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# **Top Management International Orientation and Small Business Exporting Performance: The Moderating Roles of Export Market and Industry Factors**

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## **ABSTRACT**

This study examined the relationship between a top management team's (TMT) international orientation and small business export performance. Results generally supported the hypotheses that market and industry factors moderate this relationship. Specifically, TMT international orientation had a greater positive relationship with export performance for firms (a) exporting to countries culturally and economically different from their home country than those exporting to countries similar to their home countries and (b) competing in multidomestic industries than those competing in global industries.

## **INTRODUCTION**

Recent advances in technology and transportation have allowed even the smallest firms to expand abroad. Although these small businesses have limited resources, many have been able to successfully increase sales overseas through exporting. This trend has prompted increased interest in key success factors influencing small business export performance (e.g., 6;26).

One such key success factor is the effect a small firm's top management team (TMT) has on export performance. As the individuals who scan a firm's environment and make critical decisions for the firm based on their interpretation of this information, a firm's TMT can play an important role in a small firm's performance (1). One major stream of this research has examined the relationship between a TMT's "international orientation" (developed through managers' experiences such as learning foreign languages or living overseas) and export performance (12;21). These studies have generally posited that this orientation improves a TMT's ability to collect and interpret key foreign market information, which should lead to improved export performance (25).

Findings to date, however, have been mixed. For example, studies investigating the relationship between top management language proficiency and export performance have found strong, marginal, and no evidence of a relationship (9,18,23). One explanation for these results may be that the relationship between a TMT's characteristics and performance varies based on a firm's environmental factors (14). For example, one might expect a TMT's foreign language skills to provide greater benefit to a small firm's exporting efforts in countries having a different language than the firm's home country than in those having the same language.

Thus, the purpose of this paper is to investigate whether the relationship between TMT international orientation and export performance varies based on different environmental factors. Although a firm's environment can be characterized along several dimensions, the paper focuses on two key international contingencies, export market and industry characteristics. It concludes by discussing the results in terms of managerial and future research implications.

## **TMT INTERNATIONAL ORIENTATION AND EXPORT PERFORMANCE**

TMT issues constitute a major research stream in small business literature because of the critical impact that TMT decisions can have on firm performance (15). Studies employing this strategic leadership" perspective generally hypothesize that different backgrounds and experiences provide managers with different skills, attitudes, and biases that they then use to interpret their firm's environment and make key decisions (7;16). In addition, studies have generally found that the better a TMT's background provides it the skills to handle a firm's situation, the better the firm performs (e.g.,4;14;22).

Studies in the small business export literature have examined the TMT characteristic "international orientation," measured as the percentage of a firm's managers having experiences such as living overseas, studying foreign languages, or having previous involvement in international business (12). Several studies have found this orientation to be related to export performance. For example, research has found that a TMT's previous international work experience is positively related to a firm's export performance (3). Other studies have found that TMT's international orientation discriminates among firms having different levels of export involvement (10;21;25). These studies have generally concluded that an international orientation provides a TMT with a greater ability to collect and interpret key environmental information about export markets, which the TMT can then use to make critical decisions about serving these markets.

In contrast, some studies have found marginal or no relationship between international orientation and export performance (9;18). One reason for these mixed results may be that research has yet to examine the effect of environmental factors on this relationship. As noted, however, as these factors vary, the skills needed by a firm's TMT to collect and interpret information can change (14;22). Thus, a clearer understanding of international orientation-export performance relationship may be obtained by directly examining these environmental factors.

Two factors that can affect the amount and complexity of international information that a TMT needs to process are export market and industry characteristics. First, export markets can vary along several dimensions including culture and economic development. When a firm exports to a country that differs from its home country along these dimensions, the amount of information needed by a TMT as well as the difficulty in obtaining this information can increase (19). For example, when a firm exports to a country having a significantly different culture from its home country, its TMT may face increased uncertainty about important factors such as consumer attitudes. Moreover, differences in language may complicate gathering this critical information. Similarly,

when a firm exports to a country having a different level of economic development, its TMT may face increased uncertainty about important factors such as local business practices. In contrast, when a firm exports to a country similar to its home country in terms of culture and economic development, its TMT may require less market information and should be able to obtain any needed information with limited obstacles.

Thus, information processing benefits provided by a TMT's international orientation should become more important to export performance as the firm increasingly targets markets different from its home country. In countries similar to the firm's home country, these benefits should be less pronounced. This suggests the following hypotheses:

**H1: TMT international orientation will be more positively associated with export performance for firms exporting to culturally distant countries than those exporting to culturally similar countries.**

**H2: TMT international orientation will be more positively associated with export performance for firms exporting to economically different countries than those exporting to economically similar countries.**

Second, industries vary along several dimensions including the degree to which customer needs change across countries (24). When a firm competes in an industry characterized by different customer needs across countries (i.e., a "multidomestic" industry), a TMT needs to collect and process increased information to adapt the firm's product to local consumer needs. In contrast, when a firm competes in an industry characterized by similar customer needs across countries (i.e., a "global" industry), a TMT would require less information because the firm can sell a standardized product to all markets.

Thus, information processing benefits provided by a TMT's international orientation should become more important to export performance when a firm competes in an industry where different customer needs exist across markets. In industries with standardized customer needs, these benefits should be less pronounced. This suggests the following hypothesis:

**H3: TMT international orientation will be more positively associated with export performance for firms competing in multidomestic industries than those competing in global industries.**

## **METHODOLOGY**

Data for this study were collected employing a mail questionnaire sent to 1000 firms randomly selected from a Dun & Bradstreet database of U.S. small business exporters. The questionnaire was pretested with several university faculty members familiar with small business research to ensure content validity.

Following the survey method prescribed by Dillman (13), a questionnaire was sent to the top manager of each firm followed by a postcard and then a second questionnaire in the

case of non-respondents. From the initial sample, 70 surveys were returned as undeliverable. Of the remaining sample, 156 surveys were returned yielding an effective response rate of 17 percent. This response rate falls well within the 10 to 20 percent expected responses for national surveys of top managers (cf. 17). Forty respondents indicated that their firms no longer exported, and, thus, they were excluded from the sample.

Because late respondents have been shown to resemble non-respondents more than they resemble early respondents (20), correlations between response order and several survey items (e.g., firm size and export involvement) was examined. No significant correlations were found thus reducing concerns of non-response bias.

Each firm's TMT was defined by the top manager who responded to the survey (5). The survey focused on three TMT characteristics that have been used to define international orientation: international work experience, experience living abroad, and foreign language proficiency. Respondents indicated the percentage of top managers in their firm who had each characteristic.

Respondents also provided information about market and industry factors. For market factors, managers were asked to indicate their firms' largest export market. Firms were then classified dichotomously according to whether or not they listed an "Anglo" country as their largest export market (27). Because countries in this group are culturally similar to the U.S., this distinction provides a way to test the relationship between international orientation and export performance while controlling for cultural influences. Anglo cultures and non-Anglo cultures were coded as 0 and 1, respectively. Next, firms were classified dichotomously according to whether or not they listed a developed country (DC) as their largest export market. Because these countries are more economically similar than less developed countries (LDCs) are to the U.S., this classification provided a way to test the relationship between international orientation and export performance, while controlling for economic influences. DCs and LDCs were coded as 0 and 1, respectively.

The degree to which each firm's industry exhibited characteristics of a global industry was measured employing a scale developed by Carpano, Chrisman, and Roth (8). Using a 5-point scale, managers were asked to rate how characteristic each of five factors (e.g., buyer/customer needs are standardized worldwide) was for competing in their industries. Cronbach's alpha for this industry measure was .81. Responses for each firm were summed to determine an overall "global industry" score with low and high scores indicating multidomestic and global industries, respectively.

Because export performance is a multiple dimensional construct, it was measured in three ways: export percentage (i.e., export sales/total sales), three-year average export growth, and three-year average export profitability. The survey prompted each respondent to report the firm's growth and profitability relative to competitors on a 5-point scale (1=much lower to 5=much higher). This industry-relative scale was used for two reasons. First, given that the study employed a multi-industry sample, profitability measures could

contain industry effects that could confound results (11). Second, measuring performance relative to competitors provides an indication of how successful a firm's strategy is, given the demands of the firm's particular industry environment (8). After classifying firms according to market and industry factors, moderated regression analysis was employed to test the hypothesized moderated relationships. This type of regression was appropriate because the hypothesis tested are relational (2;14). Two control variables, TMT size and firm export experience (i.e., years the firm has exported) were entered first into the equation. TMT size was controlled for because larger TMTs may be able to process more information (14), regardless of the TMT's international orientation. Export experience was controlled for because it may be related to export performance (e.g., firms that have exported longer may have been able to overcome initial start-up costs). Next, international orientation and environmental variables were entered. Finally, the interactions between international orientation and environmental variables were entered.

## RESULTS

Table 1 summarizes the regression results for Hypothesis 1. As shown in the table, the interaction between percentage of managers who have international work experience and cultural difference has a significant positive relationship with both export percentage and export growth. Thus, TMT international work experience has a greater effect on export performance for firms exporting to culturally different countries than those exporting to culturally similar countries. These results support Hypothesis 1.

**Table 1: Regression Estimates of the Effects of Culture on the Relationship between International Orientation and Firm Performance**

<b><u>Variables</u></b>	<b>Export Percentage<sup>a</sup></b>		<b>Export Growth<sup>b</sup></b>	
	<b><u>B</u></b>	<b><u>s.e.</u></b>	<b><u>B</u></b>	<b><u>s.e.</u></b>
<b>Intercept</b>	7.67	4.97	2.32	.30
<b>Export Years</b>	.27	.14	.01	.01
<b>TMT Size</b>	.81	1.14	.16*	.07
<b>Non-Anglo Culture</b>	6.55	5.15	-.12	.31
<b>% Lived Overseas</b>	9.17	15.89	-.14	.95
<b>% Speak Foreign Language</b>	8.10	17.30	-.08	1.01
<b>% Int'l Work Experience</b>	-9.46	9.99	-.43	.51
<b>Non-Anglo x % Lived Overseas</b>	-4.11	18.10	.44	1.07
<b>Non-Anglo x % Speak For. Lang.</b>	-14.80	21.19	-.26	1.22
<b>Non-Anglo x % Int'l Work Exp.</b>	27.60*	13.67	1.47*	.75



\*  $p < .05$ , \*\*  $p < .01$ , <sup>a</sup> Equation significant at  $p < .01$ , <sup>b</sup> Equation significant at  $p < .05$

Table 2 summarizes the regression results for Hypothesis 2. As shown in the table, the interaction between percentage of managers who have lived overseas and economic difference has a significant positive relationship with export profit. Thus, TMT experience living overseas has a greater effect on export performance for firms exporting to economically different than those exporting to economically similar countries. These results support Hypothesis 2.

**Table 2: Regression Estimates of the Effects of Economic Development on the Relationship between International Orientation and Firm Performance**

<u>Variables</u>	<b>Export Profit<sup>a</sup></b>	
	<u>B</u>	<u>s.e.</u>
<b>Intercept</b>	2.38**	.25
<b>Export Years</b>	.01	.01
<b>TMT Size</b>	.05	.06
<b>LDC</b>	.66*	.31
<b>% Lived Overseas</b>	-.06	.41
<b>% Speak Foreign Language</b>	-.73	.54
<b>% Int'l Work Experience</b>	.86*	.37
<b>LDC x % Lived Overseas</b>	2.21*	1.00
<b>LDC x % Speak For. Lang.</b>	.18	1.20
<b>LDC x % Int'l Work Exp.</b>	-1.48	1.04

\*  $p < .05$ , \*\*  $p < .01$ , <sup>a</sup> Equation significant at  $p < .01$

Table 3 summarizes the regression results for Hypothesis 3. As shown in the table, the interaction between percentage of managers who have overseas work experience and degree of industry globalization has a significant negative relationship with both export percentage and export growth. Thus, TMT international work experience has a greater effect on export performance for firms competing in multidomestic industries than those competing in global industries. These results support Hypothesis 3. In contrast, the interaction between percentage of managers who have lived overseas and degree of industry globalization has a significant positive relationship with export percentage. Thus, contrary to Hypothesis 3, TMT experience living overseas has a greater effect on export performance for firms competing in global than those competing in multi-domestic industries

**Table 3: Regression Estimates of the Effects of Industry Type on the Relationship between International Orientation and Firm Performance**

<b><u>Variables</u></b>	<b>Export Percentage<sup>a</sup></b>		<b>Export Growth<sup>b</sup></b>	
	<b><u>B</u></b>	<b><u>s.e.</u></b>	<b><u>B</u></b>	<b><u>s.e.</u></b>
<b>Intercept</b>	-7.27	9.20	1.79**	.56
<b>Export Years</b>	.14	.14	.00	.01
<b>TMT Size</b>	1.45	1.06	.19**	.06
<b>Global</b>	1.11	.60	.03	.04
<b>% Lived Overseas</b>	-75.77*	36.77	.25	1.72
<b>% Speak Foreign Language</b>	-32.36	39.17	-3.48	1.81
<b>% Int'l Work Experience</b>	98.33**	37.79	5.13**	1.77
<b>Global x % Lived Overseas</b>	5.49*	2.37	-.00	.16
<b>Global x % Speak For. Lang.</b>	1.87	2.38	.21	.11
<b>Global x % Int' Work Exp</b>	-5.33*	2.26	-.30**	.01

\* p < .05, \*\* p < .01, <sup>a</sup> Equation significant at p < .01, <sup>b</sup> Equation significant at p < .05

## **DISCUSSION AND CONCLUSION**

Prompted by increased small business exporting, research has examined key success factors related to small business export performance. This study provides insight into one important factor by showing that a relationship exists between TMT international orientation and a firm's export performance. In particular, the results support the study's general hypothesis that this relationship will vary based on a firm's export market and industry characteristics .

These findings should not be interpreted to mean that TMT international orientation has no value for firms exporting to markets similar to a firm's home country or competing in global industries. Indeed, one study has shown that this orientation is positively related to export performance in a global industry (3). Based on the results in this study, however, one could expect that the positive effect of a TMT's international orientation would be greater for firms exporting to markets dissimilar to the firm's home country or competing in multidomestic industries. Moreover, these findings should be interpreted in light of the study's limitations. Most importantly, the survey provides a cross-sectional snapshot of the relationship between TMT international orientation and export performance. The study, however, mitigates this limitation somewhat by including three-year average performance measures as well as controlling for the number of years a firm has exported.

For researchers, these results illustrate the importance of including environmental variables when examining a TMT's role in small business export performance. Because firms face myriad environmental variables, future studies should examine other possible contingencies. For example, studies could examine the impact of variables such as political risk or geographic proximity on the international orientation-performance relationship.

Consultants also need be cognizant of the different impact that environmental characteristics may have on the relationship between TMT characteristics and export performance. These results show that recommendations such as hiring new managers with significant international work experience are likely to have greater impact on firms exporting to countries that differ from their home country. Moreover, the impact can vary systematically by industry.

Increased small business exporting has prompted growing research into key success factors related to a firm's performance. This study's results provide a better understanding of a TMT's role as one of these success factors.

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# **A NORMATIVE FRAMEWORK TO ASSESS SMALL-FIRM ENTRY STRATEGIES: A RESOURCE-BASED VIEW**

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## **ABSTRACT**

The resource-based view of a firm complements current strategic management thought by refocusing efforts on the long-term accumulations of assets rather than short-term resource allocations. We synthesize concepts from the resource-based view with the literature on alternative entry strategies to develop a normative framework for small-business decision makers.

## **INTRODUCTION**

A growth-oriented small business can create and sustain a competitive advantage as long as customers perceive value in the products/services the business offers and its difficult for competitors to emulate. Therefore, distinctive competence and competitive advantage are a function of both the resources a firm possess and environmental attributes. Unfortunately it is often quite laborious for a small business to acquire the resources necessary to create a sustainable competitive advantage. The question then becomes, "What types of strategies can a small firm pursue in an attempt to acquire these requisite resources?"

Several levels of strategies have been identified in the strategic management literature. These include: corporate-level strategies to identify which industries a firm should operate in (e.g., diversification strategies), entry-level strategies to identify how to enter new industries (e.g., joint-venture strategies), competitive-level strategies to identify how to compete in a given industry (e.g., low-cost and differentiation strategies), and functional-level strategies to identify how to effectively allocate resources. The small-business literature contains numerous studies investigating competitive- and functional-level strategies, as well as several studies investigating diversification strategies. However, with the exception of studies on franchising (c.f., Elango & Fried, 1997) and exporting (c.f., Brush, 1996), there is only a limited bibliography of research that investigates entry strategies small firms may use to acquire resources necessary to create a competitive advantage.

Based on an exhaustive review of journals publishing studies on small-business strategies, only three studies specifically considered alternative types of small-business entry strategies. One of the most noteworthy studies investigating various entry strategies available to small businesses is Vesper's (1990) 14 *entry wedges* for new ventures trying to enter new markets with existing competition. Additionally, Weinzimmer, Robinson and Fink (1994) identified several entry strategies available to small firms based on the

occurrence of technological discontinuities in a firm's environment. Finally, Forrest (1990) studied different strategic-alliance options for small technology-based firms, including client sponsored research and collaborative research and-development.

