical issue, but it is not the only issue. Other fields of study have doctoral programs devoted to their study. There are doctoral programs that permit graduate students to study entrepreneurship, but they are not exclusively devoted to that topic. (Brush, et al., 2003). Only a few Ph.D. programs are devoted exclusively to earning a doctorate in Entrepreneurship. The academic preparation of the faculty in our sample supports this reality. Very few of them had earned a doctorate in entrepreneurship or actually formally studied entrepreneurship in their doctoral programs. Thus, we find that a lack of Ph.D. programs is as much an issue today as it was when Meyer (2001) asserted that we need more Ph.D. programs in entrepreneurship.

Thus, we come full circle to the issue we addressed. Katz and Kuratko began a debate about the legitimacy of the field of entrepreneurship. Their work extends the earlier contributions of Stephenson (2000), Meyer (2001), Finkle et al, and Fiet (2001). Our findings demonstrate that entrepreneurship is likely not considered legitimate, in part, due a lack of academic preparation or research productivity of instructors within the field of entrepreneurship. The lack of doctoral preparation is a critical problem. This issue would not be paramount were faculty publishing solely in the field. However, our findings demonstrate instructors publish in other fields of study. Yet, the fact that faculty do not solely teach in the field is also testimony to the challenges of legitimacy faced by individuals that teach entrepreneurship.

This study provides early evidence that entrepreneurship may not be viewed as legitimate because the actors (Nicholls, 2010) that make up the field do not have a singular focus on entrepreneurship as measured by their academic preparation in doctoral programs, teaching assignments, or scholarly work. However, this study is not the end of the journey. We believe additional research can and should be conducted. We leave the reader with the following two research questions that should be further addressed.

- To what extent is the academy at fault for this situation (Meyer, 2001)? Meyer raised this question in 2001. It would appear that entrepreneurship continues to be viewed as not being legitimate, but to what extent is that due to factors beyond the control of those persons called to serve in this capacity. It seems a bit disingenuous to respond to the demand for entrepreneurship courses by denigrating the people that are assigned to meet that demand.
- How might the perception change if doctoral programs dedicated to entrepreneurship are created (Brush, et al, 2003). The lack of doctoral programs exclusively dedicated to entrepreneurship reinforces the concerns those outside the field have about this field of study.

Footnotes

1. Howard and Marlene talk about the creation of new industries, and I think we are all in agreement that entrepreneurship has been a new industry in business education (Katz, 2006, p. 4 of 55).
2. “Entrepreneurship faculty largely fall into two groups: tenure-track faculty (including one of the largest numbers of faculty holding endowed chairs in any business discipline) and adjunct faculty” (Katz, 1994, p. vi).
3. Meaning ‘take a course in entrepreneurship.’
4. The Chi-Square statistic was not used because the cell sizes in the cross tabulations were not sufficiently high (n-5) to justify it.
5. Some faculty teach both OB and HRM with OB serving as the theoretical foundation for HRM courses.
6. We looked at faculty credentials on the websites of two departments at each of two different universities.

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Table 1. Results from Survey

Issue	Finding	Comments
Academic Discipline is Entrepreneurship	61 of 112	19 did not teach in business
Doctorate	72 of 112	65% had a doctorate outside of business
Doctoral Program	Only 11 had Ph.D. in Entrepreneurship	45 out of 72 had a doctorate outside of business
Dissertation Topic in E-ship	26 of 72	44% did not have a topic in E-ship.
Formally Study of E-ship in Ph.D.	21 of 72 took some courses	45 did not take any entrepreneurship courses in their doctoral program.
Teaching load	34 of 112 teach three or fewer courses per year	A typical teaching load is six courses per year.
Teach Entrepreneurship	69 teach three or fewer courses in entrepreneurship	Cross tabulation of this question is shown in Table 2.
Specialty Course	87 teach at least one such course	e.g., Family Business, Economics of Entrepreneurship
Owned Small Business	91 of 112	Large percentage of the respondents had owned or currently own a small business.
Consulting	92 of 112	Active with small companies
Student consulting	60 of 112	Pedagogy identified by Solomon (2006)
Business plans or feasibility study	81 of 112	Large percentage of the respondents required students to complete one or both of these studies.
Research Topics	83 of 112	70.54% conduct some research in entrepreneurship.

Table 2. Cross-tabulated Results

Issue	Finding	Comments
Teach in entrepreneurship exclusively	16 of 29	Of those that teach entrepreneurship
Teach only entrepreneurship of faculty that self-described themselves as entrepreneurship or small business.	22 of 41	Must be assigned to teach other subjects
Entrepreneurship courses taught versus total course load	41 of 112 teach courses other than E-ship or small business	These respondents do not teach exclusively in E-ship and small business.
<i>Research in Entrepreneurship</i>	43 of 58	43 of 58 that said their academic discipline was Entrepreneurship/Small Business conducted some or no research in E-ship. Three did not report their research activity.

DEVELOPING STRATEGIC DIRECTION IN TOUGH ECONOMIC TIMES

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Abstract

Emily and Matt Stevens, owners of Roly Poly Sandwiches, a fast casual restaurant concept, were concerned about developing growth strategies for their business as well as keeping their employees motivated in their absence. Neither owner currently worked full-time in the business but both noticed a continuing decrease in revenues. A bad economy was partly to blame for the decrease in sales but it was likely that a change in the management was also contributing to the decrease. The owners needed to find a way to encourage or motivate their employees to provide excellent customer service and maintain high quality standards. Due to the current economy, there is very little money available to implement changes. The focus of the decision is on making recommendations regarding the current strategy of the firm and how the owners might improve the current implementation of functional-level strategies. Teaching notes are also included.

Introduction

When Emily Stevens was the in-store manager of her sandwich store, she was able to personally oversee the behavior of her employees. She was a clear example of effective “management (and motivation) by walking around”. Ten months ago, she left the business in the hands of a capable manager who had been with the company for around three years to pursue other professional opportunities. Another owner, Emily’s brother, Matt Stevens, lived in the local area and regularly checked-in on the business but over the past ten months, monthly sales had continued to decrease. At this rate, the store would not be able to stay in business for much longer. Emily Stevens faced a major challenge of how to increase the motivation of her employees to provide both excellent customer service and maintain the quality standards for the food, which would hopefully lead to increased sales. This challenge was made more difficult by the fact that these same employees were also making sacrifices to keep costs low enough to keep the business out of the red and marginally profitable. Additionally, Emily wanted to work with current management and staff to find ways to sustain the business during the current turbulent economic times.

Problem Background

Emily Stevens first visited a Roly Poly Sandwiches in Dallas, Texas. There was a successful location down the street from where she worked. After eating at the Dallas location several times, she began to believe that this type of franchise could be extremely successful in the college town she had just moved from. The first Roly Poly Sandwiches was opened in 1996 by Julie Reid. Franchising of the concept began the following year. By 2010, the franchise system consisted of more than 120 independently owned locations across the United States. Roly Poly Sandwiches offered over 50 different sandwiches rolled in tortillas (no bread is offered). Both hot and cold sandwich options were on the menu. Other items offered include soup, chips, cookies, and soft drinks (Hoovers, 2010). Roly Poly Sandwiches differentiated itself through high quality ingredients and the unique rolled sandwich concept.

Based on the belief that the Roly Poly Sandwiches fast casual restaurant concept could be successful in the college town she was familiar with, she contacted her brother, Matt. Matt was also an alumni of the same college and familiar with the city where they wanted to open the business. He had earned a bachelor’s degree in religion and was working in social services in

another city. He was extremely open to the idea of moving back to the college town and being an owner/operator of the business. Based on Matt's interest and Emily's financial resources, they contacted the franchise owners about purchasing the franchise rights for this city.

Their first store opened in March 2001 in a location near the university. Matt was a full-time, on-site owner and operator. He had experience from high school in fast food and quickly learned the ins and outs of operating a growing, successful business. Given his mixed experiences working in fast food, he was committed to creating a culture and environment where employees would be able to have fun at work and be appreciated for their efforts. The store was very successful from the beginning grossing just under \$400,000 for 2001.

Based on the success of the first store, Emily moved back to Gainesville in 2003. The plan was to open a second store in a different part of the city, further from the university. The second store opened in October 2005. Emily was the manager of this location and responsible for the day-to-day operations. Emily also understood the importance of creating a culture where employees would be motivated to do their best and help differentiate their restaurant from similar restaurants in the area. This was especially important in an industry such as the restaurant industry where turnover can be high and detrimental to a company's bottom line (Lynott, 2008).

By the end of 2007, Matt made the decision to leave the business to pursue other interests. Similar to many other business owners, the constant worrying about the performance of the business and employees had led him to look for a different career. In December 2007 the original location closed and Matt and Emily were left with the second location located in a more suburban area. When Matt decided to step down from being a full-time manager (he was still an owner of the business venture), it was decided it would be too hard to maintain two locations with only one owner available to work full-time.

"It's hard enough keeping one store running smoothly. We couldn't imagine how much time it would take to have two stores run by one owner. Neither one of us thought that would be realistic," said Emily about the decision to close the first store.

This second location was also very successful both for the employees and the owners. Emily and Matt had succeeded in creating a culture within their business where employees were motivated to work hard and provide high levels of customer service. By focusing on high quality food as well as excellent customer service, Emily and Matt were able to succeed at differentiating their franchise from local competition. The revenues for the second location grew to just over \$400,000 by the end of 2008. Additionally, turnover among key employees had remained at a low level (see Table 2). This low turnover rate was surprising given the estimated 100 – 125% turnover for the industry (Sullivan, 2010).

However by the beginning of 2009 sales were starting to slow as the fast casual segment of the restaurant industry began to be affected by the housing crisis and recession that was impacting the local and national economies. The weak economy had a dramatically negative effect on the restaurant industry, causing a record number of closures nationwide. According to NPD (a global research firm), over 4,000 restaurants closed in the one year period from April 2008 to March 2009. That was a 1% increase in failure year to year for all restaurants, with independently-owned restaurants seeing a 2% increase in failure rate over the same period (Lockyer, 2009). Economic conditions had a dramatic, negative financial impact on the restaurant industry

(Brandau, 2009). Consumer behavior patterns had changed for multiple reasons, including high levels of unemployment, a deep recession, and overall fear of what the future would hold.

Industry Background

Roly Poly Sandwiches is part of the fast casual segment in the Eating Places industry. This industry earned revenues of over \$500 billion in 2008 with the average restaurant earning revenues of about \$671,000 annually. This industry is extremely competitive with about 30% of the industry being made up of large chains and 70% of the businesses being sole proprietorships or partnerships. In fact, most restaurants are very small businesses with 91% of all restaurants employing less than 50 employees in 2010 (National Restaurant Association, 2010). The fragmentation of the industry led to a high level of competition where any advantage was sought after whether through operating efficiencies, high repeat business or low turnover.

While competition for customers was high between restaurants, so was the competition for employees. High turnover in this industry was a chronic problem that could increase expenses for any business not able to retain top performers. Research from the National Restaurant Association indicated that the most talented workers had their pick of businesses to choose from including other eating establishments as well as other service businesses. In order to attract and retain top workers, some chains and single restaurants had begun offering more training, more benefits and higher wages.

The fast casual segment of the restaurant industry grew by 5.7% in 2008. However, the annual growth rate was expected to decelerate to just over 4% for the years 2008 – 2013. This lower growth rate would indicate even greater competition for customers and quality employees (Encyclopedia of Eating Places, 2009). Florida was especially hard hit during the recession and housing crisis with same store sales decreasing for 17 months in a row (Neuman, 2010). In fact the industry as a whole had been suffering decreases in sales of 2.9% in 2009 and 1.2% in 2008 after adjustment for inflation.

In general, the conditions in the eating places industries are competitive during good times. There are many small, individually owned operations competing not only for customers but also for quality employees. To make matters worse, the economic environment from 2007 on has led to even more pressure on small business owners to decrease costs while trying to find a way to maintain or, hopefully, increase sales.

Current Problem Situation

The current problem facing the owners of the Roly Poly Sandwiches franchise in Gainesville, Florida stemmed from several changes in the business that occurred within a short period of time. First, the only current active owner, Emily, followed in the footsteps of the other owner and returned to her previous career. Additionally, she moved out of the city and was now living two hours away. Next, a current employee was promoted to a managerial position to replace Emily. This employee had been a shift supervisor but would now take on increased responsibilities regarding daily operations. Third, the recession hitting the Florida economy continued to have an impact on the sales but it was hard to tell if the decrease in sales was due to the change in management, the poor economy or some combination.

Owner pursues new career path

During the summer of 2009, Emily, the owner/manager of the remaining location accepted a job two hours away. All the current employees were told about the move and knew someone would have to assume the duties she had been responsible for. Before accepting a full-time position, Emily had been working part-time at the local university. This caused her to not be in the store full-time for 2 or 3 days a week but she would still stop by every day. Since Emily had been teaching part-time while managing the store, many employees did not think there would be much of a change.

Blake R., a long-time employee and shift supervisor summed up the view of many employees, “Emily is gone for lunch a few times a week now. That is our busiest time. Plus she is rarely around for the evening shifts. She may stop by but there is always another manager working nights. I’m sure it will be different without her around but I think we’ll be fine.”

Another shift supervisor said, “Emily is here most mornings and always knows what is going on even on the days she won’t be here for lunch. She does kind of make sure we get everything done we need to get done. We always know she might stop by at some point and we know what she expects us to be doing or to get done. I mean, she’s the owner so she takes this stuff seriously.”

“Emily also checks up on us regularly to make sure we are doing things right. Like if you make a sandwich wrong or she sees you doing prep work wrong, she’ll show you the way you are supposed to be doing it. Especially since she’s not here every day she pays even more attention on the days she is here,” said Jake D., a long-time employee. He also added, “There are definitely some employees that don’t do what they are supposed to when Emily isn’t here. They don’t greet the customer, or take too long to answer the phone. You know little things that Emily would never allow and that they wouldn’t even try if she was here.”

Appointment of new general manager

A new in-store manager was appointed during the summer of 2009. During this time, Emily had begun to phase herself out of the daily operations of the store. Chris R., who was appointed as manager, was a shift supervisor who had been with the store for three years. He had supervisory responsibilities but usually for only one or two employees during the dinner shift.

The duties for a shift supervisor included reconciling the cash register at night, being sure all the closing activities such as cleaning and restocking were completed and supervising any other employees that might be present. A manager’s duties included all of the shift supervisor’s duties plus creating the weekly work schedule, ordering food and supplies, interacting with customers as the person in charge, and responsibility for all human resource activities such as hiring, firing, and training employees. The manager basically was expected to complete all of the day-to-day duties associated with the operation of the restaurant.

The hope of the owners was that having a person promoted from within would help create continuity as the second owner moved on. The reasoning was that since Chris R. has worked in the store for over three years with the owners and already has some managerial responsibilities he would understand what the expectations were as far as maintaining customer service and food quality. Of course, the potential downside is that as a current employee the other employees would not see him as having the same power as the owners. Many of the employees had worked

with Chris over a long period of time and the promotion might not be seen as an actual increase in his power.

The reactions of the employees to Emily leaving and Chris's promotion were mixed. Most employees appreciated that a current employee was promoted but many had worked with Chris as an equal for a number of years.

"Chris and I started around the same time," said Blake R., "I've been here as long as him so it's not like he can fire me or anything. Matt & Emily are my bosses but I'll do what's needed to help Chris out."

"I've never worked with Emily and rarely with Matt. Chris is the only manager I've ever known here. He hired me and trained me so I have no problem with him telling me what needs to be done," said Lindsey C.

Continuing decrease in sales

Beginning in 2009, revenues began to decrease (see Table 1). The restaurant industry had been hard hit by the recession. What had always been a competitive industry was now even more competitive with restaurants fighting for a shrinking number of consumers. A higher unemployment rate and lower consumer confidence had both contributed to lower sales numbers. Of course, the owners realized neither they nor their employees had any control over the overall economy but they were not sure how much of the decrease in sales was due to the bad economy and how much might be due to not having an owner in the store full-time.

The owners were not aware of any way to look at the decrease and know exactly what the cause was. "Well, it's not like we can look at the numbers and say this percent decrease is due to the bad economy and this percent is due to the change in management," said Emily. The most important concern of the owners was to keep the employees focused on doing those things that would keep revenues from falling any further.

"We have no control over the economy or even what we pay for many of our supplies," said Matt Leslie, "but we can try to get our employees to provide the best customer service and make the fewest mistakes so people keep coming back."

Given the decrease in revenues and the continuing poor economy, the owners had made changes wherever possible to decrease expenses. Certain janitorial duties such as washing hand towels and cleaning the windows that were previously outsourced were now being done by employees. Also, Matt, as the only owner in-town, emphasized the importance to the manager of keeping salary costs low by reducing the hours worked by every employee.

"We can't decrease our rent, our phone or even our electricity costs but we can make sure people go home early when we are slow. We can also tweak the work schedule so we don't have too many employees scheduled for times when we know we are typically slow. I worry about cutting hours too much though. At some point, customer service might be adversely affected but I don't know what that point is," remarked Matt.

Issues to Consider

Local and national employment rates were still high but there is always a threat of the best employees leaving if they are not happy. Turnover in the restaurant industry was always a

concern. The best employees really could go anywhere. The owners realize that their employees have already agreed to a decrease in hours as well as a virtual freeze in pay rates. The owners worried if they made changes that were too extreme the employees may react negatively.

Another concern for the owners was being able to accurately measure any new strategic initiatives, especially with regards to new human resource plans. For instance, the owners knew they should reward excellent customer service but not how to measure that systematically. Matt Stevens remarked, “I feel like I know some of the things I want them to do but how do I measure them, especially when I am not in the store. For instance, it is really good when they can remember our regular customers’ names. But if I’m not there to hear them do that how can I reward them. I just don’t know.”

Another issue raised by the owners was they wanted to make sure that not only the desired behaviors were being rewarded but also that the employees that were most deserving were being recognized. As Emily explained, “We can spend money on marketing and over time sales should go up but it might also be some employees are really going all out to increase business. How can I set up a system to reward those employees for the increase in sales beyond those generated by the new marketing? Also, what about those employees who do not perform well even when sales are increasing? Not everyone can be above average, can they?”

The final issue had to do with the source of differentiation for this local franchise. While high quality ingredients and food preparation was stressed throughout all of the franchise locations, Emily and Matt had created a unique culture when they were actively managing the store that stressed great customer service. They were worried about undertaking any initiatives that might jeopardize either the high quality food or what they saw as the high quality culture.

Questions

1. What strategic action plans could be implemented to help sustain the business until the economy turns around, and beyond?
 - a. What functional-level strategies might be developed to continue building employee motivation and commitment?
 - b. What functional-level strategies might be developed to increase revenues from both new and current customers?
2. Identify and discuss the key factors facing Emily and Matt and the future of Roly Poly.
3. If you owned this Roly Poly franchise, what would you do to help insure the viability of your business.
4. If you were an outside consultant hired to help build the restaurant’s revenues and morale, what would your top three recommendations be?

Teaching Notes

One format for teaching this case would be to assign a question to students and then lead a discussion beginning with industry forces and then narrow the discussion to a firm-level discussion and finally to evaluate the students’ recommendations for change.

In class, have students conduct an industry analysis of the fast casual foodservice industry to help identify critical success factors.

[Brief Porter's Five-Forces Analysis and examples of key success factors will be here.]

Conduct an internal analysis of this Roly Poly franchise location including all key areas of operations.

[Value chain analysis will be here.]

Use a SWOT analysis to develop a strategic action plan that Roly Poly can implement.

[SWOT analysis will be here. Also, example strategies regarding different functional areas such as marketing and human resources will be included.]

Further discussion of actionable recommendations and implementation plans.

[Growing out of the SWOT analysis and general strategic plan, the stress here will be on getting students to develop actionable, step-by-step plans that a small business owner could implement.]

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Table 1
Monthly Revenues for 2009 – 2010

Month	2009	2010	Percent Change
January	\$28,980	\$18,888	-35%
February	29,235	17,953	-39%
March	31,089	21,607	-31%
April	27,920	21,301	-24%
May	25,382	18,701	-26%
June	27,357		
July	24,651		
August	21,257		
September	23,811		
October	23,428		
November	18,990		
December	18,724		

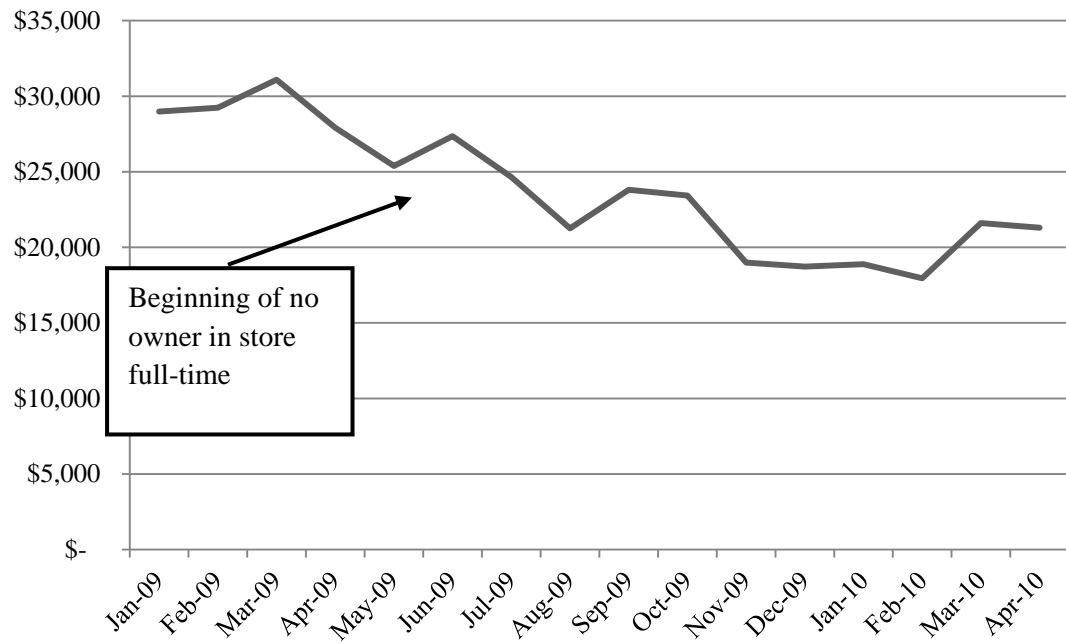
Table 2
Key Employees and Tenure

Name	Hire Date	Position in 2009
Chris R.	August 2006	Manager
Chino P.	September 2009	Manager
Fred B.	December 2005	Shift Supervisor
Blake R.	April 2006	Shift Supervisor
Jake D.	May 2007	Staff
Todd M.	March 2008	Staff
Lindsey C.	October 2009	Staff

Table 3
Income Statement for Year ending 2009 and Six Months Ending June 30, 2010
(All amounts shown as a percent of total revenue)

	<u>First 2 Quarters 2010</u>	<u>Fiscal Year 2009</u>
Sales	100%	100%
Expenses		
Cost of Goods Sold	36.7%	33.9%
Janitorial Expense	.1%	.4%
Rent	12.6%	12.1%
Royalty	4.0%	4.0%
Salaries and Wages	24.5%	24.4%
Taxes (Sales & Payroll)	12.0%	12.2%
Utilities	3.6%	4.9%

Figure 1
Revenue Trend Line 2009 – 2010



ADOPTING INFORMATION TECHNOLOGY IN STAGES OF SME GROWTH

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Abstract

Categorizing the development of small to medium-sized enterprises (SMEs) into a life cycle of organizations has been a goal of researchers for understanding the problems and opportunities associated with growth. Utilizing Kazanjian's (1988) four-stage organizational life cycle model, SME owner/operators are surveyed to determine how information technology (IT) capabilities can address the critical problems of each life cycle stage (i.e., conception and development, commercialization, growth, and stability) to facilitate continued growth and development.

Introduction

The concept of organizational development has been part of the management research agenda for decades. At issue is why some entities grow and even flourish while others muddle along, falter then surge, or completely go out of existence. Categorizing organizational development into a life cycle of organizations has become a commonly accepted method for understanding the problems and opportunities associated with growth. Essential to this life cycle construct is the identification of critical problems to overcome during each stage (Lester & Parnell, 2007) if an organization is to continue to grow, rather than stagnate or regress.

A relatively early life cycle model that not only describes discrete stages of development but also identifies the critical problem to overcome during each stage has been put forth by Kanzanjian (1988). Kanzanjian's model is utilized in this study because of its emphasis on early development issues involving small to medium sized enterprises (SMEs). A key component of SME operation in today's competitive environments is information technology (IT). We propose that IT can ameliorate the crises of growth at each stage of Kanzanjian's organizational life cycle (Lester & Tran, 2008), facilitating small businesses growth. One study of small business owners/managers revealed that 66% are using the Internet in their business, 77% feel that a web site is a necessity, 60% wished they had built a web site sooner, and 85% would recommend other small businesses use this technology (Greenspan, 2002). Furthermore, the wide reach of the Internet and other ITs can help SMEs overcome their size disadvantage and internationalize new ventures more quickly (Oviatt & McDougall, 1995).

A literature review is presented that briefly explores the organizational life cycle construct followed by a discussion of information technology investment in SMEs. Next a set of hypotheses is developed pertaining to the relationship between stages of organizational development and information technology capability building. A new model is discussed concerning this relationship, and results of a survey testing the hypotheses are presented. Implications for SMEs and discussion follow.

Review of the Literature

Life Cycle Models

Researchers have tried for decades to categorize organizational growth and development into stages or distinct periods commonly referred to as cycles (Adizes, 1979). Most of this research is based on the biological life cycle construct, identifying a pattern of development from birth to death. The observable evidence that organizations are at some point born, attempt to grow larger and more stable, and eventually die (Kimberly & Miles, 1980) makes the life cycle model intuitively appealing.

However, empirical research results have varied. Some researchers have found ample support for the renewal of dying or failing organizations through the exercise of strategic choice (Child, 1972; Lamberg & Pajunen, 2005; Lester, Parnell, & Carraher, 2003; Rasheed, 2005), a notion that contradicts the deterministic assumption of the life cycle model (Drazin & Kazanjian, 1990; Lohdal & Mitchell, 1980). Churchill & Lewis (1983) noted that some firms reach a situation that tends to stay relatively the same for long periods of time, never growing beyond, for example, the first or second stage of the life cycle. Others have documented organizations that progress to a mature stage only to fall back to a growth stage (Miller & Friesen, 1984), demonstrating that it is not inevitable that organizations must follow a natural progression from birth to growth to maturity to decline. Furthermore, SMEs do not all progress through the life cycle stages at the same rate, with some operating at low growth rates in a traditional SME model, others at a moderate pace in a capped growth model, and a third group at a high growth rate in an entrepreneurial model (McMahon, 2001).

While a life cycle stage is a loosely comprised set of organizational activities and structures (Dodge, Fullerton, & Robbins, 1994; Hanks, et al., 1994; Quinn & Cameron, 1983), it can be determined using four gestalts: strategy, structure, decision making style, and situation (Miller and Friesen, 1984). Almost all life cycle models of organizations have multiple stages which vary in length from ten (Adizes, 1979) to three stages (Smith, Mitchell, & Summer, 1985; Galbraith, 1982). A thorough synthesis presented by Hanks (1990) concluded that most researchers of the life cycle construct generally agree on five distinct stages: start-up, expansion, consolidation, diversification, and decline.

Most attempts at organizational life cycle research present a metamorphosis model, a snapshot of problems encountered by organizations at different stages of growth and how they cope with those problems (Starbuck, 1971). Few models have explicitly detailed how an organization actually moves forward or transitions to a new stage (Kazanjian, 1988), creating a gap in the literature that can only be filled with empirical life cycle research. One exception is the detailing of the complete life cycle of a small family business by Lester & Parnell (2006).

A key contribution from the life cycle models for researchers and practitioners alike is an understanding of how an organization's activities and structures change over time. For example, firms shift their focus to different stakeholder groups as they evolve from one stage to the next because of the change in contribution provided and attention required from each stakeholder (Jawahar & McLaughlin, 2001). Social capital, external networking and coaching needs are more intense and hands-on during the early stages for innovative start-ups (Clarysse & Bruneel, 2007; Maurer & Ebers, 2006). In the first three stages of the life cycle, diversification in sales, differentiation in labor force composition, and level of labor productivity increases relative to the last stage (Masurel & van Montfort, 2006).

What has emerged from the literature, both theoretical and empirical, is the notion of a crisis that occurs at some point of organizational growth that must be overcome if progress is to continue (Lester & Parnell, 2008). Some organizations grow in an evolutionary manner, with occasional periods of revolution that require leadership, coordination, and control (Greiner, 1972). According to Smith et al. (1985), major priorities for managers include technical efficiency, organizational coordination, and political support. More specifically, the crises identified are leadership at the entrepreneurial stage, delegation at the collectivity stage, flexibility development in the bureaucracy at the formalization stage, and need for revitalization in the elaboration stage (Quinn & Cameron, 1983). These crises must be solved during each stage or firms will stagnate and/or die. Kanzenjian's (1988) crises for SMEs will be discussed following the next section.

Information Technology Capabilities

Another stream of literature relevant to this discussion is the ever-increasing importance of information technology (IT) to organizational survival and success. From word processing, to networking, to the internet, to e-commerce, IT has become a driving force in today's global economy. Investment in IT is loosely defined as including computers and telecommunications equipment and their necessary hardware, software, and services (Dedrick, Gurbaxani, & Kraemer, 2003). Firms regularly invest in IT for such activities as payroll, human resources, accounting, supply chain management, and a host of other functions (Rao, Metts, & Monge, 2003). While smaller firms have been more reluctant to invest heavily in IT, larger firms have found it almost imperative and profitable (Stimmel, 2001). Of particular concern to smaller firms is the resource requirements associated with IT investment (Pool, et al., 2006).

The degree of sophistication of both information and planning and control systems is a prominent factor in determining the success or failure of business growth (Churchill & Lewis, 1983). Of course this is not to diminish the importance of the business founder's willingness to delegate responsibility and become a manager of others in the small business growth process. In addition, these systems, such as information systems, must be acquired in advance of growth so that they are in place when needed. By using IT to automate business processes and to improve information gathering, access, and quality, small firms can transform their entire businesses (Dedrick, et al., 2003). Furthermore, as the phenomenon of *multifactor productivity* (MFP) maintains, these improvements can be gained without additional investment in resources. Over time, IT investment has been shown to be associated with a shift to higher skilled workers. In fact, Lester, et al. (2003) found information processing to be the strongest indicator of a firm's life cycle stage.

The literature on IT investments by organizations has focused mainly on the antecedents of IT investment identifying the external, technological, and organizational factors that would persuade a firm to adopt IT. External forces include pressure from competitors, suppliers, and customers as well as the availability of government incentives and technology consultants (Aguila-Obra & Padilla-Melendez, 2006; Kim & Jee, 2007). Studies focusing on technological factors have examined the potential benefits and trade-offs of IT investments along with the influence of existing related technologies. Organizational support for IT investment can depend on the firm's structure, processes, size, culture, and technological capabilities of various firm members.

For SMEs, four factors found to have a profound influence on IT investments are: the perceived cost savings and income generation benefits; external pressure from rivals, suppliers, and buyers; organizational readiness; and perceived ease of use (Grandon & Pearson, 2004; Mehrtens, Cragg, & Mills, 2001). IT investment in SMEs differs from IT investment in large firms because a smaller number of people have decision-making responsibility, standard procedures are not instituted, long-term planning is limited, and there is more reliance on external IT experts (Premkumar, 2003). Nonetheless, IT capabilities may enable the long term survival of SMEs in a number of ways. They provide access to external knowledge and financial resources, create trust and legitimacy through widespread information dissemination, and generate more social network ties (Morse, Fowler, & Lawrence, 2007).

IT investment itself is a process that can occur in stages identified as: initiation, adoption, adaptation, acceptance, routinization, and infusion (Aguila-Obra & Padilla-Melendez, 2006). An in-depth qualitative study by Bruque & Moyano (2007) found that the factors influencing IT investment (e.g., managerial support, firm growth, and firm size) have little or no role in its implementation. Other issues such as staff training, staff socialization, power structure, and hierarchies play a larger role in IT implementation. For SME executives, once an IT is adopted, other challenges remain including keeping current with changing IT, training and educating employees, and receiving timely and accurate information (Riemenschneider & Mykytyn, 2000).

Our research builds on these two literature streams by using the life cycle approach to create a model of IT capability building that is dynamic. One contribution of this research is that it recognizes that not all IT capabilities are equal or interchangeable in addressing SME growth needs. As a result, a closer more detailed examination of specific IT capabilities and their applications to overcome developmental crises at certain stages of organizational growth is required. In addition, we propose that managers view IT not as a functional tool but as a strategic capability that can provide the SME with a competitive advantage.

Kazanjian's Organizational Life Cycle and Crises Model

This research uses the four-stage life cycle model developed by Kazanjian (1988) because it primarily focuses on issues important to smaller enterprises that can be addressed through the strategic application of IT capabilities. In addition, Kajanjian's (1988) model is based on empirical organizational life cycle research, as opposed to other SME-based life cycle models (e.g., Churchill and Lewis, 1983) which are theoretical.

Since its conception, the life cycle model developed by Kazanjian (1988) has been applied in a variety of industry, country, and management application research contexts. For instance, changes in board composition can be understood from the life cycle approach in conjunction with the relative power of CEOs and external financiers (Lynall, Golden, & Hillman, 2003). A study of biotechnology firms in five countries show that their success is dependent on their ability to harmonize scientific and business plans as these plans develop through the life cycle stages (Ireland & Hine, 2007). Vohora, Wright, & Lockett (2004) use life cycles to identify the evolving resource and capability acquisition activities of university spinout companies. Rutherford, Buller, & McMullen (2003) delve deeper into the human resources management issues Kazanjian identified by examining the specific HR problems of hiring, retention, and training that SMEs face in each stage of the life cycle.

This research seeks to contribute to the life cycle and IT adoption literature as well as build on Kazanjian's four-stage model by addressing how the critical issues identified in this model can be addressed through the strategic development and application of IT capabilities. The following provides a brief review of Kazanjian's four-stage organizational life cycle model and the related dominant problems that emerged from a phenomenological study of two high-technology ventures referred to as alpha and beta and an empirical questionnaire study of 105 ongoing high-technology ventures.

Kazanjian (1988) predicted that stage one is the *conception and development* stage where something is being invented or some process developed for a business. Constructing and testing a prototype is paramount to continued existence. The need for resource acquisition and technology development become the overwhelming focus during this time. Organizational issues of much importance later, such as structure and formality, are not present during this stage.

Stage two involves *commercialization* of the process or invention, focusing on production issues related to start-up. Financing, at least initial financing, has been secured, and the firm is planning for the introduction of the product to a market. Some organizations utilize contract employees or consultants during this stage in an effort to keep costs down while still being able to tap into research or administrative expertise.

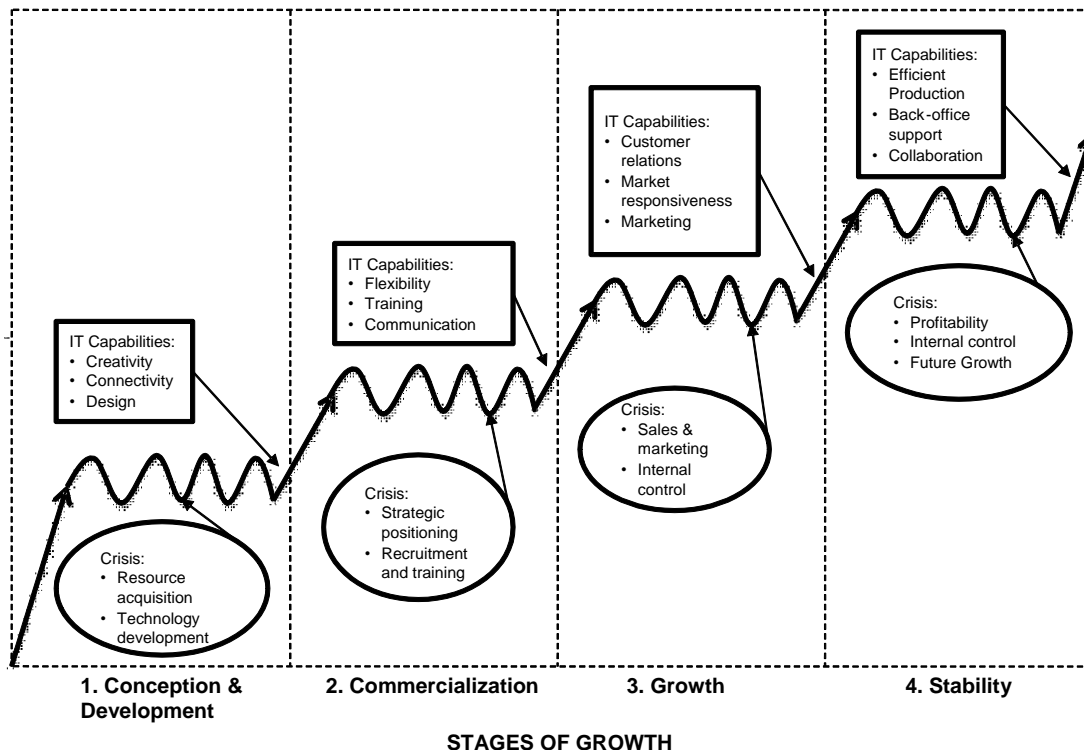
In stage three, *growth*, how to obtain more market share and position the organization to serve more customers become the primary problems to be solved. The market has accepted the product as a success, leading to a period of steady growth. Much effort must be focused on keeping up with the growth through production and customer service functions.

Finally, in stage four, *stability*, the organization seeks more profitability through a focus on internal controls, while searching for a future growth base. The development of a second product offering is, in many cases, the solution to the growth issue. Adding professional managers is also desirable for stability firms, and they may support the founder or actually replace her. The addition of professional managers speeds the policy and procedure development so that the company becomes somewhat bureaucratized over time. While many organizational life cycle researchers add a fifth stage, *decline*, Kazanjian (1988) chose not to, perhaps due to the model's focus on smaller enterprises.

Kazanjian's (1988) findings partially upheld the predictions, but some new insights were revealed. Support was found for propositions related to stages one, three, and partially to four. Predictions for stage two, however, found little support. Therefore, product or technology development and resource acquisition proved to be the dominant problems for firms in stage one. As for stage three, sales and marketing were rated as significantly more important than to firms in the other stages. In stage four firms, strategic positioning and organizational issues were rated as important problems. The study also yielded other findings of interest, including the importance of strategic positioning as an issue in all four stages by respondents. In addition, the people factor, attracting capable employees and talented managers, ranked second or third in each life cycle stage. And, the sales and marketing factor was rated first or second in three stages, emphasizing the importance of revenue growth to high technology firms.

Of primary importance to this discussion is the ranking of strategic positioning as a problem for firms in all four stages. Kazanjian defines strategic positioning as “a firm’s position in a new product-market segment and the development of a new product or technology application.” (1988: p. 269). Based on these earlier findings of Kazanjian (1988) and others previously discussed, we propose that SMEs acquire and develop information technology capabilities to aid in the solution of dominant problems at each stage of the organizational life cycle as depicted in Figure 1. Four hypotheses are developed, and the results of an empirical examination follow.

Figure 1. Crisis and IT Capability Characteristics for the Kazanjian Life Cycle Model



Hypotheses

In the conception and development stage, the firm is a newborn hungry for financial support, market recognition, and necessary resources. It needs to learn and develop its capabilities as quickly and as inexpensively as possible. A firm that can garner the most support from the market and financial community has a higher chance of surviving to the next stage. Numerous information technologies (IT) exist to connect the firm depending on the degree of openness with which the firm is comfortable. The most open and relatively inexpensive choice is to establish a web presence through a website that can be active or passive. At first, the site can be used for recruiting, information dissemination, and communication with potential suppliers, buyers, and industry experts. As the firm grows into the later stages, the website can be expanded to serve other functions discussed below. The danger with this openness is that the firm cannot always control who contributes comments to its website, and strong detractors may fatally harm this fledgling business. Open source collaboration is an alternative IT activity that enables the firm to develop projects with supplier and buyers while controlling access to the venture. For firms that need to protect their nascent product, the most closed IT activity is to use computer aided

design/computer aided manufacturing (CAD/CAM) in which the entire design process is kept in-house.

There are costs and benefits from these IT capabilities. For instance, CAD/CAM allows the firm to design and develop new products faster, but requires an investment in hardware and software in addition to training or hiring skilled workers to use the technology. In contrast, website management can be handled by one resident expert or outsourced while open source collaboration systems can be bought and maintained for a relatively lower cost because of the many vendors available. In the long run, the initial investment in these technologies will save the firm the future costs of infrastructure retrofits and employee retraining. Whichever the choice, the firm needs tools that can help it overcome its crisis of resource acquisition and technology development.

H 1: Firms in stage one, the conception and development stage, are likely to pursue IT capabilities that enable connectivity.

The crisis in stage 2 develops from the issues the firm faces as it commercializes its new product or service. Two critical issues identified in Kazanjian's study (1988) are the firm's strategic positioning and the task of getting the right managers and employees in place to embody and execute its vision. Strategic positioning is a tricky problem for a new product in an unknown and untested market. Although the firm may have an idea of to whom and how it should market its product, once in the market, the product will take on a life of its own, perhaps delving into unforeseen markets to serve unanticipated needs. While an IT capability cannot pick a market position for the firm's product, it can provide the necessary information and connections to assist the manager in making that decision, and it can enable the firm to be more responsive to evolving customer demands. Consequently, IT capabilities need to allow the firm to be flexible, agile, and knowledgeable about its customers while presenting and maintaining the company's core values consistently.

To enable the assessment and adaptation of new project developments, the firm could invest in project planning and scheduling software. An inventory management system would enable it to lower inventory costs and better plan production runs. The Internet could be used to link key value chain functions such as production, logistics, and marketing and sales enabling the sharing of key information to improve production efficiencies and meet customer expectations. As mentioned earlier, the company's website can be used as a recruiting tool, and it can be used also for routine training and communicating policy changes or improvements to targeted departments.

An underlying challenge in the commercialization stage is the more complex need for coordination among the various activities. As a result, IT capabilities will require a higher level of resource commitment in terms of finances, training, and implementation. In deciding on an IT system, organizations need to consider long-term costs such as systems' compatibility, maintenance, and upgrade costs. Another danger in investing in an IT system is the possibility that its limitations supersede the needs of the organization, and new or innovative projects or ideas may be curtailed because they do not conform easily to the processes and procedures of the instituted technologies. If the firm can avoid this dilemma, the long-term benefits include enabling an internal culture of customer responsiveness, quality, and interdepartmental learning and collaboration.

H 2: Firms in stage two, the commercialization stage, are likely to pursue IT capabilities that enable flexibility.

The third life cycle stage, growth, is marked by the need to increase market share through sales and marketing. Options for increasing sales include finding new market segments for its existing products, developing product tie-ins and add-ons for existing customers and products, modifying existing products for repeat customers, or entering international markets. An IT tool that is critical to this stage of a firm's life is customer relationship management (CRM) software (Campanelli, 2003). While young firms with few customers can usually manage them with day-to-day interactions, growing firms with hundreds or even thousands of customers require a system in place that, through a centralized data base, provides company employees in sales, marketing, customer service, and other functional areas access to up-to-date files on each customer.

The benefits of developing IT capabilities in an earlier stage can be reaped in the growth stage because the implemented technology infrastructure can enable sales and marketing efforts to develop new products and to reach new markets. The Internet is particularly useful for marketing and sales purposes because of its global reach and multimedia format. In addition, the growth stage firm can utilize emails and text messaging tools to send new product notifications and advertising to registered customers' email accounts, cell phones, and personal digital assistants (PDAs). At this stage, Internet functions can be expanded to include retailing, routine customer service, chat rooms, and blogs to create a branded community which will encourage customer feedback, product identification, and interaction among community members.

There are several weaknesses with using IT for marketing purposes. One major drawback to the use of IT in this stage is its limitations with products and services that require high levels of contact or interpersonal selling. In these markets, IT cannot replace the personal touch. Second, IT generates a vast amount of advertising noise which customers soon learn to ignore. Google and other search engines may yield hundreds of thousands of possible web links for an item search, so firms that want to stand out in the crowd or make it to the top of the list will have to pay higher fees. A third difficulty is the lack of control over how the product is received and portrayed by the market. This difficulty, however, may arise even without the use of IT. The success of viral marketing, using IT to tap into social networks for marketing, has shown that new technologies, like text messaging, cell phones, chat rooms, blogs, and social networking sites, play a vital role in providing personal endorsements for products. If the company can maintain a quality image and product, the benefits of IT outweigh its disadvantages in terms of marketing reach and advertising expenses.

H 3: Firms in stage three, the growth stage, are likely to pursue IT capabilities that enable customer relations.

In the final stage of stability, the firm has reached a level of maturity in terms of sales revenues and now can focus on improving its operations to ensure profitability as it searches for the next source of revenues. Of particular concern is managing costs as competition increases among similar products and customers focus more on price. Although the activities in Stage 4 resemble those in previous stages, the SME can focus on making these activities more effective and efficient in the stability stage when production volumes are more consistent and predictable and

the firm has sufficient slack resources to focus on these improvements. In addition, the search for new revenue streams in many ways involves the same capabilities discussed in Stage 1,

Conception and Development

Some of the IT capabilities introduced in the commercialization stage can assist with this task since they are designed to grow with the organization and improve its operational efficiencies. If the company has not already done so, automating routine office functions with accounting, purchasing, travel, and payroll software is a primary option for lowering costs. These systems can provide up to date information that can be utilized to improve operating efficiencies by lowering queuing, production, or delivery time. Furthermore, the market, production, and personnel information collected by the software programs can be analyzed to help find additional operational efficiencies or new product and process innovations. For instance, information about personnel reward preferences may help to find non-monetary incentives to motivate its employees. Ultimately, an early investment in IT not only reduces costs and training time, but it can also provide a productivity or creativity boost in later stages.

H 4: Firms in stage four, the stability stage, are likely to pursue IT capabilities that enable back-office support.

Of course, the IT tools suggested in this research are not a complete listing of available options, but rather a representative sample of options already available. Not only are new products being marketed regularly, but creative entrepreneurs are finding new ways to use existing technologies. Once a firm understands the crisis it faces at each stage of its life cycle, it can develop IT functions capable of meeting these challenges.

Methodology

A paper and pencil scale was administered to small business owner/operators in two regions of the mid-south United States. Respondents were asked to select a life cycle stage description from Kanzanjian's (1988) model and then indicate the need for or importance of information technology in their businesses.

Results

A total of 63 firm owner/operators completed the surveys, of which 56 were usable for this analysis. Response rate was approximately ten percent. Of the companies represented, 59% had 0-10 employees, 20% had 11-50 employees, 2% had 50-100 employees, 7% had 100-250 employees, and 13% had over 250 employees. Service companies made up 68% of the sample, 28% provided a product, and 4% provided both products and services. As shown in Table 1, the median sales figure for this sample was \$250K, median business age was 7.5 years, and the median CEO age was 50 years. When asked if they thought the company would be more efficient and effective with the use of IT, 82% agreed, 16% disagreed, and 2% failed to respond.