Given the absence of studies identifying entry strategies in the small business literature, one must ask the question "Is the study of entry strategies important in trying to determine small business success?" Deciding on an appropriate entry strategy is clearly important to large firms because it will impact long-term competitive position and ultimately growth and profitability. While small firms do not make entry strategy decisions as often as large firms, one can argue that these same entry-strategy decisions are even more critical to small business success. In addition to being concerned about competitive position and profitability, basic survival may be at stake if a small business selects an inappropriate entry strategy.

Moreover, it has already been demonstrated that small firms which adopt formalized strategic planning processes improve the quality of strategic decisions, including different forms of entry strategies (Lyles, et al., 1993). In order to fill this apparent gap in the extant literature and to provide entrepreneurs with additional information regarding the selection of appropriate entry strategies, we develop a normative model to provide a framework to assist small business decision makers in identifying appropriate entry strategies.

We draw heavily on the literatures examining the resource-based view (RBV) of the firm to provide new insights into the selection of small firm entry strategies. The resource-based view has recently received considerable attention in the strategy literature, where the *Journal of Management* devoted a special issue to the topic. We chose to take this approach because the resource-based view of a firm complements current strategic management thought by refocusing efforts on the long-term accumulations of assets rather than short-term resource allocations. Unfortunately, given the relatively recent integration of the resourcebased view of a firm into the strategy literature, our above-mentioned literature review identified only one study (Greene, Brush & Brown, 1997) that applied this view in a small-business context.

In order to develop our model, we begin with an introduction of the resource-based view of a firm to provide readers with the necessary background to apply RBV when selecting an entry strategy. We then synthesize concepts from RBV with the literature on alternative entry strategies to develop a normative framework for small-business decision makers. Specifically, from the resource-based view, we consider: 1) different types of distinctive competencies--tangible/intangible resources owned by a firm and capabilities/processes used by a firm; 2) the degree to which these distinctive competencies can be sustained given certain environmental attributes, such as ease of imitation, abilities of competitors and industry dynamism.

## RESOURCE-BASED VIEW OF A FIRM

When one thinks of strategic planning, the analysis of strengths, weaknesses, opportunities and threats (SWOT) comes to mind. This paradigm has been the central focus of strategic management for over a decade. Recently, the strategic management literature has begun to recognize an approach developed by industrial organization (I/O) economists to identify distinctive competence called the resource-based view. While RBV is not intended to replace current strategy thought, it does have the potential to improve strategic analysis. The key difference between traditional strategic management and RBV is the focus on chronology. Strategic management focuses on transitory streams of revenues and expenses (e.g., investment in improving processes to lower cost base), while RBV focuses on enduring accumulations of assets (e.g., extent to which the cost base is lowered) (Collis & Montgomery, 1997). For example, focusing on how transitory streams of revenue allocations create a competitive advantage may reveal how a firm achieved higher profits because it was able to lower its cost base. But the reason competitors cannot replicate this success from investing in process research-and-development is because they do not have the technological expertise. Therefore, it is not the streams of resource expenditures that allow the firm to *sustain* competitive advantage, but the accumulation of knowledge to commercialize an improvement in process knowledge.

A major contribution from RBV is that it provides a helpful theoretical framework for discussing the internal resources for firms of all sizes. It attempts to describe the way in which resources drive economic performance in a dynamic competitive environment. RBV draws on both internal and external analysis to describe a competitive environment. Through analyzing distinctive competencies, this view identifies abilities and strengths that may explain why some competitors are more profitable than others (Collis & Montgomery, 1995).

### Distinctive Competence

The resource-based view focuses on resources that are tied to a firm in a relatively permanent fashion (c.f., Caves, 1980; Wernerfelt, 1984). The combination of resources and sequencing over time allows for the evolution of specific capabilities which optimally lead to competitive advantage (Amit & Shoemaker, 1993).

The most commonly used application of RBV in the strategy literature is to use it to identify *types* of distinctive competence, where distinctive competence is defined as something a firm can do better than any of its competitors. Specifically, RBV identifies two types of distinctive competence: resources and capabilities (Collis & Montgomery, 1997).

**Resources.** Resources as a form of distinctive competence may be either tangible or intangible. *Tangible resources* are physical assets that a firm owns, such as a unique product, plant and equipment. *Intangible resources*, on the other hand, do not physically



exist, however they provide significant value, such as brand name recognition, reputation, patents, and technological or marketing know-how (Collis & Montgomery, 1995).

**Capabilities.** Capabilities refer to a company's skills at coordinating its resources and putting them to productive use (Collis & Montgomery, 1995). Unlike tangible and intangible resources, capabilities of a business include values, people, and processes (Collis & Montgomery, 1997). Capabilities specify how and where decisions are made within a company, the kind of behaviors the company rewards, and cultural norms and values.

### **Competitive Advantage**

In order to turn a distinctive competence into a sustainable competitive advantage, a firm not only needs to possess a unique resource, but must also have the capabilities in place to exploit that resource. Therefore, the distinction between resources and capabilities is critical to understand what generates a competitive advantage. A company may have unique and valuable resources, but unless it has the capability to use those resources effectively, it may not be able to create or sustain a competitive advantage.

For example, consider EMI, Ltd., the company that invented the CAT scanner. EMI had a distinctive competence in the form of a tangible resource. This was such a great accomplishment that the EMI research engineer who invented the machine won a Nobel prize for doing so. Initially, EMI was the only company that knew how to make CAT scanners. Clearly, EMI, Ltd. possessed a tangible resource as a source of distinctive competence, however it did not have the capabilities (manufacturing processes, service and support staff) to exploit this resource. General Electric, having sophisticated manufacturing processes and a sizable sales force, saw the opportunity for CAT scanner sales. They manufactured a modified version of EMI's invention (to work around the patent) and General Electric is the company that eventually realized the most benefit from the CAT scanner sales (Hill & Jones, 1998). Therefore, in order to realize the full benefits of a distinctive competence, a firm needs both resources and capabilities to turn the distinctive competence into a long-term competitive advantage.

This becomes particularly critical for entrepreneurial firms. For new ventures, achievement of a competitive advantage may be an ultimate but not immediate goal. Instead, survival or successful acquisitions of resources may be primary objective (Churchill & Lewis, 1983; Greene, Brush & Brown, 1997). However, once a small firm develops a distinctive competence, seldom does it possess both the resources and the capabilities to exploit the resource. If this is the case, choosing an appropriate entry strategy becomes critical to maximizing the benefit from a distinctive competence.

### **MODEL DEVELOPMENT**

The model will identify appropriate entry strategies based on two dimensions: 1) the degree of distinctive competence possessed by a firm, 2) the degree to which a distinctive competence can be sustained over time.

## Levels of Distinctive Competence

Recall that two forms of distinctive competence exist: resources (both tangible and intangible) and capabilities. While many successful small businesses possess neither form of distinctive competence, having at least one form provides future growth opportunities that would otherwise not exist. Moreover, by possessing both forms, distinctive competencies can further position a firm to take advantage of growth opportunities by providing potential competitive advantage.

## Degree of Sustainability

To select an appropriate entry strategy, we have already contended that a small business needs to consider its forms of distinctive competencies. However, environmental context must also be considered before an appropriate entry strategy can be identified. Even though a company may have unique and valuable resources and the capabilities to exploit these resources, the competitive environment will determine the degree to which competitive advantage can be sustained.

## Selecting an Appropriate Entry Strategy

There are four basic categories of entry strategies available to a firm identified in the strategic management literature: *internal development*--entering a new market by one's self, *joint venture*--entering a new market through a partnership, *acquisition*--entering a new market by purchasing another company, and *leasing*--entering a new market by offering a product/service through other firms (e.g., licensing and franchising). Clearly, each of these strategies has its own advantages and disadvantages, and given the specific context facing a small-business owner--in terms of possession of distinctive competence and degree of sustainability--certain entry strategies become more appropriate than others to achieving long-term success.

By considering the interrelationships between possession of certain distinctive competencies and opportunities to sustain competitive advantages, contexts arise that dictate specific entry strategies. In order to view these contingencies, six scenarios are discussed.

**Scenario I.** In this instance, a firm possesses no form of distinctive competence in an industry characterized by unconstrained sustainability where factors like imitation and turbulence are low. Since the firm has no source of distinctive competence, the opportunity to pursue a strategic alliance would be minimized, as the firm has limited attractiveness for a strategic alliance partner. If the firm were able to *acquire* a distinctive competence, it would have the opportunity to sustain that competence over a long-term period.

**Scenario II.** Here, a firm has a distinctive competence in the form of either a resource or a capability in an environment that would allow for long-term sustainability. As evidenced in the EMI, Ltd. example, trying to exploit one form of distinctive competence

without the other may expose a firm to considerable risk. However, when a firm possesses a distinctive competence, it may become a potentially attractive *joint-venture* partner. Therefore, if market timing is critical, it may be advisable to find a joint venture partner that can fill in the gaps necessary to turn the distinctive competence into a competitive advantage.

**Scenario III.** This context provides the most opportunity for future growth, where a firm possesses both forms of distinctive competence in an environment that is supportive of longterm sustainability. In this situation, *internal development* allows a firm to pursue growth opportunities without having to share the benefits' of valuable distinctive competencies with other firms.

**Scenario IV.** When a firm is located in an environment characterized by constrained sustainability and does not possess any sources of distinctive competence, new growth opportunities are limited. Investment into resources to develop competitive advantages may not be wise given the potentially shortlived benefits inherent of constrained sustainability. Moreover, the opportunity for a successful strategic alliance would be limited because the firm has no distinctive competencies to offer the partnership. If a firm is located in this Scenario and wants to pursue new growth opportunities, it may consider *diversification* into new markets through either geographic or product expansion.

**Scenario V.** When a firm is located in a constrained market, but has a source of distinctive competence, a *joint venture* may be appropriate for reasons similar to discussion in Scenario 11. However, trying to develop the other form of distinctive competence over time would not be advisable, given the short-term nature of a constrained environment.

**Scenario VI.** In a situation where a firm possesses both forms of distinctive competence in an environment characterized by constrained sustainability, rather than investing resources in a short-lived competitive advantage, the firm could pursue a *leasing strategy*. Specifically, to realize the short-term benefits associated with a constrained environment, the firm could either a license or franchise its distinctive competence to minimize capital commitment while still benefiting from the competitive advantage.

## IMPLICATIONS AND CONCLUSIONS

The decision regarding how to enter a new market is complex multidimensional. Not only should a small business consider sustainability of resources, but it must also recognize constraints. For example, a small business may possess a form of distinctive competence where the possibility of a joint venture may be beneficial. However, the small business owner may be reluctant to delegate responsibility or share control, making pursuit of a joint venture unrealistic.

Therefore, the model we offer in this study is not designed to be the single-source decision criteria for deciding on a particular entry strategy. Rather it is intended to

provide small business owners with additional information to make a well-informed decision.

Potential benefits associated with this model may be realized by both practitioners and researchers. Although the notion that resources drive the sustainability of competitive advantage is simple, companies often have a hard time identifying and evaluating their own resources, assessing whether they are strengths or weaknesses, and understanding whether they can be sources of sustainable competitive advantage (Collis & Montgomery, 1997).

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# DESIGNING A CLIENT NEEDS MODEL FOR ENTREPRENEURSHIP AND SMALL BUSINESS EDUCATION

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## INTRODUCTION

While the need for entrepreneurship and small business education has been documented for some time (Sexton and Van Auken, 1981; Sexton and Upton, 1987) it has become even more critical in today's economy. In the United States, small firms vastly outnumber large firms. Based on Internal Revenue Service tax returns, 22 million U.S. businesses exist and fewer than 7,000 of those qualify as large firms [more than 500 employees] (U.S. Department of the Treasury Report, 1996). In addition, small businesses have been vital to job development in the U.S., accounting for virtually all of the net new jobs from 1987-1992 (Ashmore, 1996).

Most business leaders and educators argue that while entrepreneurship and small business education is not always *effective*, it is an *essential* component of business education and must be offered to students (Bagby and Stetz, 1993; Hood and Young, 1993; Sexton and Upton, 1987). As many as 1,000 two and four-year schools of higher education have courses in small business, entrepreneurship, and new venture start-up compared to as few as 50 in 1975 (Vesper, 1993). In addition, at least five states have passed or have pending legislation mandating entrepreneurship education in the K-12 program (Lacho, 1997).

In an effort to improve the effectiveness of the courses offered in entrepreneurship and small business, creative and innovative pedagogy and methods are being suggested and introduced to the classroom (see Klatt and Guglielmino, 1997; Ogbuehi, Enyinda, and Ramirez-Smith, 1996; Teal and Hoffer, 1996; Whitlock and Campbell, 1995 for examples). However, problems of how to introduce awareness of the issues surrounding entrepreneurship and small business ownership while offering exposure to the basic skills most important to small firm management and ownership frequently occur. Since all small firms are not entrepreneurial in nature (Carland et. al., 1984), decisions must be made about whether to examine skills required to start a new venture or those required to manage an on-going concern. If a new venture course is offered, then the decision must be made about whether to focus on startup activities, growth issues, decline or succession issues or all of the above.

Class content decisions are complicated by the fact that many universities are recognizing the need to serve more than one audience with their small business and entrepreneurship programs. While traditional students have been the typical audience for college and university classes, entrepreneurship and small business programs often serve the more non-traditional markets, as well. These markets, primarily small business owners or entrepreneurs and employed students represent a unique student market.

It could be argued that with these markets and the applied nature of entrepreneurship and small business education, educators could benefit from input from the "client" or student. However, a market-oriented or client needs model of education is a "non-traditional" approach to curriculum development. The more traditional approach has been based on the assumption that students, who are not yet educated on a particular topic would not have the insight to understand what they need to learn.

Yet, in a recent focus group of entrepreneurs who were leading "rapid growth" organizations, a number of interesting findings emerged. In particular, entrepreneurs want to decide what they learn, where to learn, and how to learn (Sexton, Upton, Wacholtz, and McDougall, 1997). In addition, in an attempt to design a descriptive national model of entrepreneurship education, Marchigiano-Monroy (1993) argued that "any attempts at structuring or restructuring the product offerings of entrepreneurship education must have, as a primary target, client need fulfillment"(p. 17).

Toward that end, this research had a two-fold purpose: 1.) to develop a marketing based client needs model for small business or entrepreneurship courses and 2.) to apply that model by obtaining the perceptions of two groups which are often audiences for such a course: small business owners/managers and business students.

## **MODEL DEVELOPMENT**

Our market-oriented model, which incorporates four stages in the development of entrepreneurship education (marketing research, course content design, course delivery, and course assessment) is shown in Figure 1 (omitted). The model is based on the proposition that information derived from users of small business or entrepreneurship courses (marketing research) must drive the content, delivery, and assessment of these courses. It also assumes an interrelatedness between course content design, course delivery, and course assessment such that each is dependent upon and supportive of the other two.

The first step in the model is to gather information that will assist in understanding the issues in small business and entrepreneurship education. Using *market research* to develop small business and entrepreneurship courses includes obtaining information from three primary groups: current and potential small business and entrepreneurship students; entrepreneurs and small business owners; and individuals who regularly provide advice to small business owners and entrepreneurs such as bankers, attorneys, CPAs, SBDC Directors and counselors, and other consultants.

Information gathered in the previous phase from business students and small business owners on their perceived educational needs can be helpful in deciding important topics for *course content*. One of the primary questions is where to place emphasis and how to get the most important topics covered within the time limitations.

Once the course content is determined, understanding how the course material should be presented (*course delivery*) to the student is critical to the effectiveness of small business

and entrepreneurship classes. While this research does not attempt to address this question, it is imperative that delivery methods and materials options be considered in the development of the model of education.

Finally, in order to evaluate the effectiveness of small business and entrepreneurship courses and programs, a long term *course assessment* program must be implemented. Again, this research does not attempt to address this portion of the model.

## **METHODOLOGY**

In order to address the objectives of this research, the perceptions of small business firms and business students are compared. A brief description of both respondent groups and the procedures follow.

A random sample of small business owners was selected from the area's Chamber of Commerce directory and asked to participate in the study. Small businesses included in the sampling frame were operationally defined as having employed 50 people or fewer. One hundred and eighty phone calls were made in a large metropolitan area, with 60 small businesses participated, yielding a 30 percent response rate.

The demographic profile of the 60 small businesses was as follows: the average number of years the businesses had been in operation was 16.93; the average number of people employed in each business was 12.78; 84.2% of the businesses reported that they provide a service to customers while 15.8% percent indicated that they manufacture a product; and almost 75% percent of the businesses were family owned and operated. The demographic profile of those individuals responding to the survey was as follows: the average number of years the respondents had been employed was 8.87 with nearly half having some college, trade school or an associates degree; 15.5% of the sample possessed a graduate degree and over half of the respondents described their position as owner and president of the small business.

The student respondents for the present study consisted of 127 graduate and undergraduate student from a commuter university located in a large SMA. The profile of these respondents is as follows: 67% of the students were senior, undergraduate students enrolled in the capstone business strategy course and 33% of the students were graduate students also enrolled in the MBA capstone course; the most common major for the undergraduate students was marketing (21%), followed by management (16%), IFS and accounting (both 12%); the gender of the respondents was evenly distributed as 49% were male and 52% were female; the average age of the student respondents was 29.4 years; students worked 34.3 hours per week, on average; interestingly, 13% of the students owned (or currently own) their own small business; and, nearly 63% of the students had worked (or currently work) in a small business.

A judgment sampling technique was used to identify the courses in which the students would have the broadest (and hopefully, most comprehensive) understanding of the basic business functions. As such, the undergraduate and graduate business capstone classes



were chosen. Students enrolled in these classes were asked to complete the small business survey during class time. Participation in the research was strictly voluntary, although no student refused to complete the survey. Following the conclusion of the study, students were debriefed and informed as to the nature of the study.

As previously stated, a random sample of business professionals was contacted via phone survey. The names of the appropriate businesses were selected from the area's Chamber of Commerce directory.

The survey consisted of questions regarding the importance of various business functional areas, the budgetary allocations expected for each of the business functional areas, and demographics. The first area asked the respondents to rate the importance of training in the various business functions to the success of a small business. The traditional functions measured included marketing, production, finance and accounting, management, strategic or long-range planning, as well as family ownership issues. Within each section, a series of sub-items was developed to fully and more specifically tap each of the functional areas. For example, the marketing section included sub-items addressing promotion and advertising, marketing research, product development, pricing, distribution planning, personal selling and store planning. Within the first topical area, two additional items were designed to assess the relative importance of the broader business functions.

Respondents were then asked to rank-order the business functions in terms of their importance to the success of a small business. In the next question, business professionals and students were asked to approximate the percentage of the annual budget that should be allocated to each of the business functions. The second topical area of the survey consisted of gathering demographic information on the student and business professional samples.

## **RESULTS AND DISCUSSION**

One of the most important findings of this research was that there were few significant differences between the two groups in terms of the perceived importance of the business functional areas (A thorough summary of the results are available from the authors). The three areas which both groups of respondents identified as most important to the success of their businesses were: 1. finance and accounting; 2. management; and 3. marketing. These findings were similar to Hess (1987) who also found these areas to be most important. In addition, these areas also receive the most frequent coverage in small business management texts (Hess, 1987).

There were significant differences between the two groups in only eight of the 31 sub-categories. Business students rated product development, distribution planning, store planning and design, raising funds and banking, international expansion, and succession and planning as more important to the success of a small business than did the small business owner respondents. However, product assembly and accounting/taxes were deemed to be less important to students than to small business owners.

One area not considered in the study conducted by Hess (1987) was strategic and long range planning. In a review of the literature that examined strategic planning efforts in small business, Robinson and Pearce (1984) found that strategic planning is critical to the small firm in terms of performance and survival. However, many small firms do not employ strategic planning because they lack the expertise. Perhaps this lack of expertise can be traced to the fact that since this topic is context and firm specific and a more abstract activity, it may not lend itself to a seminar or workshop format where many small business owners are trained. In addition, many small business texts and courses have, in the past, omitted strategy as a critical aspect of small business success. As an overall business functional area, strategic and long range planning rated fourth in terms of importance. However, on a scale of 1 to 5 where 1 is "extremely unimportant" and 5 is "extremely important" all of the sub-items rated above average with the exception of "expanding into international markets" which received only a 1.89 rating from small business owners and a 2.53 from business students. Removing "expanding into international markets" from this category enhances the grand mean of this business functional area, making it more important to the respondents than marketing.

Interestingly, two sub-items, "analysis of the industry" and "analysis of the competition", included in the strategic and long range planning section, were perceived among the most important areas by both students and small business owners. Based on these findings, strategic and long range planning should be included in the course with specific attention to industry and competitive analysis.

Seventy-five percent of the small business respondents described their businesses as family owned and operated. Yet, "family ownership issues" was considered the least important area for success. One explanation for these findings is that many business owners and students may believe these are issues which can be dealt with on a personal level without formal training. In particular, the area of "succession and planning", which received a low rating (mean of 2.98 for small business owners) is one often avoided by small business owners.

## **FUTURE RESEARCH**

In order to more fully address the questions associated with designing client based small business education courses and programs, additional research needs to be conducted. The needs of all three client groups served by these programs must to be examined. This research examined only two of those three groups: business students and small business owners. Additional research should also focus on the perception of small business advisory persons regarding the content of small business and entrepreneurship courses. In addition, a different survey may be useful for follow-up research on all three groups. Instead of direct questioning about content, small business and entrepreneurship clientele could be presented with "critical incidents" that are frequently faced in small and entrepreneurial firms and asked to indicate which they have faced. This could, to some degree, overcome the bias of choosing from a "laundry list" of topics.

This study could be replicated with small business advisory persons and the findings could be compared to the results of this research. In addition, multiple methods of data collection, including qualitative techniques such as focus groups and in-depth interviews could also be utilized to further enhance the understanding of users' needs. Post course and workshop assessments can be used to provide feedback regarding the perceived usefulness of information covered in classes and workshops offered by the university. In addition, future research could be directed toward the design of instruments which would examine a variety of assessment methods and forms in an effort to identify those which would contribute most to the evaluation of small business and entrepreneurship classes.

As the effort is made to offer more effective entrepreneurship and small business courses and programs it is interesting and useful to identify the areas of agreement and disagreement between users and providers of small business and entrepreneurship education. Increasing numbers of colleges and universities have small business and/or entrepreneurship programs. The individuals who are designing and implementing these programs could also provide insight into the question posed by this research. Analysis of textbooks written on small business management and entrepreneurship and surveys of classroom instructors and Small Business Development Center directors could also provide insight into the design of effective small business and entrepreneurship education programs.

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# NEW DIRECTIONS IN THE ANALYSIS OF PRISON INMATES' ENTREPRENEURIAL APTITUDE

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## ABSTRACT

Using newly collected data, and building upon previous research, this study compared a sample of prison inmates with various other entrepreneurial and non-entrepreneurial groups with regard to entrepreneurial aptitude, as measured by the Miner MSCS-T test. Results show inmates scoring higher than normative entrepreneurs, slow-growth entrepreneurs, and manager-scientists, but lower than high-growth entrepreneurs. Also, inmates score the same regardless of type of crime, first time versus repeat conviction, or enrollment or not in business/self-employment courses.

## INTRODUCTION

Prior research has indicated that prison inmates appear to possess similar or higher levels of entrepreneurial aptitude than various types of practicing entrepreneurs (Sonfield & Barbato, 1994; Sonfield & Barbato, 1995). These studies used the Miner Sentence Completion ScaleForm T, an instrument which has been shown to measure motivation factors associated with entrepreneurial success (Bellu, 1988; Bellu, 1992; Bellu, Davidson & Goldfarb, 1990; Smith, Bracker & Miner, 1987; Smith & Miner, 1985).

This paper reports on a new study in which additional inmate data was collected, raising the total inmate sample size, and also obtaining additional data on inmate attributes and thus allowing for a deeper analysis.

Specifically, the inmate attribute data included information regarding the type of crime for which the inmate was convicted, whether the inmate was a first-time or repeat offender, and whether the inmate was enrolled in a prison self-employment/small business course or not.

Research findings which indicate that prison inmates have entrepreneurial aptitude support the idea that self-employment training might be of value to certain inmates, prior to their leaving prison and returning to society. Such ex-convicts generally have difficulty in obtaining employment, yet unemployed exconvicts have a much higher rate of recidivism than do those who find employment (Jackson, 1990). Self-employment training for inmates who are soon to leave prison might assist them in establishing micro-enterprises of their own after their release, and thus reduce the likelihood of recidivism.

The objective of this current research was to strengthen earlier studies' conclusions regarding the entrepreneurial aptitude of prison inmates, and to determine whether certain inmate attributes further increase the likelihood of such entrepreneurial aptitude.

## **METHODOLOGY**

### **Design and Sample**

The sample consisted of 59 inmates from different prisons in three states: New York (n=29), Maryland (n=12), and Massachusetts (n=18). The Maryland and Massachusetts inmates were taking a self-employment/small business course; the New York inmates were not taking any course.

The collected inmate data was compared with data collected from a group of 135 "normative" entrepreneurs (Miner, 1986), a group of 50 entrepreneurs of "fast-growth" firms, a group of 47 entrepreneurs of "slow-growth" firms, and a group of 37 "manager-scientists" (managers of science-oriented entrepreneurial firms, but who were not the founders/entrepreneurs of their firms (Smith & Miner, 1985).

### **Measures**

As discussed above, the Miner Sentence Completion Scale-Form T is a projective testing instrument which measures task motivation. Five measures of such motivation are measured: a need for self-achievement, a preference for avoiding unnecessary risks, a desire for feedback on the results of one's efforts, an aspiration for personal innovation, and a desire to think about and plan for the future. Respondents are asked to develop sentences from forty stems, eight of which measure each of the five motivational factors. Subscale scores can range from +8 to -8, and total scores from +40 to -40, although actual scores tend to be much more narrowly distributed. As discussed above, this test has been validated in earlier research (Bellu, 1988; Bellu, 1992; Bellu et al., 1990; Smith et al., 1987; Smith & Miner, 1985). To further strengthen the reliability of the MSCS-T scores, all inmate test data was scored separately by two different experienced scorers, and the means of the resulting forty pairs of each respondent's scores were used.

In addition to the Miner MSCS-T scores, inmates responded to a variety of written survey questions concerning several personal attributes, as detailed above.

### **Hypotheses**

Based on previous research findings in this area (Sonfield & Barbato, 1994; Sonfield & Barbato, 1995), several hypotheses were proposed:

H1: The prison inmates have the same entrepreneurial aptitude to the "normative" group of entrepreneurs, both in total MSCS-T scores and in subscale scores.

H2: The prison inmates have a higher entrepreneurial aptitude than the group of entrepreneurs of "slow-growth" firms.

H3: The prison inmates have a lower entrepreneurial aptitude than the group of entrepreneurs of "fast-growth" firms.

Hypotheses 1 through 3 are based on the specific findings of Sonfield & Barbato (1994, 1995).

H4: The prison inmates have a higher entrepreneurial aptitude than the group of "manager-scientists."

Hypothesis 4 is based upon the fact that "manager-scientists" are, by definition, not entrepreneurs and thus should not be expected to possess high entrepreneurial aptitude.

H5: The prison inmates enrolled in self-employment/small business courses have a higher entrepreneurial aptitude than inmates not enrolled.

Hypothesis 5 follows from the proposition that prison inmates with higher entrepreneurial aptitude are more likely to enroll in self-employment/small business courses.

H6: The prison inmates' entrepreneurial aptitude is the same regardless of type of crime committed.

H7: The prison inmates' entrepreneurial aptitude is the same regardless of first or repeat offender status.

Since there are no prior research data relating to hypotheses 6 and 7, the null hypothesis is used.

## **Analysis**

To test H1, multivariate analysis of variance (MANOVA) was run using the five subscale and the total scores, with the normative sample as the independent variable and the inmate sample as the dependent variable. MANOVA results may be different than multiple tests of mean score differences due to multiple interaction comparison procedures. However, MANOVA also provides univariate test results, which decreases the probability of Type I errors (finding differences that do not exist).

For H2, H3 and H4, one-sample t-tests were run for each hypothesis with the inmate total MSCS-T scores used as the dependent variable and the comparison groups being the inmate sample versus the slow-growth entrepreneurs (for H2), versus the fast-growth entrepreneurs (for H3) and versus the managers-scientists (for H4).

To test H5, a t-test was run with the total MSCS-T scores as the dependent variable, with the comparison groups being those inmates enrolled in courses versus those inmates not enrolled in courses.

To test H6 and H7, t-tests were run with the total MSCS-T scores as the dependent variables and a) type of crime ("drug-related" or "other") and b) first or repeat offender as independent variables.

Although not a hypothesis test, a MANOVA was run to determine whether there were any total or subscale score differences between the three prison inmate groups.

## RESULTS

The inmates in Maryland (n=12) and in Massachusetts (n=18) were enrolled in a course, thus this not a random sample. The New York inmates (n=29) were not enrolled in a course, but volunteered to complete the survey instrument. There were no significant differences in the MSCS-T scores for any of the three states nor for those enrolled or not enrolled in a course. Thus the total inmate sample should not have problematic bias and should be generalizable. The mean age of the inmates was 29, with a standard deviation of 8.2 years. See Table 1 for a synopsis of the results data for H1 through H4.

**Table 1**  
**MEAN MSCS-FORM T SCORES**

	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>
	<b>Prison Inmates</b>	<b>Normative Data for Entrepreneurs</b>	<b>Entrepreneurs</b>		<b>Manager- Scientists</b>
			<b>Fast Growth Firms</b>	<b>Slow Growth Firms</b>	
	<b>(n=59)</b>	<b>(n=135)</b>	<b>(n=50)</b>	<b>(n=47)</b>	<b>(n=36)</b>
<b>TOTAL SCORE</b>	8.83	6.81	11.32	0.32	2.08
<b>Self-Achievement</b>	2.49	1.91	3.32	0.34	0.73
<b>Avoiding Risks</b>	1.58	0.94	1.44	-0.28	-0.05
<b>Feedback of Results</b>	1.42	-0.20	0.50	-1.68	-1.15
<b>Personal Innovation</b>	3.01	2.99	4.06	1.64	2.24
<b>Planning for the Future</b>	0.46	1.17	2.10	0.30	0.68



### MANOVA Test Significance Level

Prison Inmates vs. "Normative" Entrepreneurs  $p=.000$

### One-Sample T-Tests Significance Levels

Prison Inmates vs. "Slow-Growth" Entrepreneurs  $p=.000$

Prison Inmates vs. "Fast-Growth" Entrepreneurs  $p=.000$

Prison Inmates vs. "Manager-Scientists"  $p=.000$

### Sources:

Prison Inmates: Current Study

Normative Data: Miner (1986)

Entrepreneurs, Fast Growth and Slow Growth: Smith & Miner (1985)

Manager-Scientists: Smith & Miner (1985)

H1 was not supported by the MANOVA results, as the Pillais, Hotellings and Wilks tests were all significant ( $p=.000$ ). There are significant differences between both the subscale and total scores of the prison inmates and the normative entrepreneurs, with the inmates having the higher entrepreneurial aptitude (total score  $m=8.83$  vs.  $m=6.80$ ).

H2 was supported, with the inmates having a higher entrepreneurial aptitude than the slow-growth entrepreneurs (total score  $m=8.83$  vs.  $m=0.32$ ,  $p=.000$ ).

H3 was supported, with the inmates having a lower entrepreneurial aptitude than the fast-growth entrepreneurs (total score  $m=8.83$  vs.  $m=11.32$ ,  $p=.000$ ).

H4 was supported, with the inmates having a higher entrepreneurial aptitude than the manager-scientists (total score  $m=8.83$  vs.  $m=2.08$ ,  $p=.000$ ).

H5 was not supported; there was no significant difference in the entrepreneurial aptitude of inmates taking and not taking small business/self-employment courses (total score "taking"  $m=9.07$  vs. "not taking"  $m=8.59$ ,  $p=.718$ ).

H6 was supported; inmate aptitude was the same regardless of type of crime (total score "drug-related"  $m=9.68$  vs. "other"  $m=8.49$ ,  $p=.417$ ).

H7 was supported; inmate aptitude was the same regardless of first vs. repeat offender (total score "first"  $m=9.38$  vs. "repeat"  $m=8.08$ ,  $p=.332$ ).

## **DISCUSSION**

This research confirms the conclusions of previous studies (Sonfield & Barbato, 1994; Sonfield & Barbato, 1995) that prison inmates possess high levels of entrepreneurial aptitude; more specifically at a level lower than "high-growth" entrepreneurs and higher than "low-growth" entrepreneurs. While Sonfield & Barbato (1994) found the same levels of aptitude for inmates and normative entrepreneurs, their later research (1995)

showed a higher level for inmates versus normative, and this current research supports that later conclusion.

Furthermore, this research provides new conclusions. First, prison inmates have higher entrepreneurial aptitude than nonentrepreneurial "manager-scientists." And second, enrollment in a self-employment/small business course, or inmate attributes such as type of crime or first versus repeat offense, can not serve as predictors of such aptitude.

Again, it should also be noted that the statistical similarity of the inmate MSCS-T scores in each of the three prison sub-samples supports the validity and generalizability of this inmate testing, which was conducted over several years in three very different inmate populations.

## CONCLUSIONS

This current research, along with the discussed previous research in this area, clearly demonstrates that prison inmates have high levels of entrepreneurial aptitude, and thus the potential for entrepreneurial success. Furthermore, this aptitude appears to be broad among inmates, and not dependent upon specific inmate attributes.