Table 1. Descriptive statistics of background variables

Variable	No. of employees	Service or product	Business age	CEO age
N	56	53	56	51

Mean	1.95 (11-50)	1.75	21.7	48.22
Median	1 (0-10)	2 (Service)	7.5	50
Standard Deviation	1.432	0.515	33.72	9.99
Min Value	1 (0-10)	1 (Product)	1	28
Max Value	5 (over 250)	2 (Service)	146	72

Cross-tabulation results provided support for Hypotheses 1 and 3. Table 2 provides the cross-tab results of the Life cycle stage x Connectivity technology. The results were significant at the $p < 0.10$ level (Chi-square = 19.84, d.f. = 12) and shows that 73% of Stage 1 – Conception firms agree or strongly agree that this is a necessary technology, providing support for Hypothesis 1. Additionally, a majority of Stage 2 – Commercialization (81%) and Stage 3 – Growth (58%) firms saw a need for a website for visibility and connectivity with its general and competitive environment. Stage 4 – Stability firms only had a 50% agreement rate.

Table 2. Cross-tabulation results of Life cycle stage x Connectivity technology

			Need website for visibility and connectivity					Total
			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Life cycle stage	1 - Conception	Count	2	0	4	7	9	22
		% by row	0.09	0.00	0.18	0.32	0.41	1.00
	2 - Commercialization	Count	1	0	3	5	12	21
		% by row	0.05	0.00	0.14	0.24	0.57	1.00
	3 - Growth	Count	1	2	0	2	2	7
		% by row	0.14	0.29	0.00	0.29	0.29	1.00
	4 - Stability	Count	2	1	0	0	3	6
		% by row	0.33	0.17	0.00	0.00	0.50	1.00
	Total	Count	6	3	7	14	26	56
		% by	0.11	0.05	0.13	0.25	0.46	1.00

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$\chi^2 = 19.84$, d.f. 12 ($p = 0.07$)

Support for Hypothesis 3 is found in Table 3, the cross-tabs results for Life cycle stage x Customer relations technology which is significant at the $p < 0.10$ level (Chi-square = 19.84, d.f. = 12). The results for Stage 3 firms show that 58% agreed or strongly agreed that customer relations technology was necessary. Similar to the results for connectivity technology, 73% of Stage 1 firms felt a need for customer relations technology, 81% of Stage 2 firms agreed, and 50% of Stage 4 firms agreed.

Table 3. Cross-tabulation results of Life cycle stage x Customer relations technology

			Need online customer service function					Total
			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Life cycle stage	1 - Conception	Count	2	0	4	7	9	22
		% by row	0.09	0.00	0.18	0.32	0.41	1.00
	2 - Commercialization	Count	1	0	3	5	12	21
		% by row	0.05	0.00	0.14	0.24	0.57	1.00
	3 - Growth	Count	1	2	0	2	2	7
		% by row	0.14	0.29	0.00	0.29	0.29	1.00
	4 - Stability	Count	2	1	0	0	3	6
		% by row	0.33	0.17	0.00	0.00	0.50	1.00
	Total	Count	6	3	7	14	26	56
		% by row	0.11	0.05	0.13	0.25	0.46	1.00

$\chi^2 = 19.75$, d.f. 12 ($p = 0.07$)

Implications for Managers

The results of the cross-tabulations have several implications for SME owner/operators. First, competition and the speed at which businesses operate today may put pressure on firms to act quickly to build capabilities, in particular, technology capabilities. It is rare to find a business, no matter how small, that does not have a website even if it is only used as a storefront to

connect with potential customers and vendors. Furthermore, the time span between conception, commercialization, and growth may be shrinking because of the pace of competition. Second, there is more technology available for firms to engage in more value-added activities up front rather than wait for a later stage. The technology may be bundled in packages by vendors that would be more cost effective to add as a suite of activities rather than added singly in stages. The need for computer language compatibility among the technology functions provided would also encourage firms to add these technologies together upfront.

A third implication is that the costs of technology may have lowered to the point that firms today find it more cost-effective in the long-run to invest in technology. Today's generation, who are usually the targeted demographic and future decision-makers, grew up with technology and are probably more comfortable with using technology rather than personal interactions for their business transactions. Firms that want to connect with the current generation may be more effective by using technology. Fourth, there is an even split for Stage 4 firms because some of the firms that have reached stability have less need for technology because they already have established relationships with customers and vendors that were built before the technology was available. Other Stage 4 firms may feel the institutionalization pressures to incorporate the technology into their capability portfolio in order to be current or to reach the next generation of consumers. A generation gap may be developing in terms of business technology adoption in which younger firms are quicker to see a need for technology than more established firms.

Conclusions and Future Directions

This study examined ways in which a small business can improve its chances for survival and continued growth through the use of various information technology capabilities at each stage of the Kazanjian (1988) life cycle model to overcome the identified crises of each stage. In general, IT capabilities can increase the market reach of the nascent firm and improve its speed to market. IT tools can be relatively low cost to implement and maintain, and the technology itself does not have to be a barrier to implementation, since many providers recognize that their customers are not tech savvy and offer service support. In later stages, IT capabilities have the potential of lowering operating costs while improving market responsiveness.

IT is, for most growing enterprises, just one factor contributing to continued progress and improved market share, but it has become if not sufficient, certainly necessary. The growth in number of IT adopters has grown dramatically in recent years with many firms already looking to upgrade to the newest IT models (Riemenschneider & Mykytyn, 2000). Reported survey results show that 58% of small businesses in the study stated that IT played an important role in their success, and 61% felt that it had a positive effect on their net income (Greenspan, 2002). However, technology investments that are used only as a tool are not sufficient. Rather, IT must be viewed as a capability to be integrated with other core capabilities and used strategically (Kim & Jee, 2007).

While SMEs struggle with stretching resources to meet ever-increasing demands as they grow, IT investment may prove to be unavoidable.

Limitations and Future Research

A clear limitation of the findings is the sample size. A follow-up study that increases the number of respondents and broadens the geographic reach has already been undertaken. Another potential limitation is the use of Kazanjian's life cycle descriptors, but a reexamination

of the topic with a more detailed scale would have to be conducted to determine the extent of that limitation.

Future research efforts should delve into the differences in IT investment and development between growing organizations versus those that are stagnant or even out of business. Of particular relevance will be the relationship between the IT investment and how it fits with the overall strategic direction of the organization.

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PERFORMANCE OF HISTORICALLY UNDERREPRESENTED FIRMS IN THE PUBLIC-PRIVATE SECTOR

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Abstract

This study examines the performance of historically underrepresented firms, which includes women owned businesses and socially disadvantaged businesses. We examine performance in the context of securing public contracts and compare the performance of these historically underrepresented firms to those of non-minority small and large businesses. Utilizing a sample of all contracts awarded by the Johnson Space Center, a NASA directorate located in Houston, Texas, which identified 5,676 contracts totaling approximately \$157 billion, we found that small businesses received around 63% of all contracts. The results indicate that more diverse firms received higher awards than specialists and that disadvantaged firms receive higher dollar awards than general small business. In addition, women owned businesses neither outperformed nor underperformed general small business in the dollar amounts of contracts received, and they are neither more or less specialized than general small and large businesses. Discussion, practical implications, and future research ideas are also presented.

Introduction

Strategic alliances, joint ventures, partnerships, and other interorganizational relationships between businesses have continued to grow in popularity in both business and in research (Das & He, 2006; Kelly, 2007; Lee & Gongming, 2007). Small businesses have been recognized as being uniquely suited for partnerships with other organizations due to many advantages such as a simple organizational structure, a focus on growth and continuity, flexibility, and central decision making (Gelinas & Bigras, 2004). In addition, these small businesses have access to additional resources and even learning opportunities that can boost performance (Beekman & Robinson, 2004).

For many small businesses, collaboration with the public sector is vital. In fact, many small businesses view public-private partnerships as their primary area of work and expertise. These public-private partnerships are gaining popularity as some indicate that they increase innovation and opportunity for growth, and that they are the way of the future due to the interconnectedness of industries and work sectors (Richter, 2004).

Bovaird (2004) defines a public-private partnership as a working arrangement between a public sector organization and an organization outside of the public sector. The form of these partnerships can be very broad as can be the range of products and services they produce or render. One advantage to these business-to-business relationships is they can create value networks that make up a business ecosystem that can provide advantages to all parties involved (Beekman & Robinson, 2004; Sawhney & Zabin, 2002). These connections can take place in many arenas which include state and local governments, international agencies such as the UN, and even the federal government as these organizations partner with the commercial sector (Richter, 2004).

While many federal contracts go to large publicly traded firms, small businesses are well represented. For the past several decades, the federal government has recognized the job creation and innovation potential of small and mid-sized businesses (Audretsch, 2003). This recognition has led to increased emphasis on funding small to mid-sized businesses thereby enhancing job creation benefits. Specific targeting of minority-owned and innovative businesses spurs the emergence and creation of such ventures (Cooper, 2003). Along these lines, public policy supporting preferential treatment of small businesses is aimed at the broader economic benefits arising from heightened job creation and innovation.

For the federal government, the benefits accrued from the private-public partnership go beyond job creation. Small businesses with strong connections to public and non-profit entities - such as Universities and other research institutions - achieve heightened levels of innovation with lower direct investment in R&D (Audretsch, 2003). Thus federal procurement aimed at innovation, such as the Small Business Innovation Research (SBIR) program enables the creation of many new business ventures and enhances the commercialization of government sponsored research (Held, 2007).

The second thrust of public policy addresses institutional inequities blocking certain entrepreneurs from equal market opportunities. Women owned and minority owned businesses are systematically underrepresented in most industries and face many institutional obstacles that extend well beyond simply running an effective small business. For example, minority owned and women owned businesses suffer excessively high-mortality (Robb, 2002) and face substantial challenges securing institutional sources of capital (Treichel & Scott, 2006). Seeking to mitigate these inequities, the federal government fills a gap in sourcing for entrepreneurial capital (Cooper, 2003), extending several programs targeting strategically disadvantaged businesses.

In addition to specialized sources of funds and initial funding, small businesses gain a legitimacy benefit from their business relationship with public institutions (Connell, 2009). The documentation required to become a candidate for receipt of federal procurement, along with the due diligence applied in awarding such contracts, makes the federal government an important ally for emerging ventures. This legitimacy carries forwards to increased access and interest from venture capital for growth and technology oriented small businesses (Lerner, 1999).

While an emerging body of research offers insight into the nature of small-business performance within public procurement, little is known about the comparative performance of small business types within those systems. To date, the research tends towards descriptions of the benefits of specific programs (Abramowicz & Sparks, 2007; Connell, 2009), need for specifically targeted programs (Reardon, Nicosia, & Moore, 2007) or public performance of major government entities (Held, Edison, Pfleeger, Anton, & Clancy, 2006). We lack, however, information regarding the comparative performance of focal categories (e.g. woman-owned and minority owned ventures) relative to their counterparts. To this end, a gap exists in identification of whether the various focused programs result in performance gains for small business.

It is along these lines that we proceed for our current research. In this paper, we explore four research questions. First, how do small businesses fare in their receipt of contract awards? Second are their differences in the extent of specialization and generalization between small and large businesses in their receipt of awards? Third, are focused categories of small business better

(or worse) positioned in their receipt of contractual awards? Finally, fourth, are their differences in the specialization and generalization levels of focused categories of small businesses?

Our research examines the performance of small businesses, and various types of small businesses, in terms of their receipt of federal contracts and dollars awarded. We focus on the relationship with a single federal agency because of that agency's broad funding, supporting numerous projects. The businesses represented include large multi-national firms, small businesses, and minority owned businesses. The contracts awarded include basic services, research and development, construction, and substantial investments in technology.

Federal Contracts and Business Categories

Our examination of small business performance distinguishes between several demographic categorizations of small business contracts. The distinctions we use to separate categories of small business are defined by federal government. Each of these categories represents a classification of small business ownership of specific interest to the federal government. Depending on the category, this interest may involve historical underrepresentation, challenges in acquisition of capital, and proclivity to generate innovations. Each category consists of a series of rules and targets for the distribution of federally awarded contracts and, in some cases, provides for additional services (such as mentoring). We provide definitions and background information for each of these categories in the following subsections.

Small Business Categories

The Small Business Administration (SBA) provides standards for definitions of small businesses, categories of small business, and additionally manages the certification of firms following within certain special categorical programs. For all small business categories, the primary designation lands on the size aspect. The SBA uses classification standards based on both number of employees and annual sales revenues. Depending on NAICS classification, a firm is considered small if its sales are under the \$12 million range. However, for certain industries such as most construction industries (NAICS 23), businesses are classified as small up through \$35 million in sales. Similarly, for many firms segments of professional, scientific and technical (NAICS 54), firms are considered small through \$27 million in sales. Using employee metrics, firms are generally considered small if they have fewer than 500 employees, although significant variation exists depending on the industry sector.

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 et al., 2007). While the economic impact of successful small businesses is noteworthy, small businesses also face substantial failure rates.

Robb (2002) finds that four-year mortality rates for small businesses exceed 50%. Further, the mortality rate ranges substantially higher for minority-owned firms and that woman-owned businesses fail 2-3% more frequently than male owned businesses within each category. In addition to heightened failure rates, minority owned (Robb, 2002) and woman owned (Reardon et al., 2007) businesses are substantially underrepresented in most industry categories. Recognizing this, the federal government provides preferential treatment and offers support programs both through the SBA and through the agencies who manage procurement awards.

Woman-Owned Businesses

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. White females (8.3%) are the fourth highest demographic likely to own or operate their own business following white males (14.4%), Asian (10.2%) and Hispanic (8.5%) (Blanchflower, 2009). Further, facing slow gains in employment opportunities and inequality in larger firms, women increasingly turn to self-employment. 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). Daniel additionally notes that women who own businesses have an average income level 2.5 times that of women who are not business owners.

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 these women owned businesses that include less early startup capital (S. Carter & Rosa, 1998), more difficulty securing loans (Verheul, Risseuw, & 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 (N. M. 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 hit 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.

Disadvantaged and 8(a) Disadvantaged Business

The SBA classifies socially disadvantaged businesses (SDB) 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 construction. 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 subcontracting relationships. Under this program, large primary contractors receive bonus payments if they subcontract with 8(a) disadvantaged firms (Abramowicz & Sparks, 2007).

Small Business Innovation Research (SBIR) Program

Initially created by the Small Business Innovation Development Act of 1982, the SBIR program was initially targeted for 1.25% of extramural research funding (Held et al., 2006). Since its inception, the program has raised its targets to 2.5% for projects meeting SBIR characteristics. The program initially expired in 2008, but has been extended through a series of short-term packages involving elements of the stimulus program (Seong, Horn, & Held, 2008). Requirements for participation in SBIR research include independent ownership (at least 51%) by a U.S. citizen or lawful resident with the firm located within the United States. The goals of SBIR are to increase use of small businesses R&D, enhance commercialization of federal R&D, and improve access for minority and disadvantaged businesses (Held et al., 2006).

The motivation for the SBIR is reflected upon the advantages small firms have in generating innovation (Audretsch, 2003) and extends the legitimacy benefits for small businesses with government contracts (Connell, 2009) ultimately leading to increased creation of innovative new ventures (Cooper, 2003). Research examining the performance of SBIR firms finds that recipients of SBIR contracts create more jobs (Connell, 2009) and grow sales faster than similar sized counterparts (Lerner, 1999).

The growth advantages of SBIR firms may represent inherently greater innovative productivity for the award winners, rather than innovation created as a result of federal funding (Wallsten, 2000). Wallsten suggests SBIR funding simply functions as a supplement to firm R&D investment. Whether SBIR causes innovation or innovative firms receive more SBIR funds, a positive correlation exists between SBIR funding and innovative firms. Audresch (2003)

observes that "some of the most innovative American companies received early stage finance from SBIR, including Apple Computer, Chiron, Compaq and Intel" (pg. 133).

SBIR participation occurs in three funding stages, progressing from phase-1 merit, to phase-2 primary R&D and occasional phase-3 follow-up (Held et al., 2006). The program is highly selective with only 17% of applicants receiving phase-1 funding and merely 50% of those moving on to phase-2 funding (Cooper, 2003). The total federal SBIR program generates roughly 4000 contracts per year going to some 1500 firms, many of whom win multiple contracts (Connell, 2009). Firms winning SBIR contracts also move on to receive other non-SBIR federal contracts, prompting Held and colleagues (2006) to suggest SBIR functions as a recruiting tool bringing firms into a federal participation network.

Some criticisms exist for the SBIR program. Held and colleagues (2006) observe that the SBIR program, while significant, remains a small part of the overall small business program. Further, SBIR initiatives targeted at women-owned businesses and SDB's may be less effective than distinct programs targeted at those two groups. Additionally, Seong and colleagues (2008) find that SBIR administrative costs are quite high, running 4-5 times the cost for similar small business targeting programs. They caution, however, that these administrative costs may be driven by the nature of the innovation research. Held and colleagues (2006) further observe that the commercialization goals for SBIR are generally only met by a handful of firms. This conclusion echoes arguments by Lerner (1999) suggesting that the high performance outcomes for SBIR firms may be an artifact produced by a handful of firms in venture-capital dense geographic communities (e.g. Silicon Valley).

Research Questions

In the preceding sections, we have defined and characterized small business categories specifically highlighted in federal procurement programs. These small business categories reflect demographic groups who are underrepresented in entrepreneurship, have higher failure rates for their ventures and entrepreneurs who are systematically restrained in access to institutional capital. Were this a sample of small businesses without partnership connections to the federal government, we might expect performance below that of non-minority small businesses and large businesses. However, given decades of attention by federal procurement, including special programs, incentives, and within network mentoring, it is quite possible that these historically underrepresented firms will fare equivocally to their non-minority small and large business counterparts.

Analysis

Our study involves the examination of all 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. In addition to relationships with direct contractors, larger recipients, such as Boeing, often sub-contract out parcels of their awards, creating an interdependent network of small to large businesses focusing on a variety of projects.

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.

Table-1 depicts the number of contracts and dollar value awarded for large businesses, small businesses and not-for-profits (including NGO's). We specifically emphasize the dollar value awarded, rather than the total amount paid to the awardee. While this may at times overstate the amount each entity ultimately receives, it maintains a uniform presentation for all awards. In some cases, awards were still being disbursed for contracts with lengthy durations, thus emphasis on payments received would have underrepresented the actual commitment in the award. We were able to identify 5,676 contracts amounting to roughly \$157 Billion awarded over the three years of our sample. Unsurprisingly, large businesses receive the majority of the funded awards, taking in nearly 97% of all funds. However, small businesses receive the overwhelming number of contracts, receiving approximately 63% of all contracts.

Table 1. Contracts Awarded Based on Size and Type of Business

Category	Contracts Awarded	Dollars Awarded
Large Business	1759 (31%)	\$151Bn (96.6%)
Small Business	3567 (63%)	\$4.9Bn (3.1%)
NFP	350 (6%)	\$.5Bn (.3%)
	5676	\$157Bn

NAIS also provides categorization data for small businesses. Prior to 2005, this information is generally restricted to size of business and whether it is a strategically disadvantaged business. However, 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. woman-owned, disadvantaged businesses). Table 2 below documents the number of firms, dollars received, and contracts received for all small business categories receiving awards in our sample period.

Table 2. Number of Firms, Dollar Amount Received, and Contracts Received

Category	Firms		Dollars Awarded		Contracts Awarded	
Small Business	958	73.6%	\$ 1,624,624,022.76	33.4%	2514	70.5%
Women Owned	149	11.4%	\$ 562,639,152.00	11.6%	380	10.7%

Disadvantaged	47	3.6%	\$	2,085,069,152.00	42.9%	155	4.3%
8(a) Disadvantaged	11	.8%	\$	168,530,354.00	3.5%	79	2.2%
SBIR	93	7.1%	\$	90,851,524.00	1.9%	256	7.2%
WOB Disadvantaged	22	1.7%	\$	271,320,938.00	5.6%	121	3.4%
WOB 8(a)	7	.5%	\$	43,675,446.00	0.9%	34	1.0%
WOB SBIR	10	.8%	\$	8,494,100.00	0.2%	21	0.6%
DIS SBIR	5	.4%	\$	2,064,673.00	0.0%	7	0.2%

Small businesses make up the largest number of firms in the sample (n = 958). This category represents firms which do not meet the definitions for any other small business category. In general, this includes firms owned and operated principally by white males and for minority owned firms who no longer meet definitions of disadvantaged or innovative research categories. While such businesses make up the majority of sampled small firms (74%), and receive a similar majority of the awarded contracts (71%), they receive the second largest level of awards (33%) behind that awarded to disadvantaged firms (43%) who represent a substantially smaller number of firms (4%). This cursory examination suggests that certain categories of small businesses perform better (or worse) than the general small business category.

NAIS also contains information on the NAICS category associated with the contract award. While this information is omitted in some cases, most of the contracts awarded to for-profit ventures contains this information. An examination of the most frequently cited NAICS codes, the percentage for each category, and the rank order for that frequency within each category of business occurs in Table 3 below. NAIS reports this information at the six-digit NAICS code, and we retain that information in our documentation and subsequent analysis. The most frequently occurring NAICS codes appear to come from NAICS 54, Professional, Scientific and Technical Services. Indeed, six of the ten most frequent NAICS codes (roughly 33%) come from this area. In general, the most common NAICS codes are fairly well represented across all categories of business. The two primary exceptions appear, at first glance, to come from 8(a) disadvantaged firms and SBIR firms for whom five and seven of the ten most common NAICS codes respectively do not appear.

Table 3. NAICS Codes, Industry Category, and the Rank Order of Each Category

NAICS	Category	Percent	LB	SB	WOB	DIS	8(A)	SBIR	WOBDIS
541710	R&D Phys, Eng, and Life	14.1%	2	3	1	36	8	1	9
541330	Engineering Services	7.2%	1	2	17	4	6	2	N/A
334111	Electronic Computer Mfg	5.0%	4	1	5	26	N/A	N/A	2

443120	Computer and Software Stores	3.8%	3	4	N/A	N/A	N/A	N/A	5
541519	Other Computer Related Svc	3.8%	6	7	6	6	4	N/A	1
541611	Adm Mgmt Consulting	3.3%	10	5	4	8	17	N/A	16
541511	Custom Computer Programming	2.8%	15	8	45	35	1	6	14
511210	Software Publishers	2.4%	5	10	10	33	N/A	N/A	8
541512	Computer Systems Design SVC	2.0%	8	19	46	10	N/A	N/A	15
337214	Office Furniture Mfg	1.8%	11	18	3	30	N/A	N/A	N/A

Examination of the top-ten NAICS codes by category and their relative weight within each category appears in Table 4 below. Using this information offers insights into the nature of the differences observed initially in Table 3. While SBIR firms only evidenced three of the ten most common NAICS codes, the difference appears largely driven by the weight of the most frequent NAICS category for SBIR contracts. NAICS 541710, R&D in Physical, Engineering and Life Sciences makes up over 86% of the SBIR contracts awarded by JSC in this period. To this end, SBIR firms, mirror all other business categories in that most awards come from NAICS 54. The 8(a) disadvantaged businesses, however differ significantly in the types of firms receiving contracts. Here, we find four of the ten most frequent awards coming from NAICS 23, Construction. Further, these awards make up roughly 43% of the total contracts awarded to 8(a) firms.

Our examination of contracts and dollars awarded suggested different categories of small business perform differently in their receipt of awards. However, our examination of the industries represented suggests differences only in the 8(a) disadvantaged category. Other than 8(a) firms, the various categories of small business seem relatively equivalently spread across the same types of industries represented by large and non-minority small businesses.

The remainder of our analysis examines receipt of federal contracts, dollars awarded and degree of specialization and generalization. Here we conduct regression models using three dependent variables: number of contracts awarded, log-dollar values of contracts awarded, and number of NAICS codes covered in contract awards. We use three subsets of our data to conduct this analysis. The first analysis examines differences across all for-profit and not-for-profit firms (n = 1925). Our second analysis examines performance characteristics of all for-profit firms (n = 1913). Our final analysis examines differences across only small businesses (n = 1299). These analysis are presented in Table 5 below.

Table 5. Comparison of For-Profit and Small Business Firms

All for-profit firms					Small Business Only					
DV	Model 1		Model 2		Model 3		Model 4		Model 5	
Predictor	## Contracts		##NAICS		Log_Dollars		## Contracts		##NAICS	
	β	p	β	p	β	p	β	p	β	p
SB	-.06	*	-.09	***						
WOB	-.00		.02		-.02		-.01		.03	
DIS	.02		.09	***	.12	***	.02		.11	***
8(A)	.03		.09	***	.10	***	.04		.12	***
SBIR	-.04	†	.13	***	.24	***	-.05	†	.16	***
NFP	0									
Diversified	.30	***			.20	***	.30	***		
R2	.10	***	.03	***	.15	***	.09	***	.05	***
n	1925		1813		1299		1299		1299	
Base Case	Large Business		Large Business		Small Business		Small Business		Small Business	
†	0.1	*	0.05	**	0.01	***	0.001			

In each regression, our predictors are categorical variables separating the base case from our categories of interest. The base case is large businesses in model 1 and 2 and general small businesses in models 3-5. Categorical predictors exist for general small businesses (in models 1 and 2) along with firms meeting government procurement program definitions for woman owned business, SDB's, SDB's meeting 8(a) requirements, and SBIR contracting firms. In regression models examining contracts and dollars awarded, we additionally track the number of NAICS codes a firm operated in, thus estimating effects from diversification (multiple NAICS codes) and specialization (one NAICS code).

Small businesses and their receipt of JSC contracts

Our first research question examines whether small businesses (and related subcategories) differ in their receipt of federal contracts. We focus on contracts awarded, rather than dollars awarded, as the very definition of small under SBA rules suggests that small firms will receive inherently smaller contracts than large business. We thus examine the number of contracts awarded as a function of the business category type, with large businesses representing the base case. Regression results are reported as Model 1 in Table 5. Our regression model is significant ($R^2 = .10$; $p < .001$) and predictors for diversification ($\beta = .30$) and small business ($\beta = -.06$) are significant with the predictor for SBIR ($\beta = -.04$) approaching significance. From this, we conclude that firms operating across multiple NAICS codes receive more contracts than specialist firms functioning in a single (or few) NAICS codes. Further, individual small businesses receive fewer federal contracts and SBIR firms receive somewhat fewer federal contracts than do large businesses. None of the firms representing small businesses in disadvantaged minority groups differ substantially in their contract award characteristics.

Small business specialization within the JSC contract network

Our second research question examines the extent to which small businesses, and categories of small businesses, differ in their extent of diversification or specialization. Here, we use the

number of NAICS codes a firm operates in as a dependent variable in a regression against the various categories of organizations, with large business functioning as a base case. Results for this regression are reported as Model 2 in Table 5.

The regression model is significant ($R^2 = .03$; $p < .001$), although the variance explained is quite low. We find significant positive relationships for disadvantaged ($\beta = .09$), 8(a) qualifying firms ($\beta = .09$) and SBIR recipients ($\beta = .13$) along with a negative significant relationship for general small businesses ($\beta = -.09$). From this, we conclude that SDB and SBIR program recipients tend to operate across more NAICS codes than do large businesses. Taking model 1 and 2 together, small businesses receive fewer contracts from JSC and tend to operate across fewer NAICS codes.

Small business categories and their receipt of JSC contracts

Where our initial models compared the performance of small businesses and specific categories of small businesses relative to large businesses, we turn our attention now to the comparative performance within the small business subset itself. Here our sample is reduced to firms meeting small business characteristics ($n = 1299$) and we examine results using both the number of contracts and dollars awarded. Our predictor variables in this stage include the various categories of small business (with general small business functioning as the base case) along with a predictor for the number of NAICS codes the firm operates in. The regression runs are presented as Model 3 and Model 4 in Table 5.

Model 4 uses the log dollars of the contract awards as a dependent variable against the categorical predictors. The model is significant ($R^2 = .15$; $p < .001$) and we find a number of the predictors significant. Consistent with our examination across all organizations, more diversified firms receive higher dollar awards than do specialists ($\beta = .20$). Additionally both types of SDB's, disadvantaged firms ($\beta = .12$) and 8(a) classified firms ($\beta = .10$) receive higher dollar awards than general small businesses. SBIR recipients ($\beta = .24$) also receive higher dollar awards than non-SBIR small business recipients.

Model 5 uses the number of contracts awarded as a dependent variable against the same range of predictors. Once again the model is significant ($R^2 = .09$), although few predictors reach significance. Consistent with earlier analysis, diversified firms receive more contracts ($\beta = .30$) than do specialists. SBIR recipients ($\beta = -.05$) receive marginally fewer contracts than do non-SBIR small businesses - although the preceding results suggest these fewer contracts are more lucrative.

Specialization of small businesses awarded JSC contracts

Our final analysis examines the tendencies towards diversification or specialization for small business recipients of JSC contracts. Here, our dependent variable is the number of NAICS codes a firm operates in regressed against the various categories of small businesses, with general small businesses functioning as the base case. Results of this regression are depicted in Model 5 on Table 5, once again the model is significant ($R^2 = .05$).

We find significant, positive coefficients for both categories of SDB's with both disadvantaged firms ($\beta = .11$) and 8(a) firms ($\beta = .12$) functioning in more NAICS codes than do general small businesses. Additionally, SBIR firms ($\beta = .16$) tend to operate in more NAICS codes than do their non-SBIR general small business counterparts.

Discussion

The Federal government expends some effort understanding the impact of small business on the economy as well as understanding institutional biases which undermine the potential effectiveness of many categories of small business. While small business have historically functioned as job and innovation incubator for the United States (Audretsch, 2003) and while entrepreneurship generally produces better earnings and lifestyle opportunities for many individuals (Daniel, 2004), these benefits do not come without pitfalls. Small businesses retain a very high failure rate (Robb, 2002) and outcomes for small business are not equivocal across demographic groups. We discuss our findings categorically, looking at findings for general small business, woman owned business, SDB's, and SBIR businesses.

General small business include all firms meeting SBA definitions who did not fall into any other category. While these firms receive the largest number of total contracts (70.5%), they receive the second largest total awards (33.4%). Considering that general small businesses comprise the largest number of firms in the small business category (73.6%), these initial outcomes suggested that the individual firm performance lags behind that of other small business categories. This is, in fact, born out in our regression models. Individual general small businesses receive fewer contracts and lesser awards per contract than do all other firms, save women-owned small businesses.

However, it does not appear that this is through any specific penalty in awards as much as in self-selection by the general small businesses themselves. General small businesses tend to operate across fewer NAICS codes than do any other firms in our sample, save woman-owned businesses. Additionally, general small businesses seem concentrated in NAICS 54 (science and technology) and NAICS 33 (manufacturing) which appear to be the most competitive contracts in the JSC data set. In the three models where we examined contract award characteristics, the number of NAICS codes a firm operates in routinely emerged as the strongest performance predictor. Tending towards specialization in more competitive arenas likely limits potential contracting opportunities for general small business.

While we find the general small business to underperform nearly all other business categories, the same cannot be said for woman owned businesses. Businesses owned by female entrepreneurs neither under, nor over perform general small and large businesses in their receipt of contract. Similarly they do not outperform, nor do they underperform, general small businesses in the dollar amounts of contracts received. Additionally, they do not appear to be any more, nor less specialized than are general small or large businesses. Where Reardon et al. (2007) report that federal procurement targets, as a whole, have never been met for woman owned businesses, we find little evidence that women owned businesses are underperforming in their role as contractors for JSC. Our findings that WOB are not underperforming in terms of number or dollar of contracts echoes Reardon et al. findings, although theirs pertains to contracts only. Given the general underperformance of women owned businesses, as a whole, in the federal procurement system, our findings suggest actions and policies in place at JSC are producing desired results.

Where our findings for women owned businesses suggest neither under, nor over, performance, the same cannot be said for SDB's. SDB's outperform general small businesses, receiving higher contract awards on average. Additionally SDB's neither under, nor over, perform large or small businesses in the numbers of contracts awarded. Held et al. (2006) observes that SBIR programs

targeted at SDB's may be less effective than direct programs targeted at SDB's. While we cannot test the comparative suggested by Held and colleagues in this data set, we confirm their endorsement of targeted SDB programs. Within the JSC procurement program, SDB's are receiving opportunities for their firms to flourish.

Robb (2002) notes that SDB's tend to be underrepresented across industry categories and that SDB owners tend to concentrate in specific industries. Our findings suggest that, within JSC procurements, SDB's tend to be less specialized than other firms and are more likely to operate across multiple NAICS codes than general small businesses. We notice a concentration of SDB contracts awarded in NAICS 23 (construction) which is consistent with Robb's analysis. However, we also find NAICS 54 (science and technology) is also well represented for SDB's in the JSC network.

Our examination of SBIR contracts suggests that the vast majority of SBIR awards go to firms operating in NAICS 54, this is unsurprising given the nature of SBIR work. We further observe some SBIR contracts going to firms in NAICS 33 (manufacturing). Additionally, we find that SBIR firms are more likely to operate across multiple NAICS codes than do general small businesses. Taken together, this suggests that JSC-SBIR contracts may be making strides to address the commercialization of R&D goals of the SBIR program (Held et al., 2006).

Our performance evaluation for SBIR firms produces mixed, but generally positive, findings. We find very weak evidence that SBIR firms receive fewer contracts, on average, than do general small and large businesses. However, the statistical results for these findings are notably weak. Taken in conjunction with our finding that SBIR firms function across multiple NAICS codes, which substantially correlates with number of contracts awarded, this suggests that the negative finding is a statistical artifact. Our evidence suggests that SBIR contracts provide substantially higher award dollars than do general small business contracts. Our finding here is consistent with Connell's (2009) examination of SBIR awards for all federal agencies.

On the whole, our examination of JSC contracts produces a number of important findings. Specifically, JSC appears to perform admirably in their mandate to stimulate business opportunities across historically underrepresented small businesses. While other research suggests that the federal contracting performance lags behind policy goals (Held et al., 2006; Reardon et al., 2007), this NASA directorate offers evidence of programs producing desired outcomes. To date, the examination of public-private partnerships - specifically those involving small business and underrepresented businesses - has largely emphasized macro-policy outcomes. Our examination of a single directorate within one agency of the federal government finds that macro-policy outcomes are not always emblematic of directorate performance.

Even though our research documents important positive outcomes for SDB's, our findings themselves suggest three important questions for future research. These questions involve potential interaction effects, causal arguments, and network evolution. We address each of these separately.

In general, our investigation of procurement program categories focused on direct effects. To this end, we examined outcomes for women owned businesses as well as SDB's. We find no significant over, nor underperformance for the former and indication of substantial positive performance for the latter. We did not explore effects for businesses who occupy more than one

category simultaneously (e.g. woman owned SDB's or SDB SBIR firms). In this, our research mirrors the general tenor of research examining public-private partnerships with the Federal government. Within our sample, few firms (less than 3.5% of all small businesses) were flagged for multiple characteristics offering little ability to explore these interactions. It is interesting, given our findings, to inquire whether all women owned businesses performed equally to their general small business competitors or, alternately, whether separation of SDB women owned businesses would substantially alter these findings. We believe this is an important question to carry forwards.

Our second research question addresses that of causality. Research examining the general performance of SDB's (Robb, 2002) finds them underrepresented and underperforming in most industries. To this end, a number of federal programs seek to remedy this historical underrepresentation, yet as a whole performance lags behind policy goals (Reardon et al., 2007). In our study of JSC, we find SDB's well represented and performing at or above levels of general small businesses. While this is a significant, and admirable outcome, it is unclear given the nature of our data, whether this outcome is policy driven.

We do not know, given this data, whether specialized procurement programs, mentoring opportunities within the JSC network, or other JSC driven initiatives led to this outcome or whether the outcome is associated with other factors. Further, our data is panel data, taken within the same time period - all our outcomes are thus correlations only. We make no claims of causality, merely inferences of causation. Given our findings are atypical of general business and federal procurement (in whole), further research should explore causal outcomes. To what extent are the results we observe outcomes of concentrated efforts at JSC? Which programs (assuming a causal link exists) produce these positive outcomes? Can such programs (should they exist) be modeled and replicated elsewhere? While we advise cautious optimism, future research should explore causal factors.

Finally, do the correlations we exist carry forwards? Held and colleagues (2006) argue that programs like SBIR can function as gateway programs bringing new firms into the federal participation networks. Audretsch (2003) suggests that participation in these programs can lead to higher innovation outputs in future periods. Connell (2009) suggests that public-private partnerships with the Federal government provides legitimacy benefits yielding greater opportunities for performance and growth in future periods.

Do these benefits accrue? Are firms in the JSC procurement system likely to remain in network? Assuming this is true, is it equivocally true or are some types of firms more (or less) likely to remain in network? Do firms entering the federal network through one agency expand their connections across multiple agencies or do they tend to stay with one agency partner? Do these partnerships materialize in firm performance benefits and, if so, are these benefits located entirely within the government network? Given the nature of our data we are unable to address these questions. However, taking our findings in conjunction with existing research, suggests that greater knowledge is needed about the antecedents and consequences of participation in public-private partnerships with the federal government.

We began this study with the intent of improving our understanding of correlates to participation within the JSC procurement network. We couched our analysis in a macro-economic understanding of the historical underrepresentation of SDB's and how that informs federal procurement initiatives. Our findings suggest that, at the directorate level, positive outcomes exist for historically underrepresented businesses.

Federal agencies often operate with dual strategic mandates, an operational mandate tied directly to their identity (e.g. space exploration) and a policy mandate to enact their operational mandate in conjunction with broader federal initiatives (e.g. promoting small business and disadvantaged business opportunities). While federal guidelines subordinate the policy mandate to the operational mandate, the interaction of the two should always be considered.

Specifically, JSC appears to have realized at least some of the policy goals the federal government has established for small, and underrepresented, businesses. However, our analysis is restricted to contracts awarded within one Presidential administration. Current discussion on the future for NASA, and potential changes to the mandate for several directorates, may result in changes in funding levels and targets. To the extent that current funding and targets realize policy goals for small and underrepresented businesses, substantial changes in mandates and funding should be carefully implemented to avoid losing any current benefits.

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BUILDING OUR KNOWLEDGE OF FAMILY BUSINESS: WHAT ARE THE MAJOR TOPICS AND THEORETICAL PERSPECTIVES BEING PUBLISHED – A 10 YEAR REVIEW

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Abstract

Family business is an important area of study due to the far reaching implications for the global economy and society in general. The development of new ideas for both theory to advance the field, but also for practical application via interested family business stakeholders is of great urgency and importance. This study is a 10 year review of the papers published in the Family Business Review journal from 1998 to 2007. Results concern five areas ranging from the quality and type of research to the topics, theories and linked topic synergies. Findings are important for both theory and practice.

Introduction

The International Family Enterprise Research Academy (IFERA) champions the necessity for collaboration and acceleration of research efforts to advance our knowledge globally in the area of families in business. The Family Firm Institute (FFI), geared at a practitioner audience, is continually engaged in attempts to help families run their business and associated families more efficiently. The efforts by academically as well as practitioner focused organizations are noteworthy given that family businesses, it is often quoted, comprise the vast majority of all types of businesses. The importance of Family Business as an area of academic research was acknowledged in 1988 by the creation of an academic journal focusing entirely on Family Business issues – The Family Business Review (FBR). Since then the field has grown to include a second journal, launched in 2010 – the Journal of Family Business Strategy. Apart from this, Family Business papers are published in some of the top business journals internationally. There are also several international conferences focused around Family business.

It is timely to take stock of where the field is, how it has evolved and where it should be headed. In 1998 Dyer and Sánchez completed a 10 year review of papers published in the Family Business Review between 1988 and 1997. Following on from these authors, the review presented in this paper similarly covers a ten year period of papers published in the Family Business Review, from 1998 to 2007. However, a more in-depth focus is adopted than that of Dyer and Sánchez (1998) which reflects the greater complexity due to the development of this important field of inquiry.

Family business can be defined narrowly or more broadly, however, for the purposes of this paper, it will be defined as follows: “enterprises in which an entrepreneur or next-generation CEO and one or more family members significantly influence the firm” (Poza, 2010).

Background

Early Stage Assessment

Eloquently stated by Dyer and Sánchez (1998), a field must advance by understanding how it has progressed. So the review they conducted of the FBR enquired into three areas (1) what topics were appearing in the journal, (2) who was writing the papers (e.g. academics, consultants, etc.),

and (3) what were the implications of this work for future research. They found that at least one third of papers comprised essays, commentaries and practical applications. The most common topic was how to manage a family business, mostly contributed by academics who comprised 65 of authors. They conclude their review by calling the decade they consider as a “murky swamp” (p. 295) in terms of the field of family business. This term is taken from “Karl Popper (1968) who describes Science and associated theories as being built above a “swamp” (p.111). They very much issued a call to action in terms of “Now is the time to begin adding the bricks and the mortar ... as we construct our “field of family business building” (p. 295).

Development Stage

Since then, within the field of Family Business some specific domains and associated theories have gradually emerged. Textbooks have been published on the specific topic which facilitates the teaching of the subject (e.g. Poza, 2010 (3rd Ed.)). This heralds that a field has become sufficiently popular at universities to attract stand-alone courses. For example, a 2009 Canadian country-wide survey of courses offered in Faculties of Business found that Family Business was taught as a separate course in 26% of undergraduate programs (Menzies, 2009). Poza (2010) in a globally adopted, US textbook, provides a comprehensive and coherent overview of the field. His summary of the current theories utilized in Family Business provides us with a useful way in which to study families in business. The utilization of theories is an obligatory base for any paradigm or emergent body of knowledge. Thus the extent and range of theoretical perspectives is another way in which we can study the development and distinctiveness of a field of inquiry.

Much of the Family Business domain revolves around issues of planning and executing ownership succession/transition. This topic is of immense interest to most families in business (Chua, Chrisman & Sharma, 2003; Danco, 1982; Davis, 1968; Davis & Harveston, 1998). Succession issues, in many instances are complex and often remain unplanned, and when attempted are often unsuccessful. Gersick, Lansberg, Desjardines & Dunn (1999) state that “understanding the structure of transitions” (p. 287), is the most salient interjection for academics and advisors to assist families with ownership succession issues.

Theory Development

With regards to theories, Systems Theory is perhaps the most commonly associated with Family Business theory building. The three-circle diagram (Gersick, Lansberg, Davis & McCallum, 1997) is a useful way in which to visualize the linkages between Family, Management and Ownership, and the overlap that exists often between some or all of these stakeholders. Just as a life-cycle, or systems theory has been adopted to investigate succession in family business (Dunn, 1999; Gersick et al., 1997). The Agency Theory perspective is very commonly used in discussing families in business. This theory has been used to explore many aspects relating to the survival of family firms (Mustakallio et al., 2002; Tsai et al., 2006; Vilaseca, 2002; Zahra, 2005).

The Resource-Based view of the firm is used to examine the competitive advantages inherent to family businesses (Cabrera-Suarez, Saá-Perez & Garcia-Almeida, 2001; Habbershon & Williams, 1999). The Stewardship Perspective, whereby the business is seen “as an extension of themselves” (p.20) is an important way to view family businesses according to Poza (2010).

Development Stage Assessment

Casillas and Acedo (2007) reviewed the literature in the Family Business Review from 1988 to 2005 in an attempt to identify how the domain of family business was developing as a distinct

field within the general management literature. Both Dyer and Sánchez (1998) and Casillas and Acedo (2007) use the term paradigm, referring to Kuhn (1970) who states that as a distinct academic area evolves it develops its own paradigm. They summarize their findings as “despite the literature being fragmented and showing a lack of consensus, we are facing, in Kuhn’s words, a development of the research frontier by enlarging the number of approaches used for understanding the family business” (p.141). Several other papers, published in the early 2000s review the evolution of the field and give useful insights through this development phase (Bird, Welsch, Astrachan, & Pistrui, 2002; Chrisman, Chua, & Sharma, 2003; Zahra & Sharma, 2004; Sharma, 2004). In keeping with the development of a new field, it is imperative to take stock of research methodologies and outputs. This is the aim of this research study.

This paper examines the following research questions:

1. What is the ratio of the research in Family Business according to empirical vs conceptual papers?
2. What are the characteristics of the empirical research studies in Family Business, in terms of the sample size, range of countries from which samples derived, and time lag between data collection and publication?
3. What are the main *topic areas* in the field of Family Business?
4. What are the main *theories* being utilized in the field of Family Business?
5. What topics and theories are clustered together to form “topic synergies”

The framework for this research is shown in Figure 1 below which conceptualizes the overall research questions.

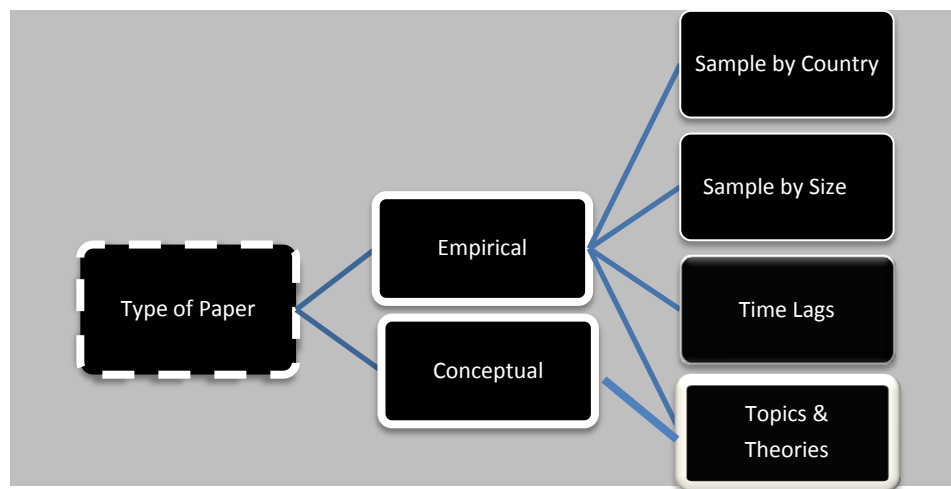


Figure 1: Conceptualization of the Study regarding the Papers Published in Family Business Review Journal between 1998-2007 (n=195)

Methodology

A literature review was conducted online through the ABI online database which provided access to all copies of the Family Business Review for the ten-year period 1998 to the last issue of 2007. The following information was collected: research method/type, sample size, research sample country, time lag between research and publication date, topics, and theories. For the purposes of this paper, book reviews, commentaries and interviews were not included. An excel

spreadsheet was utilized for recording and analysis of results. Categories were agreed upon by two researchers and inter-rater reliability of analyzed papers was observed.

Results

A total of 195 conceptual and empirical papers were published between the first Family Business Review journal issue in 1998 to the last issue in 2007. Figure 2 shows the breakdown between the two types of paper. For the purposes of the paper we viewed an empirical paper as one in which primary or secondary data has been collected/examined, analyzed and reported. Conceptual papers do not report on a study but aim to advance the field by an in-depth analysis and discussion of topics and theories. Empirical papers often provide a short version of this as a preamble to reporting of the study.

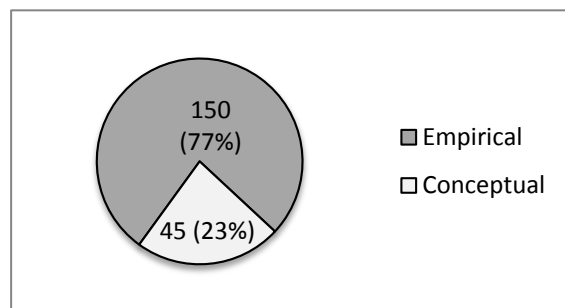


Figure 2: Type of Paper Published in Family Business Review Journal between 1998-2007
(n=195)

Author(s) who contributed empirical papers over the ten year period 1998-2007 collected their data from a range of 29 countries from 5 continents. Almost half utilized samples from the US but there was representation from countries globally (Table 1). The size of sample varied widely with the most common using samples of between 101 to 500. However, samples of less than 10, indicative of case studies, were found in 27 papers. There was also use of large-scale databases of >1000 respondents.

The time lag between collection of data and final publication of the paper varied with half being within four years and half taking five to ten years to be published. It is not always a negative factor to have a delay in publication, although speedy collection to publication can be considered a good way to disseminate up-to-date knowledge and build the field of family business faster. However, analysis, the writing stage, submission to a journal, the review process with perhaps one or a few revisions, or submission to a variety of journals if there are rejections, can lead to a longer time frame between data collection and publication.

Table 1
Empirical Studies by Country (if reported) as Published in the Family Business Review Journal between 1998-2007

Sample derived from the following Countries	No. of Studies for each country
United States	47
Spain	11
Canada	9
Australia	6
China, Finland	5
India, United Kingdom	4
Germany, Sweden	3
Austria, Belgium, Chile, Lebanon, Netherlands, Norway	2
Africa, Argentina, Brazil, Brussels, Denmark, France, Ireland, Italy, Lithuania, Philippines, Portugal, Scotland, Taiwan	1

Note: Six studies were conducted over 2 countries.

Table 2
Sample Size, if reported, of Empirical Studies Published in Family Business Review Journal between 1998-2007 (n=150)

<10	11-99	101-500	501-1000	>1000
40	27	54	17	12

Table 3
Time Lag, if reported, between Data Collection and Publication (n=44) of Papers Published in Family Business Review Journal between 1998-2007

Time Lag between data collection and paper publication			
<One year	2 – 3 years	4 to 5 years	6 to 10 years
11	11	16	6

Results of this review show that for empirical papers, in line with the previous work of Dyer and Sánchez (1998), the most commonly studied topic is still succession. However, over the last 10 years, there are also many other topic areas that have risen to importance (Table 4). Governance and types and level of Commitment are now quite popular topics with 15 and 14 instances respectively. Women and their roles in the family business was the next most common type of topic with 10 instances. Finance was also quite popular with nine empirical studies, while Culture issues were the topic of seven studies. Control issues were studied in five instances. Relationships, and Power were the topic of four studies each. Social Capital Theory was the topic of three empirical studies. Estate Planning and Consulting, both practical issues to a large extent, were the subject of only one study each.

Table 4
Focus of Empirical Studies in the Family Business Review Journal between 1998-2007

Topic/Theory	EMPIRICAL No. of Studies	CONCEPTUAL No. of Studies
Succession	40	15
Governance	15	3
Commitment	14	2
Agency Theory	11	5
Women	10	2
Finance	9	5
Culture	7	4
Resource Based View Theory	5	4
Control	5	-
Relationships	4	1
Stewardship Theory	4	-
Systems Theory	4	2
Power	4	1
Social Capital	3	1
Estate Planning	1	2
Consulting	1	5

Specific theories that were studied were mostly those mentioned by previous authors as being in the forefront, namely, Agency Theory with 11 studies, Resource Based View Theory with five instances, and Stewardship Theory and Systems Theory with four instances each. Social Capital Theory was studied in three papers. Social capital theory (Bourdieu, 1986; Coleman, 1988; Putnam, 1995; Woolcock, 1998, 2001) concerns “networks and how shared values [and trust] function as a resource for people and organizations” (p.43, Field, 2003).

Results of this review show that for conceptual papers, in line with the empirical studies and previous work of Dyer and Sánchez (1998), the most commonly studied topic is succession. However, just as with empirical papers, over the last 10 years, there are also many other topic areas that have risen to importance (Table 4). Consulting and Finance are popular with five papers each. Culture is discussed in four papers, while Governance appears in three papers and types and level of Commitment in two papers, the same number as Estate Planning. Women and their roles is discussed in two papers, while Power relationships, and Social Capital Theory were the topic in only one paper each.

As with the empirical studies, specific theories that were the major topic of conceptual papers were mostly those mentioned by previous authors as being in the forefront, namely, Agency Theory with five studies, Resource Based View Theory with four instances, Systems Theory with two instances, and Social Capital Theory with one instance.

Table 5 shows the common and not so common topics that appear over a range of both conceptual and empirical papers. They were not listed alone due to the varying level of focus within the paper(s). However, these topics occur across a total of 70 papers both empirical and conceptual.

Table 5

Sub-Topic Focus of Studies Published in Family Business Review Journal between 1998-2007

Miscellaneous Topics	No. of Studies
Boards of Directors	One or more of these topics were included as a sub-topic in 17 Conceptual, and 53 Empirical papers.
Child Care	
Dual Responsibility	
Exit Strategies	
Family First/Business First	
Founderitis	
Internationalization	
Personality attributes of CEO	
Technology	

Examining the topic synergies research question, results show that some of the topics and theoretical areas were commonly linked with a range of other topics. Table 6 shows the primary topic(s) or theory (theories) addressed in empirical and conceptual studies published in the FBR journal between 1998 to 2007. At the lower end of the Table, the information is presented for the primary theories. The various ancillary topics have been listed alphabetically. By far the greatest number were found associated with the Succession topic, which is to be expected given the predominance of this topic by number of papers. It is interesting to note that Governance and Commitment are the next most linked with ancillary topics. Table 6 is currently being analyzed further and future work will examine the linkages and the impact this has on our knowledge of family business research. For the purposes of this presentation, linkages will not be discussed due to space limitations.

Table 6

Primary Topic/Theory and Ancillary Topic(s) or Theory (Theories) Addressed in Empirical and Conceptual Studies Published in Family Business Review Journal between 1998-2007

Paper Primary Topic	Ancillary Topic(s)/Theory in Empirical Papers	Ancillary Topic(s)/Theory in Conceptual Papers
Succession	Advisory Boards Agency Theory Board Of Directors CEO Spouses Commitment Compensation Conflict Culture Estate Planning Exit Strategies Family Policy Finance Founderitis Governance Internationalization Longevity	Cognitive Categorization Consulting Culture Finance Mentors Rivalry Strategic Mgmt Tax Laws Women

	<p>Mission Statements</p> <p>Non-Family Directors</p> <p>Personality Attributes CEO</p> <p>Relationship</p> <p>Social Capital Theory</p> <p>Socialization</p> <p>Stewardship Theory</p> <p>Systems Theory</p> <p>Transitions</p> <p>Trust</p> <p>Values</p> <p>Women</p>	
Governance	<p>Agency Theory</p> <p>Board of Directors</p> <p>Commitment</p> <p>Compensation</p> <p>Control</p> <p>Culture</p> <p>Finance</p> <p>Socialization</p> <p>Stewardship Theory</p> <p>Strategy</p> <p>Succession</p> <p>Systems Theory</p> <p>Women</p>	<p>Agency Theory</p> <p>Contingency Theory</p> <p>Culture</p> <p>Family First Business First</p> <p>Relationships</p> <p>Strategic Planning</p> <p>Succession</p> <p>Trust</p>
Commitment	<p>Agency Theory</p> <p>Culture</p>	<p>Agency Theory</p> <p>Board of Directors</p>

	Exit Strategies Fair Process Family Policy Family Systems Theory Governance Risk Satisfaction Socialization Succession Trust Values	Communication Governance
Women	Advisory Boards Conflict Control Culture Relationships Sibling Rivalry Succession Systems Theory	Consulting Finance Strategic Mgmt Succession
Finance	Control Culture Family vs Non Family Governance Non Family Employees Ownership Succession	Consulting Family vs Non Family Strategic Succession Women
Culture	Commitment	Agency Theory

	Familianness Finance Governance Motivation Nonfamily Employees Power Succession Values	Contingency Theory Governance Power Relationships Strategic Planning Succession
Control	Conflict Cross Shareholdings Flexibility Governance Indirect And Direct Shares Ownership Systems Theory Women	n/a
Relationships	Ceo Spouse Commitment Compensation Governance Succession	Mentors
Power	Compensation Culture Ethics Familianness	Culture
Consulting	-	Finance Strategic Management

		Succession Women
THEORIES		
Paper Primary Theory	Ancillary Topic(s)/Theory in Empirical Papers	Ancillary Topic(s)/Theory in Conceptual Papers
Agency Theory	Board of Directors CEO Tenures Communication Flex Governance Resource Based View Theory Risk Stewardship Theory Succession Systems Theory	Board of Directors Commitment Control Culture Governance Resource Based View Theory Trust
Resource Based View Theory	Agency Theory Familliness Internationalization Managerial Capabilities Networks	Agency Theory Board Of Directors Commitment Structure
Stewardship Theory	Agency Theory CEO Duality Governance Succession	-
Social Capital Theory	Self-Efficacy	Norms

	Succession	Trust
Systems Theory	Commitment Governance Succession	Culture

Implications

Joseph Astrachan, longtime Editor of the FBR wrote an Editorial note in the December 2008 issue. It was written as a summing-up as Pramondita Sharma was assuming the role of the new Editor. The comments made by the outgoing Editor were as follows: “We need to continue to push the boundaries of thought as the work of promoting family business is far more important than career ambition ... Family business is too important to our global economy and society to not be vigorously studied and supported.” He also states that “FBR was founded ... to promote the development of new ideas for both theory development as well as for practical application – indeed a difficult balancing act ... academia often does not promote works of immediate applicability to the manager, business owner, or other professionals who work with them” (p. v).

The implications of this paper are clearly linked to Astrachan’s (1998) thoughts. We need to advance theory to be a respected scholarly academic. However, that knowledge must be based on high quality studies which can lead to theory building which will also benefit the non-academics interested in family business. There are a large group of stakeholders who either own, work in or anticipate working in a family business; advise families in business, or serve family businesses in terms of financing, accounting and legal services and so on.

A review of the type, range and quality of FBR papers along with a categorization by topic, theory and the novel approach of topic synergies, should be of use to both academics and practitioners.

Conclusion

This paper examined five research questions. The first, what is the ratio of the research in Family Business according to empirical vs. conceptual papers, is relevant to whether or not we are building knowledge on practice or theory. It would appear that the trend in the FBR is to strongly focus on using practice and from that to build theory. The second research question concerned the characteristics of the empirical research studies in Family Business, in terms of the sample size, range of countries from which samples derived, and time lag between data collection and publication? This knowledge has important implications for a range of issues, for example, the quality of research, the type of studies being conducted, and ethnocentrism bias. Overall, it appears that there are case studies, often termed qualitative studies, but also quantitative studies. This trend is indicative of the development of a disciplinary area. The wide range of countries where data is collected is encouraging in terms of addressing ethnocentrism. The third research question enquired into the main topic areas and results show that succession is still the most popular but there is a wide range of topics that are emerging as areas of interest in the family business literature. The main theories remain largely the same as they were in the earlier 1998 review paper. Agency, RBV, Stewardship and Systems Theories dominate the FBR papers. However, Social Capital Theory has found its way into the literature of family business. The

topic synergies, was the last research question and promises to provide the most reward from this study in terms of identifying the topics that are associated with each of the primary topics. Further research into these results is underway. However, it is hoped that at this conference there will be an opportunity to build knowledge by working with participants to identify areas where this knowledge can be used to advance theory and practice.

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WEIGHT MANAGEMENT MEDICAL CENTER

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Abstract

The primary subject matter of this case concerns the life and faith journey of Claudia. A highly educated woman, Claudia has tragedy strike her, and with the support of friends, returns to her faith and finds unexpected answers. Eventually, Claudia finishes her graduate degree, leaves behind a promising career and launches an entrepreneurial venture with a new business partner, Weight Management Medical Center, treating childhood obesity. With their conviction of faith, the partners believe they have received their calling. However, business success has yet to appear, so do the partners continue to trust their faith at the expense of profit?

Case Synopsis

Creating and successfully operating a small business is a challenge for virtually all entrepreneurs. In particular, the challenges facing women can often seem insurmountable. Claudia was raised in a Christian home, but she left the church when she left home. Years later when confronted with tragedy in her marriage, Claudia fell into a deep depression, where only a return to faith could save her; faith in her friends, faith in her treatment, and faith in God.

A tortuous path involving career changes, education starts and stops, and a new marriage eventually lead to a new business partner and venture, Weight Management Medical Center, serving the emerging epidemic of adolescent obesity. At the forefront of this new medical field, Claudia found skeptics in the banking and insurance field as the partners attempted to launch their business. The case tracks WMMC from inception through two incarnations to the most recent crossroads; where will WMMC go in the future?

This case study chronicles the trials and tribulations of one woman that weaves common threads for many students; from spiritual loss and awakening, to tragic loss and recovery, to redemption and purpose discovered through faith and friends. The teaching note reviews obesity issues, entrepreneurship and spirituality, and business conclusion.

Obesity has been termed the next American epidemic; Christian businesses are becoming increasingly visible. Coupled with the tragic event of Claudia's life, her struggle with depression and her spiritual awakening, the case serves as a powerful example for women and men when faced with seeming insurmountable emotional and financial barriers. This case is designed for an undergraduate business class and presents various opportunities for interdisciplinary teaching. The case is based completely on Claudia's own words.

Introduction

July 1992 was seasonably hot, but that was life in Kansas; July meant hot. For Brad Knox, a seemingly healthy man in his early 50s, the heat was just one more obstacle to overcome while fixing the siding on the house he shared with his wife, Claudia. He was probably hammering the nails a little too hard, but he and Claudia had just fought and Brad had stormed out of the house angry. After over a decade of marriage, and the second marriage for them both, they thought they would get it right this time; this relationship thing. Of course, their marriage had issues, like most relationships, but this coming weekend, he and Claudia were going to Harvard on educational leave and were looking forward to their time in Boston as a time of renewal. Maybe

with a change in climate, scenery and lifestyle, they could focus on working through their problems. Both agreed that Boston was key for marriage renewal. Suddenly, gripped with pain, Brad stumbled into the front door of the house, collapsed in the living room and died. Claudia stood there and watched her husband die at her feet. No good bye, not even time to react, just a loud thud on the floor and Claudia's life would be forever changed.

Claudia and Church

Claudia was raised in a mainstream Protestant church, but it was a Sunday thing. Church, religion, spirituality were not guidelines for living, but more an obligation. Leaving home for college, Claudia also left the church. This was even more ironic with her first husband, a pastor's son, who also had left his church. The young couple would attend church sporadically, mainly on the holy days of Easter and Christmas or whenever they timed their visits home on a Sunday morning. Often they planned trips just to avoid being with their parents on Sunday morning, although Claudia said that neither she nor her husband ever overtly stated why they did so. Still, Claudia says her faith remained, just quietly in the background. To her, Claudia thought that living a good life was good enough.

Claudia and Kansas

Claudia loved children, although she never had any of her own, but she earned a bachelor's and a master's degree in education over time while working in elementary, middle and high schools in small town Kansas. By 1992, she was principal of the high school in a medium sized Kansas town when her world fell apart. Claudia used this phrase on purpose. Her first attempt at suicide was on 22 July, three weeks after Brad died. In a deep depression, friends strongly recommended she have herself committed after the failed attempt, and Claudia did. Previous to losing Brad, Claudia felt she looked at death so simplistically; she had no idea what real grief meant. As she worked to understand her grief and come to terms with her loss and ongoing depression, she kept returning to the lost time in Boston and never having the chance to tell Brad what he meant to her; to tell him goodbye. Her guilt over this continued to build despite therapy and medication. By October of the same year, Claudia tried to take her life again. Once more, her small Kansas town rallied behind her and convinced her to become an in-patient again.

Sitting on the edge of her hospital bed, Claudia did what she had not done since Brad's death. She prayed. Not just a prayer of why me or grief, but Claudia felt she really opened her heart to God and said that either God make God's presence known to her or she was done. As brazen as it sounds, Claudia said she was done with God and done with living. Claudia reached into the nightstand, took out the ever-present Bible and opened the book randomly to Psalms where she read Psalms 56-60. It was at that moment that Claudia believed that, "God was talking to me. I knew and believe today that God was talking to me." Claudia was equally adamant that God does not respond to demands. But that night, she began the long and arduous process of working through her depression, dealing with her guilt, and getting on with her life with the help of modern therapy, medications, friends, and most importantly, prayer. That was God's answer to her; get to work on living the life God gave you, not the one you want. Gradually, Claudia began to open up to her close friends her newly renewed and growing spirituality.

One of these close friends was Don, a teacher in town. Don and a friend, a devout Christian, checked on Claudia regularly, mowed her lawn, and did things around the house. One time, Claudia recalls, Don walked into her principal's office and she just reached out to him and said she needed a hug; just simple human contact. Not pausing for a moment, Don held her and they

both smiled. Don and his friend gradually increased their visits, sometimes bringing others, and always surrounding Claudia with Christian fellowship. Interestingly enough, Don was not an active Christian himself as far as attending church, but he was close friends with many practicing Christians and enjoyed their company. Gradually, over the coming year, Don would be social with Claudia without the others around. There were no fewer group interactions, just increasing couple time. Still, Claudia felt strongly that she needed to leave Kansas; the memories were too strong for her friends to overcome. She contacted her friends in Kansas City, got referred to a new psychiatrist, and moved.

Claudia and Kansas City

Kansas City, approximately an hour east, was home to many of her friends who had surrounded her with support over the past year. Many of them had offered to welcome her to Kansas City and help in any way. In 1993, Claudia took them up on their offer and moved, motivated in part by friends and, on the other hand, to complete her dissertation. Claudia was ABD (all but dissertation) at KU for her Ed.S. degree and she now felt capable of finishing. Don did not protest, realizing she needed to make a new start; however, he was able to see her often since he traveled to St. Louis on a regular basis to see his son. Building on their relationship of trust from employer/employee and then friends, Claudia found herself falling in love with Don by August. They were married on 1 January 1994.

Now, Claudia wanted to be a wife and homemaker. The dissertation disappeared off her priority list, any career drive melted away, and Claudia focused on making a home with Don back in Kansas in the same town she had just left, since Don still taught there. This was a bizarre time for Claudia as she went through a dramatic shift in responsibility, power, pay, independence and any number of other issues as her only identity became, as she termed it, housewife. But this shift was temporary; Don decided to retire at the end of the school year in spring of 1995. As he contemplated retirement and all that Claudia gave up, Don told her that now she had license to do whatever; finish her dissertation, make a career change, or stay home with him. Whatever she wanted, Don would follow.

Taking him up on his offer that fall, Claudia took a high school associate principal position in Topeka, the Kansas capital, then a principal position back in Kansas City in 1996. Claudia now had the power, respect and profile that she realized had been missing from her life. But being a high school principal in Kansas City was not like being one in small town Kansas. Claudia was unprepared and blindsided by the political maneuvering that goes on in a major metropolitan school district. Very quickly, Claudia found herself at odds with one member of central administration who somehow got all of Claudia's decisions routed through her. Claudia said this was two years of hell as this woman ambushed her numerous times and thwarted almost all Claudia's desires for school change.

Prayer had not left Claudia's life and she had continued to pour out her heart and put all her burdens to God. Yet, not since treatment had she felt touched by the presence of God. Not knowing how or why this happened, Claudia felt, for the first time in years, God's presence again in her life and she continued to feel that staying in her position was what she was supposed to be doing. But Claudia did not take this easily, even knowing this was her purpose, she could not do it alone. She continually asked other Christians at the high school to pray with her in her office and several times, found herself on her knees in the bathroom asking God what was the point of this experience. And then, just as abruptly, it was over. Central Office asked Claudia to

leave. Claudia was mortified, but felt at peace. Her time there was done and she felt God was again saying, time to move on. So she did not fight her forced resignation, although she still feels guilty that the staff and students never knew the truth over her leaving. The official reason was to complete her dissertation, but Claudia had told staff, students and parents that she was there for the long haul (in her mind, Claudia was hoping for 5 years). Claudia's guilt was not being able to do all she had promised and planned to do. Still, Claudia carries scars from that experience and has never been able to let go of the school; she continues to pray for the staff and students every day. And always, as well, for one particular woman administrator.

Claudia in Crisis

Freed from a very difficult position, Claudia felt liberated and looked forward to finding a new position in the fall of 1998. She was not worried about finding a job or about the loss of income. As it turned out, she should have been, for she was unable to find any position in greater Kansas City. This was incredible. Claudia had years of progressive administrative experience, the required degrees, yet no one would hire her. Was her Central Office nemesis sabotaging any job prospects? Was that even possible? Claudia prayed for guidance, but no professional level job materialized nor did she know where to turn.

One of Claudia's friends called her one day to tell Claudia about her new job at Sprint. The friend mentioned to Claudia that her old job as a psychiatrist's receptionist would now be available. The receptionist position paid \$7.50 an hour and entailed answering phones and doing the mail. Claudia was incredulous; \$7.50 an hour? A receptionist? She had been a high school principal in a major school district, was this what life now had in store for her? Again, she prayed and all she could think about was that \$7.50 an hour was more than she was making now, so she took the receptionist job. Ironically, the psychiatrist had treated Claudia years earlier when she was committed. Both remembered the other and were pleased to be reconnected.

Claudia found the job experience very humbling. Yet, the position had no pressure, she came to work, she worked and she left. Her time away from her defined work hours was hers and hers alone. Her time spent as the psychiatrist's front desk person was a restorative time. She even found herself finishing her dissertation. Interestingly, the psychiatrist introduced Claudia to a social worker, Bart. Bart worked in the same area as Claudia's research, and in their discussions, Bart supplied a key perspective that Claudia needed to finish her dissertation. Would she have been able to finish if she had found a principal's position? Claudia doubted it and she was also happy. The happiest she had been in years. Granted, Claudia admitted, she was also watching every penny, but God seemed to have answered her prayers, just in a very unexpected manner.

Visiting with Bart one day, a friend of Bart's wandered by, Dr. Pierce. Bart made introductions and asked Dr. Pierce how she was doing. Dr. Pierce said that was a loaded question since all she could think about lately was creating an obesity medical center for children. Dr. Pierce recognized the rising epidemic of obesity in children and felt not nearly enough was being done to combat it. Claudia was fascinated by such an original idea, even though she knew next to nothing about adolescent obesity, but what Claudia did know about was curriculum development. Dr. Pierce had just the opposite skill set. They looked at each other and a partnership was born. All from taking a job as a receptionist.

Claudia and Obesity

By fall 1999, the dissertation was finished, Claudia graduated in December 1999 and the obesity clinic, Fit Kids, Fit Families, was opened in January 2000 in a local strip mall. Dr. Pierce funded the entire business. Claudia worked as the front desk person while developing the curriculum (she had been working on it all fall after the dissertation was finished). Claudia taught classes at night on healthy living and nutrition while Dr. Pierce took care of all the medical aspects of treatment.

As the relationship between Dr. Pierce and Claudia continued to develop, Claudia learned more and more about what it took to operate a business and she gradually took on more and more operational control. Trust began to develop between Dr. Pierce and Claudia as well as a deep appreciation of each other's strengths and acknowledgment of each other's weaknesses. However, the business struggled, with overhead/fixed costs as the majority of their expenses.

After three years of struggling to find a successful business model, Dr. Pierce and Claudia decided to shut down in March of 2003. But neither woman was willing to give up. They just looked at each other when they decided to close and said, "So what's next?" "Well," Dr. Pierce replied, "let's be partners and start over." And that's exactly what they did. The women and Don formed an S corp, 60/40, with Claudia and Don as the 60%, and called their new firm Weight Management Medical Center (WMMC). Don did the bookwork and taxes and stayed completely out of the decision making. The only two times the 60/40 split was acknowledged was with a purchase or tax liabilities. At those two times, Claudia and Don were responsible for 60% otherwise the arrangement was never mentioned. Claudia and Dr. Pierce made all decisions by consensus; if they did not agree, it did not happen. Trust was the major factor in their relationship as they valued each other and their respective abilities. Both women felt their partnership was a unique relationship; one they have never experienced before. A partnership built on faith in each other and a focus on the integrity of the other person.

Claudia and Dr. Pierce

Dr. Pierce had come to greatly value Claudia in operating a business, since Dr. Pierce readily acknowledged she really had no idea what running a business would mean. This type of collaborative relationship is somewhat unique as research shows that many women business owners often lack a professional network of colleagues with complementary skills. In considering what to do next, the biggest issue they had immediately when seeking outside funding was that there was no existing business plan for a pediatric obesity clinic. As Claudia put it, they were flying blind with themselves and their bankers. Still, WMMC remained on the cutting edge of treating pediatric obesity and is now hearing sporadically from others who want to enter this unique field. But when starting WMMC, the women fought with insurance companies who had no idea how to classify the new business, and Dr. Pierce invested a significant portion of her personal wealth to get WMMC off the ground. Claudia did not bring wealth to the venture, but she knew far more about running an organization than Dr. Pierce. Claudia saw what needed to be done and did it, which freed Dr. Pierce to focus on the medical aspects of the venture. For both partners, having a positive impact on people's lives was paramount.

WMMC was built on the growing relationship between Claudia and Dr. Pierce. Both women had come to trust each other completely and felt it was time to take their business relationship to a new level. The one area where they struggled was in their respective faith journeys. Dr. Pierce

valued Claudia's faith, but she did not share it. The women spent any number of hours throughout the years discussing their faith, but Dr. Pierce struggled with how evil, in particular towards children, could be allowed to exist if God was so loving. Dr. Pierce did believe her medical knowledge was a spiritual gift and her ability to help others must go on, but she continued to harbor doubts on the pure loving nature of God based upon her experience with children. Having been a pediatric specialist for over a couple decades, and having worked at one of the nation's premiere pediatric hospitals, Dr. Pierce had seen her fill of abused, neglected and wanting children. In some way, Dr. Pierce felt caught in a catch-22 with her business and faith; she believed God had given her talents to use with children by having a childhood obesity clinic, yet when working with children she often doubted the existence of God. Currently, Dr. Pierce has not resolved this inherent conflict.

Using their relationship of total trust, honesty and direct communication, the women focused on WMMC. Part of their motivation came from their joint belief that God brought them together; their business relationship was meant to be and was no accident. For example, Claudia met her friend, the former psychiatrist receptionist, at church. Claudia knew the psychiatrist from her previous treatment. All had remained in contact at some level and it was through these relationships that Claudia was able to come in contact with Dr. Pierce, who became her business partner and gave her life new meaning. Dr. Pierce felt the same spiritual guidance when she retraced how she came to know Bart and hire Claudia. Frequently, when times were hard with the business, Claudia and Dr. Pierce would talk about how they could not abandon all they had worked for because there is a higher purpose and meaning to what they are doing. Both agree that WMMC may not be the end point, Fit Families certainly was not, but they know God has a plan for their relationship and they have faith and hope they will eventually recognize what that is. Both women firmly believe that their place is as partners serving obese children and their families; a disease that God wants them to tackle. Claudia and Dr. Pierce believe they are enriching and saving lives and making people happier, which keeps the women going day after day. And the partners have sacrificed to maintain this dream. WMMC employees are paid a higher salary than either Claudia or Dr. Pierce. Dr. Pierce is on staff as a medical director at the hospital that supports WMMC. Claudia actually makes more than Dr. Pierce from WMMC, but both the health educator and RN on WMMC staff make more than Claudia.

Teaching note

Case Description

The primary subject matter of this case concerns the life and faith journey of Claudia. A highly educated woman, Claudia has tragedy strike her, and with the support of friends, returns to her faith and finds unexpected answers. Eventually, Claudia finishes her graduate degree, leaves behind a promising career and launches an entrepreneurial venture with a new business partner, Weight Management Medical Center, treating childhood obesity. With their conviction of faith, the partners believe they have received their calling. However, business success has yet to appear, so do the partners continue to trust their faith at the expense of profit?

Case Synopsis

Creating and successfully operating a small business is a challenge for virtually all entrepreneurs. In particular, the challenges facing women can often seem insurmountable. Claudia was raised in a Christian home, but she left the church when she left home. Years later when confronted

with tragedy in her marriage, Claudia fell into a deep depression, where only a return to faith could save her; faith in her friends, faith in her treatment, and faith in God.

A tortuous path involving career changes, education starts and stops, and a new marriage eventually lead to a new business partner and venture, Weight Management Medical Center, serving the emerging epidemic of adolescent obesity. At the forefront of this new medical field, Claudia found skeptics in the banking and insurance field as the partners attempted to launch their business. The case tracks WMMC from inception through two incarnations to the most recent crossroads; where will WMMC go in the future?

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Obesity has been termed the next American epidemic; Christian businesses are becoming increasingly visible. Coupled with the tragic event of Claudia's life, her struggle with depression and her spiritual awakening, the case serves as a powerful example for women and men when faced with seeming insurmountable emotional and financial barriers. This case is designed for an undergraduate business class and presents various opportunities for interdisciplinary teaching. The case is based completely on Claudia's own words.

Introduction

According to the American Obesity Association (AOA), nearly 130 million American adults are overweight out of a population of 300 million; approximately 43%. Out of that 130 million, 60 million are obese and 9 million severely obese. Body Mass Index (BMI) is used to calculate excess body weight and I encourage you to walk your students through how to use the BMI, or better yet, contact your student health department and schedule an in-class demonstration. I always use myself as the in-class example, never a student, to avoid any stereotyping or perceived bias. To learn more, go to obesity.org. As business students, it may be helpful to know that obesity healthcare costs are approximately \$100 billion per year.

In class, you will have obese students, yet calling on them to speak on their body size is, to say the least, awkward. Having had weight issues in the past, I always talk of my experiences plus I have family obesity issues, which makes this a very personal story as well. However, if you do not have such a background, asking to students to talk about their personal weight struggles can usually get some discussion going. Gender issues can be interesting as men are nearly as obsessed with body size and type as women according to national polls. Ending this discussion with how or if their spirituality played a role is an ideal way of linking the two major points of the case; obesity and spirituality.

Depression

Depression can be just as difficult an issue to bring up in class as obesity, and far less apparent in your students. Again, I use my family as an example, but I create fictitious family members to protect their privacy. I have always had one or two students that do not mind sharing stories of depressed friends from high school or college and this often generates further discussion. Depression is a very real illness in the U.S., impacting roughly 10% of our population every year. Dollar figures on the cost of depression vary widely since the majority of sufferers do not

seek treatment. Claudia did seek treatment, and the fact that it was her friends that drove her to seek treatment can make a powerful testimony to students. Much like the phrase, friends don't let friends drive drunk; friends don't let friends suffer from depression either. I especially like Claudia's acknowledgement of the power of faith coupled with the power of modern medicine and her friendships. Claudia could not have recovered without this trinity, creating a strong link between the spiritual, the psycho-social and physical worlds.

Spirituality

In my entrepreneurship and small business management classes, I have always had interesting discussions around spirituality and entrepreneurship. The topic can be anywhere the students take the discussion; personal faith journeys coupled with operating a business, marketing as a Christian (or any faith) business, operating a business based upon faith principles and so on. Claudia's story is an excellent way to launch this discussion; where do you see her faith in the story? How did her faith journey impact her in a positive and negative way? Where is God in Claudia's story? I have asked all these questions in class; however, the depth of this discussion is directly dependent upon your own faith and comfort level in discussing such issues. I have very close colleagues that, while possessing a deep and abiding faith, would never have such discussion in class. You will also find such views in your students.

From my experience, spiritual discussions have always been fascinating. Interesting enough, an academic peer reviewed article search pairing "entrepreneur*" with "Christian*" or "spiritual*" will find you nothing. There are articles in the popular press however, such as *Time* and *Business Week*, that you may find helpful, as well as the Christian Entrepreneur Organization at christianentrepreneur.org.

Discussion Questions

Claudia spends most of the case searching for a meaning and purpose to her life, and now believes she has found her purpose in fighting obesity by partnering with Dr. Pierce. Can creating, owning and operating a business be a type of calling? *Much like any spiritual gift, Christian entrepreneurs are not driven solely by profit (although profit is usually a close second), but by a spiritual calling to fulfill a greater goal or good. Entrepreneurs often have a specific vision of how they want their business to be run, how best to serve their customers and their ideal placement in the market. Christian entrepreneurs are no different, and like other entrepreneurs, this vision helps entrepreneurs through the inevitable tough times. Christian entrepreneurs, however, do add a feeling of empowerment that comes from knowing or feeling the presence of God somewhere in their vision. For Claudia this is a feeling that cannot be entirely articulated, but is felt by her in her conviction that WMMC is meant to be.*

If even a secondary goal of a Christian entrepreneur is profit, doesn't this go against the basic tenet of Christian faith against materialism? *There is materialism for materialism's sake and then there are the rewards for a job well done. Christian and entrepreneur are not mutually exclusive, but there is a fine line. Obviously, all our tax-exempt churches would not exist without the profits earned by members or their employers, so Christians are grateful and blessedly acknowledge God's gifts. One favorite phrase is; in the world, but not of it. The drive for financial success cannot pollute the vision of the entrepreneurial business. A high level of ethical behavior and integrity must always be maintained. Simple in writing, but quite difficult in practice. Students normally have stories about fallen faith and, hopefully, redemption. But if not, the falling from grace stories are almost always quite interesting. In regards to Claudia, we*

see her sacrifice her salary and financial future all in the name of helping children overcome obesity. The case also presents the same behavior in Dr. Pierce, although her faith journey is not recounted in detail. These women, to their credit, have been able to keep their vision always at the forefront.

Claudia and Dr. Pierce form an effective partnership in their fight against childhood obesity. What role does spirituality play in the development of their professional relationship, or any relationship involving Christian business owners? *Much research has shown the benefit of finding business partners or advisors with complementary skills. This can be even more critical for women business owners who often face greater startup obstacles than their male counterparts. Claudia, with her organizational skills, and Dr. Pierce, with her medical skills, are able to combine their different skill sets into an effective partnership; however, these skills are just a part of their relationship. In addition, both share a spiritual calling to fight childhood obesity. While Claudia is more outwardly expressive of her faith, the fullness of their relationship is built on open communication, trust, and spirituality. They both believe that God brought them together and this shared passion, above any business or technical skill, may be the single most important determinant of their future success.*

I am not comfortable doing business with or working with an overtly Christian person. *Like it or not, we already do. Roughly 80% of Americans call themselves Christian, so most of us already work with or work for Christians. There are as many different types of Christians as there are churches. Granted, the Christian hair salon that cuts your hair while another person holds your hands and prays with you may be over the top for some people, but for others, it's ideal. Variety in business is the hallmark of our entrepreneurial economy. However, it is important for students to keep in mind that both sides are protected legally. You cannot be harassed for being Christian or not being Christian no matter who you work for. By the same token, you cannot harass others for the same reason. Consider Claudia's work environment both at school and at WMMC. Is Claudia a Christian? Yes. Did she demand others be the same? No. Was she open to discussion, in sharing her faith, and in trying to understand where others were coming from in their faith journey? Yes. There is a dramatic difference between respecting other's faith and appreciating them for where they are in their faith journey versus forcing a faith upon someone when they are not ready or willing.*

Conclusion

Given that their existing business model cannot financially continue, where do you see the partners taking WMMC? *Currently, Claudia and Dr. Pierce are forming a tax-exempt WMMC to seek grants for innovative programs, research, and education. This should create a catalyst for having a much greater impact by spreading the weight loss program and the merits of weight loss. By doing so, the partners can continue their work while bringing in more money. Since moving to the hospital, the goal has been for Dr. Pierce to work totally on obesity issues and drop her medical director responsibilities. Hospital administration has backed WMMC's efforts and their only condition has been sufficient notice to replace Dr. Pierce when she wants to step down.*

The bottom line for both women is that they will not give up. So, becoming a tax-exempt organization is the latest tweak in their ongoing business plan metamorphosis. Claudia found that working with private industry was very difficult for a for-profit business. By becoming tax-exempt, private sector doors should be much easier to open. Furthermore, referrals from other

medical professionals did not work; doctors wanted to keep their patients. As a tax-exempt, they are hoping not to be seen as a competitor.

And there is another side of the coin, the psychological issues of obesity. For years, obesity was not viewed as a major issue, more a symptom of bigger medical issues. Now that obesity is viewed as a stand-alone medical and psychological condition, obesity can be a very tender issue for most people. There is a strong need to establish trust with patients before any meaningful work can be done, and this takes time and money both sides. The result has been a very difficult process for most individuals to address while maintaining themselves in the program. One idea Claudia has been toying with is partnering WMMC with a day spa; a total package approach, since day spas do not normally cater to obese individuals. Claudia found that patients found spas pretty intimidating to go to when one does not fit on the massage table and there are so many beautiful people around.

And finally, Claudia was asked, why stay in a business model for over 6 years when no one is making money? Claudia answered, "Because it's what we are supposed to be doing." For Claudia, the answer was simple, to the point, and as she smiled, patently obvious to a person of faith.

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SOCIAL RESPONSIBILITY, ENVIRONMENTALISM, SUSTAINABILITY, AND SMALL BUSINESSES: A SYSTEMS VIEW

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Abstract

Recent higher awareness for social responsibility, environmentalism and sustainability has created new challenges and opportunities for small businesses as well as practitioners and academicians in this field. From a systemic perspective the behavior of small businesses, its long-term success and viability can be studied only in the context of the larger systems in which they operate, namely the community. Concern for the environment and sustainability is now in the forefront of the members of the community in their support of the local small businesses; they will embrace those small businesses that are active in these areas. The larger corporations that regard these small businesses as their suppliers are beginning to score their environmental activism and sustainability in awarding contract to them.

A roadmap to the paper

A majority of research on small business and their success and failure has concentrated on identifying a single factor or a combination of them (but not their interaction) as the contributing factors. From an open, living systems view the behavior of a system is explained both by the interaction of the parts with each other and with the larger, containing system (the environment). Using the systemic view the success and failure of a small business to a large degree depends on its relation with its larger system; the immediate local community in which it is embedded. To ensure and increase the level of support the small business should become more environmentally friendly, socially responsible toward the community, and adopt sustainable business practices that benefit the small business and the local community.

In the ever changing economic, social, political and environmental climates, the issues of sustainability, environmentalism and social responsibility have taken a major role in the Obama administration's effort to revive the economy and chart a more stable course for the future of the country.

While the issues have been partially addressed by the big and medium size enterprises in the last ten years, the small businesses and the academic research to investigate it have not kept pace. The perception generally is that the small businesses have more pressing issues to deal with in order to stay alive and be profitable and that sustainability, social responsibility and environmentalism are not high among the list.

In this short paper we will argue, from a systems perspective, that getting integrated in the surrounding community is one of the most critical co-producers of long-term success of small businesses. We will demonstrate that social responsibility, environmentalism and sustainability will help this process.

What is a small business?

There is no universally agreed upon definition of a small business among those engaged in research on small businesses. Small Business Administration (SBA) establishes small business size standards based on industry-by-industry basis, but generally specifies a small business as

having fewer than 500 employees for manufacturing businesses and less than \$7 million annual receipts for most non-manufacturing businesses [1]

In 2008 SBA also published the North America Industry Classification System Codes (NAICS) for small business where a range for size standard in number of the employees was from 0-1000 and the range for size standard for revenue in millions of dollars was \$.75 to \$33.5 [2]

For SEC purpose small businesses are defined as domestic companies with revenue of under \$25 million,, and not investment companies.[3] For the purpose of our presentation in this paper we accept all of these definitions, revenue and/or employment standards to identify a business as a small business.

These conventional definitions relate to size, revenue or number of employees. Little, if any, attention is paid to the significance of a small business or their impact on the life of its immediate community where they are most active or draw a significant part of their revenue. While these measurements and definition may serve the purpose of SBA or IRS we need definitions that can serve our research and consulting objectives in helping small business to succeed and remain viable. **For this purpose we can alternatively define a small business as any business that draw at least 50% of its revenue, or employs more than 50% of its work force, from the local community or pay a certain amount of taxes annually to the local municipality.**

This definition can open a new line of inquiry and research stream, complementing the existing research, on the interaction between small businesses and their larger system (the local community) as one of the important co-producers of their success.

Impact of Small Businesses on US economy

Small businesses continue to drive the United States economy, according to a report issued today by the Office of Advocacy of the U.S. Small Business Administration. Newly released data show that in 2005, small businesses represented 99.7 percent of all the nation's employer businesses. Data also show that they employed 57.4 million Americans or 50.6 percent of the non-farm private sector workforce.

"Clearly small business is a major part of our economy," said Thomas M. Sullivan, Chief Counsel for Advocacy. "Small businesses innovate and create new jobs at a faster rate than their larger competitors. They are nimble, creative, and a vital part of every community across the country. This report will help remind policymakers and others of the important role small business plays in the nation." [4] For a brief, but very comprehensive treatment of the impact of small businesses on US economy, please refer to: American Businesses - The Role of Small Business in a Complex Economy [5]

Success and Failure of Small Businesses

The impact of small businesses on US economy and the sheer number of them have made it imperative to perform an abundance of research to investigate the reasons for failure of small business and discover the underpinning for their success (based on several government sources and statistics there are approximately 24 million small businesses.[6]) While the research has grown in numbers, our ability to clearly identify the reasons for success or failure has not advanced to the same level. Part of the problem is the analytical, part oriented research methodology employed and our deterministic world view in dealing with these issues.

Most of the published research identified different operational aspects, management tools employed, and available capital, as the reasons for success and failure of small businesses [7, 8, 9, 10, 11] ; however that there is no universal agreement on the causes of small businesses success or failure. These lists, and the causes elaborated, generally fall into the category of “necessary but not sufficient”; they only partially tell the story, not completely

A review of the stream of research on this topic over a long period of time leads to an observation that there is no universally agreed claim that the absence of the failure factors will definitely ensure the success of a small businesses. A comprehensive review of literature for success and failure factors appears in Lussier’s “A nonfinancial business success versus failure prediction model for young firms” [12]

Notes on the systemic nature of an enterprise [including small businesses]:

What is a system?

“A system is whole that cannot be divided into independent parts without loss of its essential properties or function

It satisfies the following five conditions

1. The whole has one or more defining properties or functions
2. Each part of the system can affect the behavior or properties of the whole
3. There is a subset of parts that is sufficient in one or more environments for carrying out the defining functions of the whole; each of these parts is necessary but insufficient for carrying out this defining function The way that each essential part of a system affect its behavior or properties depends on (the behavior or properties of) at least one of the essential part of the system
4. The way that each essential part of a system affect its behavior or properties depends on (the behavior or properties of) at least one of the essential part of the system
5. The effect of any of subset of essential parts on the system as a whole depends on the behavior of at least one other such subset.” [13]

“The five principles of Openness, Purposefulness, Multidimensionality, Emergent Property, and Counter intuitiveness, acting together as an interactive whole, define the3 essential characteristics and assumption about the behavior of an organization viewed as a purposeful, multi-minded system”[14]

Of these five principles, Openness and Emergent Property play a critical role in defining a new paradigm of success for small businesses.

“*Openness* means that the behavior of living (open) systems (those systems that are dependent on their environment for survival) can be understood only in the context of their environment (the larger, containing system). *Emergent* properties are the property of the whole, the entire system, not the property of the parts, and cannot be deduced from the properties of the parts. They are the product of the interaction, not the sum of the action of the parts, and therefore have to be understood on their own term. Emergent properties, by their nature, cannot be analyzed, they cannot be manipulated by analytical tools, and they do not yield to causal explanation.” [15. pp-25-55] When the performance of the parts of a system, considered separately, are improved, the performance of the whole may not be (and usually is not) improved.

A general observation of majority of the research on success and failure of small businesses reinforces the methodological problem in design and conduct of these researches. It is a

reductionist, analytical method based on causality. In this methodology, the field study is reduced to its major components, each component is researched for possible solution and the sum of the solution for each component is presented as the solution for the phenomena as a whole. However, from a systemic point of view, the behavior of a system is not the sum of its parts and in the context of its larger, containing system: its environment.

Success for a small business is an emergent property; failure is the same. Nevertheless, we generally break the small business into its basic components, ignore its open systems properties, and try to understand why it succeeds and/ or fails from a part oriented, reductionist, perspective.

To understand the critical behavior of small businesses, *their success*, we have to place them in the context of their larger system: the environment, the neighborhood, in which they operate. *Social Responsibility, concern for the immediate environment and sustainable behavior strengthen the ties of the small businesses with their communities and increases their probability of success*

Social Responsibility, Environmentalism and Sustainability (SRES)

The living, open system paradigm will offer the platform for appreciation and understanding the interdependencies between the part (the entrepreneur, employees, business partners, etc.), the whole (the organization s/he creates), and the larger system (the transactional and contextual environment). The transactional environment refers to the environment that lies within the sphere of control or influence of the organization whose members are engaged in mutual direct transaction with the organization. Typical examples are suppliers, customers, regulators, financial institutions, etc. Contextual environment is that which lies outside the control or influence of the organization. Typical examples are economic cycles, action of the Federal Reserve System, intensity of global competition, etc.

Let us view the paradigm from the entrepreneur's perspective. In an open, living system the small businesses need the environment for their viability and vitality. They have two choices: either regard the resources available to them as nonrenewable, or sustainable. From a nonrenewable perspective, they can remain viable as long as the resources are available. Once the resources are completely depleted, they either have to shift to other resources, or face extinction. This is true about any business facing product life cycle. They either have to become sustainable or go out of business. From a sustainable view, the viability and vitality of the business and the renewable resources are interdependent. Sustainability is not and should not be restricted to physical or economic resources. It should be directed towards sustaining the entire larger system. Customers' loyalty and commitment and community support are as equally important as natural resources or manufacturing capabilities.