It therefore follows that self-employment/entrepreneurial training for prison inmates prior to their release would be a positive contribution to the reduction of exconvict recidivism and would be of benefit to our society. Further analysis of this issue is encouraged.

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**We are sorry for the inconvenience, but we currently cannot locate this research.**  
**--SBANC Staff**

# **DEVELOPING SBI STUDENT COMPETENCIES: THE FINAL PRESENTATION AS KEY**

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## **ABSTRACT**

Most literature related to SBI (Small Business Institute) programs has focused on business clients, faculty development, the extension of SBA (Small Business Administration) support monies, especially during the grant years, and on occasion the student consultant. Most SBI programs centered on serving the business client as the critical customer. Too often overlooked has been our purpose for education, the student consultant or "forgotten client" who is participating in a course as part of their business educational experience. When one visits with prospective employers and asks what are critical needs in a graduate, the timeless response usually includes "we want someone who can think, write, and has good presentation skills." To partially address those needs and especially the later, starting over a decade ago one Midwestern SBI program initiated the use of a formal videotape requirement at midterm and final presentations.

This paper shares part three data categorized to student responses, experiences and recommendations related to the presentation videotape requirement of their SBI experience. Parts one and two data were presented at the 1997 and 1998 National SBIDA Conferences. The series reflects a decade long wealth of student comment data, representing 21 class sections, 244 consulting projects and 423 students SBI participants.

The data were compiled when students completed a post project, open ended questionnaire specifically related to their videotape presentation experience. The overall reaction to the use of videotape as a learning tool was very positive. Throughout the long timespan, initial student reactions were negative or skeptical. Surprisingly a few had never been formally videotaped. However, a significant majority indicated that the use of their personal video as a self improvement tool overwhelmingly "took care of their initial skeptical reactions. Most SBI students in the final analysis saw the use of videotape as an "additional SBI program benefit" and supported its continued use as a requirement.

## **INTRODUCTION**

Starting in 1974 the SBI program has been available at our university in a variety of departments and formats (Anderson, Elbert, Floyd, 1984). During a 1989 accreditation curriculum self-review effort several individual departmental courses were eliminated and the course was retitled Marketing 430: Small Business Projects. The title and format have encouraged and enabled both graduate and undergraduate students from various disciplines to take the course. The course traditionally was offered each semester until 1994. Occasionally other graduate students (Communications, Industrial Technology, Engineering) with the appropriate business background courses would also enroll. The

course is again under review as part of an overall curriculum analysis and the proposed start up of an entrepreneurship program. It is anticipated that the course will maintain strong ties to the SBI format, guidelines and principles.

Throughout its existence the program has had strong ties with the SBA (U.S. Small Business Administration), SCORE (Service Corps of Retired Executives), SBDC (Small Business Development Center) and the University Center for Innovation. Typically representatives from all of these program areas participated in project development, analysis and in the formal final report presentations.

During the 20 plus years that the program was funded by the SBA grant program the state district director required all student final project reports be presented at a "non-university neutral business site." The intent was to insure that the SBI clients would not be intimidated by the campus, have easier parking, and allow for easier student and client project participation. The guidance was well founded and the practice of off site final presentations has continued despite the withdrawal of SBA financial support.

Various business locations have been used including the Chamber of Commerce, SBDC offices, power company training rooms, bank conference rooms and financial organization meeting rooms. After using various sites, the program for 14 semesters (until the Spring, 1997 flood) utilized the formal, professional meeting room of a major regional financial center. Students and clients were always impressed with the location. The professional environment always seemed to enhance the culmination of the consulting effort of the student SBI consulting experience.

The purpose of this paper is to share "content analysis" categorized anecdotal comment data gathered over a decade. The comments were obtained during the post presentation SBI briefings conducted each semester. The initial presentation of findings at the 1997 SBIDA conference (Elbert & Harmeson, 1997) and the encouragement of reviewers for the 1998 conference (Elbert & Harmeson, 1998) prompted this phase three continued effort. This paper further details and reviews student reactions, initial apprehensions and ultimately categorizes learning benefits from the use of videotaping at their mid-term and final SBI presentations.

## **OBJECTIVES**

In the mid eighties in an effort to assist SBI students improve their presentation skills, the local SCORE advisory panel recommended using videotape for mid-term and final presentations. The mid-term presentations could be held on campus without client participation. Use of videotape at mid-term would ensure that student consultants were comfortable with the interaction and questioning techniques typical of the final presentations. The student would be given the videotape for multiple reviews thus enhancing the chance for a more effective and professional final SBI report presentation.

Side benefits of the videotape effort included historical records for the students, and a permanent video for their portfolio. As a rural state with clients as far as 450 miles distant, the videos also provided clients, unable to attend the final presentation, with a record of the discussion and questioning. The video record for the "distance" client was one of the most useable aspects of the final report. Additionally, the availability of "success story," and sometimes "horror story" videos for viewing helped provide outstanding teaching tapes for later SBI consulting projects.

## **REVIEW OF LITERATURE**

Requirements for accomplishment in the Small Business Institute (SBI) and in the business world are quite similar. There are pressures of time and pressures which inhibit progress. (Ames, 1998). Technology changes very quickly, however, education is often a slow-moving process (Ehrmann, 1995). Little attention may be given to "classrooms" but mention "electronic classrooms" and interest and apprehension become keen. (Plater, 1995).

Standing the test of time is the fact that most academics and practitioners alike would agree that one of the foremost classroom skill areas which needs to be developed for the business world is communication. (Gaedeke and Tootelian, 1989). Despite the career success focus on information and technology, what accounts for the failure of most managers, leaders and supervisors is "...ineffective communication skills more than any other reason (Freston, Lease, 1987)."

Within the small business curriculum, enhancement strategies range from Situational Leadership® for the SBI student (Johnson, 1996) to more general overview studies which reflect that key executives differ from other managers in that they "communicate more effectively, both verbally and in writing" (Kleiman, 1995). Considering the nature of change related to various aspects of the electronic classroom (Plater, 1995) like traditional pedagogy, one must consider the four broad categories of 1) when, where, and how people learn, 2) what and why they learn, 3) the evolving role of faculty, and 4) the future of the institution itself. However, even technology based resources focus on resources, books, or web sites with skills applications (Creswell, 1997). Try a preliminary search of the Web and one will obtain almost 60,000 hits under "presentation delivery."

Most of the SBI related student centered research has tended to emphasize the components of course delivery (Watts, Jackson 1994), SBI program issues related to students (Fontenot, Franklin, Hoffman, 1994) entrepreneurial attitudes (Halten, Ruhland, 1994), enhancing student reports to clients (Sellar, Maskulka, Thode, 1998) and counseling techniques (Anderson, Elbert, 1987).

Student issues have centered on programmatic and often survival strategy issues in recent years primarily due to the change of funding support. State of the SBI program (Brennan, Hutchens, Begley, 1994) and integration of outside resources like SCORE to enhance the student experience (Alpi, Decker, 1993) have become higher priority issues than in the past. Survival efforts for both local and national programs have taken priority.

While energies the past few years have centered on program strategy and survival, our core purpose has not been forgotten. As program survival strategies have evolved, we have been able to return to our primary purpose in SBI which is the "leveraging" of learning for our students to enhance small business. Despite the return to these roots, there appears to be little extensive recently published work related to "side benefits" generated by specific SBI programs, program formats, or procedures. Some like Butler and Robinson, (1998) have focused on a special topics approach to enhance SBI activities while others have centered on a field case strategy (Maranville, 1998). While educational technology today tends to center on the computer, an overall definition really includes practical uses of various kinds of equipment and devices which can aid teaching and learning (Snelbecker, 1991). This paper expands on the earlier work (Elbert & Harmeson, 1998) related to the use of videotape as an effective SBI teaching tool.

## **METHODOLOGY**

SBI student consultants participate in multiple written and oral communication activities throughout their learning experience. The final oral presentation of their findings to the client is the last major component of their SBI experience, and is weighted heavily in the grading process. A formal debriefing after the formal presentation has proven an excellent opportunity to bring their projects to closure. The debriefing sequence for over a decade has included the following five items:

### *SBI Project Debriefing Component*

1. Videotape Feedback Information
2. Written/Oral After Action Reports
3. Completion of Expense Forms
4. Final SBI Project Checklist Review
5. Lessons Learned
  - a. Small Group Discussion
  - b. Individual/Team Review

Item one, a "Videotape Feedback Information" form has provided the students with an opportunity to share thoughts, feelings, and reactions regarding this requirement of our program. For the past decade (21 class sections, 244 projects, 423 student enrollees) the open-ended, six item questionnaire has been utilized to compile feedback each semester. Data were reviewed annually regarding issues, however, this paper series comprise the first formal, detailed analyses. Each semester the comment data were compiled and reviewed by the SBI Director as part of the on-going program self evaluation and review. Over the past decade more than 100 pages of anecdotal comment data have been compiled. The paper entitled, "Student Videotape Presentations: A Decade in Review" (Elbert & Harmeson, 1997) and "Successful SBI Student Projects: The Proof is in the Presentation (Elbert & Harmeson, 1998) presented preliminary samples and comment data. This paper shares categorized "content analysis" on the data for Qs 1-3. It's



anticipated that the final paper in the series will include results for videotape Qs 4-6 at the 2000 SBIDA conference.

The questions utilized as part of the videotape review were as follows:

1. What was your individual reaction when the announcement was made that SBI Presentations would be videotaped?
2. What was your individual reaction to the camera at the final presentation?
3. Did the video emphasis help you, as an SBI team, develop a better presentation?

*After Reviewing your video:*

1. Would you make changes in your presentation? If yes, what types of changes would you make?
2. Was the video a worthwhile addition to the SBI project? Would you recommend that videotapes be made of future classes? Why or why not?
3. Other comments:

Each semester the comments were reviewed, compiled, and then integrated into an ever increasing comment database. The comment database continued to become ever more voluminous and interesting. Over 100 pages of single spaced anecdotal information have been compiled to date. The forms were to be submitted anonymously, however, many students include their name. The comments were honest, "no holds barred" in approach, very personal and often quite humorous.

## **VIDEOTAPE REACTIONS**

For convenience purposes the comments were "content analyzed" and categorized into two five year groupings. The primary reason for the grouping was a slight change in questionnaire wording in 1991. All categorization was completed by the same individual to ensure consistency of categorization. Due to the flood of 1997, there were no data available for projects completed during the spring semester of that year. It is anticipated that the comments would be consistent based on midterm verbal reactions during that semester.

*The categorized comments to Q1:*

*What was your individual reaction when the announcement was made that SBI presentations would be videotaped?*

The predominant response has been "no reaction" or 45.6% of the responses over the years. The categorized comments shown in exhibit 1 reveal relatively few did not like the idea. The reaction "in class" at the time was often perceived differently than the post project analysis. By the end of the project, the personal reactions seemed to temper a bit. This would account for the predominant comments in the "no reaction" category. Most of the reaction has been generally positive over the years. Most "in class" comments from SBI students center on the realization that the video is being produced as a self improvement tool and would like to have the chance to "do it right" if given another chance.

*The categorized comments to Q2:*

*What was your individual reaction to the camera at the final presentation?*

Note that the primary response(78.8%) was "No problem -- didn't even notice it." This is an excellent reaction given the typical reaction in class. The rationale for this very positive reaction is the extensive preparation time and mid-semester practice sessions. By the time the SBI student makes the final presentation they are very comfortable with the camera, camera person, equipment etc. The video in reality has become a more effective tool for the remote based client who is unable to attend the final presentation. However, the students invariably want a personal copy of their video for review and often for their personal portfolio. It represents another value added item that they can share with potential employers at graduation.

*The categorized comments to Q3:*

*Did the video emphasis help you, as an SBI team develop a better presentation?*

While the data here reflect only five years of responses, the overwhelming reaction is positive. A majority (75.7%) of the students indicated that the video emphasis helped in their presentation development. The typical comments centered on quotes to include: "better preparation for the final," "improving the way one goes about giving such a presentation, such as preparation, appearance, presence etc...," and "yes, especially after the first presentation (mid-term) ... it helped perfect our final presentation." While the data represent only half of the decade of responses, the positive theme cannot be overlooked. The responses, reactions and feedback from the student consultants have all insured the continued use of videotaped presentations as a critical part of our program.

## **IMPLICATIONS**

Students' comment data related to SBI videotaped presentations compiled and analyzed for the past decade verify the value of this technique in our course. While students initial in-class reactions are somewhat negative (perhaps for the benefit of their peers) the after course written comments reveal a positive appreciation of the additional component to the SBI course. The videotape component appears to be an element which unites the SBI teams in their efforts to do an even, more effective job for their small business clients. Due to the logistics of videotaping and review of multiple presentations the effort requires instructor dedication, discipline and commitment. What does this mean for the SBI program? While the videotape requirement is merely a small element in the course format falling within the instructional technology component versus the electronic classroom the requirement appears to have a solid educational impact. If the role of the SBI instructor as "coach, facilitator" is to continue, we must ensure that the students are not the "forgotten client." The use of videotape has given our SBI program a means to provide an additional benefit to students. It is an educational benefit which their potential future employers seem to truly appreciate.

## THE FUTURE

Our organization continues the process of developing an entrepreneurship program. The College of Business and Public Administration and the Center for Innovation became one entity during AY 97-98. As a result of this educationally entrepreneurial union the future for the SBI program looks significantly brighter today.

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**Table 1: SBI Presentation Videotape Feedback Information --  
Categorized Comment Data 1987-1997**

1. What was your reaction when the announcement was made that SBI presentations would be videotaped?						
	Apprehension	Great Idea	No Reaction	Don't Remember	Didn't Like the Idea	Total
1987-1991	23	13	33	4	2	75
1992-1997	32	37	65	0	8	142
Total	55	50	98	4	10	217
Percentage	25.30%	23.04%	45.16%	1.80%	4.60%	100.00%

2. What was your individual reaction to the camera at the final presentation?					
	Nervous	No Problem	Good	Distracting	Total
1987-1991	11	57	4	2	74
1992-1997	15	107	10	2	134
Total	26	164	14	4	208
Percentage	12.50%	78.84%	6.70%	1.90%	100.00%

3. Did the video emphasis help you, as an SBI team, develop a better presentation?				
	Yes	No	Not Sure	Total
1987-1991	Did not ask this question on these surveys			
1992-1997	103	27	6	136
Total	103	27	6	136
Percentage	75.73%	19.85%	4.40%	100.00%

# **THE ROLE OF GENDER AND ETHNICITY/RACE IN ASSESSING ETHICAL COMPATIBILITY OF SMALL BUSINESS OWNERS/ENTREPRENEURS AND STUDENT CONSULTANTS: A REPLICATION**

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## **Abstract**

This study replicates a study which Stephenson and Galbraith reported from a sample of student consultants and clients (1993). That study found no "significant differences in the self-reported value orientations of the student consultants as a group and the small business owners as a group," yet noted that "any individual's values could differ greatly from the mean of the group's values." This study focuses on what differences between student consultants might exist by gender and ethnicity. Few, if any, studies have explored this issue. Using all students who consulted in the senior business capstone policy/strategy courses using the Small Business Institute format at a US university with a diverse student population during 1996-1998, two ethnic/nationality groups were compared: White and Asian. There were significant differences between Whites and Asians and White males and White females. There were very few significant differences between Asian males and Asian females. Asian males and White males had few differences. Major significant differences in perception were found between female Asian and female White. These findings have direct implication for consultants, small business owners, entrepreneurs, managers, and educators in today's diverse global business economy.

## **Introduction**

During the last 25 years, thousands of business students have consulted with small businesses formally through the Small Business Institute, Entrepreneurship classes, or service learning programs at the graduate and undergraduate levels. During this time, there has been increasing emphasis on teaching ethics and incorporating issues of diversity in the curriculum and academic environment. Valuing a more culturally/ethnically gender represented collegiate enrollment and workforce is reflecting the trends, What impact does such diversity have on the consulting process--especially student teams? What impact might such diversity have on the effectiveness of the

interactions with the small business owner? Are there differences in ethical positions of individual student consultants in a multiethnic, multicultural class composition? In a study reported in 1993 (Stephenson & Galbraith), no significant differences were found. Would that be true in a diverse group of consultants? We have replicated that study on a diverse student population all of whom did in-depth small business consulting projects during 1996-1998 as part of the senior capstone course. This study focuses specifically on the issues the 1993 reported study raised about values that might be operating within the student consultant population. Are there culture/ethnicity and gender perspectives which may have an impact? Many student consultant teams are diverse in composition. Might it make a difference on the process or outcomes? If there are differences, this may impact the experience of the consulting group. This may impact the ability to communicate effectively with the client. It might be cause for distrust among team members who already, according to many studies, probably perceive the client and each other as being less ethical than themselves.

Studies have reported that individuals believe they are more ethical than others (Brenner & Molander, 1977; Ferrell & Weaver, 1978; McDonald & Zepp, 1988; Pitt & Abratt, 1986; Stephenson, Galbraith, & Grimm, 1995; Tyson, 1990, 1992). Michalos (1990) reviewed seven studies including two of his own and concluded that one consistency across all of the studies was that "most people think most people are not as nice as they themselves." Others are not viewed as trustworthy or as ethical. Alternatively, self-ratings are higher than ratings provided by others (Morgan, 1993). If individuals believe that others are less ethical, there is concern that they might rationalize unethical behavior for themselves ... after all, if everybody else does it, why shouldn't I?