Sustainability, the balancing of economic, social and environmental factor, can serve as an integrative concept for running a successful small business, compatible with the systems view. However, the sustainability and social entrepreneurship is still viewed as a special case, not *the way*, to teach and practice entrepreneurship. I must concur with Cohen and Winn's assertion that "the literature on sustainability is rather thin, and the changes achieved today are incremental only" [16. pp 9-10]

Society may be finally at the early stages of paradigm shift from viewing organizations as a machine or animated objects, to seeing them as living, open, social systems. [17] This new paradigm shift is based on sustainability, and has a new language with words like co-operation, collaboration, conservation, creativity, personal mastery and balance. A comprehensive treatment of the topic can be found in the Academy of Management Learning & Education, Special Issue: Sustainability in Management Education. V 9, No. 3, September 2010. [17a]

Social and Sustainable Entrepreneurship Sustainability

“Sustainability is a characteristic of a process or state that can be maintained at a certain level indefinitely. This refers to the potential longevity of vital human ecological support systems, such as planet’s climatic system, forestry, and fisheries, and human communities in general and various systems on which they depends. “(18) “Sustainability has as its base a way of living that is capable of guaranteeing a continuity of life for all. Sustainability implies solidarity, a strong sense of the collective, and the most elevated notion of ethics: the search for the common good. Sustainability means, fundamentally, a way of living in its totality that makes possible the best conditions of life for everyone (without exception or any type of exclusion at all times). Sustainability means living a balanced life today, a healthy way of living in which no one lives at the expense of anyone else (situations in which, for example, some have an excess of food while others have none). For those who have nothing, life is not sustainable. Sustainability also means a way of life lived by the whole of society that considers the needs of future generations.” [19]

“Sustainability is often related to environmental or ecological issues. This is true, but also incomplete. Waste, emissions and various kinds of pollutions may be physical or environmental, but they are the result of individual and collective human behavior. In issues of sustainability we would like to focus on new and better ways of organization human behavior. The topic of sustainability introduces notions of equilibrium, dynamics and offloading into discussions on organizations and entrepreneurship. It enhances the knowledge of sustainability in new contexts.” [20]

“Given the finiteness of the earth, we cannot continue as if there are infinite resources. To bring us back into balance with the environment and to enable us to work with the foretold strains that there will be, numerous solutions are offered by the literature. Most of these solutions rest upon the triad that underpins the notion of sustainable development, that of society, economy and environment working in balance and with equal priority” [21]

“Venkataraman suggests that the consequences of entrepreneurship can be economic, psychological, and social in nature. We agree and add a fourth category “environmental consequences” to the current list. Therefore, we define *sustainable entrepreneurship* as the examination of “how opportunities to bring into existence ‘future’ goods and services are discovered, created, and exploited, by whom, and with what economics, psychological, social and *environmental consequences*” [22]

“Sustainable Entrepreneurship research has emerged from the larger body of business environmental and social responsibility research. It views entrepreneurship as a potentially potent tool in shifting socio-economic institutions, both private and public, towards an orientation that contributes to sustainable development. Though fundamental to the concept of

sustainable development, integration has proven challenging at both the theoretical and applied levels” [23]

Social and sustainable entrepreneurship (SSE) have become one of the most exciting, if not fashionable and fastest growing areas of entrepreneurship. In 2004 there were 23 schools in US who had established centers for Social and/or Sustainable Entrepreneurship. Since then, there has been an explosion of courses in the U.S. and abroad. In addition, there are growing number of majors and minors in the field. [24]

Issues of global warming, reusable, sustainable source of energy, global citizenship, emergence of new and powerful economies (India, China, Brazil) and innovative way for helping the fragile economies of Africa and other less than developed countries have drawn global attention to the notion of sustainability and a renewed interest in social responsibility.

Social entrepreneurship

Among the co-producers of these movements, the ecopreneurs “environmental entrepreneurs who are utilizing green issues as a competitive advantage for their firms” have come to prominence as one of the key players. While the movement in being sustained from ecological, ethical, economic, social and political dimension, little theoretical or a conceptual works have been devoted in the literature on systemic nature of SSE. Much of the research has been devoted to the need for or value of SSE, some on identification of the characteristics of ecopreneur-- who they are and why are they doing it, and some on the way SSE is performed.

“The term ‘social entrepreneur’ is understood here as change agent, who implements innovative and sustainable solutions to complex, severe and often systemic problems faced by typically marginalized groups of society. Their major entrepreneurial characteristics are unusually captured as being imaginary, innovative, accepting high level of risks, ability to implement their vision, and leadership capabilities. If these are the similarities with entrepreneurs in general than what are the special characteristics of SEs that drive them pursuing their entrepreneurial goals toward a sustainable community? This fundamental question is analyzed placing social entrepreneurs in a sustainability and corporate social responsibility framework.” [25]

“The concept of sustainability entrepreneurship has emerged from the minds of theoreticians and practitioners alike as a merger between the entrepreneurship and sustainable development agendas. Conceptually, it draws on knowledge from conventional entrepreneurship studies, newer research into social entrepreneurship, and business and environment studies, among others. Though fundamental to the concept of sustainable development integration has proved challenging at a theoretical and practical level.” [26]

“World Commission on Environment and Development (WCED), an independent body established by the United Nations in 1980 has defined sustainability as the ability to “meet the needs of the present without compromising the ability of future generations to meet their own needs. (WCED, 1987)” [27]

Sustainopreneurship is a concept that has emerged from earlier conceptual development social entrepreneurship and ecopreneurship, via sustainability entrepreneurship. The concept means to use creative business organizing to solve problems related to the sustainability agenda to create social and environmental sustainability as a strategic objective and purpose, at the same time

respecting the boundaries set in order to maintain the life support systems in the process. In other words, it is a “*business with a cause*” - where the world problems are turned into business opportunities by deployment of sustainability innovations. In short - *entrepreneurship and innovation for sustainability* [28, 29]

Long-Term Success Factors for Small Businesses: Social Responsibility, Environmentalism and Sustainability (SRES)

SRES, for most of the small businesses, is regarded as necessary evil and a pain that should be avoided at all cost, not as fundamental reason for prolonging the life of a business and ensuring its viability. One main reason is the cost associated with obtaining sustainability certificate. Because of the complex and costly procedure sustainability remains the domain of large and mostly manufacturing companies and ignored by small businesses.

There are strong indications that adapting the stakeholder’s theory of an enterprise will prepare the small businesses to move from an inactive, reactive, proactive stance towards SRES to an interactive posture. [30] The aim of the business will expand from making profit for the owner to delivering value to the stakeholders, one of whom is the owner and an important member is the community at large. A sustainable business then aspires to deliver value to the stakeholders in terms of economics, environmental, social, ecological, people, and the planet.

The Goal of all businesses big and small

The main purpose of any entity, profit or not for profit is to remain viable: *To stay alive*. It is creating and maintaining a competitive edge. Creating an edge may be related to available capital, expertise, market research, business planning, type of the industry, etc; essentially all the factors listed for success and failure early on in this paper. However, the real challenge is, faced with ever increasing competition, to maintain the edge. It requires creativity, innovation, social responsibility, taking roots in the local community and sustainability, all open, living systems phenomena.

Small businesses are more reliant on a customers and suppliers from the local community, and adopting SRES allows them to carefully and closely monitor and maintain these relationships through dialogue and proximity.

R. Paul Herman has developed a research method to determine the comparative profitability of companies that have adopted sustainable business models. These companies have outperformed the S&P 100 benchmark by more than 400 basis points. The approach identifies five areas a company should be focused on if it seeks to build a sustainable business practice. These areas are health, wealth, earth, equality and trust. [31]

The same argument equally applies to small businesses and their relationship with their local community. Robert Putnam refers to the value which comes from social network as social capital and argues that a society characterized by generalized reciprocity is more efficient than a distrustful society. Employee satisfaction, increased health, and community sustainability are all dependent on creation of social network of small businesses and local communities.

Effort by small businesses to create a sustainable relation with its immediate community and in return creating a sustainable community results in buying locally. Some of the benefits of buying locally whose direct beneficiaries are local businesses are: strengthening the local economy,

local job creation, local prosperity, reduced environmental impact, support of community groups, better service, investment in local community, more effective use of taxes, and innovation and creativity in products and services offered. [32]

Implications

Our discussion here presents a new research track as a complement to the current scholarly and consulting activities. We urge our colleagues to look at the parts of a small business: employees, technology involved ownership and legal structure, as well as the whole, the businesses itself and the way it innovates, plans and creates a competitive edge and the way it interacts with its stakeholders and the larger system. This complementary approach requires recognition of the need and awareness of small businesses social responsibility, concern for the nature environment and the environment in which it operate and steps they take to create a sustainable enterprise and a sustainable large system to depend on.

For the practitioners and owners of small businesses and those interested in starting or consulting to one our message is that SRES is both a strategic approach and an instrument for long-term viability. It offers sustainability as a unique and necessary long-term competitive weapon, demanded by the stakeholders and imposed by the larger publicly held company doing business with small businesses. In the same fashion that most larger companies now require that their suppliers be ISO certified and follow standard TQM approach, they will soon demand that their small business suppliers be sustainable certified.

The concept of sustainability score gained popularity when Wal-Mart began to assess its suppliers using its "Sustainability Index," which considers everything from packaging materials and waste disposal to energy efficiency and greenhouse gas emissions. Procter & Gamble, Kaiser Permanente, Patagonia, and Whole Food have had similar policies for quite some time. Major corporations can push environmentally friendly practices down to their suppliers' level and create a reputation as environmentally friendly at the same time. Similarly local communities can demand the same from local small businesses as a condition for buying their goods and services. Small businesses can accomplish both simultaneously by sustainability planning, adopting environmental friendly policies and social responsibility. [33, 34]

It will be only a matter of time before most of the stakeholders and community members and customers at large gravitate towards business that are more socially responsible, are concerned about environment and act as responsible member of business community and are taking action to create sustainable businesses and sustainable communities.

Conclusion

SRES is no longer the domain of big manufacturing or publicly held companies. It is applicable to all businesses irrespective of size or legal form of ownership; it is mostly the question of the context and competitive arena. For large businesses it is part of the global competition and for small business it is taking roots in the community and relying on their support for success. Small businesses have the opportunity to use the same approach and enjoy a greater advantage and leverage, because of their locality. It is no longer a question of should a small business follow SRES.

It is beneficial for all the businesses, regardless of size, to do so. It makes moral sense: being socially responsibly, environmental friendly and pushing for sustainability is good business, and

makes good business sense: it increases the small business probability of long-term success.

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A NEW FORM OF AN EARLY STAGE INVESTMENT COMPANY: ACCELERATORS

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Abstract

A new source of funding for potential entrepreneurs are accelerators which are early stage investment companies that provide seed money, mentoring, advice, office, and other support. All except one accelerator company limit their participants to new or emerging technology. Most provide an in house “boot camp” or “incubator” and opportunities to pitch to angels and investors. A high percentage of founders successfully completing the “boot camp” receive other funding. The application process usually involves a brief plan and an interview. The article describes five early stage investment companies with an analysis of their success to date which is very positive.

Introduction

Small businesses are a significant portion of the US economy. They represent 50 percent of the United States' GDP, 60 to 80 percent of the new net jobs, and much of the new innovation (State of Small Business, 2007). Of the approximately 5 million United States businesses, 500,000 were nascent or recent startups (Strangler, 2010). Unfortunately, today's economy makes it extremely difficult for these firms to find funding to develop their ideas. “Traditional sources” of financing have declined and financial institutions, especially banks, will not fund many nascent firms.

Nascent firm or early stage investing

Historically, nascent firms have relied upon bootstrapping, family and friends, angel investors, venture capitalists, and now accelerators to fund their businesses. Entrepreneurs use bootstrapping by minimizing startup costs, personal expenses, turning fixed costs into variable costs such as leasing instead of purchasing, and selling personal items (Scarborough et al, 2009). Family and friends have been used in the past but the recession has affected the amount of money available from these sources.

Angels invested \$25.6 billion a year in over 51,000 small startups (Scarborough, 2009) but now many are banding together into groups that act like syndicates or venture capitalist (Mitchell, 2010). In 2007 1,300 venture capitalist firms invested 5 billion dollars in approximately 1,000 firms (Strangler, 2010). However the recession has also affected both angels and venture capitalists with the result that they are reluctant to invest in nascent firms (Mitchell, 2010; www.techstars.org, 2010). Venture capitalists, in particular, are investing in larger more established companies that have some proven track records (Baer, 2010).

The result is that nascent firms have difficulty obtaining funds to develop an idea to marketability. Conversely early stage investment companies see today's environment as an excellent time to invest in innovation and especially in technology, “This is a good time to start a technology company because costs are decreasing and open development platforms are more robust” (www.launchboxdigital.org, 2010).

Types of Assistance Provided

The five companies surveyed all provide some combination of assistance: A “boot camp” - an intense in house program of mentorship, assigned mentors, space, access to legal advice, internet access, and opportunities to pitch ideas to VCs and angels. The intensive “boot camp” is intended to provide space and access to successful entrepreneurs, mentors, technology experts, and other boot camp participants. They meet, socialize, and share ideas and methods. The boot camps vary from 10 weeks to 12 weeks and provide the time and support for the founder to build a prototype. The founder has time away from a job, interaction with others, encouragement and assistance.

All the accelerators provide some seed money from a minimum of \$18,000 (www.techstars.org, 2010) to \$20,000 (www.y-combinator.org, 2010). Only Start@Spark will exceed \$20,000 with a combination of conventional loans up to \$250,000 that will convert to equity at the next round at a 20 percent discount. They also retain the right to provide 50 percent of the next round of financing (www.start@spark.org, 2010).

Key benefits to the participants are the seed money to survive long enough to develop the idea, encouragement, technical assistance, support from other successful entrepreneurs, legal advice, and opportunities to practice pitches. Lastly, they are given the opportunity for additional funding if the idea is developed and has potential. No other institutions, investors, or programs can provide this level of technical and strategic advice.

Equity versus Control

These accelerators require a portion of equity that varies from five percent to six percent. Many of them state that they do not want to control the company. Most want the founder(s) to be motivated to fully develop the concept. However, if the founder seeks additional funding the subsequent angels or venture capitalists will require additional equity (www.techstars.org, 2010).

Companies and Ideas Usually Accepted and Not Accepted

Most of the five companies emphasize technology especially phone, web applications, cloud computing, social networking software (www.techstars.org, 2010) and other evolving technology. Launch Box Digital (www.launchboxdigital.org, 2010) will accept technology focused on gaming, social media, social communications, digital media or software-as-a-service company. Capital Factory (2010) seeks technology but only those in which it has established expertise that will add “value” to the concept (www.capitalfactory.org, 2010).

Some of the accelerators state that they prefer technology but will occasionally consider non technology ideas. Tech Stars (2010) will not accept the following types of ventures: local service companies, restaurants, consulting agencies, medical device companies, and biotechnology companies (www.techstars.org). Most want concepts that have a large upside potential when the concept is scaled to meet national or global demand. However, a survey of the successful participants reveals that almost all the firms receiving additional funding after the boot camp were involved in some version of new technology.

Example of a Selection Process: What Tech Stars Looks For

As many as 600 potential entrepreneurs apply for Tech Stars boot camp and only 10 are selected each term for a total of approximately 30 per year (www.techstars.org, 2010). The selection

process includes an application and an interview. The founder(s) must identify and solve a real problem in some innovative or meaningful way. Intangible selection criteria include how well the applicants have thought through their idea, their skills, backgrounds, and experience to date (www.techstars.org, 2010). Interestingly a formal business plan is less preferable to a well thought out idea.

Demographics are not as important but many of the successful applicants are younger 25-35. While single individuals can apply, they prefer teams that include individuals with technical expertise and encourage non-technical single applicants to find a technical partner.

Early Results

Only two accelerator companies provided data on the number of successful boot camp participants that received additional funding. Seventy-five percent of Tech Stars participants received additional funding and were profitable after graduation (www.techstars.org, 2010). Of these four of thirty were purchased by other companies and about ten percent failed (MacManus, 2010).

Launch Box Digital (2010) shows that six of nine 2008 participants received additional funding and some were purchased (www.launchboxdigital.org, 2010).

The Small Business Administration (SBA)'s data shows that 50 percent of small businesses fail in the first four years (State of Small Business, 2007). However, it should be noted that the SBA data is over a much longer longitudinal period. In addition, the SBA does not adequately track those small businesses that have been purchased.

Data collection on participants usually ended sometime after graduation so survival rates five and ten years after graduation do not exist. In addition, the concept of success should be changed to include those that were purchased.

Implications

The success of accelerators has implications for potential entrepreneurs, academicians, venture capitalists, angels, and entities considering how to create more innovation in their area. Those entrepreneurs in technology related areas have a previously nonexistent resource to aid in the development of their idea. Venture capitalists and angels are able to benefit by being in the position to nurture new ideas and invest in the most promising ones. Entities from groups of investors, cities, and quasi government bodies that want to promote new ventures in their area should consider initiating an accelerator. Academicians will be interested in this new early stage investment company and will be closely watching survival rates, success data, and other experiences with accelerators.

Conclusion and The Future

The current experience at this point in time is very positive. No other programs or institutions exist to take these startups from an idea to a marketable concept. The founders of these companies are given a valuable push to success. The founders of the accelerator companies and their associated angels and venture capitalists benefit by being involved early in a promising new venture.

Although success data is limited, the authors believe that more groups of entrepreneurs, cities, and quasi government entities will initiate similar accelerator companies in their areas to promote technology, innovation, or growth. This success of these first accelerator companies is too clear to be ignored.

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SMALL BUSINESS USE OF MANAGEMENT ACCOUNTING REPORTS

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Abstract

This study examined the use of QuickBooks® accounting software reports to support management accounting in small business. Despite broad popularity, there has been a near total lack of evidence on the managerial role of QuickBooks. Results from a sample of 128 small businesses, predominantly micro businesses, reveal that while they are used, the use of most reports is relatively infrequent. Business owner personal attributes that include an internal locus of control and the goal of attaining intrinsic rewards are significant predictors of report use. Implications of the findings for practice and QuickBooks training are discussed.

Introduction

QuickBooks® is one of the most widely employed small business accounting software programs. The benefits of software to maintain business accounts over paper ledgers are enormous. Software provides ease of use, backup, ready information search, secure storage and replication of records, and more (Goldberg, 2010). QuickBooks enables its users to organize all of their financial records in one location so that the financial and managerial accounting activities of the business are centralized. Small business tasks that range from paying bills to tracking sales by customer to business planning are supported and facilitated.

Despite the popularity of QuickBooks accounting software, the extent to which it is employed in small businesses to perform a spectrum of management accounting tasks (e.g., to monitor profitability) is largely unknown. These management accounting tasks stand apart from financial accounting tasks (e.g., recording the payment of invoices) because they help small business owners accomplish the fundamental goals of the business, such as to attain profitability. Evidence on use of QuickBooks reports to manage accounts receivable, just one element of management accounting, has shown that higher use lowers outstanding balances (Shields and Shelleman, 2010), suggesting that small businesses that use the program for managerial purposes reap benefits. In addition to a lack of evidence on how much QuickBooks is employed for management accounting, there is no known information on the drivers of QuickBooks use: why do some small business owners use it more than others for management accounting tasks?

This study was intended to address these gaps in our understanding of the use of QuickBooks software for management accounting in small businesses. Specifically, the research examined the prevalence of monitoring a broad range of management accounting reports, available in the QuickBooks report menu, as well as personal attributes of small business owners that predicted their use of the reports. Because the frequency of external reporting (e.g., to obtain a loan from a bank) is episodic with long cycle times in between, the predominant purpose of QuickBooks reports is for managerial accounting.

Three research questions guided the study. First, do small businesses use the reports in the report menu of QuickBooks? Second, if so, how frequently do they use these reports? Finally, what are some of the personal attributes that affect small business owners' use of these management accounting reports?

Findings will be useful to small business counselors by enabling them to see the extent to which small business owners are taking advantage of the important benefits of accounting software. This would enable greater targeting of training to address gaps in use, as well as expanded knowledge of user characteristics. It is expected that small business owners will also find the results directly useful to benchmark their efforts with fellow business owners, as well as benefiting by enhanced QuickBooks training.

In the following section of this paper, we briefly examine the literature on QuickBooks software, relevant management accounting issues for small businesses, and personal attributes of small business owners that may be associated with QuickBooks use. We then explain the methodology employed for the study and our results. Finally, we conclude with a discussion of our findings, including their implications for practice.

Review of the Literature

In this section, we review literature on QuickBooks software, relevant management accounting issues for small businesses, and personal attributes of small business owners that are likely to be associated with QuickBooks use.

QuickBooks Software

A majority of small businesses employ the QuickBooks accounting software program. In fact, its market share is reported to be 73% of the retail market (Business Week, 2005). The software program has many useful features for small businesses that, if employed, can aid small business owners in performing important management accounting responsibilities. Convenient and relatively low cost, it facilitates recording transactions for record keeping. Transactions include items such as purchases, sales, payments, collections, and the like. These items provide data to generate management accounting information to manage the business.

QuickBooks has a report menu which lists categories of reports. The report menu enables a small business to conveniently create and access management accounting reports which present the effects of transactions on company financials, customers and receivables, purchases, and vendors and payables. QuickBooks facilitates planning and control decisions through the use of reports (e.g., profitability year-to-date, actual to budget comparisons, list of accounts and their respective balances).

QuickBooks can be used by small businesses to both plan and control their business. A menu of reports allows managers to readily view reports on financial statements, customers and receivables, budgets, lists of accounts and items, purchases, and vendors and payables. Frequent consultation of these reports is important to small business management because it allows a small business owner to plan, monitor, and get timely feedback and thus to make more timely interventions.

Even though QuickBooks is widely used in small businesses, there is remarkably little empirical evidence available on the extent of its use or factors that influence its use. Several studies have examined the choice of accounting software (Bressler and Bressler, 2006; Davis and Dunn, 2005). Advice from a professional is the only known reason underlying selection of a program; recommendation by a business counselor was ranked first in one study (Bressler and Bressler, 2006) and advice from a CPA was first in another (Davis and Dunn, 2005). One half (54%) (Bressler and Bressler, 2006) to nearly 9 out of ten (89%) (Davis and Dunn, 2005) users report

high levels of satisfaction with their software. What's more significant is that greater use of the few QuickBooks reports on accounts receivable has been linked to lower accounts receivables balances (Shields and Shelleman, 2010), confirming the benefits of the management accounting report function to the bottom line. But, despite widespread use of the program, reported satisfaction, and results that suggest its value, there is no other known empirical evidence with regard to the factors underlying or the extent of the use of the vast majority of QuickBooks reports for the management of small businesses.

Small Business Management Accounting

Management accounting information includes both financial and nonfinancial information that provides assistance to managers in making decisions (Garrison, Noreen and Brewer, 2010; Horngren, Datar, Foster, Rajan, and Ittner, 2009). Management accounting information is used for both planning and control. Planning involves selecting a measure of performance (e.g., sales revenue) and selecting a goal (e.g., budgeted sales revenue) with its aspired level over some specified period of time (Garrison et al, 2010; Horngren et al, 2009). Control involves taking steps to insure that the goal is achieved (Garrison et al., 2010; Horngren et al, 2009). The control process involves monitoring and evaluating actual performance on the specific performance measure relative to the budgeted goal for that measure (Anthony and Govindarajan, 2006). If actual performance on the measure is not on track to the goal, then a manager must either intervene or change the level of the aspired goal (Anthony and Govindarajan, 2006). At the end of the specified time period, a comparison of actual to budgeted levels of the performance measure is made and the feedback is used during the next cycle of planning (Anthony and Govindarajan, 2006).

The vast majority of the research on the use of accounting in organizations has been focused on large firms. There is little evidence on how small businesses use accounting information in general to manage the business and even less on the use of management accounting information. Management accounting information is intended for use by managers whereas financial accounting information (e.g., an income statement in generally accepted accounting principles, GAAP, format) is intended for use by external users such as investors. Financial accounting information does not provide sufficient information for small business owners to manage their business using forward looking, detailed, and economically relevant information (e.g., budgeted cost, breakeven, etc.). This type of information is necessary to run a business efficiently and effectively.

There are only a few known published studies that have examined the use of financial accounting information by small businesses. Holmes and Des Nichols (1988) found that the annual use of balance sheets, cash flow statements, and profit and loss statements, is positively associated with demographics such as business age, and size, industry, and the level of education of the owner/manager. McMahon (2001) reported evidence that comprehensive financial reporting (e.g., use of balance sheet, cash flow statements, and profit and loss statements,) was positively associated with higher annual sales revenue and sales growth. Neither of these studies examined the use of management accounting information in managing small businesses.

Personal Attributes of Small Business Owners

Locus of control is one of the most widely studied personality constructs in the psychological literature. As a construct related to bringing about change, locus of control is relevant within the context of understanding goal directed behavior (Lefcourt, 1992), such as that engaged in by

entrepreneurs and small business owners seeking to bring to life an economic enterprise. With its origins in social learning theory, locus of control refers to the degree to which people think that they can exercise control over the events that influence them. Rotter (1966) delineated both an external and an internal locus of control.

External locus of control individuals, sometimes called “externalizers”, believe that they do not have direct control over their circumstance and outcomes. They see themselves in a relatively passive role with respect to the external environment; their fate is perceived to be in the hands of other people, luck, or even fate.

In contrast, individuals with an internal locus of control, sometimes called “internalizers”, believe that they have control over their circumstance and outcomes. Active, rather than passive in orientation, they see a direct link between their actions and their outcomes. Internal locus of control individuals have been found to set more difficult goals than external locus of control individuals, which is an indicator of a stronger motivation to obtain desired outcomes (Ng, Sorenson, and Eby, 2006; Yukl and Latham, 1978).

In an early review of the locus of control literature, Jennings and Zeithamel (1983) noted its promise for the study of entrepreneurial activity. According to Ward (1993, p. 33), locus of control can be seen as “a potential determinant of whether or not a person involved with a small business is aware of and seeking opportunities overlooked by others within a given economic environment.” His study of small business expansion plans showed that even in the face of poor economic conditions, an internal locus of control business manager engaged in growth planning, an opportunity seeking behavior. What’s more, founders of the business were significantly more likely to have an internal locus of control than were small business managers (Ward, 1993). Internal locus of control is significantly related to entrepreneurs’ need for achievement and degree of innovativeness (Kumbul Guler and Tinar, 2009). In fact, Boone, De Brabander, and Van Witteloostuijn (1996) demonstrated that, in somewhat larger firms, Chief Executive Officers’ internal locus of control was a predictor of organizational success regardless of the choice of competitive strategy.

Because locus of control is a variable which may predict a propensity to exercise persistent control over the external environment (Ng et. al, 2006, Spector, 1982), we expect that internal locus of control small business owners would be more active users of the report in the reports menu in QuickBooks. By examining QuickBooks reports, small business owners are poised to take actions that make changes in their business strategy. A business owner who is oriented to taking action would logically be expected to seek out relevant information for guidance.

Goals represent aims that people strive toward. They have a long history in the study of management, ranging from Frederick Taylor’s standard outputs to the modern Balanced Scorecard. Research supports the notion that goals are an important source of motivation that enables people to achieve their desired performance outcomes (Kreitner and Kinicki, 2007). Goals have the effects of directing people’s attention, stimulating an expenditure of effort, raising the level of persistence, and fostering the development of action plans to accomplish tasks (Locke, Shaw, Saari, and Latham, 1981). As such, they assist small business owners and entrepreneurs, who found and work at businesses in order to achieve their desired goals.

A variety of theoretical frameworks and studies have explored the goals that motivate entrepreneurs (e.g., Bird, 1989, Aronoff and Ward, 1995). Naffziger, Hornsby, and Kuratko (1994) gave prominence to the owner's goals in their model of entrepreneurial motivation, recognizing that motivations of business owners encompass personal as well as firm-related outcomes of the business. Personally meaningful goals are important to help owners stay motivated post-startup, when the business creates ongoing challenges. Entrepreneurs have goals related to extrinsic rewards, independence/autonomy, intrinsic rewards, and family security (Kuratko, Hornsby and Naffziger, 1997), that continue to drive their behavior. Lifestyle goals are more important than financial goals to many business owners (Walker and Brown, 2004).

Because of the importance of the owner's goals in providing motivation to develop and maintain a successful business, we expected that the strength of his or her goals would influence the extent to which a business owner uses the QuickBooks reports. By this reasoning, the use of QuickBooks reports for planning and control would be instrumental behaviors to help achieve the owner's goals through the business. The use of QuickBooks reports allows small business owners to plan and monitor the performance of their business. Thus, they provide information on the effects of the business owner's actions on the business and consequently on the owner's effectiveness at achieving his or her goals.

In the next section, we explain the methodology that was employed to examine the research questions that guided the study.

Sample

The 128 small business owners who provided the data for this study were from a list of clients of the Small Business Development Center (SBDC) of a northeastern state in the United States. All had recently attended QuickBooks training classes and reported using QuickBooks software for an average of five and half years. Most have completed only one training session. The majority of respondents are female (73%), with a mean age between 46 and 55 years old.

Four hundred and sixty-one surveys were mailed using the Dillman methodology (2009) that included a pre-letter, the questionnaire, a postcard reminder, and a subsequent replacement survey. Questionnaires were returned directly to the SBDC rather than the researchers and respondents were assured of confidentiality. One hundred and twenty eight surveys were returned, a 28% rate of response.

Micro businesses comprise the majority of the sample. Over a third (38%) of respondents reported no employees and almost half (46%) reported only 2 to 5 employees. The number of employees for the remainder of the sample businesses are 6 to 10 (7%), 11 to 15 (7%), and 16 to 30 (3%). Nearly half (45%) of the sample businesses are service businesses, 13% are manufacturing, 12% are retail, 11% are construction, 8% are a combination, and 4 % are wholesale businesses. Another 7 % of respondents selected "Other" as their business type. Reported mean annual sales are \$294,403.

Measures

Respondents were asked to respond to sets of questions concerning primary menu headings in the reports menu in QuickBooks. These headings were "Company Financials"; "Customer and Receivables"; "Budgets and Forecasts"; "Lists"; "Purchases"; "Vendors and Payables". The stem of each section was, "How frequently do you use reports that are listed under the menu

heading _____?” Because of the rarity of external financial reporting and that of 21 reports only two have a dual financial and managerial purpose (i.e., Balance Sheet and Statement of Cash Flows), the primary role of the QuickBooks reports that were examined was assumed to be for managerial accounting.

The reports under the heading Company Financials were Profit and Loss Year to Date (YTD), Profit and Loss by Class, Income by Customer, Balance Sheet, Statement of Cash Flows, Cash Flow Forecast. The reports under Customer and Receivables were Aging of Accounts Receivable, Customer Balance, Open Invoices, Transactions by Customer, and Sales by Customer. The reports under the heading Budgets and Forecasts were Budget to Actual. The items under the heading Lists were Chart of Accounts, Items, Price Level, Vendor. The reports under the heading Purchases were By Vendor, By Items. The reports under Vendors and Payables were Aging of Accounts Payable, Vendor Balance, Unpaid Bills. Respondents were asked to respond to seven point Likert-type scales, with response categories ranging from Never to Daily. At the beginning of the section, respondents were instructed to respond with the values 1=never or rarely, 2 =annually, 3=semi-annually, 4 = quarterly, 5=monthly, 6=weekly, and 7=daily. The questions were presented to several SBDC counselors who do QuickBooks training to get their feedback which was then incorporated into the questions.

The measure of internal locus of control was based on a brief Internal Locus of Control scale developed by Lumpkin (1985) for use in survey research. The three items were, “When I make plans, I am almost certain that I can make them work.”; “Getting people to do the right things depended on ability; luck has nothing to do with it”, and “What happens is my doing”. Five point Likert-type scales were employed, with response categories ranging from Strongly Disagree to Strongly Agree. The scale had an acceptable Cronbach’s alpha (.73).

The items that measured goals were adapted from items used to measure goals by Kuratko et al (1997). The stem was, “The following items address goals that you might hope to achieve through your business. Please rate their relevance to you”. Seven point Likert-type scales were used, with response categories ranging from Relevant to Not Relevant. Responses were factor analyzed using Principle Components with Oblimin rotation to examine common variance after eliminating items that did not have acceptable inter-item correlations ($p < 0.30$). A three-factor solution explaining 84 percent of the variance emerged. The three resulting scales measure extrinsic rewards, independence, and intrinsic rewards. The scale Extrinsic Rewards (Eigenvalue = 1.77, Cronbach's alpha = .88) consisted of the items: “Acquire personal wealth”, “To increase my personal income”, and “To increase my income opportunities”. The scale Independence (Eigenvalue = 4.43, Cronbach's alpha = .95) consisted of the items: “Maintain my personal freedom”, “Self-employment”, “To be my own boss” and “To control my own employment destiny”. The scale Intrinsic Rewards (Eigenvalue = 1.40, Cronbach's alpha = .74) consisted of the items: “Gain public recognition” and “Enjoy the excitement”.

Analysis and Results

The first two research questions dealt with use and frequency of use of the reports, respectively. As shown in Table 1, the mean value for use of the different reports ranges from 4.19 to 1.75. For 18 of the 21 reports examined, the mode was 1 (rarely or never). Table 2 shows the means ranked in descending order. The top ten reports used were Profit and Loss YTD followed by the Chart of Accounts, Balance Sheet, Vendors, Items, Open Invoices, Transactions by Customers, Sales by Customers, Customer Balance, and Income by Customer.

Refer to Table One

Refer to Table Two

The third research question addressed personal attributes of small business owners that affect their use of the reports. Locus of control and the goals held by the small business owner manager were examined. Stepwise regression analysis was used to examine the extent to which internal locus of control and goals affect the use of the reports. Reports with a median usage frequency greater than three were the dependent variables in the analysis. Thus the analysis focused only on reports used semiannually or more frequently and included the top ten most frequently used reports. Internal Locus of Control, Extrinsic Rewards, Independence and Intrinsic Rewards were the independent variables in the regression model.

An Internal Locus of Control, Extrinsic Rewards, Independence, and Intrinsic Rewards significantly predict the use of the QuickBooks report Profit and Loss YTD ($F = 5.70, p = .02$) with an adjusted R^2 of .06 (see Table 3, panel A). The regression coefficient for Internal Locus of Control is significant and positive ($F = 2.39, p = .02$). The model with Internal Locus of Control, Extrinsic Rewards, Independence, and Intrinsic Rewards also is a significant predictor of the use of the Chart of Accounts ($F = 9.32, p = .00$) with an adjusted R^2 of .10 (see Table 3, panel B). The regression coefficient for Internal Locus of Control is significant and positive ($F = 3.05, p = .00$). The model significantly predicts of the QuickBooks report Balance Sheet ($F = 4.21, p = .04$) with an adjusted R^2 of .04 (see Table 3, panel C). The regression coefficient for Intrinsic Reward is significant and positive ($F = 2.05, p = .04$). The model is not a significant predictor of the use of the QuickBooks reports Vendors, Items, Open Invoice, Transactions by Customer, Sales by Customer, Customer Balance, and Income by Customer.

Refer to Table Three

Discussion

The results from this research provide evidence that small businesses do use the QuickBooks reports. However, examination of frequency of use in this sample of very small businesses shows that only half (50%) of the reports are used more than twice a year while the other half (50%) are either not used at all or are used less than twice a year. It may be that many of these micro business owners fail to recognize the value to their business of using QuickBooks with a managerial purpose or that, as small operations, they perceive a lack of time to invest in management accounting.

The Profit and Loss YTD report is used most often, followed by the reports Chart of Accounts and Balance Sheet. All three of these reports provide users with the ability to monitor the business by providing an overview in some form of the expense, revenue, asset, liability and equity accounts. In short, the reports provide feedback about the general state of the business over a specific period of time. They facilitate management by allowing a business owner to search for and detect account balances or line items that differ from expected values. The owner can then investigate and take correction action if necessary.

This study provides evidence that personal factors influence small business owners' use of the QuickBooks management accounting reports. An internal locus of control is a significant predictor of the use of the QuickBooks reports Profit and Loss YTD and Chart of Accounts. The

Profit and Loss YTD report allows a small business owner to monitor the status of the business with regard to overall profitability and also specific revenue and expense line items. A business owner with an internal locus of control gains feedback from this report about his or her actions that potentially affect profit, expenses, and revenues over a specified period of time. Similarly, the QuickBooks report Chart of Accounts provides a list of all accounts along with their current balances. This report enables the monitoring of all asset, liability, equity, expense and income account balances. For the internal locus of control business owner, it provides additional feedback on how his or her actions are affecting the business.

A second personal factor, business owner goals, is shown to be relevant. If the owner is motivated by intrinsic rewards, it predicts the frequency with which he or she uses the Balance Sheet report. The balance sheet shows the net value of the business and thus can provide an owner with the intrinsic reward of seeing the net worth of his or her business increase over time.

Practical Implications

The results of this research have implications for small businesses and QuickBooks software training. Many valuable management accounting reports that can be employed to help manage the business are never or only rarely consulted. For example, reports such as Price Level can be useful in reviewing the discounts that a business is offering specific customers or segments of customers. Review allows the business owner to ensure that discounts primarily are being allocated to high volume rather than low volume customers. The report Sales by Customer would be a complementary report to this review process. Another useful report rarely used is Vendor. It can highlight the small business's purchasing power or leverage with a vendor that might warrant taking action to negotiate a discount. Profit and Loss by Class is rarely or never used to isolate profitable segments of the business either by customers or by items. The class feature of QuickBooks allows for in-depth investigation to isolate and view subcategories or segments by profitability or revenue that could indicate products or services to drop, retain, or expand.

Evidence from this study implies that there is much work to be done to convince owners to more fully take advantage of the capabilities inherent in QuickBooks for managing their small business. Combined with the infrequent use of most reports, nearly all the respondents indicate that they have completed only one training session. Currently, they are missing out on many of the benefits of management accounting; formal training and individual counseling of small business owners are the primary ways to influence and heighten their awareness.

Both across the board and especially when small business owners have an external rather than an internal locus of control, additional efforts during training sessions may be needed to convince them of the utility of reports and to motivate them to use available QuickBooks reports to manage their business. An appeal to intrinsic rewards associated with small business ownership might be an effective motivational device.

Conclusion

This study provides the first known evidence on the relative infrequency with which small business owners use a wide range of management accounting reports available in QuickBooks. Our results imply that small business owners are not utilizing the management accounting tools available to them in the QuickBooks software and, therefore, that they are forgoing opportunities to improve the profitability of their businesses.

Table 1
Statistics for the Independent and Dependent Variables

Variable	Actual	Mean	Mode	Standard
	Range			Deviation
Profit YTD	1.00 – 7.00	4.19	4.00	1.46
Profit and Loss by Class	1.00 – 7.00	2.47	1.00	1.69
Income by Customer	1.00 – 7.00	3.06	1.00	1.97
Balance Sheet	1.00 – 7.00	3.68	5.00	1.66
Statement of Cash Flows	1.00 – 7.00	2.66	1.00	1.79
Cash Flow Forecast	1.00 – 7.00	1.94	1.00	1.53
Aging of AR Report	1.00 – 7.00	2.73	1.00	2.09
Customer Balance Report	1.00 – 7.00	3.09	1.00	2.07
Open Invoices	1.00 – 7.00	3.00	1.00	2.19
Customer Transactions Report	1.00 – 7.00	3.21	1.00	2.17
Sales by Customer	1.00 – 7.00	3.10	1.00	2.22
Budget to Actual	1.00 – 6.00	1.75	1.00	1.51
Chart of Accounts	1.00 – 7.00	3.89	4.00	2.05
Items	1.00 – 7.00	3.37	1.00	2.32
Price Level	1.00 – 7.00	1.94	1.00	1.71
Vendor	1.00 – 7.00	3.62	1.00	2.28
By Vendor	1.00 – 7.00	2.37	1.00	1.92
By Item	1.00 – 7.00	2.01	1.00	1.72
Aging of AP	1.00 – 7.00	2.45	1.00	2.09
Vendor Balance	1.00 – 7.00	2.44	1.00	2.05
Unpaid Bills	1.00 – 7.00	2.76	1.00	2.18
Internal Locus of Control	1.00 – 5.00	3.77	4.00	0.82
Extrinsic Reward Goals	1.00 – 7.00	3.04	2.00	1.69
Independence Goals	1.00 – 7.00	2.28	1.00	1.79
Intrinsic Reward Goals	1.00 – 7.00	3.51	1.00	1.85

Table 2
Rank Order of Means

Profit & Loss YTD	4.19
Chart of Accounts	3.89
Balance Sheet	3.68
Vendors	3.62
Items	3.37
Open Invoice	3.32
Transactions by Customer	3.21
Sales by Customer	3.10
Customer Balance	3.09
Income by Customer	3.06
Aging of Accounts Receivable	2.79
Unpaid Bills	2.76
Statement of Cash Flows	2.66
Profit and Loss by Class	2.47
Aging of Accounts Payable	2.45
Vendor Balance	2.44
By Vendor	2.37
By Item	2.01
Price Level	1.94
Cash Flow Forecast	1.94
Budget to Actual	1.75

Table 3
Regression Analyses
Dependent Variable: QuickBooks Reports

Panel A: Profit and Loss YTD

Independent Variables	Regression Coefficient	<i>t</i> for Variable	<i>F</i> for Equation	Total	Condition Adj <i>R</i> ² Index
Internal Locus of Control	0.50	2.39**	5.70**	.06	1.00
Extrinsic Reward Goals		0.17		1.51	1.00
Independence Goals		0.11		0.98	1.00
Intrinsic Reward Goals		-0.13		- 1.08	1.04

Panel B: Chart of Accounts

Independent Variables	Regression Coefficient	<i>t</i> for Variable	<i>F</i> for Equation	Total	Condition Adj <i>R</i> ² Index
Internal Locus of Control	0.34	3.05***	9.32***	.10	1.00
Extrinsic Reward Goals		0.03		0.30	1.01
Independence Goals		-0.03		- 0.28	1.01
Intrinsic Reward Goals		0.01		0.0	1.04

Panel C: Balance Sheet

Independent Variables	Regression Coefficient	<i>t</i> for Variable	<i>F</i> for Equation	Total	Condition Adj <i>R</i> ² Index
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Internal Locus of Control	0.13	1.13	4.21 ^{**}	.04	1.04
Extrinsic Reward Goals		0.12		1.02	1.01
Independence Goals		0.01		0.06	1.09
Intrinsic Reward Goals		0.23		2.05 ^{**}	1.00

Level of significance *** = $\leq .01$; ** = $\leq .05$; and * = $\leq .10$

Table 3
Regression Analyses
Dependent Variable: QuickBooks Reports

Panel A: Profit and Loss YTD

Independent Variables	Regression Coefficient	<i>t</i> for Variable	<i>F</i> for Equation	Total Adj <i>R</i> ²	Condition Index
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Panel B: Chart of Accounts

Independent Variables	Regression Coefficient	<i>t</i> for Variable	<i>F</i> for Equation	Total Adj <i>R</i> ²	Condition Index
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Intrinsic Reward Goals	0.23	2.05 ^{**}			1.00

Level of significance *** = $\leq .01$; ** = $\leq .05$; and * = $\leq .10$

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MICRO-FINANCE: FROM BANGLADESH TO THE UNITED STATES NOBEL-PRIZE-WORTHY OR FINANCIAL EXPLOITATION?

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Abstract

In 1976 the Grameen Bank was launched in Bangladesh to provide very small loans to impoverished women in poor rural areas of the country. Since then this financing model has been lauded and replicated in many countries. This paper examines the nature and status of micro-loan programs throughout the world, the recent establishment and development of such programs in the United States, and the current controversy regarding the entry of for-profit lending institutions into the field and the subsequent rise in micro-loan interest rates and other costs to the loan recipients. Further investigation provides policy implications and guidance to small business owners and to those who assist them with regard to their possible utilization of micro-financing.

Introduction

In recent years, the idea of providing microloans to potential small-scale entrepreneurs, in the third world and in other areas of poverty, has gained wide-spread notoriety and praise. Muhammad Yunus, considered the pioneer of this concept, started the movement by lending small amounts of funds to basket weavers in Bangladesh, and was awarded the Nobel Peace Prize in 2006 for his efforts.

The Nobel Peace Prize Committee, in presenting the award jointly to Mr. Yunus and to his Grameen Bank, stated:

“Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Micro-credit is one such means. Development from below also serves to advance democracy and human rights.”
(Norwegian Nobel Committee, 2006)

Yet today, in many countries, micro-finance has become a for-profit industry, with a large number of banks and financial institutions entering the field and often charging seemingly very high interest rates and earning large profits in the process. Even not-for-profit micro-finance organizations typically charge interest rates considerably higher than banks charge their large business clients. The current controversy centers on the issues of appropriate interest rates and resulting profits. Has the microloan phenomenon become exploitative in some countries? Also, do microloans always lift people out of poverty?

While micro-finance in general, and this issue of interest rate levels in particular, have been subjected to some scholarly investigation, most of these studies have focused on third-world countries and on certain foreign countries, such as Mexico, Nicaragua, Nigeria and Peru, where possible exploitation has been identified. Although micro-finance programs exist in the United States as well, a search of the literature has identified very few prior academic investigations with a domestic focus on either the general topic or on the specific interest rate issue. The objective of this paper is to examine the status and nature of micro-finance throughout the world and specifically in the United States, to probe the costs of micro-finance to loan recipients, to

better understand the strengths and weaknesses of American micro-loan programs, and to offer policy implications and guidance to small business owners and to those who consult to and assist American small businesspeople who might avail themselves of such financing.

History

Perhaps 45% of the world's population exists in extreme poverty, with 1.2 *billion* people living on less than less than \$1.00 per day (Arch, 2005). The history of Muhammad Yunus and the Grameen Bank is well known and a brief summary is sufficient for this paper. Founded in 1976, the Grameen Bank is a microfinance organization which makes very small loans to very poor and underprivileged people (97% women) in rural villages in Bangladesh. ("Grameen" means "of the village in Bengali.") Grameen micro-loans do not require collateral but rather rely on a system of group-based credit and peer-pressure for repayment.

Writing recently about the Grameen Bank, Prof. Yunus identified five key to the success of the bank: 1) challenging conventional thinking, 2) finding complementary partners and undertaking shareholders, 3) continuous experimentation, 4) recruiting social-profit-oriented shareholders, and 5) specifying social profit objectives clearly and early (Yunus, Moingeon & Lehmann-Ortega, 2010). As of spring 2010, the bank has disbursed loans of about \$9.2 billion, of which \$8.1 billion has been repaid (Grameen, 2010).

The current controversy involves the large number of banks and other financial institutions that have seen the success of Grameen, and have entered the field of micro-loans in a large number of countries. In some countries the business model involves for-profit institutions making the loans, while in other countries, not-for-profit organizations solicit involvement by charitably-minded individuals, who make the loans with the not-for-profit organization acting as the middle-man. Regardless of the business model utilized, the current controversy involves to basic issues: 1) are such micro-loans truly effective and beneficial in terms of social profit, and 2) what interest rates (and profits, when applicable) are acceptable? (MacFarquhar, 2010).

Prior Research

As discussed above, most of the past scholarly investigations of micro-finance have focused on countries other than the United States, and usually on underdeveloped countries where significant poverty and unemployment exist, and where most micro-finance programs exist. The most basic issues probed deal with the effectiveness of such programs. This section of the paper focuses on much of the most recent scholarly literature. For example, Mahjabben (2008) recently studied the original Grameen program in Bangladesh and concluded that Grameen and subsequently-established similar programs in that country have been successful in raising income and consumption levels of households, in reducing income inequality, and of other basic social policy goals. A year later, Carr and Rugimbana (2009), in editing a special issue of a journal, concluded that micro-finance is an effective and important component of public policy with the objective of reducing world-wide poverty.