The composition of the collegiate population and the global economy is increasingly influenced directly by the increased participation of women and multinational/multiethnic participation rates. The White/Caucasian group is becoming a smaller percentage of the global population. In the US, more women than men are now enrolled in colleges and universities: in 1976 it was 5,191,000 women to 5,794,000 males; in 1996 it was 8,014,700 females compared with 6,352,800 males ["College Enrollment," 1998]. The "White" racial/ethnic group designation went from 9,076,100 White out of a total of 10,985,600 in 1976 to 10,263,900 out of 14,367,500. In 1990, 6% of America's counties had a "minority majority" with the forecast that by 2060 minorities may claim a majority of the entire country (Bodovitz & Edmondson, 1991, p.11). Asian Americans were noted as the "country's fastest growing, most affluent, and most diverse racial group." Forty-four counties had an Asian American population of 5% or more in 1990. In the US in 1996, there were a total of 828,200 Asian students enrolled in all colleges and universities including public, private, two year, four year, undergraduate and professional with men being 405,500 and women being 422,600, which went from 1976 women 89,400, men 108,400 for a total of 197,900 ("College Enrollment," 1998, p.18). Women are moving into top management positions. The October 12, 1998 cover story of Fortune is "The Fifty Most Powerful Women in American Business." Are there gender differences?

Females may be more ethical than males (Ruegger & King, 1992; Arlow, 1991; Davis & Welton, 1991; Shepard & Hartenian, 1990; Betz, O'Connell, & Sheppard, 1989; Ferrell & Skinner, 1988; Meising & Preble, 1985; Tse & Au, 1997, p. 446); however, Fritzsche (1988), McNichols and Zimmerer (1985) found no significant relationship between the variables.

Given the fact that little research has been done on the impact of ethnic and gender diversity in today's global business collegiate classroom, and especially on how it might impact student consulting to small business or how it may impact college students working now in teams or in the future in business, this research tests the following hypotheses:

H<sub>1</sub>. There is no significant difference between the ethical beliefs of White students and Asian students. White = Asian

H<sub>2</sub>. There is no significant difference between the ethical perceptions of female White students and male White students. Female White=Male White

H<sub>3</sub>. There is no significant difference between the ethical perceptions of Asian female students and Asian male students. Asian Female=Asian Male

H<sub>4</sub>. There is no significant difference between the ethical perceptions of female White students compared with Asian female students. Female White=Female Asian

H<sub>5</sub>. There is no significant difference between the ethical perceptions of male White students compared with Asian male students. Male White=Male Asian

The specific student population was 380 of whom 317 had identified an ethnic/nationality--of those, 110 had identified themselves as Asian/Pacific Islander, 106 as White/Caucasian. All students participated during 1996-1998 in in-depth group Small Business Institute type consulting projects for a small business owner (all businesses had under 100 employees).

		<b>Males</b>	<b>Females</b>
<b>White/Caucasian</b>	106	55	51
<b>Asian</b>	110	46	64



## Methodology

In a review of 26 studies using scenarios in empirical research in the business ethics field, one of the recommendation is for researchers "to build upon and extend previous work as shown by Arlow and Ulrich's (1980) and Stevens' (1984), which use Clark's (1966) set of scenarios" (Weber, 1992, p. 153). This study used Clark's (1966) scenarios which had been modified in the Stephenson and Galbraith study to reflect current terminology and accounting for current dollar values.

Data on validity and reliability are reported by Clark. The appropriateness of the questionnaire for this use was further demonstrated in research by Arlow and Ulrich (1980), Galbraith and Stephenson (1993), Stevens (1984), and Stephenson et al. (1995). (Questionnaire is available from author.) A typical scenario reads:

Instructions: For each vignette, please check one response for a and b and c. (On questionnaire, a, b, and c were listed for each question.)

1. Virginia Stone, a member of the Board of Directors of Scott Electronics Corp., has just learned that the company is about to announce a 2- for-1 stock split and an increase in dividends. Stone personally is on the brink of bankruptcy. A quick gain of a few thousand dollars can save her from economic and social ruin. She could purchase the stock now to sell in a few days at a profit.

- a. Do you think Virginia Stone would purchase the stock to sell at a profit?  
yes\_\_\_\_ no\_\_\_\_
- b. What would you do if you were Stone?  
buy\_\_\_\_ not buy\_\_\_\_
- c. What should you do if you were Stone?  
buy\_\_\_\_ not buy\_\_\_\_

The ethical response is determined by the respondents: The ethical response is the one which the respondents are most apt to think most decision makers would not choose, yet many more of the respondents say they would choose and even more feel they should choose that response. There is little agreement on what is ethical, and what we really are looking for is differences in perceptions.

Data was analyzed with SPSS. Chi-square was the appropriate statistical analysis with .05 as the level of significance that would be accepted. In this study, the respondent was requested to assess what the person in the scenario would do, what the respondent him/herself would do if he/she were the decision maker, and what the person felt he/she should do if he/she were the decision maker.

## Findings

There were 24 possible responses: eight scenarios, for each of which the respondent was asked what he or she thought the decision maker would do, what the respondent would do if he or she were the decision maker, and what the respondent thought should be done. The Summary Table 1 displays the responses that are significantly different and which population sample selected the more ethical response with all 24 possibilities for each question for the 5 hypotheses.

**Table 1 Summary of Responses Differing Significantly by Respondent Group Expressing More Ethical Response**

Scenario	Hypothesis 1 White =Asian	Hypothesis 2 Female White =Male White	Hypothesis 3 Asian Female =Asian Male	Hypothesis 4 Female White =Female Asian	Hypothesis 5 Male White =Male Asian
<b>1. Not buy stock</b>					
DM	.039W				.034MW
You would	.013W			.035FW	
You should	.000W			.003FW	.005MW
<b>2. Not supplement income</b>					
DM				.011FW	
You would	.001W	.014F	.001F		.001MW
You should	.001W				.003MW
<b>3. Choose qualified Grimes</b>					
DM					
You would		.001F		.032FW	.024MA
You should		.001F			.049MA

**4. Release  
younger  
workers**

DM

You would .033F

You should .042W .013F .009FW

**5. Notify  
employees  
of  
shutdown**

DM

You would .020F .012FW

You should .038F

**6. Not  
distribute  
in  
Canada**

DM .019M

You would

You should

**7. Not pay  
substandard  
wages**

DM .000A .004FA .024MA

You would .027W .007F .002FW

You should .014W .047F .006FW

**8. Not send  
gifts**

DM .029W .002F .005FW

You would .004W .036F .011FW

You should	.008F	.022F		
(11)	(12)	(3)	(11)	(7)
10W, 1A	12F	1M, 2F	10W, 1A	4W, 3A

Hypothesis 1: There is no significant difference between ethical beliefs of White students and Asian students. Rejected. There are 11 significant differences in responses. The White respondents selected more ethical responses in 10 out of 11 instances.

Hypothesis 2: There is no significant difference between ethical perceptions of female White students and male White students. Rejected. There are 12 significant differences. In all 12 cases, the female respondents gave more ethical responses.

Hypothesis 3: There is no significant difference between the ethical perceptions of Asian female students and Asian male students. There are only 3 responses out of 24 in which there are significant differences. In two instances, the female Asians selected more ethical responses, the male Asians in the third.

Hypothesis 4: There is no significant difference between the ethical perceptions of female White students compared with Asian female students. Reject. There are 11 significant differences with 10 out of the 11 more ethical differences expressed by the female White respondents.

Hypothesis 5: There is no significant difference between the ethical perceptions of male White students compared with Asian male students. Reject. There are 7 significant differences between White males and Asian males with 4 ethical responses expressed by the White males and 3 more ethical by the Asian males.

## Discussion and Recommendations

The White student consultant respondents in this sample (column 1, Table 1) seemed to select more ethical responses to this set of scenarios to what they thought the decision maker would do, what they themselves would do if they were the decision makers, and what they thought they should do compared with the Asian student consultants. There are gender differences with the White females choosing considerably more ethical responses than the White males. This seems to be the direction the literature is leaning now. However, the gender issue does not seem to be operating in the Asian sample at least with this group of students consultants (column 3) in which there are only 3 differences: two more ethical responses by the females, one more ethical response by the males. Though the male Whites and male Asians (column 5) did differ--4 of the male Whites selected significantly more ethical responses while the Asian males selected 3 more ethical responses--though female white responses compared with the female Asian responses are accounting for the largest amount of the significant differences with the female Whites responding to 10 out of 11 significant differences with more ethical responses. The gender indications that women may be held to higher ethical expectations

and that in fact they may have higher ethical beliefs than males seems to be the case only for the White females...not necessarily Asian females and at least this sample of student consultants responding to these eight scenarios.

The SBI program is being globalized and certainly affected by gender/nationality issues in the US. How might such changes be impacting the effectiveness of the consulting process? This replication does clearly demonstrate the need for all participants in the process to clarify a code of ethics for accomplishing the consulting, interacting with each other and with the small business client. More communication and clarification should help the consultants and small business owners see that their ethical beliefs and attitudes are a lot closer than any one of them thinks. In those cases where there are differences, this will provide an opportunity to agree on ethical guidelines for this activity.

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# **ENTREPRENEURIAL SUCCESS OF RECENTLY UNEMPLOYED WORKERS: AN ASSESSMENT OF THE SELF EMPLOYMENT ASSISTANCE PROGRAM**

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## **ABSTRACT**

A number of programs and studies have focused on different groups of potential entrepreneurs with respect to their entrepreneurial propensities and activities. Examples include women, minorities, third world countries, children, and even prison inmates. This paper addresses a specific group as well, and like some of the other studies, a group which is not necessarily viewed as being ideally suited to fostering entrepreneurs -- the unemployed. In spite of the very low national unemployment statistics, there are still millions of unemployed persons in the United States. Many are not likely to be called back by their former employers. This issue has been addressed in part by a program which is designed to "teach" unemployed workers to start their own business. In the state of Pennsylvania this program is titled the Self Employment Assistance Program (SEAP). This paper offers an overview of the program, provides an assessment of the participants in the program and relates their a priori assessments to a number of specific entrepreneurial/business start-up outcomes.

## **INTRODUCTION**

Entrepreneurs have played a central role in the development of the American economy. For example, individuals such as Andrew Carnegie and John D. Rockefeller were not only entrepreneurs but were major forces in the industrialization of the country. More recently the U.S. economy has been exemplified by such entrepreneurs as Bill Gates, Ross Perot, Donald Trump, Ted Turner, Ray Kroc and many others. In addition to the macro impact of these immensely successful entrepreneurs, there are untold numbers of entrepreneurial events generated by individuals who conduct their enterprises as sole proprietorships, partnerships and occasionally as S-Corporations. Compared to the aforementioned giants of U.S. business, the singular outcomes of these individuals go relatively unnoticed. However, their efforts and outcomes are extremely important to themselves, their families, and their communities. The significance is particularly critical in those instances when these individuals may not otherwise be employed or are underemployed. Moreover, the collective impact of these entrepreneurs and their small businesses is very much part of the backbone of the American economy. The role of small business in terms of such measures as the number of businesses, percent of GNP, the number of employees, the contribution to growth in employment, etc. is well



documented and is traditionally part and parcel to a typical entrepreneurship or small business text (e.g., Hodgetts & Kuratko, 1998).

There are a number of issues which are central to the field of entrepreneurship including "what is entrepreneurship" and "can entrepreneurship be taught." This article touches on both of these questions from a very pragmatic perspective.

There are a number of "groups" or segments of society which have been investigated with respect to their entrepreneurial potential, prospects, experiences and successes. Examples include Hispanics (e.g., Shim & Eastwick), African Americans (e.g., Beech 1997), as well as Africans (e.g., Parker, 1994), women, and even prison inmates (e.g., Sonfield, 1995). In spite of many obstacles these groups may endure, there is evidence of potential and successes for all of the groups. This paper looks at a group which is also burdened -- the unemployed (e.g., Sonfield & Barbato, 1990).

The Self Employment assistance Program (SEAP) is a pilot program instituted in the state of Pennsylvania in 1998 to provide education and assistance to recently unemployed workers who were characterized as being unlikely to return to their former jobs *and* having potential to start their own business. Indiana University of Pennsylvania (IUP) through its Management Services Group (MSG) provided the support for such a program for the Tri-County Private Industry Council, Inc. (PIC). IUP was one of eight sites in Pennsylvania selected for this pilot program. This article is a summary of this program and its outcomes based on a group of 25 unemployed persons who participated during the period of March-August 1998.

## ENTREPRENEURISM

Examples of entrepreneurial behavior go back about as far as one cares to go -- perhaps as early as one of the first attempts at exchange when Eve offered Adam a bite of the apple. The attempt to define entrepreneurship also has a long history. Osborne, Falcone & Nagendra (1998) and Falcone (1998) present a historical review of numerous efforts to define the entrepreneur. There are of course a very large number of these definitions. They can, however be synthesized and expressed in terms of the following key attributes: *assumer of risk; supplier of financial capital; innovator; decision maker; industrial leader; manager or superintendent; organizer/coordinator of economic resources; proprietor of an enterprise; employer of factors of production; contractor; arbitrageur; and resource allocator.*

A common thread, albeit implicit in some instances, to most of these definitions is the notion of an enterprise being formed. The definitions tend to be oriented toward specific *behaviors* such as risk taking, innovativeness, decision making, and resource allocation that leads to developing an enterprise and/or are required to manage the enterprise after its creation. As you will read in the next section, however, the definition of a *successful* entrepreneur, as defined by the state of Pennsylvania, is far more *outcome based*. The definition is operationalized in very specific, tangible, outcomes. Moreover, these

outcomes are almost bureaucratic in nature and seem to fly in the face of both theoretical conceptualizations of entrepreneurship and the American image of the entrepreneur.

## **OVERVIEW OF THE SELF EMPLOYMENT ASSISTANCE PROGRAM (SEAP)**

On December 8, 1993, federal enabling legislation was enacted that allows the states to establish programs to train unemployed workers to start their own business. The legislation was Section 507 of the NAFTA Implementation Act and expires on December 8, 1998. In total, eleven states received approval to conduct a program. They include California, Connecticut, Delaware, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Pennsylvania, and Rhode Island. Of these states, it is believed that about eight actually have initiated a program. In the case of Pennsylvania, the state initiated a pilot program in 1998 titled the Self Employment Assistance Program (SEAP) and awarded grants for programs at eight sites.

The key to the legislation is that unemployed participants in the various programs do not jeopardize their unemployment benefits:

- Unemployed workers may continue collecting unemployment compensation while participating in such a program.
- Unemployed workers are not required to take an available job while in training.
- Unemployed workers may start their new business and continue receiving unemployment benefits.

As of late 1998, there is pending federal legislation to extend the program in three bills including HR 3697 (English, Levin), HR 3773 (English) and SB 897 (D'Amato, Wyden). Given the limited number of states actually involved in the program, the typical summer slowdown in Washington and the politicians' concerns with elections and distractions of "Whatevergate," it is not clear when (or even if) the legislation will be passed. There is optimism, however, that the legislation will pass as part of another noncontroversial bill.

## **THE INDIANA UNIVERSITY OF PENNSYLVANIA SEAP**

The objectives of this program were defined by the State of Pennsylvania in terms of fifteen "outcomes" of which each participant was expected to meet at least six to be considered "successful." These are presented in Table I. Those which are *highlighted* were required outcomes for each participant in our program. In addition, at least one other outcome was required of each person. The validity of whether these fifteen outcomes are the most desirable is certainly open to debate. However, there is no question that they are specific, tangible and very outcome based.

In conjunction with Tri-County Private Industry Council, Inc. (PIC), the Management Services Group (MSG) of Indiana University of Pennsylvania (IUP) has developed a training program. PIC provided the initial communication with the individuals identified by the state as potential candidates and conducted assessments of the interested parties including aptitude, skills, attitudes, entrepreneurial potential, etc. A number of

instruments were utilized over a period of four days including one developed by Wonderlic titled "Entrepreneurial Quotient" (EQTM). This commercially available instrument is represented as a "profiling system" and assesses persons along a number of dimensions related to entrepreneurship.

**Table I -- SPECIFIC OUTCOMES  
REQUIRED FOR SEAP**

- *Successful completion of entrepreneurial training*
- *Developed business plan*
- Established legal entity
- *Opened business checking account*
- *The establishment of a home office*
- Signing a lease
- Securing equipment/purchasing supplies
- *Developed marketing package*
- Solicitation of customers/advertised product or service
- Purchased business insurance
- Obtained needed licenses/registrations
- Employees hired
- Filing schedule c for income tax
- Other -- specific to a given business (e.g., buying franchise, franchise training, etc.)
- Amount of time being devoted (minimum of 32 hours/week)

Table II is a summary of some of the characteristics of the participants in the program including their assessment scores for reading, mathematics, reasoning and language. Based on the assessment process, 26 individuals were accepted into the program and were run through one of three different groups from March through August 1998. Each program lasted from 5-10 weeks and included one to two 3<sup>+</sup> hour sessions per week in addition to intensive one-on-one sessions with each of the participants from one to three times (or more) per week. Primary responsibility for conducting these sessions was with the three authors of this article. Two books were used including *Smart Steps to Smart Choices*, (Bangs, 1996) and *The Business Planning Guide*, 7th Edition (Bangs, 1995).