However, some other recent studies paint a more complex picture of micro-loan effectiveness. Boudreaux and Cowen (2008) concluded that such programs do generally have positive impacts, but only moderately. While micro-financing can make individuals' lives better, the loan recipients generally remain in poverty, but at a slightly higher income level. As an example, a micro-loan might raise a family's income level from the equivalent of two dollars a day to \$2.50. In an undeveloped environment, such a seemingly minor income improvement might keep a

child in school, enable a family member to visit a health clinic, or allow the family to build a little savings.

Similarly, Menon (2006) investigated the recent effects of the Grameen Bank in Bangladesh and found diminishing returns to group-member loan recipients over time. Specifically, looking at 24 villages, the greatest benefit of micro-finance programs was to smooth the effect of the seasonal economic shocks commonly found in poor rural agricultural environments, but this benefit begins to decline after approximately two years of membership, with virtually all benefits ending after four years. Thus the value of micro-finance may be short-term rather than long-term.

Still another analysis by Surowiecki (2008) concluded that microloan programs may be of value for those who require some form of self-employment in order to improve their household income, but generally because the alternative of employment by others is not available. In most third-world cases, and in other economic environments as well, *employment* rather than *self-employment* would be of greater benefit to most of the population.

Other researchers have focused on factors which support or hinder the effectiveness of micro-loan programs. Crabb (2008), analyzing a large sample of micro-loan programs in a variety of countries, posited that the success of such programs was strongly influenced by the political and economic environment of the country, with success more likely in countries with low degrees of economic freedom and/or high levels of government intervention in the economic system.

Epstein and Yuthas (2010) looked at how cultures vary in their attitudes toward the repayment of loans. They identified “cultures of non-repayment” which exist in some countries and cultures, which significantly work against the success of micro-loan programs. Unless micro-borrowers are likely to re-pay their loans, the programs cannot continue and succeed in the long run. These authors suggest a variety of strategies which both governments and micro-finance organizations might utilize to offset this cultural factor. Similarly, Kristof (2010) saw cultural impediments to micro-loan programs in countries where the culture often misplaces spending priorities; for example where household income is spent on alcohol, tobacco and prostitution before it is spent on the education of children. Such a set of cultural attitudes are less likely to foster the establishment and success of micro-finance institutions.

Webb, Kristiani and Olaru (2009) conclude that a critical factor influencing micro-loan program success is the local image and reputation of the micro-lending organization. Because these institutions are targeting the poorest of the members of the population (the “bottom of the pyramid”), it is extremely important that the lending program be effectively explained and marketed to this segment of the population.

Micro-Finance in the United States

With the focus of micro-finance programs on the underclass and in under-developed countries, it might seem unlikely that such programs would have a place in the United States. Yet a small number of such programs have been established in this country, in areas where high levels of poverty exist, and where traditional sources of debt financing are not reaching these populations – both in urban inner cities and in poor rural areas. Obviously, the nature of the American economy dictates that the quantitative definition of a *micro-loan* is much higher in this country than in Bangladesh and other third-world countries.

Although not the first or largest micro-loan provider in the United States, *Grameen America* is an affiliate of the original organization in Bangladesh. It established its first programs in a low-income area of Queens in New York City in 2008. Since then, it has made over \$5 million in micro-loans to about 2500 people (Grameen America, 2010).

Both older and larger and a pioneer micro-finance program in the United States, *ACCION USA* was launched in Brooklyn in 1991 as the American arm of ACCION International, and similarly provides micro-loans as part of a broader community assistance network. With a number of separate *ACCION* programs around the United States, this organization has provided over \$119 million via 19,500 individual micro-loans. Recently-started small businesses (at least six months in operation, but not yet profitable) may borrow up to \$30,000; more established and profitable businesses are eligible for up to \$50,000 in loans. Annual interest rates are currently about 9% to 16%, plus loan closing costs of 3% to 5% (Accion USA, 2010). Such borrowing costs, considerably higher than current commercial bank interest rates and other costs, are typical of most micro-finance programs in the United States. (In June 2010, the interest rate most American commercial banks were charging their best corporate customers was about 3.25%.)

Other micro-finance programs have been established in the past two decades in the United States, generally similar to the *ACCION* programs. Targeting small businesses in poor inner-city and rural areas, these programs tend to bundle micro-loans with other forms of assistance, such as business and financial education and training. Such a broader range of assistance services is needed in this country, in comparison to in third-world countries, because of the more complex financial and business environment that surrounds the nascent entrepreneur here – taxes, regulations, zoning laws, etc. and thus the need for greater financial and general management skills (Bernanke, 2007).

As discussed earlier, very few scholarly or other analyses of American micro-finance programs have been conducted and reported. A recent search of the literature found two studies: In a non-scholarly review of some of the recently-established micro-financing programs in the United States, Powell (2009) cited some specific, but generally self-reported, successful examples. Hicks (2004), in a more scholarly and rigorous analysis of a single West Virginia rural micro-loan program, found mixed effectiveness and benefits of that program.

Controversy Interest Rates and Lender Profits

As briefly discussed early in this paper, the current controversy surrounding micro-finance involves the often very high costs to the borrowers. While the Grameen Bank and the organizations which originally admired and replicated the Bangladesh programs in other countries were all not-for-profit organizations, more recently micro-finance has outgrown its charitable roots, with for-profit banks and other lending institutions entering the field during the past decade and now accounting for about 60% of all micro-lending world-wide (MacFarquhar, 2010).

And as also noted earlier, this situation is worse in certain countries. For example, *Compartamos* is a for-profit Mexican publically-traded micro-lending institution, the largest in the country, which in 2009 had a loan portfolio of over \$600 million, with the average loan being about \$400 (Compartamos, 2010). Recent interest rates charged by Compartamos were about 82%.

Some other Mexican for-profit micro-lenders charge even higher rates. *Te Creemos*, another for-profit institution, currently charges about 125%. Other smaller lending institutions in that country tend to follow the larger lenders in setting their rates, although not always at quite such high levels. The average micro-loan rate in Mexico is about 70% (MacFarquhar, 2010).

Exploitation of micro-loan recipients also occurs in Nigeria. *LAPO* (“Lift Above Poverty Organization”), a major micro-finance institution there, engages in a questionable practice called “forced savings.” *LAPO*’s credit terms require that a portion of the loan be kept by the lender, supposedly teaching the borrower to develop saving skills. But interest is charged on the entire loan, thus raising the effective rate on the actual funds distributed, often as high as 126% (MacFarquhar, 2010).

In certain other countries, the micro-finance industry has been similarly taken over by for-profit banks, also with very high interest rates and other costs to the borrowers. These high interest rates provide the financial incentive for the large number of for-profit lending institutions to enter the market in many third-world countries, and the poor small business owners’ lack of education and sophistication, along with a lack of transparency in the financial marketplace, allow such high costs to exist. Naturally, those who are most exploited are those who are the least educated and least sophisticated in financial matters (Barth et. al., 2009).

Implications

Several implications arise from this analysis. What can be done to offset the rise in for-profit micro-lenders, and how can the costs to micro-loan recipients be kept reasonable? And what interest rate levels are reasonable and appropriate for micro-loans?

Certainly national governments and other financial regulators can and should impose some level of guidance and regulation so that not-for-profit micro-lenders can find a place in the financial marketplace. This has not always been the case in some third-world countries, where governments have often favored and assisted politically influential for-profit banks to control the micro-loan industry (Barth et. al., 2009).

Also, several studies have shown that micro-loan interest rates tend to be lower in markets where competition exists among micro-finance institutions. Here too government action and regulation can either support or discourage competition. Still other studies indicate that smaller banks tend to be more beneficial in their micro-lending to very small borrowing customers, evaluating potential borrowers at a more individual level. Thus, regardless of whether the micro-loan financial market model is not-for-profit or for-profit, governments might act to encourage a greater number of small lenders in the marketplace rather than a few larger ones (Cole, Goldberg & White, 2004; Schafer, Siliverstovs & Terberger, 2010).

Similarly, governments should work to foster transparency in the micro-loan marketplace. Lenders’ interest rates and other charges should be easily available to prospective borrowers and their advisors, both on the internet and in written promotional materials (especially for those for whom internet access is difficult).

Implications also exist for the poor small business owner and for those who assist them. It is important that small business owners recognize that micro-loans are inherently expensive to the lender and thus to the borrower, with interest rates and other costs almost always higher than for

larger loans from regular commercial lending institutions. So small business owners should utilize micro-finance as a back-up source of funds, only if more traditional funding sources are not available.

Small business owners (and their advisors) should also educate themselves and do their homework prior to engaging in micro-borrowing. Are the potential micro-lenders for-profit or not-for-profit? What are the exact and total costs for the micro-loan being contemplated? Is the lending institution actually a “micro-lender”? (Because “micro-loan” has a positive cachet these days, many other types of lending institutions are labeling their small business loans as “micro.”)

Although difficult to answer, a final question is: What is a reasonable and appropriate interest rate for a micro-loan? Prof. Yunus has stated that micro-loan interest rates should be 10 to 15 percent above the actual cost to the lender to raise the money, and that any interest charge of over 30% is too high. And it is reasonable for the lender to incur higher total percentage costs for smaller loans than for larger ones (due to economies of scale), and thus to charge interest rates and other costs accordingly (MacFarquhar, 2010). So, in the United States, a small business borrower would naturally benefit if he or she were eligible to borrow from a traditional lending institution at a rate 5% to 10%, rather than to borrow from *ACCION* at a total annual cost of perhaps 12% to 21%. But if the latter choice is all that is available, the charges are probably supported by the institution’s true costs and thus not unreasonable.

Conclusion

Micro-lending has certainly had a very positive impact in reducing destitution and improving the lives of very poor families in many parts of the world. While the total set of outcomes apparently has both positive and negative aspects, the basic financial model and the resulting micro-finance programs constitute a major step in reducing poverty and advancing democracy and human rights, as cited by the Nobel Peace Prize Committee at the beginning of this paper.

As is the case for many beneficial business assistance programs, there is always the danger of corruption and exploitation. This paper has identified the strengths and potential weaknesses of micro-finance, and offers implications to both governments and to small business owners and those who assist them.

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ANTECEDENTS FOR FAMILY BUSINESSES SUCCESSION PLANNING: A MULTINATIONAL ANALYSIS

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Abstract

This study investigates possible managerial characteristics as antecedents to succession planning in family businesses. Analyzing data gathered from 607 small and medium-sized family firms in seven diverse countries, statistical analysis identified six antecedents significantly related to succession planning: generation level, shared decision-making, use of outside advisors, long-range strategic planning, formal management style, and consideration of going public. These findings are analyzed, and implications are presented for family business owner/managers, advisors to such firms, and to researchers in the field.

Introduction

Succession in family businesses has been identified as a primary issue in the study and practice of family business management. Over a decade ago, analyzing the first ten years of the publication of *Family Business Review*, Dyer and Sánchez (1998) developed a listing of the most frequent topics of this journal's articles, and *succession* was the second-most researched subject (after *interpersonal family dynamics*). Subsequent to that listing, other studies have ranked *succession* as the most important issue facing family business top managers (Chua, Chrisman, and Sharma 2003; Handler 1994), the most important area of assistance requested of consultants to family firms (Upton, Vinton, Seaman, and Moore 1993), and the topic most frequently studied by family business researchers (Brockhaus 2004; Handler 1992; Montemerlo 2000; Ward 2004). And currently, *managerial and generational succession* and *succession planning* have continued to be one of the most important family business research focuses (DeMassis, Chua, and Chrisman 2008; Heck et. al. 2008; Steier, Chua, and Chrisman 2009).

The practitioner-oriented literature also stresses the importance of planning for succession. A search at *Amazon.com* will identify more than 800 trade books with a specific focus on family business succession, and virtually all books more broadly covering family business management includes substantial discussions of the importance for planning for successful succession (Poza 2007).

The need for effective and successful *planning* for family business managerial succession has been identified by many researchers in the field, who have concluded that too often such planning does not take place or is insufficient, resulting in unsuccessful or less-than-fully-successful succession (Astrachan et. al. 2003; Fox, Nilakant, and Hamilton 1996; Stavrou 2003).

The major contribution of this research study is that it investigates family business succession with a focus on *planning* for succession rather than on the *process* of the actual succession, which has been the focus of most prior research (Handler 1994). This specific focus has been largely ignored in the literature. Specifically, this research study investigates a number of managerial characteristics of the family business, treating them as possible antecedents to succession planning. Do certain factors increase the likelihood of planning for family business managerial succession? Since there is general agreement on the importance of successful succession in family businesses, then it follows that *planning* for succession is a desirable

component of family business management. Thus an appropriate research objective is to develop a better understanding of those factors which lead to such planning. Such an understanding would allow family business owner/managers, and those who consult to them, to increase the likelihood of succession planning and successful succession implementation.

Review of the Succession Literature

The literature on family business succession has been reviewed in a large number of journal articles; thus a brief overview should suffice here. Perusal of the citations in this section will provide more details on the many studies and analyses which have focused on this specific issue.

Some of the earliest analyses of family business succession focused on the frequent unwillingness and/or resistance of founders to yield control of their businesses to the next generation or to other successors. Many explanations and theories have been suggested for this phenomenon, such as psychological loss of role and image, uncertain feelings about the managerial abilities of the potential family-member successors, or fear of a possible decline in the business' performance and income (Brun de Pontet, Wrosch, and Gagne 2007).

More recent analyses have attempted to develop models which can identify variables leading to more effective family business succession. Chittoor and Das (2007) categorized five broad groups of such variables: (1) predecessor-related, (2) successor-related, (3) family-specific, (4) business-specific, and (5) succession process-related.

Another categorization of family business succession model development has been suggested by Cadieux (2007). One approach involves the different groups of actors, another approach focuses on the steps in the organization's life cycle, while a third approach is based on the process itself.

A variety of other factors influencing succession in family businesses have also been suggested, and are worth mentioning. Dyer (1998) investigated "culture and continuity" in family firms, and the need for firm founders to understand the effects of a firm's culture and that culture can either constrain or facilitate successful family succession. Fiegener and Prince (1994) compared successor planning and development in family and non-family firms, and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are chosen for successor management positions. This model involves four factors which define the context for succession: *family, business, personal* and *market*.

In still other studies, Royer et. al. (2008) developed a contingency model of succession involving the factor of *preferred* successors. DeMassis, Chua, and Chrisman (2008) have recently investigated factors that hinder family business succession. Stavrou, Kleanthous, and Anastasiou (2005) have focused on the relationship between leadership personality and succession. And with still another focus, Yan and Sorenson (2006) examined family business succession from the perspective of Confucian values.

Possible Antecedents for Investigation

A review of the overall literature on family business identifies a variety of managerial characteristics which are postulated to be important, because they may relate to different levels

of managerial performance and/or overall company performance. Yet there has been very little investigation with regard to the relationship between these managerial characteristics and the specific variable of *planning for succession*. While this lack of prior findings precludes the development of hypotheses for testing, these managerial characteristics are worthy of investigation as *possible* antecedents to such planning. Such an investigation should take family business research on succession planning in a new and valuable direction.

1. Generations

A first-generation family firm is defined as a family-owned and managed firm, with more than one family member involved, but only of the first and founding generation of the family. Second- and third-generation family firms are defined as firms in which the second or third generations of the family are also involved in the ownership and the management of the company. In a second- or third-generation firm, the original founder(s) and/or other members of earlier generations may be retired from the firm or deceased; thus not all (two or three) generations need be currently participating. Furthermore, the locus of managerial and family primary leadership may be located at any generational level (Beckhard and Dyer 1983; Davis and Harveston 1999; Dyer 1988; Handler 1989; Hershon 1975; Kelly, Athanassiou, and Crittenden 2000; Lambrecht 2005; Schein 1983).

There has been limited empirical research focusing on whether family firm generational level influences succession planning, and the results are inconclusive. Multi-national studies by Sonfield et. al (2005) indicate that as family firms move beyond the first generation of family member ownership and involvement in management (into second- and third-generations), there is more succession planning in some country family business samples but not in others. Similarly, research conducted by Brun de Pontet, Wrosch and Gagne (2007) also produced mixed and inconclusive findings with regard to this relationship.

2. Active Founder

An important factor impacting family firm behavior and performance is the influence of the founder(s) of the firm. Early research conclusions were mixed with some researchers arguing that founders have an imprinting effect on their firms, setting them on trajectories from which it is difficult to depart (Boeker 1988), while others suggest that founders have no enduring influence on their firms because organizations are malleable, sensing and reacting to changes in the environment (Teece, Pisano, and Shuen 1997). There are only a few more current studies, as discussed below.

The founder's influence on the subsequent management of family firms has been given different names by different researchers. Davis and Harveston (1999) call this influence "generational shadow." In a multi-generation family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of values, direction and standards for subsequent firm managers.

Kelly, Athanassiou and Crittenden (2000) similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of succeeding generations' family member managers, with both positive and negative impact. Looking at three dimensions of legacy centrality – "betweenness centrality," "closeness centrality" and "connectivity centrality"

– these researchers postulated that the founder’s centrality will impact the strategic management of a family business with regard to strategic vision, strategic goals, culture, strategy behavior and inward/outward orientation. Furthermore, family firms with high legacy centrality may be especially vulnerable to significant changes in the economic or competitive environment. Kelly, et. al did not conduct an empirical study but did conclude that family firm founder influence has been underrepresented in the management literature. They conclude that measures of founder influence can be very useful in understanding family businesses and recommend further empirical research in this area.

More recent investigations of founder influence consider this issue in the light of stewardship theory and transformational leadership behaviors (Eddleston, 2008; Zara et. al., 2008). Thus, founder influence in family firms, denoted as “generational shadow,” “legacy centrality,” or by another label, is a valid component of the family business system and deserves analysis as a factor in this study.

3. Non-Family Managers

While most definitions of a “family business” include the criterion of the prevalence of family members in the management team, an extensive review of the family business literature has found few academic papers or journal articles that specifically investigated the relationship between *non-family-members* in the top management team and the performance of family firms. Somewhat more frequently found, but still moderate in number, were papers and articles that compared family businesses and non-family businesses, an issue quite different in nature.

Agency Theory is perhaps the dominant basis for investigating the relationship between the owners (principals) and the managers (agents) of a company (Chua, Chrisman, and Sharma 2003). Agency problems may arise if the interests, values of these two groups, and/or the information available to them, are divergent. If such divergences exist, then “agency costs” arise in the efforts to reduce these divergences (Jensen and Meckling 1976). Certainly the presence of non-family-member managers in a family firm raise the issue of Agency Theory and several prior researchers have investigated this issue.

For example, Chua, Chrisman and Sharma (2003) emphasized the relevance of Agency Theory in explaining and understanding the relationship between family-member managers and non-family-member managers in family firms. They empirically investigated the percentage of non-family-member managers in the management team of a family firm and its relationship to the family-member managers’ concerns about their relationships with non-family-member managers. Among their conclusions was that past assumptions of zero or low agency costs in family firms require further thinking, as these costs are more complex and asymmetric than previously supposed. Recently, Blumentritt, Keyt and Astrachan (2008) investigated and compared family-member and non-family-member CEOs of family firms.

Although no prior studies have found a relationship between the inclusion of non-family-member managers and succession planning, some family business researchers have focused on developmental issues or the stages of evolution of family business growth. Gersick et. al. (1997) presents a four-stage model of family firm development, and Peiser and Wooten (1983) focus on the life-cycle changes in family businesses. Thus, the body of literature specifically relating to FM’s and NFM’s in family firms provides limited empirical evidence and little consensus or clear conclusions with regard to the focus of this study.

4. Women Family-Members

The proportion of women family-member managers in family businesses is growing in many countries (Smith 2007; Wilson *et al.* 2004). As an example, it is estimated that women now own more than 33% of all North American family firms (Astrachan 2002). Yet there have been few research studies specifically focusing on women in family business, and those studies which were conducted were more often conceptual rather than empirical (Bowman-Upton and Heck 1996; Hisrich and Fülöp 1997). Most of these studies investigated issues of women's roles in family firms, family relationships, the "glass ceiling" and other aspects of gender bias, and succession planning (Barbieri 1997; Cole 1997; Galiano and Vinturella 1995; Gundry and Welsch 1994; Harveston *et al.* 1997; Iannarelli 1992; Nelton 1998; Rowe and Hong 2000; Vera and Dean 2005). Other studies have focused on similarities and differences in performance, with mixed conclusions (Danes *et al.*, 2005; Fasci and Valdez, 1998; Shim and Eastlick 1998; Watson 2002). Still other studies have investigated social capital as a possible differentiating factor for men and women in family businesses (Renzulli *et al.* 2000), the social policy implications with regard to supporting women's participation in family businesses (Wilson *et al.*, 2004), and gender influences on the succession process in family firms (Pyromalis *et al.* 2004). A Spanish study has focused on the traditional family environment, and how women family members impact family businesses from the home (Cappuyns 2007). A comprehensive search of the literature indicates that there have been no studies specifically relating women versus men family business managers to succession planning.

5. Shared Decision-Making

The locus of decision-making in family firms is an important focus of the existing research. On one hand, family firm founders identify strongly and personally with their businesses, and often find it difficult to share authority with others, even though these "others" may be their children or other close relatives. Yet on the other hand, the fact that the entire top management team of a family firm is generally related may lead to greater "team" decision-making, due to positive family relationships and dynamics. Those who study or consult to family businesses see both of these alternative management characteristics in different groups of the companies they work with, and they consider this factor an important component of the phenomenon of the family firm (Aranoff 1998; Dyer 1988; Eddleston, Otondo, and Kellermanns 2008).

6. Level of Conflict and Disagreement

Another aspect of the issue of interpersonal dynamics in family firms, closely related to the previous variable, involves conflict and disagreement among family members, and this subject too has been a major focus of family firm research. A significant cause in the failure of family businesses after one or two generations of ownership/management is conflict and disagreement among family-member managers (Beckhard and Dyer 1983; Davis and Harveston 1999, 2001; Eddleston, Otondo, and Kellermanns 2008).

7. Use of Outside Consultants, Advisors and Professional Services

8. Long-Range "Strategic" Thinking and Planning

9. Formal versus Informal Top Management Style

All of the above three variables relate to the *style* of management practices chosen by family business owner-managers. Researchers have found that many family business owner-managers tend to prefer a style of management that avoids the involvement of "outsiders," is less

“professional” in nature, and is more informal, subjective and paternalistic. This seems to be the result of “familiness” out-weighting other influences on management style. Because family firms involve a *system* of a) the family, b) the individual family members, and c) the business unit, the first two components of this system may have greater influence on family-member managers than more traditional and rational business objectives of methods - component *c* in the family business system. On the other hand, researchers have also seen a movement toward more “formal” and “professional” management as family firms grow and move into subsequent generations. This development of a more objective managerial style may include the use of outside consultants, advisors and professional services; and more “strategic management” involving long-range thinking and planning (Aronoff 1998; Cole and Wolken 1995; Coleman and Carsky 1999; Danes, Loy, and Stafford 2008; Dyer 1988; Filbeck and Lee 2000; McConaughy and Phillips 1999; Miller, McLeod, and Oh 2001; Schein 1983).

10. Founder Influence

The founder’s influence on the subsequent management of family firms has been given different names by different researchers. Davis and Harveston (1999) call this influence “generational shadow.” In a multi-generation family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, “succession” is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this “shadow” may also have positive impact, by providing a clear set of values, direction and standards for subsequent firm managers. Specifically, analyzing data from a 1994 telephone survey of family-owned businesses, Davis and Harveston concluded that the strength of the generational shadow of the founder correlated positively and significantly with organizational conflict in third-generation family firms. Although a similarly statistically significant correlation was not found for second-generation firms, the authors did find increases in second-generation family firm conflict when the founder was still involved in the firm’s management.

Kelly, Athanassiou and Crittenden (2000) similarly proposed that a family firm founder’s “legacy centrality” will influence the strategic behavior of succeeding generations’ family member managers, with both positive and negative impact. Looking at three dimensions of legacy centrality – “betweenness centrality,” “closeness centrality” and “connectivity centrality” – these researchers postulated that the founder’s centrality will impact the strategic management of a family business with regard to strategic vision, strategic goals, culture, strategy behavior and inward/outward orientation. Furthermore, family firms with high legacy centrality may be especially vulnerable to significant changes in the economic or competitive environment. Kelly, et. al did not conduct an empirical study but did conclude that family firm founder influence has been underrepresented in the management literature. They conclude that measures of founder influence can be very useful in understanding family businesses and recommend further empirical research in this area.

More recent investigations of founder influence consider this issue in the light of stewardship theory and transformational leadership behaviors (Eddleston, 2008; Feltham, Feltham, and Barnett 2005; Zara et. al., 2008). Thus, founder influence in family firms, denoted as “generational shadow,” “legacy centrality,” or by another label, is a valid component of the family business system and deserves further study.

11. Consideration of Going Public

Family firms need not always be privately owned. As they grow and/or as they move into subsequent generational involvement, opportunities and needs for “going public” may arise. The family may not be able, or may not choose, to provide sufficient management or financial resources for growth, and outsider ownership can resolve this situation. And even publicly owned companies can continue as “family businesses,” if management or financial control is maintained by the family. McConaughy (1994) found that 20% of the *Business Week 1000* firms are family-controlled, while Weber and Lavelle (2003) report that one-third of *S&P 500* companies have founding families involved in management.

Thus each of the eleven variables listed and discussed above is an important focus of family business research, and they are therefore worthy of investigation as possible antecedents of succession planning in family firms.

Methodology

Sample

The goal for sampling was to obtain wide global coverage. Each country selected in the sample represents a different part of the world. The United States represents North America. France is centrally located in Western Europe and a European Union member. Croatia and Kosovo, in central/eastern Europe are not EU members. Kuwait is a Middle East nation, while Egypt is in North Africa, and India is the largest country in South Asia. Although researchers in China, South America, and Australia were contacted for data collection, such data collection was not successful.

The objective of this study was not to *compare* family firms in each of the seven countries, but rather to *combine* the data to provide a comprehensive and large sample of family firms that might in turn lead to more general and universal findings than a single-country sample can generate. Thus, the seven countries’ data were combined into one sample, as Bruton, Ahlstrom, and Obloj (2008) suggested. The combined sample was also used because of the possibility of obtaining weak and invalid results whenever a large sample is broken down into smaller subsamples (Lussier, 1997). The sample (n) from each of the seven countries was combined and the weighted average is reported.

A simple random sample or A known population sample was taken in each country and in each country the sample size was large, thus reducing the chances of bias. Identifying family firms from various listings or asking companies if they are family businesses is consistent with the methodologies of other family business researchers, who have similarly been constrained by the lack of national databases of family firms (Chua, et al. 1999; Sonfield and Lussier 2004; Teal, Upton, and Seaman 2003).

Because of varying difficulties in identifying and contacting family businesses in the various countries, the data collection in each country was slightly different due to the availability of family business listings. In the countries with mailing lists (USA, France, India, Egypt), postal contact was used. In the countries without family business mailing lists (Croatia, Kosovo, Kuwait) personal interviews were conducted.

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 28.9 percent.

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 25.6 percent.

In France and India, large survey mailings lists that identified family businesses were obtained. In France a random sample of 800 was selected to receive the survey in the mail; 116 were returned for a response rate of 14.5 percent. The survey instruments were mailed to the entire listing of 312 family businesses in India; 40 were returned for a response rate of 12.8 percent.

Family business listings could not be found in Croatia, Kosovo, and Kuwait. 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 71.4 percent. In Kosovo a similar data collection method was used and 81 questionnaires were returned for a response rate of 100 percent. In Kuwait, students were asked to identify and personally interview family business owners, producing a 100 percent response rate with 80 completed questionnaires.

The combined weighted average response rate for the seven countries was 44.83 percent providing a total of 673 respondents for all seven countries. However, after reviewing the size of the family firms, the 66 largest firms (U.S. Small Business Administration definition of 500 or more employees) were eliminated to limit the total sample to small and medium size (SME) firms, with an N = 607. This is a respectable sample size and response rate for family business research, 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).

Measures

The data was collected using the previously published Sonfield and Lussier (2004) survey instrument. The survey questions were published in *Family Business Review* (2004, 17[3], pp. 201-202). In each country, the survey instrument was accompanied by a cover letter and/or verbal instructions, so that respondents understood the study’s working definition of a “family business,” and thus only appropriate business owner-managers responded to the survey. Analyses of some of these countries’ data, using the same survey instrument, were previously published by Sonfield and Lussier (2004, 2005, 2009) and Lussier and Sonfield (2006). Thus, the variables and survey instrument have been tested prior to this current study.

The questionnaire was developed in English. Thus, in Croatia, Egypt, France, India, Kosovo, and Kuwait the questions were translated into the language of the country by business professors and

checked for translation by language experts of each country. In addition, the questionnaire was pilot tested in each country to ensure understanding of the questions. Thus, precautions were taken to ensure that the data collected was the same in each country.

Note that the measures of the variables reported here are not taken word for word from the survey instrument. In many cases the questions were more detailed. Measures as reported in this article are shorter to conserve space and keep the focus on the variables. The *italic* words are used as an abbreviation of the variables.

Dependent Variable. The dependent variable was the extent of *succession planning*. The firm has formulated specific plans for the future succession of junior family members into top management positions, and all family members are aware of these plans. It was measured using a scale of 1-7, with 7 indicating a greater extent of succession planning. The sample mean was 3.78 with a standard deviation of 2.42.

Independent Variables. There were 11 independent variables.

1. *Generation* was measured on a scale of 1-3 ($m = 1.81$, $s.d. = .723$) based on first, second, or third or more generations; 37 percent of respondents are in the first, 44 percent are in the second, and 19 percent are in the third or higher generation.
2. *Founder active* was a dummy variable coded 1 for founder is active in the family business and 0 for not active; 75 percent of the founders in the sample are still active.
3. Percentage of *non-family managers* in the top management team was measured with the actual percentage ($m = 26\%$, $s.d. = 31$).
4. Percentage of *women family-members* involved in the operations of the firm was measured with the actual percentage ($m = 26\%$, $s.d. = 28$).

The next seven independent variables were measured on a 7 point scale “7 describes our firm, 1 does not describe our firm.”

5. A shared *decision-making* style is used, as most or all of the family members, not just top-level managers ($m = 4.61$, $s.d. = 2.21$) are included in decisions.
6. Family members are often in *conflict* and disagreement ($m = 2.43$, $s.d. = 1.85$).
7. The firm uses *outside advisers*, consultants and professional services ($m = 4.12$, $s.d. = 2.29$).
8. Top management spends much of its time thinking about and making decisions regarding the long-range “*strategic*” thinking and planning of the firm, rather than day-to-day operations ($m = 3.56$, $s.d. = 1.98$).

9. The top *management style* is formal, objective, non-paternalistic versus informal, subjective, paternalistic ($m = 4.41$, $s.d. = 1.99$).

10. The original business objectives and methods of the *founder(s)* continue to strongly *influence* current top management styles and decisions ($m = 4.74$, $s.d. = 2.09$).

11. This firm has already or is seriously thinking about taking the firm *public* by selling stock ($m = 1.94$, $s.d. = 1.79$)

Control Variables. It is common to control for the effect of the size, age, and industry of the family business (Foo 2010; Oswald, Muse, and Rutherford 2009; Pieper, Klein, and Jaskiewicz 2008; West and Noel 2009) because they can affect many aspects of the family business, including succession planning. Due to the level of analysis measure being organizational, no controls are used for individual characteristics of the family owners and managers.

A. *Age* of the firm was measured by the number of years it has been in business. There was a wide range of ages with some outliers creating variance ($m = 26.42$, $s.d. = 24.99$). Age of the firm was expected to have some influence on succession planning, but the effect is not expected to continue linearly through all ages. For example, Sonfield and Lussier (2004) found a significant difference in the formulation of specific succession plans between first and combined second and third generations, but not between second and third generations. Thus, younger firms tend to do less succession planning than mid-age and older firms, but mid-age firms don't do any more planning than older family firms.

B. *Size* of the family business was measured by the number of employees. As stated, the large businesses were removed to keep the sample to SME's. The mean number of employees was 54.85 with a standard deviation of 78.46. Based on the EU classification of SME's, 155/26 percent of the sample are micro (0-9 employees), 260/43 percent are small (10-49), 163/27% are medium (50-249), and 29/5 percent are large (250+) family businesses. The largest firm in the sample employed 480 people. Based on the literature, it was not known if size would influence succession planning.

C. To control for *industry*, businesses were classified as either product or service; 45 percent of the sample produce products and 55 percent provide services. Based on the literature, it was not known if industry would influence succession planning.

Although not included as a control variable, regression was run for each of the seven countries to determine if country influenced the results. For all seven country regressions, although the betas were slightly different than the combined sample, there was no change in the significance levels of the six predictor independent variables making them greater or less than .05.

Results

The correlations between the dependent variable *succession planning* and the three control variables have a negative relationship, but all 11 independent variables have a positive relationship with succession planning. Due to the large sample size, statistical power is high, but as is common effect size is low (Combs, 2010; Connelly, Ireland, Reutzel, and Coombs 2010). Thus, many of the correlations among the independent variables are significant at the .05 level. However, the correlations coefficients among the independent variables are low, with the highest

being .246 (.25), and only nine percent of the correlations are above .200, and the collinearity statistic variance inflation factors (VIF) ranged from 1.06 to 1.53. Thus, the correlations and VIF are both low and therefore multi-collinearity should not be problematic (Foo 2010; Oswald, et al. 2009).

Hierarchical regression was used to test the family business variables in the study; see Table 2 for the results. The first step, Model 1, includes the three control variables. In step two, Model 2, the 11 independent variables were introduced. Although it is common to use interaction terms between the independent variables, due to the fact that this is the first study to test antecedents of family business succession planning, there is no theoretical background supporting any interaction between the variables, so they are not included in the analysis.

In testing the combined variables into models, SPSS ANOVA results indicate that both models do predict succession planning (F 6.347, $p = .000$; F 10.681, $p = .000$). The model summary R^2 and adjusted R^2 increases from step 1 to step 2 (.031, .026 to .202, 1.83), and the change in R^2 is significant (.031 to .171, $p = .000$). Thus, there is support for antecedents of family business succession planning.

One of the current concerns in business research is increasing sample size to gain statistical power while effect sizes are decreasing (Combs 2010; Connelly et al. 2010). In this study, the sample size of 607 is not so large that very low predictions can be found. Also, effect size at the organizational level of measurement tends to be lower than at the individual level of analysis (Combs 2010). The R^2 and adjusted R^2 effect sizes of .202 and .183 are within the range of family business effect size of .11 to .31 found by Connelly et al. (2010).

The second analysis tests the predictability of each variable based on its coefficient. In both step 1 and 2, two of the three control variables are significant. Focusing on step 2, the size of the business does not significantly affect succession planning. However, the age of the business and industry were significant ($p = .009$, $p = .043$). The negative coefficient of age of the business was not expected. But as discussed with the control variables, further analysis of the data revealed that the age of the firm does not have a linear relationship. The results support prior research that found younger firms doing less succession planning than mid-age and older firms, but not between mid-age and older firms (Sonfield and Lussier 2004). The negative coefficient for industry indicates that family firms providing a service engage in formulating more specific succession plans than firms producing a product.

Of the 11 independent variables, 6 (55%) were significant at the .05 level and 3 (27%) were significant at the .10 level. All six significant (.05 level) predictor variables had a positive linear relationship with succession planning.

Results indicate that as family firms move from first, to second, to third or more generations, the firm increases its use of succession planning ($p = .001$). However, further analysis of the data using ANOVA revealed a significant difference between first and second and third generation, but not between second and third generations. So the relationship tends to be linear between the first and second generation, but levels off between the second and third generations.

Family businesses that engage to a greater degree in shared decision-making also are more likely to engage in succession planning ($p = .000$).

Family businesses that make greater use of outside advisors also have more succession planning ($p = .050$).

Family business managers who spend more time in long-term strategic planning also are more likely to develop succession plans ($p = .000$).

When the top management team's style is more formal and objective, that management team is more likely to develop succession plans ($p = .016$).

Family firms that plan to go public make greater use of succession planning ($p = .001$).

Implications and Conclusions

The six managerial characteristics identified above as possible antecedents to family business succession planning are based on statistically significant relationships identified in a sample of 607 family businesses in seven diverse countries. Since, as previously discussed, there has been minimal prior study of succession *planning* (rather than the *process*), it cannot be said that this study's findings either support or refute previous research. Instead, the value of this research and its findings is that it begins to fill an identified gap in the family business literature through its quantitative investigation of an important issue, and that it provides some starting points for further research into family business succession.

If further studies, both quantitative and qualitative, support the identification of these and/or other antecedents to family business succession planning, then family business owner/managers, and their advisors, can benefit from these findings. By analyzing the managerial characteristics of a family business, the likelihood of succession planning would be more predictable, thus allowing the owner/manager or advisor to focus on such planning accordingly. This might include placing greater emphasis on certain managerial characteristics, or prioritizing managerial behavior, so as to foster and support succession planning. Furthermore, such an understanding of succession planning might eventually contribute to a "model" of family business succession.

Limitations

A limitation of this study is the lack of a strong and conclusive body of prior narrowly focused research as the foundation for the choice of the eleven independent variables. But at the same time the results of this study add to the very limited body of empirical research with this focus on *succession planning*, and to the broader body of literature on *succession* in general.

Table 1
Hierarchical Regression Results

Step	1	2
Control Variables		
Age	-.145**	-.133**
Size	.016	-.022
Industry	-.094*	-.077*
Independent Variables		
Generation		.156**
Founder active		-.017***
% Non-family managers		-.035
% Women family members		-.024
Shared decisions making		.207**
Level of conflict		-.067***
Use of outside advice		.078*
Strategic planning		.189**
Management style		.098*
Founder influence		-.005***
Consider going public		.131**
F	6.347**	10.681
R ²	.031	.202
Adj R ²	.026	.183
Δ R ²		.171**

Standardized coefficients

* $p \leq .05$

** $p \leq .01$

*** $p \leq .10$

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B-HARMONY: BUILDING SMALL BUSINESS AND SMALL NONPROFIT PARTNERSHIPS THAT THRIVE THROUGH OSN

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Abstract

“B-harmony” is a concept that embodies the way small businesses and small non-profits can compete, both individually and collaboratively, while balancing various stakeholder interests. The model revolves around five dependencies. These include social marketing, community investment, social change partnerships, and collaborative competition. This paper will demonstrate the use of this model through its use in the new environment of online social networks (OSN) because OSN represents a beneficial platform to achieve these goals.

Introduction

Small businesses create most of the nation’s new jobs, employ about half of the nation’s private sector work force, and provide half of the nation’s nonfarm, private real gross domestic product (GDP), as well as a significant share of innovations (McGibbon & Moutray, 2009). In 2008, they were impacted by the recession along with the rest of the US economy. Small businesses continue to face challenges in the current climate, including accessing capital in the midst of financial instability (McGibbon & Moutray, 2009). Over the longer term, small firms face concerns about the cost and availability of health insurance, attracting a quality work force, meeting global competition, and perennial concerns about regulation, taxes, and government procurement opportunities (McGibbon & Moutray, 2009).

Research continues to show that small businesses and entrepreneurs will play important roles in the economy’s eventual recovery through their flexibility and ability to create innovative solutions, new industries, and jobs (McGibbon & Moutray, 2009). In spite of challenges, small businesses have several unique characteristics that make them ideal models for strategic collaborations. Their structure allows owners to be creative and productive, while engaging in local community endeavors. Owners are free from authoritarian intrusion; they are able to work where, when, with whomever they want. Ideally, owners are able to keep more of what is earned.

The model for collaborative completion is the nonprofit sector. This sector continues to grow faster than business or government (Wing, Pollak, & Blackwood, 2008). A small, but significant part of the U.S. economy, this collection of organizations is on the leading edge of service provision and knowledge generation—the new economy model (Wing, Pollak, & Blackwood, 2008). As the sector grows in size and financial clout, policymakers and the public need information to assess the impact of nonprofits and ensure their accountability (Wing, Pollak, & Blackwood, 2008). Nonprofit leaders and boards of directors require information to understand their organization’s economic and service niches as they plan for the future (Wing, Pollak, & Blackwood, 2008).

The functions of small nonprofits make them ideal for collaborations with small businesses. Organizational leaders are mission or idea driven, typically focused on providing quality services to various stakeholders. These complex groups of stakeholders include clients, partners, potential donors, and the community. Each stakeholder group has unique interests, which may further complicate the impact nonprofit organization leaders desire to make.

The Art of B-Harmony Partnerships That Work

“B-harmony” is a concept that embodies the way small businesses and small non-profits can compete, both individually and collaboratively, while balancing various stakeholder interests. OSN represents a beneficial platform to achieve these goals. In 1984, Freeman, Marsden, and Lauman made an important distinction relating to these social networks. They derived that the “central concepts of relation, network, and structure arose independently in several social and behavior science disciplines” (Wasserman & Faust, 1994). This common knowledge concluded that life satisfaction, and consequently productivity, is increased when individuals have a social group with whom they identify and from which they gain support. In other words, people need networks. This knowledge allowed researchers to realize that networks could be understood independently, and then adapted to business settings. Moreover, over the last decade, society has become increasingly infatuated with social networks, and especially OSN. Companies who develop OSN consider stakeholder groups. Although there are many ways to use OSN, the concept of B-harmony embraces collaborative competitiveness for businesses if managed strategically.

Today, social networking is widely used to develop relationships between employees. Every day, companies invest money into OSN to help increase, among other things, communication and relationships. Because of the continuous theme of globalization in the world economy, OSN are becoming a critical crutch for companies as they determine the most cost effective way to provide social networks for employees. On this subject, social scientist Nancy Dixon warns, “Technology has to be married with face-to-face interaction to create the most effective systems.” She also states “clearly one can greatly enhance the other”(Dixon, 2000).

Small businesses and small non-profit organizations can learn many lessons about competition, through electronic means, from larger corporations. Many large companies and non-profit organizations use OSN to cut costs, market products, build their brand, and strengthen their relationships with customers and key influencers. They do this by making the OSN a primary source of written publicity content. This allows the public relations department of the organization to become voters of information from supporters, effectively expanding the public relations department without the cost of a new employee. This model has been especially popular in places with small communications staffs such as government agencies and political action committees. For example, at the advice of the RNC Communications and New Media department, the Republican National Committee’s chairman, Michael Steele, called a news conference on a video posted on YouTube in July 2009. This effectively lifted the video to the attention of the press with minimal work of the Republican National Committee’s public relations staff (Bluey, 2009).

Entrepreneurial e-commerce plays a critical role in the platform and operation of OSN. E-commerce is defined in various ways and images, which means that no standard definition exists. It is often interpreted as selling products or services over the Internet. In its broader sense, e-commerce can be interpreted as the use of electronic transmission mediums to engage in the exchange, including buying and selling of products and services requiring transportation, either physically or digitally, from location to location. E-commerce is a useful tool that involves all sizes of transaction bases and it requires the digital transmission of transaction information.

Moreover, research suggests that e-commerce may be an effective way for small businesses and entrepreneurs to reach new customers, increase sales, and be more competitive in the

marketplace (Childers & Offstein, 2007). Entrepreneurial e-commerce also has meaningful implications for small non-profit organizations that want to connect with potential donors, attract global partners, and ultimately invoke collaborative competition with respect to fulfilling its mission and purpose. In this regard, OSN is a crucial component in the transmission of this e-commerce data to the company's stakeholders because, by design, data moves rapidly between a company's stakeholders in OSN.

For e-commerce initiatives to be successful and serve as a point of differentiation, a firm must possess or create internal e-commerce resources, which management must then integrate to complement its traditional business model (Porter, 1985). Small businesses and small nonprofit organizations must consider trust, which is a factor that has been understudied, or discounted in entrepreneurial e-commerce literature (Childers & Offstein, 2007). Firms can create and use trust as a resource leading to competitive advantage (Childers & Offstein, 2007). Because entrepreneurial e-commerce requires both the exploitation of resources along with smooth and efficient transactions internal and external to the firm, trust can play a pivotal role in ensuring entrepreneurial e-commerce survival and help provide the firm with a source of competitive advantage (Childers & Offstein, 2007).

One simple example of building trust within an OSN to achieve a competitive advantage is the use of third party digital certificates, signatures, seals, or statements. For example, several firms offer ways of applying and earning a "seal of approval" for web pages. BBBOnline, sponsored by the Better Business Bureau, offers its digital seal with the goal of promoting "trust and confidence on the Internet" (BBBOnline.org). For businesses, these programs can aid in convincing a consumer that the firm has their best interest in mind (Childers & Offstein, 2007).

Another example of building trust within OSN is to explicitly define the company's public relations streams. This type of control, media management, builds trust in the organization by elevating specific data from others about the company's products. For example, if a media company publishes information from an unauthorized source about Apple Computer, Apple has been known to withhold information from that company. Apple might, for example, refuse to release manufactured devices for review to the company. This provides an incentive for the media that effectively controls it, and allows for an open OSN environment that protects employees from accidentally speaking officially for the company (Raphael, 2010). Incentives are in place for the company to seek full authorization for their reporting.

In recent years, nonprofit organizations are increasingly forming alliances, partnerships, and collaborations both within and across sectors to achieve important purposes (Guo & Acar, 2005). There are many components to consider when understanding the factors associated with the choice of collaboration forms by non-profit organizations. Based on the survey data of 95 urban charitable organizations, a study revealed that an organization is more likely to develop formalized collaborations when it is older and has a larger budget size. This also applies if the company receives government funding, but relies on fewer government funding streams, has more board linkages with other nonprofit organizations, and is not operating in the education, research, or social service industry (Guo & Acar, 2005). This study identified eight different forms of collaborative activities based on their levels of formality, including information sharing, referral of clients, sharing office spaces, joint program, management service organization, parent subsidiary, joint venture, and merger. As the general philosophy of collaboration becomes widely accepted in the non-profit sector, informal types of collaborative activities such as

information sharing and client referral are now more popular among non-profit organizations (Snaveley & Tracy, 2000).

B-Harmony: Social Marketing. Social marketing is one of the most common forms of business/community partnership that are ideal for small business and non-profit collaborations. Social marketing refers to an arrangement in which a business agrees to promote a social cause as part of its marketing strategy (Torjman, 1998). Corporate involvement helps raise awareness about the problem and typically generates funds for the designated cause (Torjman, 1998). At the same time, the business contribution creates a positive image in which it is seen to care about the issue by adopting and promoting that cause (Torjman, 1998).

B-Harmony: Community Investment. Community investment is another type of collaborative strategy ideal for small businesses and non-profit collaborations. In these arrangements, small business can make a substantive contribution to the community through active involvement with a nonprofit organization (Torjman, 1998). The collaboration entails far more than contributing money or donating equipment; the business partner engages in the activities of the community group (Torjman, 1998). Workplace volunteerism is an example of community investment partnership. Corporate volunteers provide active leadership on boards and committees, offer professional skills and expertise, and help deliver services and programs (Torjman, 1998). Employer support for volunteerism can range from advertising volunteer opportunities in company publications to allowing employees paid time off to participate in community functions and events (Torjman, 1998).

From a small business perspective, support for employee volunteerism allows companies to make a positive contribution to the community in which they do business and their employees live. Employees who volunteer find that they develop new skills, broaden their range of experiences, increase their understanding of non-profit community issues and develop new contacts (Torjman, 1998).