**TABLE II -- PROFILE/ASSESSMENT OF SEAP  
PARTICIPANTS**

CHARACTERISTIC	MEAN	S. DEV.
Age	40.1	10.0
Education (years)	14.0	1.8
Reading (Education Equiv.)	11.6	1.9
Math (Education Equiv.)	10.9	1.8

Reasoning (Education Equiv.)	13.9	2.6
Language (Education Equiv.)	13.9	2.5
<b>Entrepreneurial Quotient (EQ™)</b>	<b>39.7</b>	<b>28.4</b>

The participants were very diverse based on a number of factors including gender (12 males, 13 females), home (three counties), age (20-59 years old), educational levels (a high school dropout through MBA), and other measures including aptitude, EQTM, types of businesses in which they were interested, etc. This presented an immense challenge to design and deliver a program which would accommodate the needs and abilities of all of the participants.

The diversity of the participants of the SEAP required a novel approach to providing an effective program which would serve all concerned. To accommodate our participants, we created a series of eleven "formal" sessions. Each session required many hours of preparation on the part of the participants. Consequently, we only conducted sessions once or twice a week in order to allow for preparation of such assignments as business plan drafts, brochures, 61 personal workshops," etc. Moreover, by conducting one-on-one sessions with each participant from one to three times (or more) per week, we were able to customize our delivery to accommodate the diverse group with which we were working.

The formal sessions and the one-on-one sessions were conducted by the authors and included a number of topics and included the following general topics (of course, there were a large number of "sub-topics" included as well): Introduction to SEAP; The Nature of Entrepreneurship; Business Concept to Business Plan; Marketing I -- Basics and Market Research; Marketing II -- Implementation; Advertising; Internet Marketing; Operations; Competitor Intelligence; Financial Analysis; Financing (Bank Loans & Other Sources); Bookkeeping/ Accounting; Legal Structure & Issues; Insurance Issues; Family Business Issues; and Business Plan Presentations (by participants).

In order to provide expertise and insight to these topics, we integrated a number of "guest speakers" into the program. They included a SEAP Alumna; Systems Technology Manager; Director, Small Business Development Center (SBDC); Co-owner, MCM Communications (Advertising Agency); Professor of Marketing; Vice President/Loan Officer -- National Bank of the Commonwealth (NBOC); Financial Director -- County Center for Economic Operations (CEO); Assistant Deputy Director, U.S. Small Business Administration (SBA); Accounting Professor engaged in private accounting practice (CPA); Attorney, Tomb, Mack & Kauffman; Agent, Thompson & McClay Insurance Associates; President, Borough Council; President, Chamber of Commerce; Chief Executive Officer, County Center for Economic Operations (CEO); Director, Government Contracting Assistance Program (GCAP); and Manager, Small Business Incubator.

## OUTCOMES OF PROGRAM

There are a number of ways to characterize the outcomes of this pilot program. For the purposes of this article, we will focus on two principal ones. We have assessed the participants in terms of the State of Pennsylvania mandated outcomes as well as the operating status and types of business which have been initiated. We are pleased to report that 23 of the 26 participants completed the program. Three could be characterized as "dropouts" in the sense that they did not even complete the entrepreneurial training. In one case, the participant secured a promising job out of town whereas the other two did not seem to really want to start a business after being immersed in the program for anywhere from five to eight sessions. By not completing the program, these individuals were required to return to their normal status with respect to unemployment compensation.

The businesses that have been started or are in the process of being started as of August 1998 are presented in Table III. Keep in mind that although the formal training sessions have been completed as of the beginning of August 1998, the program itself is still in effect and we continue to work with the participants.

The average number of required outcomes accomplished by the participants is in excess of nine. In terms of Pennsylvania State mandated criteria, 22 out of 26 completed at least six of the outcomes, a success rate of 85%. We continue to work with the participants on a one-on-one basis and expect that the number of outcomes will be increased over time. We are more pleased with the fact that most of the participants are up and running in some form at such an early stage. It is our consensus that at least sixteen of the twenty-five original participants have already taken the steps to ensure a high probability of achieving a level of success which will provide them with a viable business in the future.

**TABLE III -- BUSINESSES IN START-UP  
PHASE/OPERATING/# OUTCOMES**

<b>TYPE BUSINESS</b>	<b>START-UP</b>	<b>OPERATING</b>	<b># OUTCOMES</b>
Tractor import	x		9
Pedorthist		x	13
Contractor (2)		xx	10, 10
Archery Mfg.		x	9
Graphic Designer		x	9
Home Health (2)		xx	12, 12
Cleaning Ser. (2)		xx	9, 9
Real Estate Dev.	x		4

Tool Mfg.		x	7
Upholstery		x	9
Craft Importing	x		8
Casting		x	12
Care Mgmt.		x	10
Machine Shop	x		8
Relocation Ser.	x		8
Machine Quilting		x	11
Saw Mill		x	11
Comp. Sales/ Ser.		x	11
Photography		x	9
Restaurant/Deli	x		9
<b>TOTAL</b>	<b>6</b>	<b>17</b>	<b>9.5 (Mean)</b>

### PREDICTORS OF SUCCESSFUL ENTREPRENEURS

Success for an entrepreneur, a small business operation, or even a public corporation can take on many dimensions. Survival well beyond the "start-up" mode, perhaps for five years, would be a far more valid as would various measures of profitability including net income, cash flow and return on investment. Clearly, it is premature to fully assess the success of the SEAP participants. However, we have compiled the data to establish which, if any, of the assessments or characteristics of the participants is related to some measure of "success." For the purposes of this study and program we have utilized the outcomes mandated by the state of Pennsylvania. A number of analyses have been performed including those associated with the following:

- Gender
- Age
- Educational level
- Assessment scores in reading, math, reasoning, and language
- Entrepreneurial Quotient (EQ™) scores
- The relationship between assessment scores and Entrepreneurial Quotient (EQ™) scores
- Number of outcomes

**TABLE IV -- RELATIONSHIP OF  
EDUCATION LEVEL & EQ**

<b>Variable</b>	<b>R-square</b>
Education Level	.07
Math Level	.00
Reading Level	.23
Reasoning Level	.08
Language Level	.12

The participants of the SEAP included 12 males and 14 females of which 10 males and 13 females were classified as completing the program (3 were "drop-outs"). Both males and females as a group were identical with respect to the mean number of outcomes accomplished to this point in time. Each achieved an average of 9.5 outcomes.

Interestingly, however, the females scored an average of 48 on the Entrepreneurial Quotient (EQ™) survey while the male participants averaged only 28!

In order to assess what other factors might explain the participants' scores on the Entrepreneurial Quotient (EQ™) survey, we performed a correlation analysis of several relevant factors. We expected that education.

The relationship of various factors to the success measure (number of outcomes) is of particular interest since this is our proxy for entrepreneurial success. Of all of the factors that we correlated to this success measure, we expected *all but age to be related positively*. The age variable was not expected to be related due to the conventional wisdom that entrepreneurs are not likely to attempt to start a business and/or be successful in entrepreneurial efforts towards the end of their working careers (due to risk aversion, responsibilities, entrenchment, etc.). Please see Table V.

**TABLE V -- RELATIONSHIP OF AGE,  
EDUCATION, & ASSESSMENT SCORES TO  
NUMBER OF OUTCOMES**

<b>Variable</b>	<b>R-Square</b>
Age	.01
Education Level	.00
Math Level	.01
Reading Level	.00
Reasoning Level	.02
Language Level	.01
Entrepreneurial Quotient (Eq)	.00

As expected, age was not related to "entrepreneurial success." We were very surprised, however, that *none* of the other variables were related to the number of achieved outcomes. There are a number of possible explanations for this:

1. It is too early in the game to truly assess the success of these program participants.
2. The size of the sample may be too small (23 of the 26 original participants).
3. The assessment instruments are invalid.
4. The success measure of number of and/or types of outcomes are invalid.
5. The real reason for success is the *program itself*-- the **success of the individuals is a function of their participation in the program** and the learning and assistance provided therein.

### **SOME OBSERVATIONS AND CONCLUSIONS**

*Have we stumbled upon a new concept of entrepreneurship through the application of government mandated outcomes?* Probably not. *Can Entrepreneurism be taught?* We don't know for sure. However, we do believe that the SEAP experience has demonstrated that, at least in the context of our success indicators, that perhaps it can.

*Is a SEAP an effective means for dealing with unemployment and economic development issues?* Probably on a limited basis in the sense that everyone is not capable or motivated to become an entrepreneur/small business owner. Moreover, there is not room in every community's economy to infinitely increase the number of new businesses. However, we believe that a SEAP type of program can be very effective on a limited basis in terms of not only spurring start-up businesses, but substantially increasing the probability of success of the new endeavor.



*What are the shortcomings of such a program?* Dealing with the diversity of participants has been discussed and can be dealt with to a certain extent. A much larger issue is associated with the inability of many unemployed workers to secure financing, even in moderate amounts.

*Would we recommend developing a SEAP program at your institution?* Assuming the federal enabling legislation is put into place in 1998-99 and your state approves a program and provides funds to administer it, we would recommend you attempt to develop a program.

*Can we explain how to explain the variability of success for the participants in the program?* No! However, we believe that such a program will by its very nature, significantly improve the probability of an entrepreneur to succeed, regardless of the success measures employed.

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# MARKETING MECHANICAL CONTRACTORS

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## ABSTRACT

Local surveys and a national survey were administered to determine whether there was a relationship between type and amount of promotion and sales.

## INTRODUCTION

Many business-to-business firms wonder whether they should spend money on marketing. Since they are usually already concerned with the type and quality of product they produce and sell, what they usually mean is whether they should spend a significant amount of money on promotion. For example, should they spend a significant amount of money on advertising? Should they hire more salespeople?

Mechanical contracting firms are no exception. The president of a Mechanical Contractors Association approached Calvin College's Small Business Institute (SBI) and asked whether the above questions could be answered. To this end, student teams of two students each were assigned to one of six mechanical contracting firms and expected to conduct local surveys of existing contractor customers. The students' professor would aid in the development, implementation, and analysis of a national survey to determine a benchmark for the industry.

It was anticipated that awareness levels and sales would be lower if there was little advertising and little personal selling of mechanical contracting services to existing customers, since awareness and preference are objectives of the advertising and personal selling functions (Assael, 1998). The local surveys were to determine, in part, existing customer awareness levels of services offered. The national survey was intended to determine whether there was a relationship between sales and marketing expenditures and the nature of such a relationship.

## THE LOCAL SURVEYS

Six student teams of two students each were assigned to a mechanical contracting firm as part of a semester long assignment representing one-half of their grade in a three credit hour course. Students were to perform survey research and make recommendations to their mechanical contracting "client" based on this research. Clients were asked to contribute \$200.00 plus expenses for each survey project. The money was contributed by the local chapter of the Mechanical Contractors Association.

Student teams 1, 2, 3, and 5 constructed surveys asking about client awareness levels. Teams 1, 3, and 5 did telephone surveys. Team 2 did a mail survey. The decision of which type of survey to do was based, in part, on how big a client list was generated by the client. Teams 3 and 5 measured unaided recall (that is, respondents had to list from

memory the other services provided by the mechanical contractor), while Teams 1 and 2 measured aided recall (that is, they read a list of services and asked whether clients believed the service was performed by the particular contractor). Type of recall measure was determined by the students. The results of these "local surveys" are given below.

**TABLE 1:  
THE LOCAL SURVEYS**

<b>Firm #</b>	<b>Type of Recall</b>	<b>% of Services Existing Customers Were Aware of:</b>	<b>N= #of Customers Asked</b>
<b>1</b>	Aided	56.0%	26
<b>2</b>	Aided	57.5%	41 (18%)
<b>3</b>	Unaided	20.0%	30
<b>5</b>	Unaided	35.7%	18
<b>WEIGHTED AVERAGE OF AIDED RECALL</b>		60.4%	67
<b>WEIGHTED AVERAGE OF UNAIDED RECALL</b>		25.8%	48

As expected, unaided recall levels were found to be lower than aided recall levels, though each seemed low. One possible explanation for the low recall scores could be that respondents did not allocate significant cognitive resources when answering a phone or mail survey. One of the mechanical contracting firm clients suggested that higher recall scores might have been obtained had the respondents been questioned in person.

On the other hand, the low recall scores are not surprising given that contractors spend little money on advertising or personal selling. Because of these low scores the students made the suggestion that an opportunity existed for the cross selling of services to existing customers.

### **THE NATIONAL SURVEY**

In addition to paying for surveys done for individual mechanical contractors, the local Association paid \$200.00 plus expenses (approximately \$2000) for a national survey of mechanical contractors. 1975 surveys were mailed to one-third of the mechanical contractors on a list purchased through a mailing service. The mailing service chose to mail these surveys to mechanical contractors in the eastern one-third of the United States,

even after being told to pick contractors at random. A cover letter was mailed with the survey, written and signed by two students, and included the incentive that respondents who completed the survey and mailed it in would receive a copy of the results. 206 completed surveys were returned for a response rate of 10.4%. 47 respondents desired to receive a copy. Given how busy mechanical contractors are at the present time due to the robustness of the economy, the response rate was not surprisingly low. Another reason for the response rate being low was that there was not adequate time to mail a second request.

Contractors were asked questions regarding the services they offered, whether they advertised and how much they spent and what type of media they used, and whether they employed salespeople and, if they did, how many. Contractors were also asked whether they belonged to any associations, which ones, and how many as well as whether they utilized marketing research. The results of the "national survey" are given below (see Table 2).

**TABLE 2:  
THE NATIONAL SURVEY**

DESCRIPTIVES		FREQUENCY	PERCENTAGE
Are you a mechanical Contractor?	Yes	198	96.1%
	No	8	3.9%
Do you Provide Electrical Services?	Yes	53	26.9%
	No	144	74.1%
Do you Provide Plumbing Services?	Yes	134	67.3%
	No	65	32.7%
Do you Provide HVAC Services?	Yes	162	81.4%
	No	37	18.6%
Do you Provide Piping and Welding Services?	Yes	155	77.9%
	No	44	22.1%
Do you Provide Maintenance Services?	Yes	129	64.8%
	No	70	35.2%
What is the Primary	HVAC	79	38.5%

Service of your Firm?	Plumbing	27	13.2%
	Other	99	48.3%
Do you belong to an Association?	Yes	124	65.6%
	No	65	34.4%
Does your firm Advertise?	Yes	98	50.3%
	No	97	49.7%
Amount Spent?	Mean= \$11,391	Median= \$5,000	N=88
Does your firm do Market Research?	Yes	14	7.2%
	No	180	92.8%
Amount Spent?	Mean= \$10,889	Median= \$5,000	N=9
Does Your Firm Employ Salespeople?	Yes	65	33.0%
	No	132	67.0%
How many?	Mean= 3.6	Median= 2.0	N=65
Gross sales	Mean= \$20m	Median= \$2.3m	N=178

As can be seen, the mailing list was quite accurate, given that 96.1 % of respondents were mechanical contractors. The most popular services offered were found to be HVAC (heating, ventilation, and air conditioning) and piping and welding. Over one-half of the respondents belonged to an association and one-half advertised. Very few performed market research and one-third employed salespeople.

It was found that those who belong to associations had higher sales than those who did not. It was also found, not unexpectedly, that firms which employed salespeople had higher sales and firms that advertised more had higher sales. The difficulty is determining whether the correlation demonstrates causation: for example, do firms which advertise more have higher sales? The suggestion was made that it depends on whether mechanical contracting firms service the consumer or industrial market. If they service the consumer market, one would expect higher advertising expenditures to result in higher sales. Unfortunately, the question concerning type of market served was not asked.

**TABLE 2 (continued)**

<b>MAIN EFFECTS FACTORS</b>		<b>SALES</b>	<b>N</b>
Does your Firm belong To any Associations?#	Yes	\$11.0m	110
	No	\$2.3m	56
Does your Firm employ Salespeople?#	Yes	\$15.0m	56
	No	\$4.9m	108
How much Does your firm Advertise?#	Under \$5,000	\$2.8m	7
	Over \$4,999	\$16.0m	27

There was an interesting interaction found between whether a firm advertises and whether a firm employs salespeople. Firms that do not advertise and yet employ salespeople have the highest sales, followed by those that advertise and employ salespeople. Again, this result may be at least partially explained by type of customer serviced. It may be that firms which service industrial customers are bigger and tend to utilize only salespeople while firms which service consumers are smaller and tend to utilize only advertising.