B-Harmony: Social Change Partnerships. Finally, business and nonprofit groups can engage actively in social change. These partnerships provide an important community service or tackle difficult problems such as family violence, unemployment or poverty. Social change partnerships can be categorized as either linking or parallel strategies. Linking strategies help people adapt to the existing economic system by moving them into the mainstream economy (Torjman, 1998). These strategies include housing subsidies, recognition of existing credentials, job accommodation, and training and job search (Torjman, 1998). Parallel strategies, by contrast, seek to create economic and social structures outside of the economic and social mainstream. These strategies include alternative food and distribution systems, co-operative housing, and alternative banking and savings mechanisms that are more inclusive and equitable than existing structures (Torjman, 1998).

Social partnerships have a number of inherent strengths that are ideal for small business and non-profit collaborations. This includes additional resources, holistic approaches, shared responsibility and alternatives to conflict (Torjman, 1998). The resources that these two partners can bring to a given problem are usually greater than one of the organizations can attempt to achieve on their own (Torjman, 1998). The tangible benefits include resources that represent far more than money, with cross collaborations and contributions from staff and volunteer time. This also includes information, knowledge, expertise, contacts, networks, space, equipment, and other

in-kind resources (Torjman, 1998). Social partnerships themselves embody a clear and important message: Problems such as unemployment, poverty and family violence are the concern of the entire community - not simply of governments or the social sector (Torjman, 1998). Moreover, all sectors are responsible for addressing these problems - preferably through a planned and coordinated approach that combines resources and expertise in innovative ways (Torjman, 1998). This type of collaboration is both ideal and practical for small business and non-profit collaborations.

B-Harmony: Collaborative Competition. Many strategic advantages develop when small businesses and small non-profits engage in collaborative competition. “The Collaboration Challenge” by James Austin gives seven practical steps to achieve effective collaborations. In general, he provides several examples of collaborative alliances including: Timberland with the City Care (a youth services agency), CARE (a leading humanitarian organization fighting global poverty). This also includes Starbucks, Georgia Pacific and The Nature Conservancy, Reebok and Amnesty International, Hewlett Packard and the National Science Resource Centre (an initiative involving local K-12 schools), and American Eagle Outfitters and Jumpstart (an agency assisting low income pre-schoolers). When applied to small businesses and small non-profits, there are several strategic advantages of these organizations working together.

Connection with others - Alliances are successful when key individuals connect personally and emotionally with the alliance’s social purpose and with each other. Systematic searches can target potential partner organizations that appear to have shared interests, appropriate operations, or track records in the social arena. Especially important is the level of quality interaction among senior leadership.

Clarity of purpose – The organizations must convey a statement that describes the relationship and the purpose of it. This includes examining each function and its relative importance, and the type of relationship that already exists.

Congruency of mission – Understanding each other’s mission, strategy, vision, and values is key to any successful collaboration. Organizations should look for current and potential overlap. They should also consider how each can help the other partner accomplish its mission, in addition to examining how the collaboration can serve as a strategic tool for each partner.

Creation of value – Limited resources often characterize small businesses and small non-profit organizations. Determining what resources each partner has of value and what benefits will accrue to each partner because of the collaboration is essential. The organizations must also conduct a cost/benefit analysis to determine the relative risks associated with each reward.

Communication between partners – When small businesses and small non-profits consider working together, open and honest communication is essential. Developing a communications strategy that considers internal and external stakeholders will increase levels of mutual respect and trust.

Continual learning – Understanding what each partner has learned about working with the other will help create greater partner value and social value. Processes should be in place to assess learning and rid the organization of complacency.

Commitment to the partnership – Examining the level of organizational commitment includes examining each partner's expectation of one another, and determining if they are too high or too low. Expectations and commitments should be commensurate with each partner's execution capabilities.

B-Harmony in Action: OSN and Intellectual Capital

Until recently, the power of understanding social networks had not been realized in different settings. This was partly due to a lack of research on the subject, but also because researchers did not realize these networks could be abstracted outside of a specific setting and ported to another. Freeman, Marsden, and Lauman, in 1984, made an important distinction relating to these social networks. They derived that the “central concepts of relation, network, and structure arose independently in several social and behavior science disciplines” (Wasserman & Faust, 1994). This common knowledge concluded that life satisfaction, and consequently productivity, is increased when individuals have a social group with whom they identify and from which they gain support: in other words, people need networks. This knowledge allowed researchers to realize that networks could be understood independently, and then adapted to business settings.

OSN is one of the hottest related topics, due to the popularity of Facebook.com, LinkedIn.com, MySpace.com, Twitter.com, and other social networking sites. In recent years, Social Network Analysis (SNA) has been gaining momentum for use in knowledge management applications (Liebowitz & Liebowitz, 2008). SNA is developed from the sociology, anthropology, and education disciplines, and can help identify structural holes in organizations, community building, relationships between junior and senior employees, diffusion of innovation, and knowledge flows within and between individuals/departments (Liebowitz & Liebowitz, 2008). Because of the continuous theme of globalization in the world economy, OSN are becoming a critical crutch for companies as they determine the most cost effective way to provide social networks for employees.

Through social networking, the "connection" (people-to-people) part of knowledge management can be augmented to complement the "collection" (systems-oriented) approach (Liebowitz & Liebowitz, 2008). Through OSN, the backbone for this type of “connection” can exist in the global economy. But, it should be noted on this subject, social scientists are in agreement that technology cannot be the only backbone. As has been mentioned previously, social scientist Nancy Dixon warns, “[t]echnology has to be married with face-to-face interaction to create the most effective systems”. She also states, “clearly one can greatly enhance the other” (Dixon, 2000). Davenport and Prusar agree, saying, “the mere presence of technology won’t create a learning organization, a meritocracy, or a knowledge-creating company” (Davenport & Prusar, 1998).

Leveraging intellectual capital can play a crucial role in the success of an organization. Part of this endeavor includes understanding knowledge management. Knowledge management is the process of gathering and transferring tacit and explicit information among the functional units of an organization's overall network (Kipley, Lewis, & Helm, 2008). This includes marketing, production, planning, finance, and OSN. Each unit can generate large amounts of valuable data for small organizations from all over the world.

Intellectual capital such as knowledge and knowledge management are now recognized as valuable corporate resources, comparable to land, buildings, financial resources, people, capital

equipment, and other tangible assets (Kipley, Lewis, & Helm, 2008). Managers of small businesses and small non-profit organizations should develop ways to enhance organizational competence and the development of knowledge capture and transfer (Kipley, Lewis, & Helm, 2008). Utilizing the knowledge transfer process through OSN can play a pivotal role in this system. Moreover, the development of OSN or blogs and digitized data are all new tools in which data can move quickly throughout the world, at a very low cost. It should be noted that this is by design, and data can move as slowly as it needs to until it is placed in the domain of the Internet.

Privacy is an issue that comes into play with OSN and digitization. This is because data is not generally protected in the same way the user is accustomed to on an individual basis (Markkula Center for Applied Ethics, 2010). In the workplace, the Economic Times argues: “For those who are always on social networks, aligning with corporate confidentiality policies is a must and guarding one’s own reputation and identity on the net is also very important” (Duttagupta, 2010). When businesses begin to use OSN, they need to provide training for employees to understand these potential privacy conflicts and risks of making data globally available through OSN.

OSN provide a unique way for small businesses and small non-profit organizations to leverage their intellectual capital. However, few small business owners and managers are joining the consumer trend towards increasingly using social networking websites and services, according to a new Citibank / GfK Roper survey (Citibank, 2009). According to the survey of 500 small business executives across the United States, 76 percent have not found social networking sites such as Facebook, LinkedIn, and Twitter to be helpful in generating business leads or for expanding their business during the last year, while 86 percent say they have not used social networking sites to get business advice or information (Citibank, 2009).

The survey also found that general search engine sites such as Google and Yahoo! trump small business-focused sites and the WSJ.com as destinations for small business owners to seek business advice or information (Citibank, 2009). The data revealed that 61 percent of respondents say they rely on these search engine sites (Citibank, 2009). Moreover, the survey suggests that small business owners are still feeling their way into social media, particularly when it comes to using these tools to grow their businesses. While social media can provide additional channels to network and help grow a business, many small businesses may not have the manpower or the time required to take advantage of them.

A recent study focused on small businesses in a rural town that were far removed from major urban population and commerce centers. Through the use of technology, firms were able to seek out new customers, address their needs, and be competitive (Rahman, Tootoonchi, & Monahan, 2009). According to this study, approximately 65 percent of the firms viewed technology as an ingredient for competitiveness (Rahman, Tootoonchi, & Monahan, 2009). Businesses in this rural town found that with the effective use of technology, they were able to compete locally, regionally, nationally, and internationally (Rahman, Tootoonchi, & Monahan, 2009). OSN are an important technological tool that allows companies to take advantage of their remote location. Specifically, OSN that utilize digital technologies have enabled firms of any size and at any location to improve their marketing, communications, and business operations to reach customers and improve efficiencies (Rahman, Tootoonchi, & Monahan, 2009). Furthermore, they can reach customers and compete with larger, urban counterparts (Rahman, Tootoonchi, & Monahan, 2009). This underscores the importance of small businesses and small non-profits

embracing the use of technological tools such as OSN to increase revenue, reduce costs, and overall add to the basic business needs of the firm.

Forty-two percent of small business owners and managers reported that in the past year they have made greater use of their company's website to generate business leads and sales. Among companies with 20 to 99 employees the percentage rises with 57 percent saying they have made greater use of their website. Survey respondents are also using email marketing (28 percent) and online advertising (25 percent) to generate business leads and sales.

Consumer product companies are witnessing the early days of a profound transformation in interacting with consumers. A number of concurrent technology and social trends are changing the way consumer product companies connect with buyers and how they interact with each other, influencing buying decisions. Consumers are able to become more knowledgeable about product functionality through online reviews and online pricing comparisons. Second, the growth of social networking represents an increasingly popular way for small businesses and non-profits to capitalize on what essentially equates to free Internet advertising and networking (Higgins, 2010). Small businesses should use social media platforms to develop genuine interaction with consumers and other businesses (Higgins, 2010).

Conclusion

The changes in today's marketing environment have many implications for both small business owners and small non-profit organizations. Traditional advertising such as television, newspaper and direct mail is still important to build awareness of a business, but it is no longer enough. OSN offer a unique way to enhance word of mouth marketing, which is considered the most effective form of promotion available, as it combines the most modern strategies, tactics, and channels with the most basic human behavior: People talking to people. The Internet -- web sites, blogs, and social networking sites -- is pushing this change in marketing to consumers and giving the consumer more control and choice. (O'Leary & Sheehan, 2008). This change can provide the small business owner with a competitive advantage over the big chains. There is a basic road map to the process of creating word of mouth and customer communities that includes engaging customers, conversations, community and commitment (O'Leary & Sheehan, 2008).

Sprinkles Cupcakes is an example among a growing number of small businesses taking advantage of a relatively new program on Facebook, one that allows them to claim their name, become visible even to people who aren't on the site, and stay in close contact with their customers (Fost, 2009). Each day on the site, Sprinkles announces a secret word, such as "ganache" or "bunny," and the first 25 or 50 people to show up at any of its five stores around the country and whisper that word get a free cupcake. Facebook does not reveal figures for small businesses but says it has 1.4 million business "pages," with an average of 100 fans per page (Fost, 2009). Businesses need to go where their customers are. Increasingly these days, that includes Facebook and other OSN sites. More than 300 million people have signed up for Facebook, and half of them visit the site every day (Fost, 2009). Many OSN sites are also attracting small local businesses. The review sites Yelp, Citysearch and a host of Yellow Pages sites are all making a push. Small businesses typically use multiple social media sites together, including LinkedIn, MySpace, and Twitter. Increasingly, these sites connect with one another so that a status update on Facebook becomes a tweet on Twitter, or a blog post could be pushed out to several sites (Fost, 2009).

With the great changes the Internet has created, it is not surprising that some entrepreneurial firms have not found the Internet to be a friendly operating environment (Childers & Offstein, 2007). However, there are many opportunities and recommendations for both small businesses and small non-profit organizations to fully utilize their OSN through e-commerce, reaching stakeholders and developing strategies that help them achieve a competitive advantage in the market.

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FRANCHISE OPPORTUNITY IN ELKHART/SOUTH BEND AREA OF INDIANA

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Abstract

Scott Bunger wishes to open a new sportswear enterprise in the Elkhart/South Bend region of Indiana. Mr. Bunger has three children that play sports, and he is constantly paying out money for school athletic sportswear with the school logo either imprinted or embroidered. Mr. Bunger observed the niche opportunity of a screen printing/embroidery business. As Mr. Bunger's observations transformed into an idea, he began to develop a marketing campaign to market school sports apparel to the local schools in the area. Mr. Bunger also began investigating the EmbroidME franchise, and it was at this point that Mr. Bunger approached me with his business proposal.

Engagement Objectives

In order to ensure that Mr. Bunger and the EmbroidME franchise had meaningful experiences, 3 preliminary objectives were established:

1. Review EmbroidME and other similar franchises via a competitive market analysis.
2. Review and begin formulating marketing strategies for use in the local area, including demographic study, market segmentation, and focus groups.
3. Analyze the successes and failures of the embroidery industry in the Elkhart/South Bend, region.

To accomplish objectives 1 and 3, the authors planned to investigate franchise opportunities in addition to those with the EmbroidME franchise as well as executing research objectives on the local industry to include embroidery, screen printing, and heat transfer and promotion products.

Towards objective 2, we began brainstorming markets characteristics of the Elkhart/ South Bend area, leading to 3 core markets. The first available market is the education/school sports market, so things like sportswear for school athletics, school logo and mascot apparel, and school fund-raising opportunities.

The second market is the recreational vehicle (RV) market. Most of this market can be penetrated by partnering with local RV manufacturers and dealers on marketing to entice their customers to purchase an RV with embroidered interior fabrics. The third source of sales is a more traditional retail setting; an effective one that would draw walk-in traffic.

Available Franchises

From the exploration of area franchise opportunities, the following 3 companies were selected on the basis of industry market size, number of current franchise stores, and years of experience in the industry.

1. EmbroidME
2. Printwear Xpress
3. Instant Imprints

Of the 3 franchises listed above, the Instant Imprints opportunity will give the widest industry coverage with 5 profit centers (in upwards of \$50 billion): embroidery, screen printing, t-shirt, cap and mug heat transfer products, banners & signs, and more traditional promotional products. This product offering also covers the range of product pricing with embroidery at the high end of the product offering, screen printing covers the high volume and mid-range pricing, and heat transfer cover the low end product pricing. Another advantage of partnering with Instant Imprints is the graduating scale on the royalty payments, illustrated in the following table:

Gross Monthly Sales	Royalty Percentage Due
\$0-30,000	5%
\$30,001-\$50,000	3%
\$50,001 and up	2%

The royalty duties from EmbroidME and PrintWear are a flat 5% of gross. In addition, Instant Imprint requires the highest cash investment: \$54,000 to \$56,000. This includes 10% down on the equipment if financing is required and approximately \$40,000 as beginning operating capital. While Instant Imprints does not have the highest years' experience of the available opportunities, 20 years' experience is traditionally thought to be adequate to have an understanding and knowledge of this industry.

Marketing Strategy

In order to produce a reasonable marketing strategy, some assumptions need to be asserted before we begin to estimate the scale of our industry and market availability.

1. The average gross margin in the industry is a conservative 50%. Many products will have gross margins as high as 70 to 80%, using a conservative estimate.
2. The Elkhart/South Bend, Indiana overall average high school athletic participation rate will correlate with Indiana state averages.
3. Only the student athletes are included. There are potential other sales, such as: fans and fund-raisers of clubs like booster and band. There are also some non-school clubs, like churches and not-for-profit groups.
4. Gross Margin dollars are estimates that were obtained from out of state industry businesses that we have communicated with.
5. The Estimate of the market share that can be obtained is an educated guess, based on a focused and driven marketing initiative. We believe that there is still large upside potential based on planning and execution. We believe that this gross margin dollar total is conservative.

School Athletic Sports Wear Gross Margin Potential

Indiana Student Enrollment	1,016,198
Indiana Students Involved in Athletics	157,537

Percentage of Students in Athletics	15.5%
Students in the Elkhart/South Bend Area	90,356
Potential Athletics Sports Wear	14,007
Potential Gross Margin Dollars @ \$25 and 25%	<u>\$87,544</u>

This only includes high school students in athletic sports activities. Elementary, middle school, and junior high school students are not included in the above Indiana student athlete numbers.

RV Customers Website Strategy

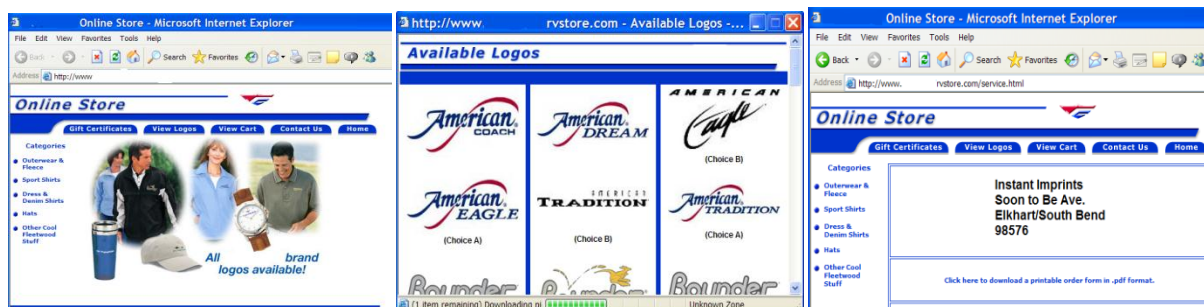
Strategy: Provide a web site link for the OEMRV Company's customers to purchase embroidery, screen printed or promotional products based on the customer's particular brand of RV. The OEM RV Company would receive a monthly report and a royalty for the product sold.

Potential Market: 83% of all RVs are manufactured in the Elkhart/ South Bend area. There is currently only one OEM RV Company that is using a type of strategy similar to the one we are recommending. Shipments of RVs (motor-homes, travel-trailers, fifth-wheel travel-trailers, truck-campers and folding camping-trailers) totaled 370,100 units in 2004.

Today, a record 7.2 million RVs navigate the roads of the United States. RVs are owned by nearly 7 million U.S. households. If only ½ of 1 percent of the RV owners purchase apparel for them and their spouse, 72,000 sales units would be generated. At an average gross margin of \$15/unit, \$1,080,000 would be generated. If our enterprise only captured 20% of these gross margin dollars, the yield is still \$216,000.

Potential Customer List: Thor, Keystone, Dutchman, Monaco, Doubletree, Pilgrim's Pride, Damon, Coachman, Sunnybrook, Carriage, Forest River, Gulf Stream, Heartland, Jayco, King of the Road, K-Z, Newmar, Nu Way, Play-Mor, R-Vision, Skyline, Teton, Timberland, Travel Supreme, Triple E Recreational Vehicle, Vanguard, etc.....

RV Sample Web Pages



Walk-in Customers

Most enterprises in this industry do not have store fronts and rely on either a mobile sales force or a call center with sales agents waiting for someone to place an order. All three franchises opportunities presented have previously developed a marketing strategy that includes a store front.



Location is Key

Because Mr. Bunger lives in the Elkhart area, we would recommend the first store front be located in this area. It is our contention that a smaller second store would be a valuable asset in the future in the South Bend area. In surveying the Elkhart area in the company of a real estate broker we have located two potential high traffic areas.

The first choice is located in a new development property adjacent to the Super Wal-Mart on CR #6. This Wal-Mart has average customer traffic of 22,000 per day. The current lease rate for store fronts with 1500 to 1700 square feet is \$.39 NNN. This would equate to about \$615 to \$715 per month lease cost.

The second choice site is located in a new development property in a strip mall in front of the Meyers, Target, Kohl's, and Office Max. The average vehicle traffic on highway SR #33 is 34,000 per day. The daily foot traffic rates for each of these four stores are not available. The current asking lease rate for these store fronts with 1500 to 1700 square feet is \$.34 NNN, which would equate to about \$555 to \$630 per month lease.

These two locations are the highest traffic areas in the Elkhart locale. These locations would provide the highest potential for walk-in traffic. If gross margin dollars per unit averages \$15, it will take 48 units per month to cover the cost of the highest lease rate. This averages 2.4 items per day. The access to the foot traffic and the opportunities afforded with such access will be achieved with the public prevalence of a store front.

Appendix 1: Comparison of the major features of each franchise

Business Features	EmbroidME	PrintWear Xpress	Instant Imprints
Complete Turnkey Business Package	✓	✓	✓
Two Week Hands-On Classroom Training	✓	One Week	✓
One Week On Site Training	✓	✓	✓
Location Assistance	✓	✓	✓
Financial Assistance Available	✓	✓	✓
Initial marketing and PR Campaign	✓	✓	✓
Vendor to Franchise Support System	☒	☒	✓
Four Head Embroidery Machine	✓	✓	✓
Single Head Embroidery Machine	✓	✓	✓
In-House Production Screen Printing	☒	☒	✓
Full Service Heat Transfer/Personalization System	☒	✓	✓
Indoor/Outdoor Sign Package	✓	✓	✓
Custom Showroom Package	☒	✓	✓
Multiple Graphic Workstations & Software	✓	✓	✓
Marketing Assistance	✓	✓	✓
TV & Radio Advertising Campaign	☒	☒	✓

Business Features	EmbroidME	PrintWear Xpress	Instant Imprints
Bulk Buying Power	✓	✓	✓
Years of Industry & Operational Experience	31 years	8 Years	20 years
Complete Vinyl Cutting sign Equipment & Supplies	☒	☒	✓

Wide Format Digital Imaging (Posters, Canvas Prints)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	✓
Full Service Promotional Product Sales & Service	<input checked="" type="checkbox"/>	✓	✓
E-Commerce Enabled Website & Strategy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	✓
Express Store Expansion Capabilities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	✓
Multiple Profit Centers	1	4	5
Small Store Size	✓	✓	✓
Minimal Staffing Requirements	✓	✓	✓
Annual Industry Sales per Profit Centers Covered	\$20bn	\$35bn	\$50bn
Total Initial Investment (Not including Working Capital)	\$149,000	\$62.5 to \$90k	\$143.5 to \$146K
Cash Investment	\$20 to \$40k	\$25 to \$40k	\$54 to \$56k

STARTING A NEW BUSINESS: FRANCHISING VS. NEW VENTURE

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Abstract

Many individuals consider starting a small business, for practical reasons like the 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 franchisors 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 franchisors 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 franchisors as well as franchisors that are more experienced and have been in the system for an extended period of time. The franchisors 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) 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 chosen 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 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.

Every day, 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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TEACHING THE CRAFT OF BUSINESS PLAN WRITING: AN EXPERIMENT

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Abstract

As the number of entrepreneurship programs in the country rises, there is a growing body of entrepreneurship pedagogy and learning models. However, as the discipline grows there is also concern regarding whether those models have field validity. Building upon situated learning theory, we argue that educators can give students (potential entrepreneurs) a more realistic perspective about what to expect once they become entrepreneurs by using a class assignment examining the way business plan criteria are used in acquiring venture capital. Based upon an experiment using 150 graduate and undergraduate students we offer a model for teaching the craft of business plan writing.

Introduction

The business plan (BP) is considered by many researchers as one of the first steps toward the creation of a venture (Delmar & Shane, 2004; Honig & Karlsson, 2004; Liao & Gartner, 2006; Shane & Delmar, 2004). Selling a business idea to investors and other prospective stakeholders typically requires the creation of a BP. The value of the BP is in its ability to convey the goals of the firm, the intent of the founders, and the promise for the future value of the venture. A well-crafted BP is one of the most important communication tools for an entrepreneur and provides a sense of legitimacy to the firm and the founders. The lack of a good BP may be perceived as a lack of intent or commitment on the part of the founder(s) (Salancik, 1977).

Many entrepreneurs discover that a well-crafted BP can be a daunting task. A well-written plan is concise yet comprehensive and requires a myriad of decisions about all aspects of new venture creation from exploiting the opportunity to garnering resources and building the top management team. A deep understanding of not only the product, but also the competitive landscape, the business model and the prospective financial model is required to construct a convincing BP. However, understanding the business is not enough – a BP must also be persuasive. Shaping a compelling BP also requires marketing savvy and strong communication skills.

A BP is often required when entrepreneurs can least afford to invest time into the effort. Early stage companies are demanding and little time is left to devote to shaping a convincing document for investors and other stakeholders. Yet, in most cases it is nearly impossible for someone outside of the founders to effectively develop a compelling BP.

Entrepreneurship educators understand the primacy of the BP and, as such, a majority of the entrepreneurship curricula around the country include classes related to creating a BP (Edelman, 2004; Vesper & Gartner, 1999). BP design is often considered as much an art as a science. A review of the top entrepreneurship textbooks and research revealed many different models for content and the process of crafting a compelling BP¹. Since a BP may be required for many different audiences – prospective lenders, investors, employees, key managers, vendors, etc – perhaps a wide variety of BP models should exist.

For the purposes of this paper, entrepreneurship education is defined as the conveyance of entrepreneurial knowledge to students in terms of concepts, skills, and behaviors (Gartner, 1990)

that entrepreneurs possess and use (Pathak, 2003; Young, 1997). Researchers such as Fiet (2001a), (2001b), Lewin (1951), Tushman, Fenollosa, McGrath, O'Reilly, & Kleinbaum (2007), and Van de Ven and Johnson (2006) observe the importance of theory in teaching entrepreneurship to students. However, other researchers suggest that there are a number of problems associated with the way theory is conveyed to students in entrepreneurship education today (Harris, Forbes, & Fletcher, 2000). One area that is of particular concern is that a number of entrepreneurship courses continue to emphasize the transfer of knowledge and information (Garavan & O'Connell, 1994) in ways consistent with traditional academic methods, which might not be suitable for the field of entrepreneurship (James O. Fiet, 2001b; Gibb, 1993). This could be due to the fact that it is difficult to analyze and teach "acts whose nature is not yet known and whose effectiveness relies to a considerable degree on the difficulty others have in foreseeing them" (Baumol, 1983: 30). Therefore our research question is: how can the structure, meaning, and levels of importance of business plans be transferred to students in a way that they can see the application and can demonstrate the behavior necessary for success

Consistent with Ghoshal's (2005) plea for research that is application oriented, we build on the theory of situated learning and suggest that it could be used in teaching entrepreneurship (business plan writing in particular). We argue that the design of a compelling business plan begins with the audience in mind. Furthermore, we suggest that effectual pedagogy for teaching business plan skills requires a mix of theory and application. Given these two assumptions, we propose that educators may be able to construct learning models for the design of an effective business plan for each of a variety of audiences.

Theory suggests that in order to do so, it is necessary that 1) criteria from the targeted audience are correctly identified, and 2) the identified criteria are transferred to students in a way that they can internalize. Once developed, these models can be used to help students better understand the components and structure of an effective BP for a specified audience. Therefore, we first use a grounded approach in collecting business plan criteria that venture capitalists (VCs) deem important when screening business plans, followed by an experiment to see how the structure, meaning, and importance of those criteria can be transferred to students.

The paper proceeds as follows. First we discuss the importance of business plans in entrepreneurship in general, and then focus on its importance in obtaining VC funding. We do this by reviewing the extant literature (research papers as well as top selling text books) that have focused on business plan criteria. We then review the literature on situated learning and suggest that it can be used to teach the importance, understanding and structure of business plan criteria. This is followed by a section wherein we discuss data collection and the development of the two tools used in the experiment to test for the transfer of tacit knowledge from practitioners to students. We then discuss the experiment, followed by a section on the results. Finally, we discuss our findings and possible directions for future research.

Value of Business Plans

A business plan can be defined as a document in writing that is used by a firm to describe both its current state as well as its proposed future (Honig, 2004; Honig & Karlsson, 2004). It is a vehicle commonly used by a founder to communicate to others the vision, strategic plans, and tactical plans of the venture (Busenitz, Fiet, & Moesel, 2005; Simon, 1997; Van de Ven, 1980). The business plan can show internal consistency (Shane & Delmar, 2004) and may demonstrate that the founder is committed to the venture (Salancik, 1977) and in turn increase the cognitive

legitimacy of the firm (Aldrich & Fiol, 1994). Moreover, writing a business plan before adopting customers, promoting the firm, or looking for funding reduces the likelihood that the venture will be terminated (Shane & Delmar, 2004).

Researchers differ regarding whether the process of writing a business plan is helpful to an entrepreneur. Some argue that writing a business plan is not a valuable exercise for entrepreneurs (Bhide, 2000) since the process requires a considerable investment of time when the founder(s) could be focusing energy on more important tasks (Carter, Gartner, & Reynolds, 1996). On the other hand, goal setting theory, suggests that the process of writing about planning business activities before undertaking them may enhance actions as well as the performance of new ventures (Rousseau, 1997; Shane & Delmar, 2004). In other words, planning may facilitate the integration of goals into behavior (Bandura, 1997) by identifying skills and information necessary to achieve those goals and by forcing the decision maker to prioritize and focus on the most important tasks to be achieved (Locke & Latham, 1990; Simon, 1997).

It can be argued that the value associated with the planning process required in the writing of a business plan may be even more relevant in uncertain environments such as the start-up of a new venture. Planning may clarify how actions and performance are related and may in turn reduce effort in areas that are not goal focused (Campbell, 1988; Shane & Delmar, 2004). In the same vein, strategic theory suggests advantages that accrue from planning include clarification of both content (choices and plans) and process (creation, analysis, and implementation of strategy) (Honig, 2004; Weir, Kochhar, LeBeau, & Edgeley, 2000) of firm strategy.

Venture Capital and Business Plans

Research has shown that VCs place significant emphasis on the business plan when making a decision about a new venture (Roure & Keeley, 1990; Zacharakis & Meyer, 2000). For a new venture to receive funding, it must pass an initial screening (review of the business plan) followed by a due diligence process (Tyebjee & Bruno, 1984; Zacharakis & Meyer, 2000). Previous studies have focused on the identification of evaluation criteria used by VCs, and have found that VCs base their decision on three main categories: 1) entrepreneurial/team capabilities; 2) product/service and market characteristics, and 3) financial needs of the firm (Fried & Hisrich, 1994; Macmillan, Siegel, & Narasimha, 1985; Macmillan, Zemann, & Subhanarasimha, 1987; Tyebjee & Bruno, 1984; Wells, 1974). Further, a review of the leading entrepreneurship textbooks shows that the most common model for teaching about business plans is based in the outline approach.

Research suggests that entrepreneurship education is enhanced through the addition of application-based problems to more traditional theory driven ways or *transmission* models of learning (Harrison & Leitch, 2005; Kolb, 1984). This is primarily due to the fact that learning within the entrepreneurial context is experiential in nature (Collins & Moore, 1970; Deakins, O'Neill, & Mileham, 2000; Minniti & Bygrave, 2001; Politis, 2005), and the best way to learn is by creating experiences from which students can learn? Similarly, research suggests that experiential learning helps individuals develop stores of accessible knowledge, which can be utilized in similar future situations (Cope, 2005; Kim, 1993)

These models, sometimes encapsulated in the broad area known as experiential learning, enhance learning by engaging students deeply in the learning process. The importance of skills acquired through practical experience has been a topic of research for some time now because of the need

to bridge the gap between theory and practice (Strong et al., 1994; Wroblewski, 1991), especially in business schools (Gavetti & Levinthal, 2000).

We suggest that a method for teaching skills essential to writing a business plan for equity investment may be achieved through the process of finding ways to apply academic research on best practices of practitioners in the classroom. Moreover, we suggest that, in the particular case of teaching skills associated with understanding essential criteria of a business plan, the appropriate pedagogies are similar to those used to teach a craft.

Teaching a Craft

Proper understanding of a craft such as medicine or architecture requires students to gain both procedural knowledge as well as declarative knowledge (Anderson, 1976, 1983). This is also true for a field such as entrepreneurship (and business plan criteria in particular). Declarative knowledge can be understood as information that people can clearly report, of which they are consciously aware (e.g., facts) (Turban & Aronson, 1998), and that can be acquired from textbooks (Ambrosini & Bowman, 2001). Procedural knowledge on the other hand refers to expertise that people find difficult to verbalize. This type of know-how can be acquired through practice and is generally more difficult to capture and teach (Ambrosini & Bowman, 2001).

Academic learning usually consists of offering information in a consistent and predictable way (Honig, 2004) where students are allowed to “review, digest, and repeat” (Honig, 2004) solutions to problems that have been previously dictated, while demonstrating proficiency in exams (Honig, 2004). It has been argued that this model does not work well in situations where students are to tackle dynamic problems that are commonly faced by entrepreneurs (Honig, 2004; Mintzberg & Gosling, 2002; Wood, 1995). Traditional approaches to teaching entrepreneurship often do not completely facilitate deep learning within students. This in turn may increase the gap between academia and practice and thus make it difficult for students to apply what they have learned (Ball, 1995; Gibbs, 1992). However, by involving student in the design process – as is done when learning any craft - students are placed in a problem situation and must work to integrate prior knowledge and identify alternative solutions.

Situated Learning

Resnick (1987) suggested that there are gaps between theoretical learning and real life application. This research was followed by the work of Brown, Collins and Duguid (1989), who suggested a model of *situated learning*. In their analysis of successful models of education, they found the following common features: apprenticeship, collaboration, *reflection*, *coaching*, and *multiple practice* (McClellan, 1991). They also found that truly meaningful learning would only take place if it was embedded in the social as well as the physical context within which it was intended to be used. Due to the fact that classroom learning is often distinct from real world endeavors, a number of activities undertaken by students in the classroom are unrelated to the sort of activities carried out by practitioners in their day to day functions (Herrington and Oliver, 1995).

However, while the notion of situated learning is easy to understand, the implementation of such learning techniques in classrooms, especially in the case of entrepreneurship education, is far from easy. For example, apprenticeship is a teaching method used in fields such as medicine and architecture where individual coaching is used to learn a craft. This process involves a continuous dialogue between the educator and the students, where the educator uses *think aloud*

through protocols which make the task and the application supporting the task transparent and available to the students (Wroblewski, 1991). This apprenticeship is usually practiced in a monitored risk-free environment, where errors are explained, and individuals learn from direct experience (Wroblewski, 1991). This method, though ideal for training students, is extremely costly and time consuming (Piaget, 1950).

Similarly, constructivism suggests that people construct their own understanding and reflection of past experiences (Piaget, 1950). As opposed to meaning being transmitted by the educator, learning occurs through projects such as simulations or experiments that engage students (Piaget, 1950). Deep learning can be achieved through problem based learning (students are responsible for their learning and development of critical learning skills) as well as collaborative project based learning (Donnelly & Fitzmaurice, 2005).

Therefore, Brown et al., (1989) suggested that a need existed to “enculturate students into authentic practices through activity and social interaction” (Brown et al., 1989: 37). Lave and Wenger (1990) took the concept of situated learning a step further by suggesting that students would benefit largely from the process if they had the opportunity to interact with the ‘community of practice’ in which the practitioners interacted. ‘To be able to participate in a legitimately peripheral way entails that newcomers have broad access to arenas of mature practice’ (Lave & Wenger, 1990: 110).

Situated learning theory suggests that if skills and competencies are to be successfully acquired, it must be presented in authentic settings, (Lave & Wenger, 1990). In order for this pedagogy to be effective, the problem specified needs to be “credible, relevant, and illustrative” (Honig, 2004) of the situation being studied. Learning is viewed as a process of becoming associated with others in a population by collaborating with them and having related experiences (Brown & Duguid, 2001). Further McClellan (1994) suggests that while it is important that knowledge is learned in a context that is the same as the real world; the context within which the learning actually occurs could be a surrogate of the actual environment.

As discussed earlier, effectively understanding business plan criteria requires not only a mix of theory and application. Instead educators must adapt the theory and application to each specific business plan design. In other words, there is not a not *one size fits all* model. Moreover, we have argued that understanding essential criteria in a business plan is a craft and requires a teaching model that will immerse the student in the learning process. Finally, we argue that the situated learning approach to teaching a craft is the most appropriate given the need to create a plan for an intended audience.

Therefore, based on the theory above, we use a three-step method for teaching the craft of business plan writing. First, we identify the appropriate community of practice. VCs are considered by many to be an authority on business plans, and their success often lies in their ability to evaluate them thus one might assume they are a knowledgeable community of practice with which to associate business plans. Second, we solicit knowledge from practitioners that can be shared with learners concentrating on criteria that prior research, as well as our own, suggests that VCs pay attention to when screening business plans. Third, the *knowledge is codified in a way that can be shared with learners*.

Method

Research has shown that the transferability of knowledge is greatly enhanced when it can be expressed in terms of common language (Grant, 1996). To assess if VCs use common investment criteria, we examined both mental and behavioral aspects of the investment decision. Since prior research on business plan evaluation processes suggests that VCs lack a strong understanding of how they really make judgments (D. A. Shepherd, 1997; Zacharakis & Shepherd, 2001). Thus, we sought a method that would allow us to analyze common mental and behavioral meanings. We collected data in two stages. First, to gauge mental models and identify common meanings held by VCs we used an adapted version of free-listing and focus group sessions.

Second, to assess behavioral models, we designed an experiment that employed two different evaluation instruments – one was broad and did not include input from the community of practice (here VCs) and the other was much more specific and designed to replicate the decision process of the community of practice.

In the experiment, participants in the study were asked to read business plans provided to the research team by VCs and to evaluate them with respect to whether or not they would invest in each plan as presented. A sample of 143 business plans was used in the experiment. The research team knew whether or not each of the business plans used were funded or rejected by VCs. The sections below describe the development of the instrument based upon the community of practice and the results of the experiment.

Data Collection

Identifying Criteria Used by VCs

Our first step was to identify criteria that VCs use in making funding decisions. Towards this end, we gathered data from 58 VCs, angel investors, and commercial lenders. We used a modified form of the free listing data collection technique (similar to open ended listings) wherein respondents are asked a question about a particular domain and are invited to respond with a list of answers that represent pertinent elements in that domain (Weller & Romney, 1988). Free listing is recommended when little is known about a domain because it allows participants to provide information without researcher bias (Weller & Romney, 1988). The free listing technique presents problems if different individuals have different definitions for the same term, or if different respondents use the same term, but have different meanings. To avoid this problem, we reviewed the VC funding literature and identified 22 criteria that are believed to affect VC funding decisions. This list of terms with definitions for each was distributed to the 58 participants who were asked to identify the criteria they used to determine whether they would invest in a new business. Generally, 20 to 30 respondents are recommended to get a complete picture using the free listing technique (Weller & Romney, 1988). We also asked respondents to list any additional criteria they used to make a decision and explain what they meant by any added criteria. These respondents were also asked to rank the criteria in their lists in terms of their importance. Six new criteria were added by respondents, giving us a total of 28 criteria. From the 28 criteria provided by the participants and their rankings, we eliminated seven criteria because they appeared on few lists and were ranked very low. This left us with a list of 21 criteria.

This set of 21 criteria was presented to a focus group of 12 individuals that included venture capitalists, and angel investors (both institutional and private) from a mid-western US city.

Cumulatively, the participants in this group were the lead investors in over fifty different businesses. The purpose of this focus group was to, 1) determine whether the terms and definitions used earlier were consistent, 2) weight the different criteria in terms of their importance in funding decisions, 3) identify scales that should be used to evaluate each criterion, and 4) group the 21 criteria into meaningful categories.

Finally, the categories and the criteria within each category, along with the definitions for each criterion, were presented to another focus group of 15 VCs from a different mid-western US city. This group was used to provide face validity and scales, and to determine how important each category was in their funding decisions.

Experiment

As the use of experimental techniques in the testing of economic hypothesis is now reasonably established (Siegel & Fouraker, 1960; Smith, 1991; Suppes & Carlsmith, 1962), we conducted an experiment using nine experts and 150 students.

Expert Evaluations of the Business Plans

We asked had nine experts from a mid-western city in the US evaluate the business plans. On average, these experts had 18 years of experience dealing with VC funding in the high tech sector. These experts were asked to evaluate each plan based on the EBT.

We selected a balanced sample of plans for evaluation (equal number of funded and unfunded) by these experts. The sample included all funded business plans and an equal number of randomly selected plans that were not funded; a total of 143 plans. We chose a balanced sample to improve our ability to assess expert accuracy in evaluating the plans, i.e., to reduce the likelihood that the experts' evaluations could be right by chance. It is well known that a majority of business plans submitted to VCs are not funded. As a result, even someone with little knowledge of VC funding criteria will be right most often if they simply indicate that the plans fared poorly on all criteria and therefore, were not to be funded. By using a balanced sample, we are better able to determine how well these experts rated the plans on the criteria. The business plans were randomly distributed among the experts; each plan was evaluated by three experts to reduce potential measurement problems.

Each expert evaluated an average of two plans per week over a 23 week period in 2005 using the criteria established in the first stage.² In addition to rating each plan on the established criteria, each expert was asked to indicate whether a plan should be funded.

We performed a series of tests on this data to establish quality and reliability of the ratings. Here, we make the assumption that the information pertaining to the nature of the product, type of market, availability of substitutes, competition, and the nature and experience of the founding team in the business plan are easily verifiable by VCs during their due diligence process. On the other hand, factors relating to milestones and financial projections in the business plan are based on the conjectures of the founding team and those of the VCs. As we had access to business plans that were either funded or not-funded (gone through the initial screening as well as the due diligence stages), we decided to analyze only those criteria that could be verified by external information. Therefore, during analysis, out of the 21 criteria, we removed 7 that related to the completeness of the business plan, the types of financial statements, and the types of milestones mentioned in the business plan.

The inter-expert (three experts evaluated each plan) reliability is 0.93 while the difference between funded and unfunded business plans based on expert ratings is significant (t-test: $p < 0.015$). In addition, logistic regression, using expert ratings, explained 89% of the variance between funded and non-funded business plans. We computed an average of the three ratings for each criterion for each plan. The average evaluations for each plan on each of the criteria are used in our analysis.

Student Evaluation of Business Plans

We invited 143 graduate and undergraduate students at a mid-western university to participate in the evaluation process of the 143 business plans (72 funded business plans and 71 unfunded business plans). In an attempt to provide students with accurate and thorough knowledge on the industry of the business being evaluated, they were assigned a specific industry based on information gathered from them prior to the study³. The students were provided copies of industry information⁴ based on the industry assigned and the year the business plans were evaluated and asked to study the information prior to the evaluation of the business plan. They were also encouraged to use this information during the evaluation process. Students were then asked to analyze the two assigned business plans⁵ in the specific industry they studied. The students were also randomly assigned either the EBT or the TBT. The students evaluated the business plans and made an investment decision (yes or no) based upon the tools mentioned above and the industry information given to them. The student generated investment decisions based on the application of the assessment tools were compared to the decisions of the VCs for each company represented by the business plans.

There was a possibility that students could make decisions randomly without using the experimental protocols. Therefore, to increase the validity of the test, one funded and one unfunded business plan was given to each student. This step allowed us to determine whether there were biases to fund or not fund based upon preconceived notions. Had we provided plans that align with funding proportions in nature, we would not have been able to determine whether these biases influenced their decisions. For example, if students had blindly rejected the plans the students would have been correct most of the time (even in range of Type I errors between $p < 0.1$ to $p < 0.01$ because less than 10% to 1% of the business plans are funded (Sahlman, 1990). Thus, by providing a 50-50 distribution (e.g. one funded plan and one not funded plan) to each student we were able to determine whether the tendency existed among our study participants to reject plans on the basis of their expectations that most plans are not chosen for investment by VCs. On a continuum of randomness, students could have also blindly accepted the business plans. Moreover, on the continuum of zero to complete acceptance, the maximal accuracy of random decisions could have been obtained if students randomly allocated fund/no-fund decisions on each of the two business plans. In order to test if maximal similarity with the VC decisions was not a result of 'luck' and hence random assignment, we also conducted a binomial test. The binomial test showed significant difference ($p < 0.000$) from the estimated proportions. Thus, indicating the limited role of guessing in the decision processes used by students.

Results

To assess the degree to which students understood the structure, importance and meaning of criteria used by VCs to screen business plans, we conduct analysis at the individual, group and structural levels. Individual and group level analysis, include logistic regression and a GLM model to differentiate individual decisions and item assessments at individual and group levels

respectively. Structural analysis, specifically, Pathfinder scaling is used to assess the degree to which structural assessments between VCs and students match. While individual and group level analysis focus on degree to which the decisions are similar, structural analysis ensures that decisions are not an outcome of equifinality in analysis or cognitive processes of the students. In other words, both groups may arrive at the same decision using different weights and parameters.

Thus, structural similarity is important in decision making. Similarly, group and structural analysis is important to ensure significance of similarity and reduce effects of heterogeneity in abilities and knowledge across students. In other words, random effects due to student's cognitive structures may otherwise produce misleading results. This is followed by a Pathfinder analysis. The Pathfinder scaling algorithm helps assess similarity in concept structure between the two groups (experts and students using the EBT). Using pair-wise judgments of similarity in assessment between an expert and a student, Pathfinder shows the latent structure of a conceptual domain. The concepts are considered as nodes and distance between nodes as links. Using proximity links as inputs, Pathfinder derives the shortest path link distance as outputs. Compared to MDS, which focuses on more global relationships, Pathfinder explains more fine grained local relationships. Pathfinder deals with two concepts - configural similarity and coherence. Configural similarity refers to the similarity between two networks (in this case, expert and students) and is measured using index PFC (Pathfinder Closeness) – an indicator of common links between concept pairs. Coherence indicates internal consistency by measuring direct and indirect pairs of similarity between each concept pair. First the indirect index of relatedness is computed using correlations between an item and all other items. Second, coherence is computed by correlating original proximity data with indirect measures. Similar values can be computed for networks derived from aggregate data. Third, raw proximity data from all subjects is averaged to yield an aggregate data set and network representation

We present the logistic regression results, with the outcome variable being whether a student's decision to fund or not on matches a VC's decision. This group level analysis helps us assess any significant differences based on instrument used. In other words, does using an evaluation tool based on the community of practice lead to significantly different results than using one based on academic theory. Logically one would expect this to be the case. Table 4 below suggests that the community practice developed instrument had a significant effect on making the proper decisions ($\beta = -.847$; $p = 0.032$). We also compared graduate and undergraduate students and found that belonging to graduate or undergraduate group did not lead to significant differences. Also, as can be seen, impact of the instrument used was not moderated by belonging to the graduate or undergraduate group.

Table 4: Logistic Regression Results

	B	Sig.
Tool Used†	-.85	.03
Student Type‡	.21	.37
Student Type x Tool Used	.31	.59
Pseudo-R ² = 0.43		

† Tool Used = 0 if TBT, 1 if EBT

‡ Student Type = 0 if Undergraduate, 1 if Graduate

Proximity data for each group was averaged and network structure for each group was derived using the aggregate data from which a coherence index was computed. After conducting within and between group analyses, a similarity measure for each student network with each aggregate expert network for funded and unfunded business plans was computed. Then, similarity data was averaged to assess the degree of similarity between the student network and the expert network. For each group, the configural similarities were high. Specifically, students 0.83 (s.d.=0.08) and experts 0.91 (s.d.=0.07). Additionally, similarity across both groups was high (0.85; s.d.=0.09). A comparison of within and between group similarities also showed significant differences ($t=7.52$; $p<0.001$). The coherence index for student and expert groups are 0.77 and 0.83 respectively, which indicates a high degree of learning and similarity in assessment at the group level.