This finding may also have something to do with the primary service offered by the mechanical contracting firm. While roughly one-half of those whose primary service is HVAC or plumbing or other advertise, 43% of those whose primary service is HVAC, 18% of those whose primary service is plumbing, and 29% of those whose primary service is other employ salespeople.

Further analysis determined that the successful contractors whose primary service is HVAC were those who advertise and employ salespeople, while the successful contractors whose primary service was other were the four who do not advertise but employ salespeople.

**TABLE 2 (continued)**

**INTERACTION BETWEEN WHETHER TO  
ADVERTISE AND WHETHER TO EMPLOY  
SALESPEOPLE#**

<b>FACTORS</b>	<b>SALES</b>	<b>N</b>
Advertise* Employ salespeople	\$13.0m	44
Don't adv.* Employ salespeople	\$23.0m	12
Advertise* Don't employ Salespeople	\$6.6m	41
Don't adv.* Don't employ Salespeople	\$3.9m	67

There was also an interesting interaction found between the number of associations a mechanical contracting firm belongs to and the number of salespeople the firm employs. Although some cell sizes were very small, it seems that those who belong to one association and employ more than one salesperson have the highest sales. It could be hypothesized that when firms belong to more than one association, they and their salespeople are spending productive time doing other than the selling function.

**TABLE 2 (continued)**

**INTERACTION BETWEEN NUMBER OF  
ASSOCIATIONS AND NUMBER OF SALESPEOPLE  
EMPLOYED##**

<b>FACTORS</b>	<b>SALES</b>	<b>N</b>
Belong to many Associations* Employ few salespeople	\$17.0m	10
Belong to few Associations* Employ few sales people	\$2.2m	2
Belong to many Associations* Employ many sales people	\$9.2m	18

Belong to few Associations*	\$27.0m	4
Employ many sales people		

# = significant at the 0.05 level; ## = significant at the 0.10 level; cell sizes quite small. NOTE: for interactions and main effects, an "outlier" firm (\$2 billion) was excluded.

## RECOMMENDATIONS

In theory, sales should increase if advertising and personal selling expenditures are increased and association memberships decreased because more effort will be put into strengthening awareness and knowledge levels of customers and potential customers.

Assael (1998), for example, notes that one objective of advertising is to make customers aware of products and one objective of personal selling is to influence customers to buy.

The findings from the local surveys indicate that among customers awareness of specific mechanical contracting services is low (see Table 1). This suggests that more money must be spent on advertising and, specifically, cross-selling. The findings of the national survey indicate that to increase sales, it is better to belong to associations than not to belong, better to employ sales people than not to employ them, and better to advertise and employ sales people than not to do both (see Table 2). In addition, the national survey suggests that it is better to advertise more, belong to fewer associations and, at the same time, to hire more salespeople. So how much is "more" and how much is a "fewer?" What media are appropriate for advertising and how should salespeople sell?

### How Much to Spend on Advertising

The findings from the national survey indicate that the median expenditure on advertising (from among the 50.3% of firms that do advertise) is \$5,000. The findings also suggest that the more firms spend on advertising, the higher will be their sales.

### What Advertising Media to Use

The findings of the national survey indicate that firms who do advertise do so using the following media: 9.3% of all firms that advertise use television, 12.4% use magazines, 57.7% use direct mail, 22.7% use trade shows, 15.5% use radio, and 14.9% use the Yellow Pages. Although these media are currently utilized and direct mail is most frequently utilized, it does not mean that these media should be utilized in the proportions listed above. Unfortunately, at the present time there does not seem to be correct theoretical answer which media are better for mechanical contractors to use, though one would expect consumer-oriented contractors would utilize mass media and industrial-oriented contractors would utilize personal media. Overall, the findings of the survey seem to indicate that those who utilize direct mail advertising had significantly higher sales than those who did not (excluding the \$2 billion "outlier" firm) (\$13.0 million versus \$6.2 million in sales;  $t = 1.57$ ;  $n = 51$  and  $36$ , respectively,  $p = 0.013$ ). The same



was true for those who utilized trade shows (\$20.0 million versus \$7.5 million in sales;  $t = 2.36$ ;  $n = 20$  and  $67$ , respectively;  $p = 0.079$ ). Interestingly, those mechanical contractors who utilized television and/or radio advertising had lower sales (though not significantly lower sales). However, we do not know whether it is the type of advertising which is at fault or the content of those advertising on television and radio. Again, we also do not know if type of contractor makes a difference.

### **How Many Associations to Join**

The findings from the national survey indicate that those who belong to associations have higher sales than those who do not belong to associations (see Table 2). However, belonging to two or more associations seems to interact negatively with employing two or more salespeople such that sales are reduced (see Table 2). It may be that belonging to two or more associations reduces productivity.

### **What Associations to Join**

The findings of the national survey indicate that the most popular associations to join is the Mechanical Contractors Association (MCCA, includes national and local chapters), of which 43.2% of those who belong to associations are members of. The next most popular associations to join seem to be PHCC and ASHRAE. However, only those who do not belong to ASHRAE as opposed to those who do belong to ASHRAE have higher sales (excluding the \$2 billion "outlier" firm) (\$14.0 million versus \$7.1 million in sales;  $t = -1.10$ ;  $n = 19$  and  $84$ , respectively,  $p = 0.07$ ). This may be due to the size of firms who belong--a self-selection criterion, or to the type of contractor, industrial versus consumer-oriented.

### **How many Salespeople to Hire**

The findings of the national survey indicate that sales will be higher for firms with salespeople versus firms without salespeople (see Table 2). The findings also indicate that firms with two or more salespeople have higher sales than firms with less than two salespeople, particularly if firms do not advertise as well! This is a particularly interesting finding. It could be that industrial firms are larger and utilize only salespeople.

### **What Salespeople Should Do**

The local surveys seem to indicate that salespeople will be effective if they develop and maintain relationships with customers. It would seem appropriate for salespeople to cross sell other mechanical contracting services to existing customers. This would also improve awareness scores of other mechanical contracting services. In other words, the low awareness level of other services (see Table 1) is an indication that little cross selling is currently occurring.

## **FUTURE RESEARCH**

In order to strengthen the knowledge base of promotional levels and types for mechanical contractors, it would be helpful to increase the size of the data set in order to determine whether more differences exist between types of mechanical contractors as well as by size of mechanical contractor. In addition, qualitative research could be conducted in order to determine why these differences exist. Preliminary discussions reveal that one strong variable not included in the analysis is whether mechanical contracting firms service industrial or consumer markets. Discussions also reveal that personal interviewing may lead to higher recall measures, given that respondents may be allocating more cognitive resources to the survey than they might when talking over the phone. Finally, preliminary discussions reveal that survey questions were not specific enough. For example, instead of asking "How many people does your firm employ?", more helpful questions would be "How many of your employees are considered 'staff'", "How many of your employees are considered 'field employees'", "How many of your 'field employees' are 'service people'", and "How many of your 'field employees' are 'construction people'".

The current survey was a cross-sectional one. The knowledge base of promotional levels and types could be enhanced if a longitudinal study were performed. A longitudinal study could monitor awareness levels and determine whether promotion-related changes impact sales levels.

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# **Marketing of Accounting Services to Professionals vs. Small Business Owners: Selection and Retention Criteria of These Client Groups**

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## **Abstract**

A more competitive environment has led many financial service providers to more aggressively market their services. Despite the need, many providers are faced with special challenges in developing a marketing strategy. Among these challenges is information on the decision factors important for clients choosing its financial service vendor. This study examined two distinct client groups, small business owners and professionals in private practice, to determine the most important factors for selecting and retaining vendors who primarily provide accounting and other financial services. The data reveal that business owners, in general, place more importance on all the individual factors involved in selecting a vendor. The findings suggest that business owners and professionals represent two distinct client groups in terms of what they perceive as important criteria for selecting service providers, thus, indicating that marketing efforts should be specialized for each client group.

## **Introduction**

Among the changes that have influenced accounting service providers over the last decade has been the combination of increased competition among providers and more willingness by them to advertise their services. Indeed, the more competitive environment has led many clients to change providers, which leads many accounting firms and professional providers to look at developing some kind of marketing strategy (e.g., Mangos, Roffey, & Stevens 1995).

Yet many accounting professionals not only hold negative attitudes about advertising their services, but also lack the marketing skills to effectively promote their product. A study by Stevens, McConkey, Loudon, and Dunn (1994) found that many accountants that provide related services still hold negative attitudes about advertising. They concluded, however, that this attitude was starting to shift based on the more positive attitude held by the younger accountants. Hiltner, Gillett, and Elbert (1995) note that many experts claim that special challenges are inevitable for those who must market their professional services. For example, clients must often be educated about the services being provided, including how they might evaluate the service. In addition, accounting service providers who do attempt explicit marketing efforts often run into time management problems of trying to both do the service and market it.

Ahmed and Hopson (1990) assert that accounting service firms need to have a strategic plan for marketing their services. Not surprisingly, such an approach requires that

providers acquire a marketing orientation towards their business. Among the things a provider needs to know in order to market strategically is what factors different clients "employ in their decision-making process to select an accounting firm" (p. 52). Knowing the factors that move clients of accounting services to select a provider or change providers can be helpful information for accounting firms, especially smaller ones, in strategically promoting and positioning their firm. In a study of top private firms' reasons for selecting and switching auditors, several factors were identified as important criteria in making the decision to select a professional provider (Addams & Davis 1994). The top factors reported by the private firms were 1) personal relationships developed between client and provider, 2) quality of firm's technical expertise, 3) fee to be charged, and 4) specific industry expertise of the accounting firm. The findings, the authors concluded, show that retaining and gaining clients hinges on meeting their needs first, not just price.

Knowing the concerns of clients is an important consideration for practitioners who plan on strategically marketing their services. The study by Addams and Davis (1994) provides evidence of some of the concerns clients may have; however, the study dealt specifically with auditing services needed by the largest private firms. Information about clients who use a broader range of accounting services -- a documented trend of the industry -- would certainly help practitioners wanting to take a more proactive and strategic approach to promoting their services.

In this study, we will consider two distinct client groups -- small business owners and professionals in private practice. The distinction might be important because most professionals see themselves as professionals first and businesspersons second. Thus, they are often unaware of the potential complexity of financial issues related to any business, and hence may view the selection of an accounting services vendor more of a nuisance than a critical element to the larger success of the business.

## **Methodology**

A mail survey was sent to a sample of 500 non-accounting businesses listed in Sorkins Business Directory, which covers Western Missouri and Eastern Kansas. 102 (20.4%) responses were received. In the survey, respondents indicated whether they were a business owner or a professional in private practice (either alone or with others). Of the responses, 81 (48 professionals and 33 business owners) were deemed usable for these analyses because they used outside accounting services vendors. No follow-up survey was undertaken. The average revenues of the respondents were \$938,000 for the professionals in private practice and \$1,944,000 for the businesses.

Respondents were asked about their prior training in dealing with financial issues, and who did the actual work on financial and tax matters for their business. Respondents were also asked why they utilized outside vendors, how soon they started to rely on outside vendors, what led to their choice of their first outside vendor, what led to their decision to change vendors (when applicable), and what criteria did they use in selecting their most current vendor (if they have had more than one). The specific criteria respondents chose from were those used by Addams and Davis (1994).

## Results

Comparing the professionals with the business owners, these data suggest very little difference between the two groups in terms of prior training in accounting; both groups showed about 20% having attended workshops and seminars, and 40% having had at least one college level course. In terms of who "does the books," owners are significantly more likely to do their own in whole or part than are professionals (55% vs. 34%). About one-half of both groups have employees designated to do these tasks and one-half rely on CPAs to do some of the work. In addition, about a third of each group also uses at least one of the following: bookkeepers, external accountants, or public accountants. When it comes to preparing taxes, approximately three-fourths of both groups use CPAs. The decision to rely on external financial vendors was usually initially due to some mixture of tax considerations (about 60% of both groups), perceived lack of internal expertise (again, about 60%), and perceived lack of time to do these tasks (about 50% for professionals and 40% for business owners). The mean duration before engaging the services of the outside vendor was .83 years for the business owners and 1.87 years for the professionals.

The initial choice of vendors tended to rely on an informal, non-systematic search process. Only 24.5% of the professionals and 31.5% of the business owners indicated that they relied on either a written proposal or oral interview of the vendor before selection. In contrast, 70% of the professionals and 63% of the business owners depended on word of mouth, and 25% of both groups indicated an "other" reason, with many of these based on personal acquaintance, e.g. neighbor, belonged to the same church, etc.

While these data suggest that we might find similar patterns between the professionals and the small business owners in terms of what they would cite as reasons for selection and change of vendors, when asked to evaluate specific items on a 0 to 6 point scale, marked differences emerged.

Table 1 shows the results of t-test comparisons of the importance that professionals (n=48) and business owners (n=33) give to the twelve selection criteria when choosing their first accounting services vendor. Owners score significantly higher (at least  $p < .05$ ) than professionals in terms of the importance of the personal relationship between persons in the business and in the vendor firm (4.63 vs. 3.75), the quality of the vendor's oral presentation (3.42 vs. 1.87), the range of services offered (3.93 vs. 2.70) and the quality of the vendor's written presentation (2.12 vs. 1.23). Of the twelve factors, there was only one (perception of the technical expertise of the vendor) where professionals scored higher than owners, and this was not significantly different. These results suggest that business owners give this decision more thought across the board than do professionals.

**Table 1. The importance of selection criteria when choosing the first accounting services vendor**

<b>Criteria</b>	<b>Professionals (n=48)</b>	<b>Business Owners (n=33)</b>
Personal relationship with vendor	3.75	4.63*
Perceived technical expertise of vendor	5.06	4.78
Proposed fee	2.97	3.27
Vendor's knowledge of client's industry	3.39	3.78
Vendor's oral presentation	1.87	3.42*
Range of services offered	2.70	3.93*
Size of vendor's firm	1.40	2.03
Vendor's written presentation	1.23	2.12*
Recommendations from other clients of the vendor	3.89	4.00
Prior acquaintance with vendor	2.75	3.06
Location	2.20	2.48
International services offered	.14	.42

\* = significantly higher at  $p < .05$  or less

Table 2 shows the results of t-test comparisons of the importance that professionals (n=20) and owners (n=15) give to various criteria related to why they choose to change vendors. Again, business owners scored all 12 factors higher indicating that they appear to give this decision more thought. The factors scored significantly higher than the business owners included the lack of new ideas from the vendor (3.86 vs. 2.55), the vendor having an inadequate understanding of the company's business (4.00 vs. 2.40), and inadequate communication between vendor and business (3.93 vs. 1.55). These results suggest that business owners are more likely to be sensitive to vendor shortcomings that relate to using the vendor to help the owner grow the business. In a separate analysis not shown in table form, when it came time to decide on a new vendor, there was only one significant difference between owners and professionals, that being that owners gave significantly more weight to the vendor's oral presentation (3.86 vs. 2.62), which may suggest that this is a primary evaluative point and perhaps an area for clarification in the eyes of business owners.

**Table 2. Importance of criteria for deciding to change vendors**

<b>Criteria</b>	<b>Professional (n=24)</b>	<b>Business Owners (n=15)</b>
Vendor not proactive	3.15	4.33
Vendor not responsive to client's needs	2.85	3.93
Vendor offered no new ideas to help client	2.55	3.86*
Vendor did not understand client's business	2.40	4.00*
Fees were too high	2.65	3.13
Inadequate communications	1.55	3.93*
Vendor changed personnel assigned to client	1.20	1.53
Dispute over accounting issues	1.35	1.60
Interpersonal clash	.95	1.73
Client likes to rotate vendors	.30	.68

\* = significantly higher at  $p < .05$  or less

Table 3 shows the results of t-test comparisons of the initial importance of the twelve selection criteria for those who keep their original vendors and those who change vendors. This has been split into the professionals only and the business owners only to allow for comparisons between client groups.

**Table 3. Comparison of importance of initial selection criteria for those keeping and those changing vendors (separate breakdowns for professionals and for business owners)**

Criteria	Professionals		Owners	
	Keep (n=24)	Change (n=24)	Keep (n=19)	Change (n=14)
Personal relationship with vendor	4.04	3.45	4.68	4.57
Perceived technical expertise of vendor	5.25	4.87	5.31*	4.07
Proposed fee	2.58	3.39	3.68	2.71
Vendor's knowledge of client's industry	3.29	3.50	4.78*	2.42
Vendor's oral presentation	2.20	1.54	4.10*	2.50
Range of services offered	3.20*	2.20	4.63*	3.00
Size of firm	1.00	1.83	2.57*	1.28
Vendor's written presentation	1.04	1.41	2.36	1.78
Recommendations from other clients of the vendor	3.66	4.12	4.68*	3.07
Prior acquaintance with vendor	3.45*	2.04	3.26	2.78
Location	2.62	1.79	2.63	2.28
International services offered	.00	.28	.52	.28

\* = significantly higher at the  $p < .05$  or less

These results suggest that there is little difference between professionals who keep their original vendor and those that change, while there are far more significant differences for business owners. The one commonality the two client groups share is that those keeping their original vendor are significantly higher in their ratings. Specifically, professionals differed in terms of importance given to range of services (3.20 for the "keep" group vs. 2.20 for the "change" group) and prior acquaintance with the vendor (3.45 for the "keep" group vs. 2.04 for the "change" group). In contrast, the business owners differed in terms of perception of technical expertise (5.31 vs 4.07), vendor's knowledge of the industry (4.78 vs. 2.42), quality of the vendor's oral presentation (4.10 vs. 2.50), range of services offered (4.63 vs. 3.00), quality of the vendor's written presentation (2.57 vs. 1.28) and recommendations of other clients of the vendor (4.68 vs. 3.07).