While the Pathfinder scaling algorithm is based on distances among concepts, we use a variance based technique to assess differences between students and experts. We use General Linear Modeling (GLM) with expert and students as a between group analysis with link function as logit. The between subjects – experts and students indicates no significant differences in assessments on each item. However, ratings of market size and management team items were significantly different between experts and students. Overall, the model shows a statistically significant relationship between students and experts (Omnibus test: $\chi^2=54.867$; $df=14$; $p=0.000$).

Table 5: GLM Model (link: Logit)

Between subject differences: EBT Students and Experts

Assessment items	β	Sig.
Market Size	.03	.045
Customer Adoption	.05	.11
Revenue Sales	.83	.79
Competition	.12	.21
Strategy	.07	.81
Timing	.36	.74
Intellectual Property	.03	.14
New Technology	.07	.24
Value Added	.12	.32
Margin Analysis	.05	.68

Startup Experience	.08	.67
Industry Experience	.29	.68
Leadership Experience	.11	.68
Management Experience	.22	.05

Therefore, at individual, group, and structural level we see a high level of internal consistency among experts and students decisions and high degrees of similarity not only in the final outcomes and on similarity in the degree of assessments for each item.

Implications

We began by looking for a better way to prepare students to understand the structure, meaning and importance of concepts, behaviors, and skills necessary in entrepreneurship. Using the example of business plan criteria, we suggested that this could be achieved using the situated learning and community of practice approach. Perhaps the most important finding of the study is that experts and students using the assessment tool did not differ in terms of individual criteria, or on terms of the overall decision to fund or not fund the business plan. This is an important finding for educators and students (potential entrepreneurs) alike. From the educator's perspective, the results of this study suggest that using pedagogical theories such as the situated learning approach is useful in teaching a craft such as entrepreneurship. From a student's perspective, this finding suggests that individuals can be better prepared when dealing with situations such as approaching VCs for funding.

Interestingly, the results of the study do not show significant differences between graduate and undergraduate students. This leads us to suggest that this format is suitable at the undergraduate as well as the graduate level of education. More importantly, both students using the EBT, and experts rated the business plans they evaluated similarly – in terms of the decision about whether to fund as well as in terms of individual criteria of the business plan. This is true in all cases except on individual items pertaining to market size and management teams. Since the decision to fund was similar, we suggest that a model based on community practice offers a viable solution for effectively teaching students the important criteria that investors look for when screening a business plan. However, the investors and non-investors (students) differed when rating two very important aspects of the business plan - market size and management teams. Since one might argue that these are two important criteria in a business plan, the scales used in these two items need to be evaluated, modified and re-tested in order to ensure a more appropriate teaching tool.

Based on the findings of this experiment we suggest that this method may be used to effectively teach students about the importance, structure and meaning of business plan criteria, which will in turn help them when they are seeking venture money. However, this study leaves some avenues for future research. First, we used a limited sample size of 150 students from a single university; future studies could replicate this study with a larger and more diversified samples. Second, in this study, we focused on the criteria that venture capitalists deem important when screening a business plan. Future research could look at other communities of practice, such as

SBA, banks and other lending institutions, and angel networks. Finally, we have provided evidence that educators can utilize pedagogical theories to help improve transmitting of knowledge from practitioners to the classroom as far as identifying important criteria in business plans is concerned. Future research could look at other entrepreneurial behaviors or competencies that entrepreneurs are involved in and try and transmit those behaviors, skills and competencies to students in a similar fashion.

Limitations

This study like any other is not without its limitations. First, we acknowledge that prior knowledge and experience of the students could have played a part in their assessment, but we controlled for this by giving subjects business plans to evaluate that were not based on the industries that they had prior information in. Second, the limited sample size could influence generalizability of the study's results; however considering the fact that we used undergraduate as well as graduate students for this experiment does suggest that these results apply to both levels of education. Third, even though the cognitive aspects of decision making remain unexplored, our results suggest that transferring of meaning and structure are the first steps towards helping aspiring entrepreneurs. Finally, we understand that the ever-changing nature of the environment will influence the usefulness of this particular study, as criteria that were important when this study was conducted might not have the same importance over time. Therefore researchers need to ensure that such criteria as well as structures are updated periodically.

Conclusions

This research provides an example of how we can inform our teaching with our research. Writing a business plan is one of the most common assignments in most entrepreneurship programs. Moreover, we often evaluate the success of our educational efforts by the ability of our students to win business plan competitions and more importantly write a business plan that is funded by investors such as venture capitalists. Further, an effective business plan is also one of the most challenging tasks for any entrepreneur. The need for a plan often occurs when an entrepreneur is busy with the survival of an early stage company and when the entrepreneur cannot afford to buy help with the design and writing of the plan. It can be argued that writing a business plan is one of the most important elements in sound entrepreneurship education. Yet, the discipline has not yet agreed on accepted criteria for how this craft can most effectively be taught. Thus, we offer a teaching tool for how the craft can most effectively be taught.

This paper provides some insight into the use of a teaching pedagogy that can help in teaching students the skills associated with the design and crafting of an effective business plan. This way may be proven effective after additional testing in different universities and with varying types of students. In addition, it may prove to be valuable when adapted to other audiences and to other topics in entrepreneurship education.

Footnotes

1. We acknowledge the fact that textbooks are not written for a specific audience such as VCs or shareholders, but are a general guideline that educators could make use of when educating students as to the criteria that is important based on the audience the students are targeting.
2. We made certain that the experts did not have any more information about these businesses than was available in the business plans; they were not familiar with the businesses they evaluated.
3. The information gathered included education level and work experience. This was done in order to give students industries they had no prior information or experience in; thereby making sure that their decision would be based solely on general knowledge (industry information provided to the students by the researchers).
4. Industry information was gathered using the S&P 500 indexes and the Hoovers industry databases for the years the ventures were funded.
5. The students did not know which business plans were funded by the VCs and which were not and they did not know whether they have two plans that were unfunded or two funded or one of each.

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MEASURING LOAN GRANTING DECISION-MAKING FOR A PHYSICIAN'S PRACTICE: THE IMPACT OF PERSONALITY AND DEMOGRAPHICS ON BUSINESS DECISIONS

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Abstract

As part of a study in behavioral accounting, we created and used a case study involving the study of small businesses and entrepreneurial firms together with a personality instrument and selected personality variables. Our hypotheses and results suggested that of the Five Factor Model (FFM) personality variables of Openness, Conscientiousness, Extraversion, Agreeableness and Neuroticism (OCEAN) significant results were found for the personality variables of Agreeableness, Neuroticism, Conscientiousness and Openness. Agreeable males were significantly more likely grant the loan. Females who had high scores in the dimension of Neuroticism were less likely to take risks, follow the path of least resistance and use quantitative data to try to ensure “correct” results for the case. When we statistically controlled for Agreeableness, we found that for males, there was a strong negative correlation between Openness and Conscientiousness. The negative correlation suggests that as Openness increases, male subjects are less likely to remain purposeful and would focus on quantitative data in their decision-making. This conclusion also was supported by a significantly strong negative correlation between Conscientiousness and the use of quantitative data to make a loan-granting decision.

The Study

Behavioral accounting is a cutting-edge research approach to accounting that examines the ways in which psychological and demographic factors affect how people use qualitative and quantitative accounting information to make decisions. Such an approach has become more central to accounting education as the workforce becomes more diverse and as qualitative information becomes more important for business decisions.

For banks, we were aware of some of the key requirements that bankers have regarding small businesses. For example, bankers must:

1. protect the capital with which they have been entrusted by their depositors,
2. recoup the principal and earn a reasonable rate of interest on their loans and,
3. ensure the small business prospers and opens more accounts with the bank as the small business grows.

Bankers make judgment calls by becoming comfortable with the business owner's character and credibility, debt load capacity, external environmental conditions, the quality of the business plans and whether a contingency plan exists.

Given what we know about small businesses, we created a graded case study involving a medium-sized physician practice that provided appropriate information enabling students, placed in the role of a bank loan officer, to make a decision whether or not the loan request should be approved. We used entry-level and advanced undergraduate students at Loyola University Chicago and we hypothesized that the nature of their personalities and demographic data would influence the decision they would make in the role of the bank loan officer. Prior to receiving the

case, all students confidentially completed the Big 5 Inventory (BFI) based on the Five Factor Model (FFM) of personality (McCrae and John, 1992).

The Five Factor Model (FFM) of personality is based on meta-studies of personality measures and has proven to be highly reliable and valid, in part because of its use of common language descriptors. The five factors are: Openness to change, Conscientiousness, Extraversion, Agreeableness and Neuroticism (OCEAN). This last dimension is also referred to as Emotional Stability. Each factor is described below.

Openness is a general appreciation for art, emotion, adventure, unusual ideas, imagination, curiosity, and variety of experience. The trait distinguishes imaginative people from down-to-earth, conventional people. People who are open to experience are intellectually curious, appreciative of art, and sensitive to beauty. High scorers tend to be more creative and more aware of their feelings. They are more likely to hold unconventional beliefs.

People with low scores on openness tend to have more conventional, traditional interests. They prefer the plain, straightforward, and obvious over the complex, ambiguous, and subtle. They may regard the arts and sciences with suspicion or even view these endeavors as uninteresting.

Conscientiousness is a tendency to show self-discipline, act dutifully, and aim for achievement. The trait shows a preference for planned rather than spontaneous behavior. It influences the way in which we control, regulate, and direct our impulses. Conscientiousness includes McClelland's (1958) motivational factor known as Need for Achievement (NAch). People with a high need for achievement (nAch) seek to excel and thus tend to avoid both low-risk and high-risk situations. Achievers avoid low-risk situations because easily attained success is not a genuine achievement. In high-risk projects, achievers see the outcome as one of chance rather than one's own effort. High nAch individuals prefer work that has a moderate probability of success, ideally a 50% chance. Achievers need regular feedback in order to monitor the progress of their achievements. They prefer either to work alone or with other high achievers. (McClelland, 1958)

Extraversion is characterized by positive emotions, surgency, and the tendency to seek out stimulation and the company of others. The trait is marked by pronounced engagement with the external world. Extraverts enjoy being with people, and are often perceived as full of energy. They tend to be enthusiastic, action-oriented individuals who are likely to say "Yes!" or "Let's go!" to opportunities for excitement. In groups they like to talk, assert themselves, and draw attention to themselves.

Introverts lack the social exuberance and activity levels of extraverts. They tend to seem quiet, low-key, deliberate, and less involved in the social world. Their lack of social involvement should not be interpreted as shyness or depression. Introverts simply need less stimulation than extraverts and more time alone. They may be very active and energetic, simply not socially.

Agreeableness is a tendency to be compassionate and cooperative rather than suspicious and antagonistic towards others. The trait reflects individual differences in general concern for social harmony. Agreeable individuals value getting along with others. They are generally considerate, friendly, generous, helpful, and willing to compromise their interests with others. Agreeable people also have an optimistic view of human nature. They believe people are basically honest, decent, and trustworthy.

Disagreeable individuals place self-interest above getting along with others. They are generally unconcerned with others' well-being, and are less likely to extend themselves for other people. Sometimes their skepticism about others' motives causes them to be suspicious, unfriendly, and uncooperative.

Neuroticism (also called emotional instability) represents the degree to which an individual may express negative emotions, such as anger, anxiety, or depression. High scores in neuroticism represent individuals who are emotionally reactive and vulnerable to stress. They are more likely to interpret ordinary situations as threatening, and minor frustrations as hopelessly difficult. Their negative emotional reactions tend to persist for unusually long periods of time, which means they are often in a bad mood. These problems in emotional regulation can diminish the ability of a person scoring high on neuroticism to think clearly, make decisions, and cope effectively with stress. Such people are more likely to choose the path of least resistance and focus on the completion of tasks using tried-and-true mechanisms to achieve results.

At the other end of the scale, individuals who score low in neuroticism are less easily upset and are less emotionally reactive. They tend to be calm, emotionally stable, and free from persistent negative feelings. However, freedom from negative feelings does not mean that low scorers experience substantial positive feelings. That is an element of the independent trait of extraversion. Neurotic extraverts, for example, would experience high levels of both positive and negative emotional states, a kind of "emotional roller coaster". Individuals who score low on neuroticism (particularly those who are also high on extraversion) generally report more happiness and satisfaction with their lives.

Methodology

To test the proposed hypotheses, the authors developed a case study that was framed from the perspective of a bank loan officer who was given the charge of reviewing the application and making the recommendation for a significant loan for a local physician practice. The decision perspective was that of an individual rather than a group decision scenario. The case provided both quantitative and qualitative data that was deemed relevant by the authors for evaluating the loan application. Quantitative information consisted primarily of the practice's financial statements. Specifically, three years income statement, balance sheet and statement of cash flow data was provided. Qualitative data included information about the aging of the groups' physicians, unwillingness to hire new and younger physicians who desired guaranteed salaries, patient demographics, and other related facts. Both quantitative and qualitative data contained positive and negative aspects.

The study utilized undergraduate business majors who were currently enrolled in two of the authors accounting courses (four courses in total) during the fall 2010 semester. In total 105 students took part in this initial study. The subjects ranged in age from 19 to 44, with a median age of 21.5 years. Educational level, which is a potential confounding variable, was controlled for by the pre-requisites for taking the courses and the requirements of their majors. The study was completed using the following process:

First, students were informed of the research project by their respective instructors. Participation was completely optional. Next, students who agreed to participate (the great majority of the students did agree) were asked to confidentially complete the Big 5 Personality Inventory (OCEAN). This psychological assessment instrument took approximately 5-7 minutes to

complete. The students were also required to sign a consent form documenting their willingness to participate in the study. Every effort was made to keep the results of the student's psychological survey confidential. Each student was assigned a random number for coding purposes and the two instructors who classes completed the survey and case were not responsible for coding the data for analysis. The coding was coordinated by the first author, whose classes did not participate in the project. Students were not informed of the results of their individual psychological inventory scores.

Along with the psychological inventory and consent information, students were also asked to provide some basic demographic information. The information consisted of such items as gender, age, major and minor area of study and work history. Although the population of the study's participants was relatively homogeneous with respect to age and educational background, the requested demographic information allowed the authors to investigate the decision outcomes relative to the demographic variables.

Once the psychological inventory and demographic information were completed and the consent forms signed, the students received the case study. To help ensure the students gave the case sufficient time and effort, extra credit grading points were assigned. The case was completed on a take home basis, and students were instructed not to seek assistance from any other person. The students were given approximately one week to complete the case. Estimated time to read and responsibly complete the case was approximately two hours. The case was "graded" as any other assigned problem for the courses would be. The authors were not attempting to solicit a specific answer to the case. The case was written as carefully as possible to make the ultimate loan decision somewhat ambiguous with a balance of both positive and negative information. Grading was done on a "due diligence" approach, i.e., students were given credit for completing the case on a timely basis and with an appropriate level of effort.

We approached our work by focusing on a business that requires money and the (likely) small to medium-sized bank that has the capacity to do the lending. The case study was used to examine a group of 30 physicians in a shared group-owned practice. In the case, these physicians applied for a \$4M loan to modernize and expand their facilities. The size of the loan was deliberately selected to be large enough to warrant serious consideration by the students but reasonable enough to be relevant to the practice under consideration. The data we provided in the case included typical financial "hard" data such as profit and loss statements, statements of cash flows and balance sheets. In addition, we provided qualitative or "soft" data such as the average age of the physicians (55 years old), the desire not to hire newly minted physicians who required a guaranteed income, and the like. Trade association data were used to ensure that the financial and other information included in the case were realistic for this type and size of practice. Subjects made and justified an individual decision concerning whether the students, acting in the role of bank lending officers, would grant this practice a loan.

Results: Agreeableness and Conscientiousness

Our findings indicate that the dimensions of Agreeableness, Conscientiousness and Openness demonstrated significant differences with respect to the results of our study. We also found that males versus females and the use of quantitative versus qualitative data used to make decisions and whether to grant the loan to the physician's practice were significant factors.

While we expected to find a positive correlation between Agreeableness and Conscientiousness ($p=.041$) and the granting of a loan as shown in Table 4, we found an unexpected significant positive correlation for Agreeable male subjects in that they were more likely than females to grant the loan ($p=.003$). This may be an artifact of the research suggesting that In the United States, Midwesterners and Southerners tend to have higher average scores on agreeableness than people living in other regions. Or, it may be due to gender differences.

Gender differences

Cross-cultural research from 26 nations ($N = 23,031$ subjects) and again in 55 nations ($N = 17,637$ subjects) has shown a universal pattern of sex differences on responses to the Big Five Inventory. Women consistently report higher Neuroticism and Agreeableness, and men often report higher Extraversion and Conscientiousness. Sex differences in personality traits are larger in prosperous, healthy, and egalitarian cultures in which women have more opportunities that are equal to those of men; both men and women tend to grow more extraverted and conscientious and less neurotic and agreeable as cultures grow more prosperous and egalitarian, but the effect is stronger for men (Costa, P.T., Terracciano, A., and McCrae, R.R., 2001; Schmitt, D. P., Realo, A., Voracek, M., Allik, J., 2008).

Our significant findings for Agreeableness, suggested further work was needed to determine other possible relationships while controlling for the effects of Agreeableness.

Results: Controlling for the Effects of Agreeableness

We found no relationship for our entire experimental population between relying more on quantitative or qualitative data for making decisions. However, as shown in Table 1 for men, when controlling for Agreeableness, there was unexpectedly a significant positive correlation between Openness and relying on quantitative data ($p = .039$) for decision-making purposes. That is, male subjects who tended to be more creative, curious and imaginative were more likely to remain purposeful and focus on quantitative data in their decision-making and vice versa. This conclusion is also supported with a significantly strong negative correlation between Conscientiousness and the use of quantitative data to make a loan-granting decision. This may be due to the fact that subjects who score high in Openness are more likely to hold unconventional beliefs, thus “defaulting” in their decision-making approach to “hard” evidence.

Providing both quantitative and qualitative data for analyses by accounting students in making loan decisions for a case study is generally not the norm. We may speculate that, in general, schools and colleges of business in the United States have a tendency to emphasize quantitative data analysis, particularly in the field of accounting. In our study, however, we provided information of a qualitative nature in addition to routine quantitative data.

We anticipated that students desired to show conscientious behavior through self-discipline, self-reliance and to have a need for achievement (McClelland, 1958) in responding to proposed problems. However, we speculated that students must use a different approach to problem solving if they show a preference for planned rather than spontaneous behavior. We thus conjecture subjects are taking an additional step beyond their normal training, producing a significant negative correlation between Conscientiousness and the use of quantitative data

($p=-.046$). That is, addressing qualitative data necessitates a deliberate move on the part of the students to “ignore” the more standard quantitative data in an attempt to be spontaneous and

more intuitive in their decision-making. The negative correlation suggests that as Openness increases, male subjects are less likely to remain purposeful and focus on quantitative data in their decision-making and vice versa. Thus, when controlling for Agreeableness we found a significant negative correlation ($p=.014$) between Conscientiousness and the use of quantitative data in decision-making as shown in Table 1.

Females, as shown in Table 2, tended to have higher scores in Neuroticism ($p=.014$) meaning they were less likely to take risks, follow the path of least resistance and use quantitative data for decision-making which is consistent with the research of Costa, Terracciano, & McCrae (2001) and Schmitt, Realo, Voracek, & Allik (2008).

The variable of Openness is also significantly negatively correlated with Conscientiousness for male subjects when controlling for Agreeableness ($p=.046$) as shown in Table 1. This suggests that males who have a preference for being open to experience and intellectually curious are unlikely to show self-discipline and aim for achievement in making decisions.

Our results are consistent with research that has suggested that the emotional characteristics of individuals (Robichaud, 2003) male and female motivational traits and behavioral intentions (Doty, Tomkiewicz & Bass, 2005), and scores on the Agreeableness dimension of the BFI as they relate to task results (Skyrme, Wilkinson, Abraham & Morrison, 2005) affect decision-making.

Conclusions and Implications for Small Businesses

Whether you are the owner of a small business or the loan officer in a small bank that is likely to make loans to small businesses, you should know the following information.

While our study is limited in scope, it suggests that male loan officers may tend to emphasize quantitative data over qualitative, particularly if the decision-maker tends to be high on the agreeableness dimension of the BFI.

Excluding Agreeableness from the results, male loan officers who are high on the dimension of Openness (intellectually curious, creative and imaginative) tend to rely on quantitative over qualitative data. However, we may speculate that with experience, males loan officers who are Conscientious (self-disciplined, act dutifully, achievement-oriented) are moderate risk takers and may tend to weight qualitative data more heavily. People who score high in Conscientiousness also tend to have a high need for achievement (nAch) and seek to excel, tend to avoid both low-risk and high-risk situations. They prefer either to work alone or with other high achievers. Thus, if the criteria used by the loan officer described earlier is valid (becoming comfortable with the business owner's character and credibility, debt load capacity, and the quality of the business plans and whether a contingency plan exists) the loan officer also may tend to value the qualitative data more heavily.

While gender differences exist on the BFI measure of Neuroticism in multiple studies, not too much should be interpreted in our relatively small experiment. That is, our results tend to support earlier studies, but for our purposes our results may be an artifact of the sample size. Nevertheless, it should be noted that quantitative data are persuasive for those female subjects who are acting in the role of a loan officer.

The personality characteristic of Openness correlates negatively with Conscientiousness when controlling for Agreeableness suggesting that loan decision-makers are more likely to prefer the plain, straightforward, and obvious over the complex, ambiguous, and subtle. This may also suggest that quantitative or “hard” data is more likely to be persuasive in granting a loan.

Finally, we would like to point out that our results suggest that loan applications should be evaluated on their merits, not simply on psychological factors, particularly for small businesses. We show, however, that qualitative factors do have a significant impact on the decision to grant a loan and that subjects in our study do tend to balance both quantitative and qualitative factors in making financial decisions.

TABLE 1: Correlations

Gender Control Variables			Total	Business Total	Extraversion Total	Neuroticism Total	Loan Given	Quantitative	
FEMALE	Agreeableness Total	Openness Total	Correlation	1.000	-.188	.245	-.329	.143	.248
			Signif. (2-tailed)	.414	.285	.146	.538	.279	
			df	0	19	19	19	19	
		Conscientiousness Total	Correlation	-.188	1.000	.273	-.022	-.355	.042
			Signif. (2-tailed)	.414	.232	.926	.114	.857	
			df	19	0	19	19	19	
		Extraversion Total	Correlation	.245	.273	1.000	-.162	-.233	.293
			Signif. (2-tailed)	.285	.232	.484	.308	.198	
			df	19	19	0	19	19	
		Neuroticism Total	Correlation	-.329	-.022	-.162	1.000	.065	-.347
			Signif. (2-tailed)	.146	.926	.484	.778	.123	
			df	19	19	19	0	19	
		Loan Given	Correlation	.143	-.355	-.233	.065	1.000	-.053
			Signif. (2-tailed)	.538	.114	.308	.778	.819	
			df	19	19	19	19	0	
		% Quantitative	Correlation	.248	.042	.293	-.347	-.053	1.000
			Signif. (2-tailed)	.279	.857	.198	.123	.819	.000

			df	19	19	19	19	19	0
Agreeableness Total	MALE	Openness Total	Correlation	1.000	-.340	.287	-.251	-.026	.351
			Signif. (2-tailed)	.046	.095	.146	.880	.039	
			df	0	33	33	33	33	33
		Conscientiousness Total	Correlation	-.340	1.000	-.164	.129	.292	-.411
			Signif. (2-tailed)	.046	.345	.461	.088	.014	
			df	33	0	33	33	33	33
		Extraversion Total	Correlation	.287	-.164	1.000	.053	-.063	.091
			Signif. (2-tailed)	.095	.345	.764	.719	.604	
			df	33	33	0	33	33	33
		Neuroticism Total	Correlation	-.251	.129	.053	1.000	.118	-.192
			Signif. (2-tailed)	.146	.461	.764	.500	.270	
			df	33	33	33	0	33	33
		Loan Given	Correlation	-.026	.292	-.063	.118	1.000	.193
			Signif. (2-tailed)	.880	.088	.719	.500	.268	
			df	33	33	33	33	0	33
		% Quantitative	Correlation	.351	-.411	.091	-.192	.193	1.000
			Signif. (2-tailed)	.039	.014	.604	.270	.268	.039
			df	33	33	33	33	33	0

TABLE 2: Independent Samples Test for Females on Neuroticism Variable

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Openness Total	Equal variances assumed	.976	.326	1.580	76	.118	2.838	1.796	-.740	6.415
	Equal variances not assumed			1.461	47.063	.151	2.838	1.943	-1.071	6.746
Conscientiousness Total	Equal variances assumed	4.082	.047	.762	76	.449	1.129	1.482	-1.823	4.082
	Equal variances not assumed			.669	39.630	.507	1.129	1.688	-2.283	4.542
Extraversion Total	Equal variances assumed	6.464	.013	-.112	76	.911	-.183	1.635	-3.441	3.074
	Equal variances not assumed			-.102	44.553	.919	-.183	1.798	-3.805	3.438
Agreeableness Total	Equal variances assumed	2.690	.105	.918	76	.361	1.413	1.538	-1.651	4.476

	Equal variances not assumed			.811	40.400	.422	1.413	1.741	-2.106	4.931
Neuroticism Total	Equal variances assumed	1.430	.236	-2.510	76	.014	-3.533	1.408	-6.338	-.729
	Equal variances not assumed			-2.356	49.642	.022	-3.533	1.500	-6.546	-.520

Table 3: Correlations between BFI Variables and Granting the Loan

Men		Gave Loan	Openness_ Total	Conscientiousness_ Total	Extraversion_ Total	Agreeableness_ Total	Neuroticism_ Total
N		57	57	57	57	57	57
Openness_Total	Pearson Correlation	-.052	1	-.328*	.229	.096	-.280*
	Sig. (2-tailed)	.700		.013	.086	.478	.035
N		57	57	57	57	57	57
Conscientiousness_Total	Pearson Correlation	.272*	-.328*	1	-.345**	.287*	-.183
	Sig. (2-tailed)	.041	.013		.009	.031	.174
N		57	57	57	57	57	57
Extraversion_Total	Pearson Correlation	-.011	.229	-.345**	1	-.254	.067
	Sig. (2-tailed)	.935	.086	.009		.057	.621
N		57	57	57	57	57	57
Agreeableness_Total	Pearson Correlation	.282*	.096	.287*	-.254	1	-.392**

Neuroticism_Total	Sig. (2-tailed)	.034	.478	.031	.057		.003
	N	57	57	57	57	57	57
	Pearson Correlation	-.010	-.280*	-.183	.067	-.392**	1
	Sig. (2-tailed)	.941	.035	.174	.621	.003	
	N	57	57	57	57	57	57

*, Correlation is significant at the 0.05 level (2-tailed).

**, Correlation is significant at the 0.01 level (2-tailed).

TABLE 4: Correlations Using Gender and Agreeableness

Gender			Agreeableness Total	Loan Given
FEMALE	Agreeableness Total	Pearson Correlation	1	-.148
		Sig. (2- tailed)		.510
		N	30	22
	Loan Given	Pearson Correlation	-.148	1
		Sig. (2- tailed)	.510	
		N	22	22
MALE	Agreeableness Total	Pearson Correlation	1	.481
		Sig. (2- tailed)		.003
		N	48	36
	Loan Given	Pearson Correlation	.481	1
		Sig. (2- tailed)	.003	
		N	36	36

Appendix A

Research Project Case Study

Introduction: Community Physicians, PC (professional corporation) is a multi-specialty practice of 30 physicians and 10 advanced practice nurses that offers primary care, orthopedics, dermatology and geriatrics.

The practice has a clear vision of its mission and market niche. It wants to be the place its patients and their families go for their basic medical care and their most important specialty care. Its core physicians are general physicians who treat a wide range of conditions and offer the full range of regular services. It has orthopedics because many athletic and geriatric patients use so much orthopedic care that these physicians become their major source of medical care. It has geriatrics because so many of its patients are aging and it offers dermatology to meet the special needs of teens and older adults. Ten of the physicians are in primary care (including family medicine, internal medicine, pediatrics and OB/GYN), 10 are in orthopedics, 3 are in dermatology and the rest are in geriatrics.

The practice is organized as a privately held limited-liability corporation. Its rules prohibit selling stock to anyone who is not a member of the practice, and since it is privately held, it cannot sell stock publically anyhow. Therefore, borrowing from banks is its major source of capital. The limited-liability status protects the physicians from personal liability in case the practice is sued if they did not treat the patient bringing the suit.

Finances: Financially, the practice has been generally profitable over the past several years. The current economic downturn has resulted in a slowing of revenue increases and some increases in costs. The practice is reluctant to take drastic cost cutting measures as it worries that the quality of patient care will suffer. The practice has tried to increase efficiency by redesigning its offices to make maximum use of every foot of space, by training its physicians to predict the time they will need for each patient which makes patient scheduling more efficient and by training its office staff to contact each patient to ensure there is no reason to reschedule the appointment.

Over the past few years patient receivables have increased as insurance companies have slowed down their reimbursement schedules and patients are taking longer to pay their portion of their bills. The practice has made a sustained effort to keep their accounts payables and other short term liabilities under control. Excess cash has been invested in relatively safe securities but these are yielding less than before due to the current recessionary pressures.

The practice borrowed long term debt several years ago to finance office and technology improvements. The practice is paying the loan off in installments and it is scheduled to be paid off in approximately ten more years. Since this investment the practice has done little to modernize and has spent virtually nothing on capital improvements.

The practice is a professional corporation which basically means that it is a partnership of all the physicians. Taxes on profits are paid by the individual physicians on their individual tax returns. When admitted to the practice, physicians are required to contribute capital to the practice. This is indicated in the capital contributions line on the balance sheet.

Practice Quality: The practice has taken many steps to ensure the quality of the care it provides. It requires that all its physicians be board certified (or earning their board certification if they are

not yet eligible because they have not been in practice long enough, and it pays for any continuing medical education they take. The advanced practice nurses are also certified in their respective specialties and are required to keep their certifications current.

The practice also pays for their continuing education. The practice has taken the unusual step of asking a panel of expert physicians in each of the specialties it offers to review a sample of cases to identify opportunities for improvement and, if they exist, instances of bad care. The practice also tracks medical errors and evidence of medical errors such as reactions to medications, infections, and other preventable problems. The practice also has a state-of-the art electronic medical record system (installed several years ago) that alerts physicians when they have not performed a complete examination, when they have prescribed a medication that is inconsistent with the patient's diagnosis, or conflicts with another medication. The system also alerts physicians when they prescribe an unusual dosage. The system is also linked to local pharmacies which makes it certain that the pharmacist has the right prescription information. The system also alerts patients when it is time for a prescription refill and notifies the physician when the patient obtains the medication.

The practice is proud of the fact that no member of the practice has been sued for malpractice and that every major insurance company includes this practice its network of "approved" physicians. Insurance companies encourage their patients to obtain their care from physicians in their network of approved physicians because the insurance companies expect these physicians to provide high quality but cost effective (low cost) care.

Additional Physician Issues: The physicians have an average age of 50. Physicians tend to start slowing down at age 55 as they start to plan for retirement. After age 55, billings tend to decline which is a threat to the practice. The declines can be very sudden and very steep. Also, physicians over age 55 tend to stop learning the new technologies patients expect. For example, orthopedic surgeons over age 55 tend to do traditional surgery rather than newer forms of surgery like arthroscopic surgery which is less invasive, leaves fewer scars, and heals faster than traditional surgery. Not being expert in these new procedures can put the practice at a competitive disadvantage. The practice has thought about add younger physicians but has been reluctant to do so. Younger physicians usually demand a salary guarantee (rather than being compensated based on billings) for their first few years of practice while they build up their own patient base. The salary guarantee usually means that the remaining physicians receive less compensation since a portion of their own billings is what pays for that guarantee. Practices have dissolved over the issue of new physicians and so the practice has shied away from confronting this issue.

Patients: The practice believes that its patients are its greatest resource. Each patient is interviewed for satisfaction at every visit and patients are reminded of when their next appointment should be made. The practice is proud of the fact that 70% of patients have been with the practice for at least five years. Patients who leave the practice are asked why and the practice management deals with the issues they raise. Patients are encouraged to refer friends and family to the practice's physicians and the practice tracks the number of current patients who do. These patients receive a thank-you letter signed by their own physician. The practice also ensures that the waiting and examining rooms are clean, newly decorated, and that reception staff are pleasant. It even provides free coffee, tea and internet access to patients while they wait.

Patients who want to run errands while they wait are given a pager and encouraged to go to the shopping mall across the street.

The practice also keeps track of the insurance status of each patient and limits the number of patients with insurances (like Medicaid) that pay less what the practice can obtain from other payers. The practice believes that these policies create loyal patients meaning that the practice needs to spend less on advertising than other similar practices.

The practice has decided to provide free care to existing patients for up to a year to patients who lose their insurance coverage but who are likely to be employed in the future. The practice believes that it is good business sense to keep existing patients rather than running the risk they will not come back if they start to obtain their care elsewhere.

The major problem the practice faces in terms of patients comes from the age of the physicians themselves. Patients are very loyal to their physicians and the practice has a very low patient turnover rate. However, the patients are aging as their physicians age. The practice needs to bring in younger patients and their families, and bringing in younger physicians is the best way to achieve that goal.

Administration: The practice hired a trained practice administrator and gave her the full authority to run the practice. The administrator keeps the books and alerts physicians when their expenses exceed targets for the patients they treat. The administrator also schedules the advanced practice nurses to ensure they are used as efficiently as possible. Many other practices assign the advanced practice nurses to specific physicians meaning that salaried, skilled nurses do nothing if the physicians cannot use them.

The practice administrator monitors any referrals the orthopedic physicians or the primary care physicians make to physicians outside the practice. The administrator ensures that all bills are filed with insurance companies within 24 hours and that all denials are investigated and appealed thoroughly. The practice has about the lowest rate of denial from insurance companies meaning that cash flow is protected. The average practice waits over 90 day for payment. This practice has generally received payment within an average of 30 days, but this time frame is growing as insurance companies are extending payment times.

Environment: The practice is located in a community that is economically upper middle class but has many other group practices. One of the hospitals the physicians refer patients to for inpatient care and for some laboratory and X-Ray procedures (and where its physicians have admitting privileges) was just sold it is not clear whether the new owners will continue the privileges. The hospital also provided the tests at a discount to the practice's patients and it is not clear that these discounts will continue. The hospital may give discounts only to patients of its own physicians who of course compete with the practice. The community has several major employers who have announced layoffs and reduced employee benefits which may mean the practice will face increased demands for charity care (care where the charge is waived or reduced).

Decision at Hand: The practice recognizes that in order to thrive in a very competitive environment, it needs to modernize its facilities. A task force of physicians, administrators and outside consultants has developed a strategic capital budget plan outlining what technology and

training is required to both improve services and potentially attract new and more recently trained physicians. The cost of the modernization is estimated to be \$4,000,000. The practice has approached you and your financial institution to arrange for this financing. Current interest rate for a loan such as this for a professional practice of this size is 7%. The practice is asking for a ten year term loan meaning that the entire loan will come due in 10 years, at just about the time that the current long term debt will be paid off. It is up to you to make a recommendation on whether or not to grant the loan

Questions

1. Would you give this practice the loan?

Yes____

No ____

2. In making your decision, you considered both financial(quantitative) and nonfinancial(qualitative) factors. The total of the factors should equal 100% of your decision. What percent came from the financial(quantitative) factors and what percent came from the nonfinancial(qualitative) factors?

Percent of decision due to financial(quantitative) factors ____ %

Percent of decision due to nonfinancial(qualitative) factors ____ %

Total 100%

3. What were the most relevant financial factors in your decision? Please rank the factors in order of importance with the number 1 being the most important factor. Use each number only one time (no ties). You may choose as many factors as you feel appropriate. Feel free to add additional lines if necessary.

Factor	Description	Your Ranking (1,2...etc)
Factor 1		
Factor 2		
Factor 3		

Factor 4		
Additional factors		

4. What were the most relevant nonfinancial (qualitative) factors in your decision. Please rank the factors in order of importance with the number 1 being the most important factor. Use each number only one time (no ties). You may choose as many factors as you feel appropriate. Feel free to add additional lines if necessary.

Factor	Description	Your Ranking (1,2...etc)
Factor 1		
Factor 2		
Factor 3		
Factor 4		
Additional factors		

--	--	--

5. To what extent do you feel that the information provided in the case was sufficient to make an informed decision regarding the loan?

Completely

Not at all

Sufficient

Sufficient

4

3

2

1

6. What additional financial(quantitative) information, if any, would you want about the practice?

Why? _____

7. What additional nonfinancial (qualitative) information, if any, would you want about the practice? Why?

Research Project Case Study Financial Data

Community Physicians, PC

Selected Financial Data

Income Statements	2009	% of Billings	2008	% of Billings	2007	% of Billings
Net billings to patients	47,000,000	100%	46,500,000	100%	45,700,000	100%
Operating expenses						
Support staff expenses	10,750,000	23%	10,400,000	22%	10,200,000	22%
Office operating expenses	12,800,000	27%	12,500,000	27%	12,350,000	27%
Medical provider expenses	21,000,000	45%	20,450,000	44%	20,350,000	45%
Total operating costs	44,550,000	95%	43,350,000	93%	42,900,000	94%
Operating income	2,450,000	5%	3,150,000	7%	2,800,000	6%
Non-operating income(expense)						
Interest from investments	50,000	0%	50,000	0%	150,000	0%
Interest expense on long-term debt	450,000	1%	475,000	1%	500,000	1%
Net income	1,950,000	4%	2,625,000	6%	2,150,000	5%

Note: Taxes are paid through individual physician tax returns as this is a professional corporation

Balance Sheet (Year-end December 31st)

Assets	2009	2008	2007
Cash	3,100,000	2,500,000	2,000,000
Patient accounts receivable	3,500,000	3,000,000	2,500,000
Investments	4,500,000	4,025,000	2,500,000
Property and equipment, net	16,000,000	16,500,000	17,000,000
Total Assets	<u>27,100,000</u>	<u>26,025,000</u>	<u>24,000,000</u>
Liabilities and Equity			
Accounts payable	1,500,000	1,950,000	2,000,000
Other current liabilities	425,000	350,000	400,000
Long term debt	6,000,000	6,500,000	7,000,000
Total liabilities	<u>7,925,000</u>	<u>8,800,000</u>	<u>9,400,000</u>
Capital contributions	3,000,000	3,000,000	3,000,000
Retained Earnings	16,175,000	14,225,000	11,600,000
Total liabilities and equity	<u>27,100,000</u>	<u>26,025,000</u>	<u>24,000,000</u>
<u>Statement of Cash Flows</u>			
	<u>2009</u>	<u>2008</u>	
Income	1,950,000	2,625,000	

Increase in patient accounts receivables	-500,000	-500,000
decrease in accounts payable	-450,000	-50,000
Incr/decr in other current liabilities	75,000	-50,000
Depreciation expense	500,000	500,000
Cash flow from operations	<u>1,575,000</u>	<u>2,525,000</u>
Payment of long term debt	-500,000	-500,000
Purchase of investments	-475,000	-1,525,000
Change in cash	600,000	500,000
Beginning cash	2,500,000	2,000,000
Ending cash	<u>3,100,000</u>	<u>2,500,000</u>

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THE POWER OF THE SMALL BUSINESS INSTITUTE® IS BIG FOR TOWN AND GOWN

Stephanie Bardwell & Patrick Walker, Christopher Newport University

Abstract

The Small Business Institute® can pack a punch on campus and in the community. We utilize three potent best practices to brand our SBI program, reach out to the community and invite our small businesses and fledgling entrepreneurs to our SBI on-campus events. Getting faculty from every discipline, including non-business, is one key strategy! Word of mouth image marketing is another. We are going green yet making a BIG footprint and hope our best practices might inspire others to do the same!

Background and Objectives

Large businesses typically have the personnel, financial capacity, administrative infrastructure, marketing, technology and other resources to thrive in good markets and survive in tough times. In many instances, small businesses and small private non-profit organizations either lack these fundamental business ingredients, or have a limited supply of them. Regardless of size, small businesses and small private non-profit organizations share some of the same interests, e.g., how to best deliver products and services, utilize technology, expand markets, and increase profit margins. The CNU-SBI program sought to make a more significant contribution to the small business and non-profit communities by hosting multiple topic workshops whereby information and hands-on-services could be delivered to over 125 participants in ONE day!

Approach- To be Inclusive and Diverse

The primary mission of CNU-SBI is to enhance the success of small businesses and private non-profit organizations by providing the business owners with workable, practical, and feasible short-term solutions to complex business problems. Common types of assistance offered include business plans, management & human resources plans, marketing plans, market research studies, legal & regulatory plans, corporate philanthropy plans, and promotional plans; accounting, financial, operational, and business systems analysis; and website development.

CNU-SBI hosted a “Business Workout” that drew over 125 participants to our campus, which included small business owners, small private non-profit leaders, major corporate sponsors, and vendors. The responses from the attendees and participants were overwhelmingly positive. The conference was modeled after the concepts introduced in the “GE Workout” by Jack Welch, and gave small businesses and small private non-profits an opportunity to develop a self-assessment strategy to increase their effectiveness and efficiency throughout all phases of operations. This was accomplished by identified topics of interest presented by business practitioners as well as academicians.

What Does the Community WANT?

Given the large number of small businesses and non-profit organizations in the Hampton Roads area, CNU-SBI’s workshop goal was to increase the number of organizations served exponentially with only a modest investment in resources and student talent.

CNU-SBI surveyed previous SBI participants and the local small business community to determine their interest in participating, and the subjects that they would like most.

Small private non-profit organizations were heavily recruited and invited to the conference. Through a partnership with AmeriCorps, the CNU Center for Service Learning and Social Entrepreneurship, and Peninsula Metropolitan YMCA, they were specifically targeted and recruited for their participation in both the workshop and the SBI Fall/Spring classroom modules.

The 2010 CNU-SBI “Business Workout” also featured the support of Joseph David Quesenberry, a Hampton Roads AmeriCorps volunteer who has been assigned to work with Dr. Patrick Walker since February 2010. This AmeriCorps volunteer’s primary goal this past year has been to work with Christopher Newport University’s Small Business Institute® to create programs and disseminate information that enhances the financial well-being of Hampton Roads area families. His work to make August’s conference a reality ultimately led to the complete reorganization of the entire CNU-SBI Client Database, effective conference planning and implementation, efficient management of company resources, as well as an excellent conference marketing campaign.

We will welcome many non-traditional participants to next year’s work-out; including NPOS, educators, and other service providers. Larger businesses might also be persuaded to serve as “mentors” to small business owners.

Outcome Potential

The potential for the success of these best practices is extremely high, if properly designed, adequately supported, and meticulously executed. Meeting and/or exceeding these criteria can produce the following benefits:

- Provide consulting services on major topics of interest
- Increase the number of companies served
- Present a forum for partnering/mentoring opportunities
- Create mentoring relationships between large and small businesses
- Generate opportunities for conference presentations
- Present a forum for employment networking

The Small Business Institute® at Christopher Newport University (CNU-SBI) was pleased to announce and recognize the support of Community partners and sponsors for the “CNU-SBI Workout: Is Your Business Fit?”

Beacon at the Crossroads
CNU Center for Service Learning & Social Entrepreneurship
City of Hampton, Economic Development
The Daily Press
Daily Press Digital Media Series
Hampton Roads Chamber of Commerce
Kingspoint Enterprises
Peninsula Metropolitan YMCA
Virginia Peninsula Chamber of Commerce

The event took place ALL-DAY Friday, August 6, 2010, from 8 a.m. – 5 p.m. at the David Student Union. The conference gave entrepreneurs, small businesses and non-profits an opportunity to develop a self-assessment strategy that increases their effectiveness and efficiency

throughout all phases of operation. This was accomplished by identified topics of interest presented by business practitioners and academicians, which include accounting, business development, business compliance, finance, laws and regulations, marketing, management, online social media, website development, and many more.

Schedule of Events

8:00 - 8:45	Check-In/Vendors/Breakfast/Morning Raffle
9:00 - 9:30	Welcome Remarks/Video
9:30 - 10:20	First Workshop
10:20 - 10:30	Break/Transition to next Workshop
10:30 - 11:30	Second Workshop Timeslot
11:30 - 12:00	Vendor Break
12:00 - 12:45	Lunch/Afternoon Raffle
12:45 - 1:30	Keynote Speaker
1:30 - 2:00	Hampton Family YMCA Exercise Activity
2:00 - 2:50	Third Workshop Timeslot
2:50 - 3:00	Refreshments Break/Transition to next Workshop
3:00 - 4:00	Fourth Workshop Timeslot
4:00 - 4:30	Closing Remarks/Evening Raffle/Survey Results
4:30 - 5:00	Vendors

MANAGING YOUR MENTORING PROGRAM ONLINE: A VIEW OF THE SBMS IN MELBOURNE, AUSTRALIA

Blake Escudier, Entrepanalysis

Abstract

The future exists today and mentoring programs, not online, will be considered inefficient and less experienced. Today's Mentors need to be technology astute in order to support 21st century nascent entrepreneurs and existing businesses. Growth oriented business leaders and young entrepreneurs envision enterprise growth through internet applications and technological operations. The Small Business Mentoring Service (SBMS) of Melbourne, Australia has a Mentor and Client relationship operationally managed through a virtual, online application and is proven successful.

The Basics of Mentoring Programs

How do you define a successful mentoring program? Is success measured by clients acting on a Mentor's advice, resulting in an improvement of their business? Or, measured by the wisdom and experience of someone who has already trodden down the same path that offers client reassurance and confidence that a business dream could actually have a realistic future? Or is your Mentoring Program defined a success based on criteria required by funding providers?

The practice of mentoring is developed through relationships between a teacher and student. This practice is at least as old as the ancient Greeks. In the 21st century, growth in technology has opened multiple opportunities to enhance the teacher-student relationship. Remote connections are instantaneous and program management may be virtual.

Small Business mentoring programs exist through formal and informal mentoring relationships developed through organizational assistance. The process starts in the form of matching mentors with clients. Not all mentoring relationships are created equal, nor are all relationships satisfying. A fundamental goal for all organizations managing mentoring programs is to provide a system that best matches mentors with clients.

Developing new technological processes for connecting mentors with clients requires time and effort which relates directly to costs. Through an online, integrated, needs-to-knowledge matching program, clients would be able to select Mentors directly, based on need criteria. This integrated program would also require virtual connections for transactions and reporting, thus reducing staff time and effort.

According to a study by the EMT Group (1999), the 6 most common pitfalls of a mentoring program are:

1. Inadequate personnel and/or resources to run the mentoring program.
2. Program manager has no commitment, passion, vision.
3. Mission and goals are not integrated into all parts of the program.
4. Lack of partnering and/or networking within the community.
5. Program staff has superficial contact with its mentors.
6. Nothing is special or unique about the program.

The Solution

Mentoring programs are usually considered time-consuming due to the efforts required to develop funding; recruiting, screening and training mentors; and developing the administrative processes for evaluation and collection of data for reporting. Even more time consuming is the effort used to maintain the quality of matching mentors with clients. (Sherk, 2009)

“Mentoring programs are more complex than they appear on the surface” (Best Practices In Mentoring Conference, 1999). Our question is: How can the design and implementation of a Mentoring program allow for efficiencies and growth? The Solution is to remove or reduce the more time consuming administrative activities through a process that adds more value to the relationship between mentor and client.

The Small Business Mentoring Service Inc. (SBMS) is an independent not-for-profit organization supported by Small Business Victoria a state government department. The SBMS has been around for over 22 years and have assisted more than 20,000 small businesses. (SBMS, 2010) The mentors at SBMS are all volunteers and give their time for free. This enables the service to be very cost effective. The mentors, who are members of the organization, are selected for their experience, people skills and their passion for helping businesses succeed.

The SBMS offers a range of programs offering flexibility for clients. By going to the SBMS website and clicking on a START button, businesses can answer a few short questions to be guided to a program that best meets their needs. The programs cover areas such as finance, marketing and planning, as well as specialist areas based on specific industry or government directed programs. The programs vary in number of sessions, offering clients an opportunity to select a single session to experience mentoring, or choose a longer term program to fit their budget to target various aspects of their business.

The process begins with a client selecting a program, viewing and selecting from a list of program applicable mentor backgrounds then processing payment. Within 24 hours of receiving payment, a mentor will contact the client to arrange a meeting. The Mentors selected will receive a file with complete client contact information and a brief introduction of the client. This is the starting point for a Mentor to begin working with the client.

The flexibility of the application allows for various sponsored programs to allow Business Centers and other Government programs to also book for their own clients. This application flexibility opens the potential for partnering the application and mentoring to other business support organizations. The online flexibility extends to changing Mentors, adding sessions or getting a refund.

On the back end of the application is the mentoring side, where Mentors are able to post their vitae information, block periods of time in which they are not available, and enter client information for documentation. The entire client reporting is completed through the private mentor section and once filled out, the mentor will click a button and send the report to all key members (Client, SBMS Office, and sponsoring program if applicable). All records are maintained and complete confidentiality is assured.

Success

Since implementation of the online application in 2007, the SBMS organization has increased client totals by 170% without increasing the mentoring cost as a percent of income and lowered operating costs more than 10% of income.

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ASSESSING CREATIVITY IN THE ENTREPRENEURSHIP CLASSROOM

Jacqueline Schmidt, John Soper & Jill Bernaciak, John Carroll University

Creativity has been recognized as a key component in entrepreneurship, but because of its ambiguity it is difficult to measure and assess. This study discusses the links between creativity and entrepreneurship, methods of measuring and assessing creativity and surveys the chairs/directors of the top twenty-five undergraduate entrepreneurship programs as identified by Entrepreneur magazine as to the importance of creativity, where creativity is taught in the program, what methods are used to teach creativity and how is it measured or assessed. Follow up interviews with a selected sample of schools will also be done. The results, recommendations and implications for teaching, assessment and implementation will be given.

The link between creativity and entrepreneurship has received increasing attention. Yar Hamidi, Wennberg, Berglund (2006) found that high scores on creativity tests and prior entrepreneurial experiences were positively associated with entrepreneurial intentions and contended that creativity should be considered in models of entrepreneurial intentions. Fillis and Rentschler (2010) also found a link between creativity and motivation, actualization and innovation.

To understand this link, one needs only to look at a few definitions of creativity. Sternberg (1999) defined creativity as the ability to produce work that is both novel (original, unexpected) and appropriate (useful, adaptive concerning task constraints) Using this definition Youl-Lee, Florida, and Acs (2004) contend that using this definition “entrepreneurship is a form of creativity and can be labeled as business or entrepreneurial creativity because often new businesses are original and useful” (p.882)

Sternberg’s definition combines the elements generally associated with creativity the development of divergent thinking (generating lots of unique ideas) followed by convergent thinking (combining these ideas into a best result) reflected in most discussions of creativity. Treffinger, Young, Selby, and Shepardson, (2002) add two other areas to the discussion of creativity that are critical for the entrepreneur: openness and courage to explore ideas and listening to one’s inner voice. Openness and courage relates to interests, experiences, attitudes and self-confidence and includes characteristics such as problem sensitivity, curiosity, sense of humor risk-taking, tolerance for ambiguity, adaptability, while listening to one’s inner voice involves traits such as self-reflection, vision, perseverance, concentration, energy, work ethic.

Although researchers differ in approaches, they do agree that creativity can be enhanced and taught. (Treffinger, 2002, Bronson and Merryman, 2010) The question for educational programs is how is creativity taught and measured or assessed? Hocevar (1981) identified ten ways in which creativity was measured: divergent thinking, attitude and interest inventories, personality inventories, biographical inventories (life history experiences), teacher nominations, peer nominations, supervisor ratings, judgment of products- producing items, eminence (study of successful people), and self-reports. He contended that the most common method of assessing creativity was in terms of divergent thinking noting that creativity tests unlike IQ tests require a multitude of responses rather than a single response.

Among the divergent thinking approaches the most frequently used is the Torrance test of creativity, Other divergent thinking tests are: the alternative uses tests in which subjects are

asked to think of alternate uses for a variety of common objects such as a shoe, pencil, etc; plot title tests in which subjects are asked to generate clever titles to two stories; and the Picture word-tests in which subjects are shown a picture and asked to write as many reactions to the picture as they can in one minute. The reactions in the picture-word test are counted based on the number of ideas or reactions and the variety in type of reactions (e.g. items of senses- sight, taste, feel, sound,) products, colors, experiences, etc.

Other common methods of measuring creativity are inventories of interests and approaches such as the Guilford –Zimmerman Interest Inventory “creative interests” scale (1970) or the Holland and Baird Preconscious Activity Scale (1968). These tests ask questions about how one’s attitudes or how one approaches solving problems such as the following, “When I was a kid I was constantly asking questions”, “My memory is good”, I like thinking puzzles”, or “I read a lot about unrelated topics”.

Still another approach has been to assess the creativity of a project produced by an individual or group through scales or ratings of peers, instructors, judges. This data can be collected through cases/ simulations or real life presentations such as business contests and presentations.

Lars Lindstrom (2006) used portfolios for longitudinal study of student growth in visual arts from preschool to upper secondary school based on product criteria and process criteria (investigative work, inventiveness, ability to use models, and capacity for self-assessment).

Other researchers have used a combination of methods. Berglund and Wennberg (2006) used tests and interviews comparing engineering students and business school students to determine how they approached and developed creativity. They found similarities in test scores, but not in approaches as the fields (engineering, business) emphasized different creative issues.

This study will examine how the chairs/directors of the twenty-five top undergraduate programs in entrepreneurship as identified by Entrepreneur magazine (2010) view the importance of creativity, where these programs teach creativity, what methods they use to teach it and how they assess or measure creativity. A survey will be sent to all twenty-five schools and follow up interviews will be conducted with a smaller sample of schools. The results of the survey and interviews will be presented along with discussion and suggestions for implementation of methods and approaches for teaching and assessing creativity in the entrepreneurial classroom.

Survey on Creativity

1. Do you have an undergraduate major in entrepreneurship? Yes___ No ___
Do you have an undergraduate minor in entrepreneurship? Yes ___ No___

The following questions are for the undergraduate programs only.

2. How important on a scale of 1-10 with 1 being very important and 10 being not very important is including courses in creativity/innovation in an entrepreneurship program?

Very important 1 2 3 4 5 6 7 8 9 10 not very important

3. Do you have a standalone course in creativity/innovation in your major? Yes___
No___

If yes, is this a required course in the major? Yes___ No___

4. Is there a prerequisite for your course in Creativity/Innovation? Yes___ No___

If yes, what is the prerequisite please list_____

5. Do you have a standalone course in creativity/innovation in your minor? Yes___
No___

If yes, is this a required course in the minor? Yes ___ No ___

6. Is there a prerequisite for your course in Creativity/Innovation? Yes___ No___

If yes, what is the prerequisite please list_____

7. What methods do you use to teach creativity in these courses? Please list all that
apply

Team projects _____
Cases _____
Individual projects _____
Creativity exercises _____
Other please list _____

8. How do you assess creativity development in these courses? Please list all you use.

Creativity tests- please list _____
Personality tests- please list _____
Team products produced _____
Interviews with students _____
Portfolio of work _____
Team/Instructor ratings _____
Other- please explain _____

9. Do you have a course/s with a unit on creativity in your major? Yes ___ No___

If yes, what is/are the name/s of the course/s

10. Please star any of the above courses that are required for your major.

11. Do you have course/s with a unit on creativity in your minor? Yes___ No ___

If yes, what is/are the name/s of the course/s

12. Please star any of the above courses that are required for your minor.

13. Is your major open to: all majors ___ School of business students only___
certain majors-please list

14. Is your minor open to : all majors___ School of business students only___ certain

Majors—please list

15. Is your institution public_____ private_____

16. What is the total population of your institution

Under 2000_____

2001-5000 _____

5001-10,000_____

Over 10,000 _____

17. What is the total number of students in your entrepreneurship minor and major?

Thank you for your help. If you would like a copy of the results, please send an email to

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STUDENT-BASED CONSULTING PROJECTS BENEFITTING LOCAL BUSINESSES

Raj Selladurai, Indiana University Northwest

We use student teams to provide consulting projects and services to local businesses and other organizations in the community. We do a comprehensive study and analysis of the client organization. We produce a professionally developed end of term project report that includes industry analysis, company analysis, and challenges/problems/solutions/recommendations section. This report is customized to suit each client's specific needs and expectations. Student confidentiality is maintained throughout the project and thereafter. Projects include business plans, business analysis and strategies, marketing plan and strategies, feasibility studies, location site analysis, etc. The projects are conducted under the direction and facilitation of the SBI director/instructor of the capstone course in the undergrad business administration program.

The student based consulting projects are conducted in the capstone course of the business administration program, usually taken by students in the final semester of their program. These projects provide hands-on experience and the opportunity to practice business skills and knowledge acquired during their program. Local clients and organizations in the community are selected to work with each group – one student team “works” or consults with one organization for one semester. Each student team consults for its respective client organization and develops a customized final report for its client. The report focuses on the industry analysis, company analysis, and customized challenges/problems/solutions/recommendations. Often, the client implements the student team’s recommendations right away often as is, and sometimes with minor and relevant modifications. Recently one of our student teams consulted for a nonprofit organization and helped them set up a customized website, developed and recommended a business plan and marketing strategies, designed a marketing brochure, and suggested benchmarking related information based on a competitive analysis. All these services are provided free to the clients as a community service -- our program has become very popular in our community; with virtually no advertising or promotion done, our program still gets a lot of interest and several requests for our projects come in every semester that we often have to use the waiting list priority method to offer our consulting services. The projects are mutually beneficial to our students in terms of hands on practical experience and for the client organizations in terms of excellent in-depth analysis and customized solutions. Several of our local clients have seen dramatic improvements in their business, and in some cases, an increase in sales and revenue as a result of using some of the recommendations made by our student teams. Many of these client organizations are still in business and doing well despite the bad economy today. And some clients come back for follow-up consulting projects or for help with some other aspect of their business. It is a win-win for all parties concerned. Recently active partnerships have been formed with the local SBDC (Small Business Development Center) agency to improve and enhance our program and help our clients, and by working together to benefit the whole community.

BEST PRACTICES AT UNCG

Dianne Welsh, University of North Carolina at Greensboro

Abstract

This new, transformative cross-disciplinary Entrepreneurship curriculum is designed to provide students with the knowledge and skills needed for the 21st century. The Entrepreneurship major, two minors, and graduate certificate are built on an entrepreneurship foundation with cross-disciplinary profiles to allow for customization. The seven profiles based on job growth include: Creative Industries, Family Business, Franchising, Health Care Entrepreneurship, International Entrepreneurship, Social Entrepreneurship, and Science, Technology, and Innovation Entrepreneurship. This innovative pedagogy is transferrable to other schools and the profiles expand as more cross-disciplinary courses are developed. The broad nature also allows for schools to customize to their specializations, faculty expertise, and regional economic drivers.

Introduction

The cross-disciplinary Entrepreneurship program responds to educational demands created through dramatic changes in the nature of business. Entrepreneurship has revolutionized all aspects of business. In response to the role of the university in economic development and to develop new kinds of learning, we aligned our curricula more closely with the needs of all students to develop an entrepreneurial mindset. This is sorely needed to build workforce knowledge to meet the demands of an ever-changing world. The curriculum includes courses across campus in Entrepreneurship that further increases students' knowledge base in specific areas of interest and the development of an "entrepreneurial mindset," as outlined by Leo I. Higdon, Jr. in the winter 2005 issue of *Liberal Education*. This serves to alleviate a major concern of employers that graduates lack sufficient Entrepreneurship knowledge to meet the demands of a changing business environment. We have 24 courses cross-disciplinary courses and another eight that relate to entrepreneurship for a total of 33 courses. The courses are taught by over 28 professors from 15 different departments across campus.

UNCG has a very successful cross-campus Entrepreneurship program initiated in 2007 called Building Entrepreneurial Learning for Life (BELL). BELL is a campus-wide, interdisciplinary effort, coordinated by an Executive Committee comprising the Dean of the College of Arts and Sciences, the Associate Provost for Research and Public / Private Sector Partnerships, and the Dean of the Bryan School of Business and Economics. A faculty Advisory Committee meets periodically with the Executive Committee to provide input and suggest new directions. BELL has sponsored course and program development focusing on the following: Creative Industries: Entrepreneurship, Public-Private Innovation & Technology, and Social Entrepreneurship. BELL has over 20 advisory board members from across campus and two committees.

The Entrepreneurship program has a major, two minors in Entrepreneurship—one for non-business majors, and another for business students, and a graduate certificate in Entrepreneurship that is open to those with a baccalaureate degree with any major. The certificate has two tracks – Entrepreneurship and Corporate Entrepreneurship. The students are first prepared by completing foundation courses in Entrepreneurship taught in the business school. Then they build on this knowledge by selecting one of seven profiles based on extensive research on job growth for the next twenty years: Creative Industries Entrepreneurship, Family Business, Health Care Entrepreneurship, International Entrepreneurship, Franchising, Social Entrepreneurship, and

Science & Technology Entrepreneurship. The students then have the option of choosing elective courses to complete their credit hours in other profiles that may apply to their career goals. The capstone Entrepreneurship experience is also based on the seven profiles and custom designed for the student. The unique entrepreneurial internship program target industry clusters of healthcare and biotech, logistics, wholesale trade, finance and insurance, food processing, and the arts to further opportunities for our students and the business community that includes shadowing an entrepreneur and specific matched projects agreed upon by the business and student.

In addition to our program's interdisciplinary nature, there is also a multifaceted nature of Entrepreneurship that is embedded within the curriculum's courses. The vast majority of undergraduate programs in the United States focus on private-sector Entrepreneurship. Our program will also focus on Public-Sector Entrepreneurship and Social Entrepreneurship, where Social Entrepreneurship is viewed within the intersection between Private and Public Entrepreneurship. This answers the call to educate students in Entrepreneurship in the non-profit, public sector as well as the for-profit sector. Graduates are prepared to pursue graduate study in Entrepreneurship or a specific area of liberal education. This further enhances scientific research, innovation, and knowledge generation as well as cultural and social thinking.

The educational objectives for the Entrepreneurship program at UNCG are as follows.

- Analyze how Entrepreneurship is applied through an interdisciplinary approach.
- Incorporate creative and innovative thinking into entrepreneurial behavior and action.
- Identify and evaluate ideas to determine opportunities through feasibility analysis.
- Develop potential opportunities for action through a business plan.
- Evaluate the financial health of the business, including cash flow and the relationship between other limited resources, in order to prepare a financial forecast.
- Communicate entrepreneurial findings effectively, both orally and in written form.
- Apply the business core and Entrepreneurship knowledge and skills in a capstone experiential learning opportunity.

SOCIAL ENTREPRENEURSHIP: A TOOL FOR PERFORMANCE ASSESSMENT OF SOCIAL ENTERPRISES

Semra Ascigil, Middle East Technical University

Abstract

The major shortcoming of social entrepreneurs as the literature portrays is that they lack the tools to manage and trace their performance. Since there is a double bottom-line – economic and social- to be considered, a new instrument is needed. The aim of the panel presentation is to discuss whether the Excellence Model of European Foundation for Quality Management (EFQM) can meet this need. The Model's strength is that it operationalizes both concerns in a framework whereby processes are linked to performance outcomes. The implications for different stakeholders such as social entrepreneurs themselves, entrepreneurship educators, and government are also discussed.

Purpose: Social Entrepreneurship and the Problem of Performance Assessment

Social entrepreneurship (SE) is a novel term whose definition is not clearly done yet. Just like NGOs emerging to fill the gap left by market and government in bringing solution to social problems, social entrepreneurship emerged to fill the gap not filled by private sector, NGOs and other parties (Sud *et al.*, 2008). According to Nicholls and Cho (2006) social entrepreneurs are bringing solutions to social issues by using both market and social tools innovatively. Nicholls (2004) identifies that social entrepreneurs develop structures which differ from NGOs. They may be part of a company where they make use of profits done by their for-profit subsidiaries. Alternately, they may establish for-profit organizations who partner with commercial corporations or dependant on government grants. In the former, since philanthropy has become a strategic issue for many corporations, SE is managed as part of corporate strategic plans. In the latter, in exploiting partnerships, their aim will be to identify and use resources in innovative ways to solve social problems with sustainability. So, here sustainability is the key word which is generally neglected by NGOs.

In any activity, performance assessment is key to sustainable success. Private sector has developed tools to achieve sustainable profitability. Social entrepreneurs are subject to demands for transparency and using objective performance criteria particularly by the donors. Therefore, the number of stakeholders whose expectations they need to satisfy on their legitimacy are even more than that of NGOs. The mission of social entrepreneur therefore can only be accomplished by being socially innovative yet financially viable. However, since social entrepreneurship combines both profitability and social performance, it needs a tool that will integrate both concerns within the same model with a strategic focus. This is a need not yet discussed and met in literature. Therefore, the purpose of the presentation is to discuss how Excellence Model of European Foundation for Quality Management (EFQM) may help social entrepreneurs to assess their performance.

Procedure: EFQM Excellence Model as an Assessment Tool

The social entrepreneurs are faced with three challenges: Managing accountability, managing social and financial objectives at the same time, and managing partnerships. In order to meet these demands, a model is needed that would help social entrepreneurs to balance conflicting interests and operate with more transparency. EFQM has developed the Excellence Model firstly for business enterprises. Later, the Model was translated to public sector and NGOs respectively

in an effort to improve their management. The Model is comprised of nine criteria which are grouped into two categories; enablers and results. The enablers are; Leadership, Management of Strategy and Policy, Management of People, Management of Partnerships and Resources, Management of Processes. The results criteria contain; Customer(client) Results, People Results, Impact for Society, and Results. The appropriateness of the model from social entrepreneurship rests on the fact that results are measured by both financial and non-financial performance indicators. Moreover, it emphasizes that the results with respect to clients, human resources, and impact on society can be obtained only with well-defined processes . The Model provides general guidance as to what performance indicators can be used. Moreover, the entrepreneurs are encouraged to develop new indicators that would best fit to their aim and conditions using the framework provided by the EFQM Model.

The framework provided suggests that a social entrepreneur cannot obtain good results without proper approaches where approaches denote processes. Without proper leadership, policies, management of human resources, and processes, it would just be too optimistic to generate good results. Therefore, the entrepreneur should first identify and develop the five key processes that would provide the basis for good performance. Then, social and economic outcomes can be achieved and further improved through tracing those processes with reliable performance indicators.

The Model can be reinterpreted from SE perspective. Some points that can be covered by the Model are as follows: *Leadership*: The focus can be on how social entrepreneurs develop the mission and vision to maintain a balance between social and economic concerns; how social entrepreneurs develop effective relations with the representatives of community, partnering organizations such as government and NGOs, and service receivers in achieving their goals. *Management of Policy and Strategy*: One focus can be on how social entrepreneurs balance the needs of different stakeholders who are impacted by their activities; how social entrepreneurs maintain a harmony between their strategy and that of other organizations with whom they collaborate in solving social problems. *Management of People*: The emphasis can be on how social entrepreneurs motivate their staff (core and voluntary) in solving social issues. *Management of Partnerships*: The emphasis can be on how social entrepreneurs identify organizations such as NGOs and government departments in developing partnerships that would add value to their relations. *Management of Processes*: The focus can be on how the services provided are designed to meet the expectations of service receivers. *Customer (Client), People, and Societal Outcomes*: The focus can be on development and use of performance indicators.

The main strength of the Model from the perspective of social entrepreneurship is that it rests on the idea that an enterprise cannot be managed well with a mere focus on financial outcomes. Secondly, the stakeholder focus coincides with what social entrepreneurs need to be concerned about. Lastly, the focus on social performance has penetrated to the Model through relevant criteria that brings a comprehensive view for social enterprise management. Therefore, the Model has the potential to serve double bottom-line perspective when customized according to the realities of a social entrepreneur.

Contributions

There is an ongoing debate over how best to measure social entrepreneur's success and its impact on various stakeholders including society (Light, 2008). The EFQM Model provides guidance to social entrepreneurs who try to reach excellence in realizing their aspirations. The

model best serves as a managerial tool capable of tracking social and financial performance. When social entrepreneurs and students in Entrepreneurship programs are trained on the Model, they will be equipped with skills capable of answering multiple facets of their mission. If the mission of entrepreneur is predominantly defined by social issues, the Model answers it by focusing on appropriate dimensions. Or if the entrepreneur explains his/her reason of existence more by market-defined interests, the Model is still capable of addressing how to manage such concerns. So, regardless of on the point the entrepreneur mission lies on the continuum between socially based mission and market oriented mission (Masseti, 2008) , s/he will be able to link his/her mission to well defined processes and well-defined performance indicators by the Model that simultaneously operationalize social and market oriented concerns. With the help of the Model, entrepreneurs can pursue their social mission in a profitable and sustainable way. In literature, entrepreneurship is associated with innovativeness. From this perspective, the strength of the Model is its emphasis on continuous improvement of processes which at the same time assure sustainability.

The implications for entrepreneurship education is that courses on EFQM Model can be added to entrepreneurship curriculum to train students on how it can be used to assess performance. Curriculum development efforts should focus on how best to measure social impact created yet without sacrificing financial concerns. The courses designed may help students to use the model to assess social enterprises from the perspective of EFQM Model. This gives students the opportunity to observe the realities of a social enterprise from different perspectives. The assignment can best be a term-project as it is both challenging and time consuming for students. Through accessing information on management of social enterprises, students will learn difficulties confronted and develop learning loops when combining social and financial issues throughout the Model.

The implications for government departments involved in supporting social enterprises is that they can clarify their expectations better when the Model is practiced. Moreover, government organizations can trace the performance of social entrepreneurs to see how well they contribute their own targets. This will at the same time help economize in using scarce resources in solving social issues.

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PROLIFERATION, INCENTIVE, AND ACCESS TO EQUITY INVESTOR TAX CREDITS

Joe Bell, John Hendon & Brittany Blair University of Arkansas at Little Rock
Don Martin, Southwest Power Pool, Inc.

Abstract

As our economy struggles through a very difficult recession, incentives are being put into place to further incent high net worth individuals (“angels”) to invest in high-risk, growth-oriented startup ventures; the allure of high-risk, high-return investments alone maybe insufficient to adequately grow today’s entrepreneurial community. High-growth, cash-intensive entrepreneurial endeavors create high paying, technology-oriented employment. Can Equity Investor Tax Credits play a role as an entrepreneurial and economic stimulus? This panel provides a general overview of Equity Investor Tax Credits and discusses strategies on how companies might acquire and utilize the credits in raising external investment.

Proposal

Over the past decade more than twenty states have begun to offer tax credits to angel investors in an attempt to increase economic growth in the respective areas. The tax credits are intended to increase venture investment, create jobs, and increase tax revenue collections.

An angel investor is a high net worth individual that will typically invest in an early stage business, but that’s not to say that an angel investor would not invest across a broader spectrum of business stages. For our purposes, we define the range for angel investing as \$25,000 to \$2 million. If your need for funding falls outside these parameters for the most part you’ll be looking at funding from a source other than an angel investor. One must always remember that the angel bases his investment upon a business decision, and does so with the sole expectation of making an exceptional return on that investment. The typical angel anticipates a return of five to ten times their investment amount within a three to five year period. For example if an Angel were to invest \$50,000 into your business in five years, they would expect to receive \$500,000 in return.

As an added incentive to invest, a number of states have made available to angel investors, Equity Investor Tax Credits. Equity Investor Tax Credits can play a key role in the funding of a startup venture. Tax credits allow a dollar for dollar reduction on tax liability, and in most instances, a carry-forward provision that allows unused credits to be applied in future years. For example, a credit of 33% can entice an investor to invest \$100,000 into a venture knowing that her at-risk capital is actually only \$67,000, since \$33,000 will be directly recouped against any tax liability. The investor gets the full effect of the \$100,000 she invests in the company, yet the at-risk capital is reduced to \$67,000.

The objective of this panel discussion is to provide an overview of Equity Investor Tax Credits and then proceed into a detailed discussion as to the actual application process. The panel will also attempt to highlight “hot buttons” that might cause granting governmental agencies to award the credits. The panel will include researchers, and individuals that have acquired in excess of \$5 million of state level tax credits. The panel, prior to opening the floor for discussion, will introduce the pending legislation Congress is considering for federal level Equity Investor Tax Credits.

Presenters

Joseph R. Bell

Joe has been involved with a number of early stage companies that covers the spectrum from basic startups to engineering and computer technologies and the biosciences and pharmaceutical development. He has an MBA in Finance from Michigan State University and a Law degree from Thomas M. Cooley Law School. Joe began his career as a Securities Attorney syndicating real estate projects, and later, moved to the regulatory side, overseeing a \$1+ billion caseload of IPOs representing 150 offerings annually. He is currently an Associate Professor of Entrepreneurship at the University of Arkansas Little Rock, Associate Director of Business Development for BioVentures, the technology transfer and commercialization arm of the University of Arkansas for Medical Sciences, and has been an adjunct faculty member teaching innovation at the Bowen School of Law. His research covers early-stage fundraising, entrepreneurship course work, and case writing. He has also written a book entitled, *"Finding an Angel Investor in a Day: Get It Done Right, Get It Done Fast"*.

John Hendon

A seven-time entrepreneur and former operations director for a \$60 Million company, John brought his experience and interests to the classroom full time in 1994 and has been a Management Instructor for the University of Central Arkansas and more recently the University of Arkansas at Little Rock for over fifteen years. He teaches primarily in the areas of Strategy and Planning, Human Resources Management and Organizational Management and researches in a number of areas in the Management field, specializing in Entrepreneurial research. John is also currently the President of "The VMP Group", where he is President of a 20-member, Arkansas-based business consulting firm. John consults with a variety of small and medium-sized businesses in the areas of Human Resources, Family Business, Strategic and Business Planning, Organizational Design, and Leadership. In addition, he has nearly twenty years' experience as an operating manager, business owner, and military officer.

Don Martin

Don Martin is a native of Murfreesboro, Arkansas and has spent the last 13 years in Little Rock. He received his BSE in Health Sciences from the University of Arkansas at Little Rock and is currently pursuing a Master's in Business Administration, also from UALR. He has worked as a Sr. Customer Relations Representative by Southwest Power Pool, Inc. for nine years.

Brittany Blair

Brittany is a 2001 graduate of the University of Arkansas at Fayetteville with a Bachelor's degree in Psychology. Following graduation, she attended the University of Central Arkansas where she received a Master's degree in Counseling Psychology. Brittany is a Licensed Psychological Examiner, and prior to enrolling at the University of Arkansas at Little Rock, worked for 5 years counseling children and conducting psychological assessments. A company-wide layoff in 2009 provided her the opportunity to pursue my goal of obtaining a Master's degree in Business Administration. She is looking forward to graduating in 2011 and beginning my new career in the field of business and is very grateful for the opportunity to be a part of this paper and this conference.

EXPERIENTIAL STUDENT TEAM CONSULTING

Paul Belliveau & Ron Cook, Rider University

Ron Cook and Paul Belliveau will lead this interactive workshop for SBI program directors and instructors. Based on their book, “The Experiential Student Team Consulting Process”, this workshop will familiarize attendees with the key elements of the student team consulting process and the benefits from applying the book’s principles.

The presenters will facilitate discussion of their experiential team consulting process, a pedagogically sound integrative process model. They will focus on how it helps students to succeed, from the creation of comprehensive letters of engagement through the preparation and presentation of impactful final reports.

This will be followed by open discussion of which new web tools might be helpful to the process and how to use them. Lastly, the presenters will lead a discussion of their work in progress, a rubric for evaluating student team consulting projects.

A SCHOLAR'S APPRENTICE: ONLINE TOOLS FOR HANDS-FREE RESEARCH

Diane Campbell, Rider University

Abstract

Small Business Institute members are vigorous in scholarship and produce research and writing of substance. This workshop will demonstrate online tools that will allow scholars to automatically stay current with specific areas of research and remain aware of the latest publications in all of the important journals of their particular discipline. Further, a free online citation generator will be demonstrated that will allow citation capture from a web browser and creation of bibliographies stored on “the cloud” for access everywhere.

Purpose

All faculty members must remain vigorous in scholarship and produce research and writing of substance, whether at an institution that prides itself on its research focus or one that emphasizes teaching and being student-centered. Small Business Institute members are especially vulnerable to the time-pressures of being a good teacher, advisor, mentor, and coach to their students both in the classroom and in the field. Supervising and mentoring student consulting groups can leave little time to concentrate on research but having little time is not an acceptable excuse for failure to publish. Even after achieving tenure, the expectation remains that you will continue to contribute to the scholarship in your field.

Fortunately, there is help available. Recent improvements in database interfaces and online tools have made it much easier to stay current with scholarship in your field and to collaborate with peers. Many of these improvements have come about in the last few years without becoming widespread among business faculty. This popular session was originally offered as a faculty development seminar in an SBI-member university, and it has been further updated to include automatic citation capture. These tools do not require high-level computer sophistication and also do not require large amounts of set-up time.

Takeaways

Participants will learn about online tools that allow scholars to stay current with specific areas of research and remain aware of the latest publications in all of the important journals of the particular discipline. Participants will be shown how to create either a broad or narrow search that will continue automatically and report new citations as they occur. Further, a free online citation generator will be demonstrated that will allow citation capture from a web browser. These citations can then be organized into collections that are accessible from anywhere and available to share with collaborators.

BUILDING CROSS DISCIPLINARY ENTREPRENEURSHIP/INNOVATION PROGRAMS ACROSS MULTIPLE UNIVERSITIES

Wilburn Clouse, Western Kentucky University

Introduction

This workshop will describe a process designed to connect the concepts related to entrepreneurship to students who are enrolled in classes outside of the field of business. Courses designed and taught by professors outside of business will infuse entrepreneurship into courses all the way from the performing arts to atomic engineering. The development will involve the entrepreneurship faculty member working closely with the faculty member outside of business.

The process will not only involve one campus, but will involve at least 20 other universities from across the nation. Syllabi from all universities will be shared in order that all universities can share in the value of the joint venture. The universities will share in a communication network using WebEX where members can see and talk electronically with each other.

Topics to be discussed include:

1. How to select both entrepreneurship faculty and faculty outside of the College of Business.
2. The role of the entrepreneurship faculty as coaches.
3. The role and interaction of entrepreneurship students with other students outside of Business.
4. Type of projects developed by disciplines.
5. Understanding the role of WebEX in communication between universities.
6. Sharing syllabi and pedagogy.
7. Seeing opportunities and connecting passion with subject content to form new ventures.
8. Student to student interactions—cross disciplines

This workshop will involve ***Learning in Action!*** a process connecting learning with the framework of the learner. It is a holistic approach to the learning process involving the whole-part-whole teaching strategies that connects the learning to live cases written across several different disciplines to develop an authentic learning experience. Our process is designed to be a creative force to help students see new and different ventures in life and to help the United States regain world recognition and redevelop a value system of business ethics and respect for life and the world environment. We want students to experience the power to think and to use this thinking power to build bridges across disciplines, across learning environments and across cultures. We want our students to develop the future, not follow the past. We have placed this process in the total framework of what we call ***Learning in Action!***, to cause the application of knowledge, which is the ultimate reason for learning - thus creating ***Knowledge in Action!***

We have developed a learning process that leads to the application of knowledge through problem based cases. Some of the cases used in this 20 University Experience are as follows:

Changing Generations: An Entrepreneur takes over the Family Business (The Family Business):

This is a simple introductory case to engage students in basic entrepreneurially thought concerning taking over the family business.

The Call (Playing Pro ball): This is a simple introductory case to engage students in thinking creatively and entrepreneurially about an opportunity. It was written by a Vanderbilt football player and revolves around a professional athlete's concerns about his future.

The Big Question (No Sports in School): This is an introductory case to engage students in thinking creatively and entrepreneurially about a decision. It is about a K-12 private school that decides not to have an athletic program.

Night of Celebration (Wealth Distribution Case): This is an introductory case to engage students in thinking creatively and entrepreneurially about a business venture. It also involves the transfer of wealth from generation to generation.

Blackout in America! (Electrical Energy): This case is about the great electrical energy blackout that began in the Midwest and continued to the Eastern US several months ago. This case encourages students to think about new alternatives to electrical power.

A Question of Power (Oil Related Case): This case is associated with the oil industry and provides the student with the opportunity to investigate new business ventures related to other sources of energy.

Chasing the Dragon (Drug Related Case): This case is about the problems associated with the increase in the number of methamphetamine labs in Tennessee. The production of such toxic illegal drugs has created a major social, political and economic problem across our country.

Not in My Backyard! (Recycling Case): The United States is a "throw-away society." This case is about recycling and the many social and economic issues related to this problem.

Music City Blues (Music Case): This is a case about the music business. How does one write lyrics and find a means to support himself or herself?

Talking to the Air (Wireless Technology Case): This is a wireless technology case involving the opportunity to develop a wireless downtown community in a small town.

The Santa Fe Effect (City Planning Case): This is a case designed around the rejuvenation of small downtown areas.

The Phoenix (Cyber Café Case): This case is written to encourage students to develop a cyber café with a cross-disciplinary learning environment that could be the place where great ideas germinate and move into business ventures.

Long Lines and Short Tempers (Homeland Security): This case was written for engineering design classes interested in small device designs for homeland security and terrorism prevention.

Fashion, Fashion Everywhere and Nothing To Wear (Fashion Case): This case is designed to investigate the impact of Fashion on creativity, ethics, culture and international development.

Using cases like these will help the student learn multiple concepts and different disciplines simultaneously. The overriding theme is to produce students who can be creative thinkers in the 21st century. Our world is filled with uncertainty in our social, economic and political systems. Certainty and stability are no longer a given. In recent years, political systems have failed, terrorist activities have increased to be worldwide, world energy systems are changing, world markets are changing, product and process development systems are being modified. The world is unstable and uncertain. But yet most of our formal educational systems teach students how to work and live in a stable and structured organizational world.

Participants will learn how 20 Universities and over 100 Faculty members are working with the Coleman Foundation to infuse self-employment into courses outside of the field of Business. Several of the Faculty members will report on their experience that they experienced during the Fall semester of 2010 and offer suggestions on how to improve the process.

We believe this will be a process that will help put the Business College as a center focus in a multi-campus University and help to revise Business Colleges who have become self-center and silo oriented.

Furthermore, we believe that this set of activities may be helpful to AASB Taskforce on Innovation.

The AACSB Task Force on Innovation and Business Schools released its report in April 2010 on the need for business schools to address issues of innovation. One of their major recommendations is that business schools should become more active in providing leadership across the curriculum to advance innovation education. This workshop proposes strategies for exerting such leadership and positioning business schools to promote research and teaching of innovation. The Task Force report observes that entrepreneurship and innovation may exist separately and are not necessarily totally intertwined concepts. However, their examples of experiential learning were taken from entrepreneurship programs that involve other disciplines. This workshop provides a forum for not only the expansion of entrepreneurship and innovation education across disciplines but across campuses. In this period of reduced resources for most institutions of higher learning, this workshop encourages a cross fertilization of innovative, creative energy and ideas in a cost effective and efficient manner.

SOCIAL ENTREPRENEURSHIP: WHAT DO WE KNOW AND WHAT HAVE WE EXPERIENCED TO DATE?

Lynn Hoffman, Metropolitan State College of Denver
Don Bradley, University of Central Arkansas
Harriet Stephenson, Seattle University
Semra Ascigil, Middle East Technical University

Abstract

Numerous organizations now state that they are involved in social entrepreneurship. The panel/workshop will do an overview of the definition and the types of organizations it encompasses. The panel members will add their experiences in starting, developing, consulting, or advising these organizations.

Introduction and Definitions

Numerous organizations including for profit businesses, nonprofit organizations, and quasi-governmental institutions define some or all of their activities as social entrepreneurship. The panel will present some examples and explain the current range of organizations using the term.

The motivations to social entrepreneurship vary considerably. Some successful for profits are altruistically pursuing some social good to give back to their communities. Others embrace the term for public relations or community relations benefits but do provide some social benefit other than pure profit. Unfortunately, some for profits use the term as window dressing only with little true concern for a social good.

Similarly motivations for nonprofits vary considerably. Many nonprofits have seen their governmental funding, volunteer time, and donations decrease and are actively seeking for profit business opportunities to survive. This may include charging fees for some of their services to those adding for profit ventures to fund their social missions.

Many quasi-governmental organizations or non-government organizations say they are social entrepreneurs and pursue some social good. They may have some fees for services but many focus primarily on their social missions.

Panel Examples

The panel will go over some of their experiences with organizations using the term and explain what the organization did, how they fall within the definition, and what the organization's mission was. The audience will be asked to add other examples of socially entrepreneurship organizations. Each participant will be asked to explain the organization's mission and where they fell on the total profit to total social good continuum.

Measuring Results

Given time the panel will address the issue of measuring results. What are some methods to measure results and where should future research go in this area?

Positives and Negatives

If time permits the panel will go over positive and negative examples of social entrepreneurship. For example was the organization truly pursuing some social good or was this window dressing?

After the Panel Presentation the Questions will be:

- What types of organizations have the panelists and participants seen using this term?
 - What type of for profit entities are involved in some social mission?
 - What types of nonprofit entities are involved in for profit ventures?
- Where is this new trend going? Will we have to change or add to this definition?
- How do we as academicians deal with this issue?
- Has any SBI consulting team worked with a social entrepreneurship organization and how did the instructor or team deal with its different issues?
- How do you cover it in your courses and where?
 - Ethics and social responsibility?
 - Other?

Participation of the Panel

D. Lynn Hoffman	Will provide overview of the definition and the field
Don Bradley	Will provide examples and experiences
Harriet Stephenson	Will provide examples and experiences
Semra Ascigil	Will discuss a model for measuring performance

BUILDING BUSINESS VALUE

Martin O'Neill, Corsum Consulting

Why do some companies become valuable entities in the marketplace while others don't? If you are the founder of a small business or executive of a midsized company, what do you need to be doing right now to build long-term business value for your company?

In the Building Business Value breakout session discover how to:

- Assess your current situation,
- Identify the value drivers for your business,
- Build alignment among the leadership regarding the future and
- Develop specific transformational initiatives that will build real value.

Executives, founders, managers, and entrepreneurs of small and mid-market companies will find proven strategies and tools for assessing a company's strengths and weaknesses, building consensus among the leadership team on company direction, identifying the critical drivers of value, and implementing a plan for transformational change.

BUSINESS PLAN WRITING COURSE; TEACHING BUSINESS MAJORS VERSUS NON-BUSINESS MAJORS

Nina Radojevich-Kelley & Lynn Hoffman, Metropolitan State College

Abstract

With the increased interest in entrepreneurship, most academic institutions offer multiple courses in the field. Perhaps, the most common course to offer is business plan writing.

The purpose of this workshop is to examine methods for teaching business plan courses to business majors and non-business majors. Several schools, from leading research institutions to smaller teaching institutions are examined regarding their methods for teaching business plan courses to students. Specifically, one professor was surveyed from each target school who teaches business plan courses to business or non-business majors. The intent was to analyze the syllabus, find out what is taught, how the business plan course is structured and if the techniques vary from non-business majors and business majors. In addition, the hope was to find out various challenges and obstacles that professors face when teaching B-plan classes to students. Professors from Syracuse University, the University of Colorado-Boulder, the University of Northern Colorado-Greeley, Babson College, and Metro State College of Denver were contacted. Suggestions, descriptions and a brief list of how to teach business plan courses to business and non-business majors are provided. Best practices are presented, along with a discussion involving the audience.

The Structure of the Workshop

The structure of the workshop will be as follows: a brief discussion of business plan course content/syllabi offered at 5 institutions in the USA will be addressed. Similarities and differences among the schools will be high-lighted. The pros and cons of teaching business plan writing to business majors and non-business majors will be discussed and addressed.

The presenters will explain how various schools teach business plan writing courses to non-business majors and business majors. Best practices will be addressed; along with a discussion on the challenges/obstacles those faculties face when teaching non-business majors. We will provide a list of suggestions for faculty who teach business plan writing to business and non-business majors. We will answer some of the questions listed below and ask the audience to provide input based on their personal experiences with teaching business plan courses. As a group we will brainstorm and generate new ideas for teaching business plan courses effectively to non-business and business majors. The presenters will take notes during the discussion session and will share the results via email for those interested.

After the introduction the questions for discussion will be:

- How do you teach business plan writing courses? Workshop style or in a traditional course? Standard methods of teaching? How do you teach it?
- What level do you teach this course to? Is business plan writing a senior level class? Is it for business majors only?
- How can a professor teach non-business majors effectively and not scare them off? How do you teach core business content to non-business majors?
- Is a business background essential for the business plan writing class student? Why? Why not?

- Do you feel that non-business majors are resistant to learn business management concepts? Why or why not? Best practices for teaching non-business majors key business content?
- Do your non-business major students have business experience?
- What are 5 benefits that non-business students may gain from taking a business plan writing course? What challenges do you face teaching non-business majors?
- How do you teach your business plan courses effectively?
- Have you tried to incorporate creativity into your business plan classroom and did it work? How?
- Is it important to teach business plan writing? How is it beneficial to our students? Do investors want to see them?
- Do you put a page number cap on student business plans?
- Should business plan courses be a core business school requirement? Why or why not?

Brainstorm as a Group:

What are 10 new ideas for teaching business plan writing classes effectively? What can we do better?

At the end of the workshop, the presenters will summarize the information and provide a summary of suggested answers.

Presenter Experience

Both presenters teach business plan courses to business and non-business majors at Metro State College of Denver. The presenters have 45 years of combined teaching experience. They teach entrepreneurial courses, business plan courses and management courses. Both presenters are entrepreneurs and small business owners.

HOW TO WORK WITH THE FEDERAL GOVERNMENT OR TEAMING FOR SUCCESS IN FEDERAL CONTRACTING

David Rose, Rose Consulting, LLC

Summary

I propose to teach a 1-hour workshop on how to set up a small business to respond to, and perform Government contracts from a procedural basis.

The first part of the class will focus 10-15 minutes on the simple procedural steps required to align a business with the requirements to bid on a Government Request for Proposal of Invitation for Bid. These include obtaining a DUNS Number, Registering in the Central Contractor Registry, and Filling out the Reorientations and Certifications in order to qualify as a Government contractor.

Part two entails special programs available to various categories of small businesses which give advantages to categories of companies based on "status" such as small business, minority owned, disadvantaged, woman owned, service disabled veteran owned, etc.

The third part will discuss how a special category company or one which has a unique niche can go about finding a "teaming partner" to assist it in taking its services or products to the next level in Government contracting on the path to success. As an aside, we will also discuss ways a small business can "go it alone" by making contact with SDBU (Small Disadvantaged Business Utilization) officials at various Federal agencies to obtain assistance in meeting the purchasing officers and program managers.

The final portion will consist of a question and answer session where I will endeavor to field questions from the audience in the remaining time.

A REVIEW OF SBI JOURNALS SURVEY RESULTS: COMMENTS AND FEEDBACK

Don Sciglimpaglia, San Diego State University

Abstract

A comprehensive survey was conducted to assess the two SBI Journals, the Journal of Small Business Strategy (JSBS) and the Small Business Institute® Journal (SBIJ). Respondents to the online survey were members of the editorial review boards and reviewers for each journal and SBI members. Included were ratings of the quality of small business and entrepreneurship journals, importance of various content areas to include in an SBI journal and appropriateness of inclusion of content areas in JSBS and SBIJ. Additionally, respondents were asked to indicate how, if at all, JSBS and SBIJ should differ. Survey results and recommendations will be presented.

TEACHING ENTREPRENEURSHIP: A NEW FINANCIAL TEMPLATE FOR PREPARING BUSINESS PLAN FINANCIALS

William Wise, Metropolitan State College of Denver

Abstract

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 2,500 and more. Specifically, entrepreneurship classes are designed to teach students how to create businesses including business plan writing.

Most, if not all, entrepreneurship textbooks do not show 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.

The purpose of this workshop will be to demonstrate an Excel (Copyright) financial template for teaching students how to prepare financial statements using values predominately generated in the marketing section of their business plans. I will offer and discuss the details of this template. I will provide workshop participations. This demonstration will work beneficial if everyone in the audience brings a laptop computer.

The audience will be asked to participate in a number of questions based on their opinions of the template in action. This questions session will be open to any questions that come to mind, and notes will be taken.

The Structure of the Workshop

The structure of the workshop will be as follows:

1. A description of the template's capabilities;
2. The Input Sheet;
3. The financial statements that will be automatically prepared; and
4. How to determine if the students' answers are reasonable.

After the introduction the questions for discussion will be:

1. How much time do you allot to teaching the Business Plan;
2. How detailed is the Business Plan your students are to prepare? and
3. How do you teach them to prepare a Balance Sheet, Profit & Loss Statement, Cash Flow Statement, Ratio Analysis Statement, and Economic Profile considering most of our students have little accounting training?

Brainstorming as a Group

1. What problems do you see in using a financial template like this?
2. What do you like about it?
3. What don't you like about it?
4. What would you like to see changed? and
5. Do you think a Business Plan even needs financial statements?

In Conclusion

In short, the students fill out the Input Sheet with values most of which are already generated in their marketing sections. All the above mentioned financial statements are automatically prepared by the template without the students' having to know ANY accounting.

In my experience when I begin to discuss ratios, I see a class full of glazed stares. Yet, this is one of the first places a banker or investor turns. So whether the students see the relevance of ratios, their Business Plans need them to be deemed professional.

At the end of the workshop I will summarize the discussions and provide a summary of suggested answers and opinion