Table 4 shows the comparisons of how both professionals and business owners who have changed clients rated the twelve criteria when they made their first vendor selection versus their most recent vendor selection. When professionals change vendors, they tend to give significantly higher importance to the vendor's knowledge of their industry (4.37 vs. 3.50), quality of the vendor's oral presentation (2.45 vs. 1.54), range of services



offered by the vendor (3.08 vs. 2.20), and the quality of the vendor's written presentation (3.08 vs. 2.20). For business owners, the areas of increased importance are vendor's knowledge of the industry (3.35 vs. 2.42), quality of the vendor's oral presentation (3.71 vs. 2.50), quality of the vendor's written presentation (3.07 vs. 1.78), and recommendations from other clients of the vendor (3.92 vs. 3.07).

**Table 4. Comparison of importance of selection criteria between first vendor and current vendors (separate comparisons for professionals and for business owners)**

Criteria	Professionals (n=24)		Owners (n=14)	
	First Vendor	Current Vendor	First Vendor	Current Vendor
Personal relationship with vendor	3.45	3.91	4.57	5.00
Perceived technical expertise of vendor	4.87	4.62	4.07	4.50
Proposed fee	3.39	3.17	2.92	3.61
Vendor's knowledge of client's industry	3.50	4.37*	2.42	3.35*
Vendor's oral presentation	1.54	2.45*	2.50	3.71*
Range of services offered	2.20	3.08*	3.00	3.21
Size of firm	1.83	2.20	1.28	1.78
Vendor's written presentation	1.41	2.29	1.78	3.07
Recommendations from other clients of the vendor	4.12	3.91	3.07	3.92*
Prior acquaintance with vendor	2.04	2.54	2.78	2.57
Location	1.79	2.12	2.28	2.28
International services offered	.29	.29	.28	.42

\* = significantly higher at the  $p < .05$  or less

### **Discussion and Implications**

These data suggest that professionals and business owners are initially distinctly different client groups in terms of both what they perceive as important and the strength of such importance in terms of selecting an accounting services vendor. Almost across the board, the owners place higher importance to individual factors, which suggests that they have a stronger initial understanding of the importance of financial activities to the survival of the enterprise.

Additionally, the survey results indicate some marketing information that may help vendors focus more specifically on the selection criteria used by the different groups. Business owners place significantly higher emphasis on the range of services offered and the vendor's oral and written presentations than did the professionals. The only factor observed to be more important by the professionals than the business owners was the perceived technical expertise of the vendor. This suggests that professionals place a high emphasis on this factor and marketing efforts could be focused in this area. When professionals and business owners decide that they need/want to change accounting vendors, the owners' reasons appear to be far stronger in importance, and far more likely to be grounded in specific issues than is the case with the professionals. It should be noted that in one sense, the professionals are "catching up" with the business owners. As seen in table 4, the professionals had many factors that had significant increases between how they were perceived when the first vendor was chosen versus how they were perceived with a subsequent vendor.

Although business owners had higher expectations across the board, they perceived a significantly higher responsibility or expectation that the vendor be able to offer new ideas, understand the client's business and communicate with the owner. This again provides information that may be useful for vendors developing marketing plans and strategies. Accounting services vendors may need to be prepared to vary their marketing approaches to deal with the distinctly different market segments identified in this study.

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# **Two (Differing?) Views on Customer Service: The Small Retailer and Their Customers**

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Few would argue the importance of customer service these days. Certainly the literature is rife with studies and examples that clearly show just how important customer service can be to businesses. Then why is it that customers don't always feel that they are getting the service that they desire or expect? And, perhaps more importantly, why is this feeling frequently directed to small retailers, for whom customer service is one of the important tools to compete against larger entities who can offer better prices and selection? The purpose of this study was to explore this and other questions regarding customer service and how it is viewed both by small retailers and their customers. For the small retailer, attention to the customer service element of their business is not just a component of costs, but is critical to the success of their business.

## **LITERATURE REVIEW**

Customer service is an integral part of an organization; in fact, customer service may be a key factor in the survival of an organization (Manning and Reese, 1998; Panepinto, 1994; Szabo, 1989). Providing superior customer service is often responsible for growth, while ignoring service can mean the end of an organization (Appleton, 1993). Customers rank service as important as the value they receive for the money (Merritt, 1994). Additionally, by meeting the needs of customers, firms can achieve greater customer loyalty and repeat business (Fredericks and Salter, 1995; Merritt, 1994).

As competition increases, customer service can be a differentiating factor for a business (Pearson, 1994; Mullin, 1994; Marley, 1994; Hollis, 1994; Tyndall, 1989) as well as a powerful way to create both a lasting competitive advantage and sustain growth (Scheuing, 1991). By focusing on forming relationships with their customers, businesses are able to generate new customers, while enjoying greater loyalty from their current customers (Erlick, 1994; Hayes, 1994; Heskett, et al, 1994). McNally and MacDonald (1993) go so far as to say that "...it has become painfully obvious that customer service is the most effective defense a retailer can employ." Perhaps Levitt (1998) said it best, "the sale merely consummates the courtship -- then the marriage begins. How good the marriage is depends on how well the relationship is managed by the seller."

Good customer service begins at the lowest level of the organization. When businesses keep their 'internal customers' (their employees) satisfied, the employees are more likely to project good customer service policies than those who are unhappy (Barrett, 1994). Some firms are now instituting classes and seminars that stress customer service policies (Hall, 1989). Some firms are also seeking the customers feedback on the actual level of service that they are providing (Cosco, 1994).

Good customer service is largely responsible for customer retention; a five percent improvement in customer retention can translate to a 10% to 15% increase in profits (Henry, 1994). The cost of handling a single complaint can destroy the profits from five satisfied customers (Westner, 1996). Businesses who pay attention to customer service can capitalize on the relationship between long-term satisfaction and steady profits (Fredricks and Salter, 1995).

## METHODOLOGY

Research was conducted to determine the importance of customer service in relation to customer loyalty, customer relationships, and customer retention. Questionnaires were administered to 360 people who were customers of 12 smaller retailing entities that were chosen for the study. A second survey instrument was administered to the management of the 12 businesses to determine the importance they placed on customer service and their perception of their organization's performance in this area. The businesses included two each of six types: drug stores, dry cleaners, hardware, jewelers, sporting goods, and video rentals.

The surveys were administered to individuals at various times of the day, on different days of the week and at various locations in a trade area of approximately 25,000 people in Southeast Alabama. Management personnel of each of the retailers selected were also interviewed.

## RESULTS-CUSTOMER SURVEY

When asked how important customer service is when selecting a store to shop, over 94% of customer respondents indicated that it was either important or very important with 56.4% indicating that customer service was very important in this decision. These respondents were then asked the importance of each of several characteristics regarding customer service. **Table 1** summarizes this data.

**Table 1. Importance of Characteristics Regarding Customer Service**

	<b><u>Very Important</u></b>	<b><u>Important</u></b>	<b><u>Not Very Important</u></b>	<b><u>Not at All Important</u></b>
<b>Courteous Employees</b>	58.3%	39.2%	2.5%	0.0%
<b>Friendly Employees</b>	54.2%	40.8%	4.7%	0.3%
<b>Knowledgeable Employees</b>	63.9%	32.2%	3.9%	0.0%
<b>Helpful Employees</b>	55.6%	41.7%	2.8%	0.0%
<b>Prompt Service</b>	65.6%	31.7%	2.8%	0.0%

As can be seen, every characteristic is considered either Very Important or Important by at least 95% of respondents.

Respondents were presented with two statements and asked which best describes their attitudes regarding price and customer service. The two statements were:

I would prefer to shop at a store that offers little in the way of customer service, but has low prices.

I would prefer to shop at a store that offers excellent customer service even if prices are somewhat higher.

Approximately one-third (37.8%) of the respondents indicated that the first statement best described them, while the remainder (62.2%) chose the second. Respondents also provided information on how often they shopped at stores only because they offered superior customer service. Approximately one-fourth of the respondents (25.8%) indicated they make this choice often, while 57.5% said they made this choice sometimes. Only 16.7%, or about one out of every six respondents, indicated they never shopped at stores simply because of their superior service. Over three-fourths of respondents (77.2%) indicated that they have stopped shopping at a store because they experienced poor customer service.

Consumers were also asked to rate each of the stores regarding overall quality of service, friendly employees, helpful employees, knowledgeable employees, courteous employees, promptness of service, and response to customer problems. Rating was done using a 10-point scale, with a 10 being the highest score. Table 2 summarizes the results. As can be seen from the table, customers rated all characteristics of all businesses in the 6.2-8.8 range, with most businesses having most of their scores in the mid 7 to mid 8 range.

**Table 2.** Consumer Evaluations of Each of the 12 Stores Regarding Service Characteristics.

**Table 2: Consumer Evaluations of Each of the 12 Stores Regarding Service Characteristics**

<u>Store</u>	<u>Quality Service</u>	<u>Friendly Workers</u>	<u>Helpful Workers</u>	<u>Knowledgeable Workers</u>	<u>Courteous Workers</u>	<u>Prompt Service</u>	<u>Response To Problems</u>
Video 1	7.8	8.7	8.4	7.7	8.4	7.7	7.7
Video 2	8.4	8.8	8.5	8.3	8.6	8.1	8.3
Cleaners 1	7.7	7.2	7.3	8.3	7.4	8.2	7.6
Cleaners	8.2	8.0	8.0	7.9	8.4	8.6	8.6

2							
Drug Store 1	8.2	8.0	7.9	8.0	7.8	7.6	7.3
Drug Store 2	8.1	7.7	8.0	8.7	7.8	8.1	7.5
Hardware 1	8.5	8.7	8.6	8.4	8.4	8.5	8.4
Hardware 2	8.4	8.3	8.5	8.7	8.2	8.2	8.5
Sports 1	8.2	8.8	8.7	8.3	8.5	8.1	8.3
Sports 2	7.6	7.2	7.1	7.6	7.2	7.2	6.3
Jewelry 1	7.5	7.6	7.7	7.8	7.5	7.7	7.3
Jewelry 2	8.0	7.7	8.1	8.0	8.0	8.1	7.4

## RESULTS-BUSINESSES

When asked how important do you feel customer service is to customers when selecting a store to shop, 83% of the managers indicated it was very important, while 17% felt it was important.

The managers were also asked how important each of several characteristics were in delivering customer service. These characteristics were the same as those presented to the customers respondents. **Table 3** summarizes this data.

**Table 3. Importance of Characteristics in the Delivery of Customer Service.**

	Very Important	Important
<b>Courteous Employees</b>	67%	33%
<b>Friendly employees</b>	58%	42%
<b>Knowledgeable employees</b>	67%	33%
<b>Helpful employees</b>	58%	42%
<b>Prompt service</b>	75%	25%

As can be seen from the table, all the managers surveyed thought all the listed characteristics were either very important or at least important in the delivery of customer

service. Businesses were, then asked to rate themselves on a 10-point scale (with 1 being the lowest and 10 being the highest) on overall quality of service, friendly employees, helpful employees, knowledgeable employees, courteous employees, promptness of service, and response to customer problems. Again, these were the same characteristics used in the ratings by the customer respondents. **Table 4** summarizes this information:

**Table 4. Managers' Evaluations of Their Stores Regarding Service Characteristics.**

<u>Store</u>	<u>Quality Service</u>	<u>Friendly Workers</u>	<u>Helpful Workers</u>	<u>Knowledgeable Workers</u>	<u>Courteous Workers</u>	<u>Prompt Service</u>	<u>Response To Problems</u>
Video 1	9.0	9.5	9.4	8.8	9.2	8.8	8.8
Video 2	9.2	9.5	9.5	9.0	9.2	9.0	8.8
Cleaners 1	8.8	8.8	9.0	9.5	8.8	8.8	8.8
Cleaners 2	9.5	9.5	9.0	8.8	8.8	9.2	8.8
Drug Store 1	9.4	9.0	9.0	8.5	8.8	8.8	8.8
Drug Store 2	9.0	9.0	9.0	9.2	8.8	8.8	8.5
Hardware 1	8.8	9.0	9.0	9.5	9.0	8.8	8.6
Hardware 2	9.2	9.0	9.5	9.2	9.0	8.8	9.0
Sports 1	9.0	9.4	9.4	8.8	8.8	8.6	8.6
Sports 2	9.2	9.2	9.0	9.0	9.0	8.5	8.5
Jewelry 1	9.5	9.0	8.8	8.8	9.0	8.6	9.0
Jewelry 2	9.0	9.0	9.0	9.0	9.0	8.5	8.5

Businesses rated themselves in a relatively narrow but high range, 8.5 to 9.5, on all characteristics.

When asked if customer service has an impact on their company's bottom line, 83% felt it had an impact, while 17% did not. Businesses were also asked if their employees received training/instruction on how to deal with customers. Seventeen percent of the firms surveyed did not provide training in the area of customer service/relations, while 83% did. However, only 58% of the retailers periodically evaluated employees to determine whether or not they are providing quality customer service.

## **DISCUSSION OF RESULTS**

There is a great deal of consistency among businesses and their customers in recognizing the importance of customer service in the selection of a store to shop and regarding the characteristics which define customer service. However, there are differences, sometimes quite significant, in the way customers and managers of stores view the level of service that is being provided. At least 95% of consumers and 100% of businesses indicated that prompt service and courteous, friendly, knowledgeable, and helpful employees were either important or very important in the delivery of customer service. Businesses rated themselves comparatively high on these characteristics, but consumers had concerns. On the 10-point rating scale used, there was as much as a two-point difference in the way consumers rated a store and the way the store rated itself. This is important for stores to recognize, since customer service is critical in attracting and keeping customers. Almost two-thirds of consumers indicated that they would prefer to shop at a store that offers excellent customer service even if prices are a bit higher, while over three-quarters of consumers said they have stopped shopping at a store because they experiences poor customer service. Clearly customer service is an important ingredient in the decision making of consumers when choosing a store to shop. The small retailer needs to pay more than lip service to this concept and needs to constantly get feedback from consumers to fully understand their perception of how well the business is doing in this regard. Failure to do so could easily result in the loss of business to a competitor who better understands the value of customer service in attracting and retaining customers.

## **SUMMARY**

The health of a retailer depends on its customer satisfaction. When a retailer delivers what the customer is looking for, they will remain customers and the firm will survive and prosper. Meeting, or even exceeding, the customer's expectation of service is an important ingredient in the retailer's success, especially for the smaller retailer. Customer service is one asset of the smaller retailer that can be controlled and has the potential of appreciating over time and therefore becomes important in not only creating customers but keeping them.

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# Targeting Clients for Accounting Services: A Comparison Across Four Market Segments

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## Abstract

Accounting services vendors are faced with increased need to market their services to potential clients. This study considers differences in the characteristics and marketing techniques used by a sample of accounting services vendors to market their services to various client segments. The average time in business of these vendors was over 18 years, and 63 of the 73 had been in business for over 5 years. Respondents were asked if they targeted each of the following segments: specific industries, clients of other vendors, small businesses, and new business start-ups. Comparisons between those vendors who did target segments versus those that did not were performed using t-test statistics; also, a fifth comparison was made between those respondents who targeted at least one segment versus those who did not target any of these segments.

These analyses suggest that respondents who engage in pursuing market segments (both in general and in terms of particular market segments) are more likely to use more specific marketing techniques and to score higher on a combined measure of the scope of services offered and the marketing emphasis given to these services. Similarly, these respondents are also more likely than those not pursuing market segmentation to have increased this combination of services and marketing emphasis versus both their start-up level and where they were five years ago. However, when specific market segments were considered, distinct differences emerged in terms of both firm size (as measured by number of professionals in the firm) and specific techniques emphasized. Implications for both accounting services vendors and those counseling them are discussed.

## Introduction

Accountants and other financial vendors face the need to attract and retain clients. Recent studies show that several factors (e.g. both psychological and legal acceptance of direct solicitation by professional services vendors, a more competitive marketplace, and more diverse needs by users) have made it necessary for small accounting services vendors to adopt a marketing orientation to their business (O'Donohoe, Diamantopoulos, and Petersen, 1991; Ahmed and Hopson, 1990). Ahmed and Hopson (1990) suggest a specific marketing plan is necessary for accounting vendors to be successful in attracting clients.

Developing a marketing strategy usually falls on accounting professionals who are not trained in marketing issues; while most accountants have taken college level marketing courses, these were not their primary focus of attention. In addition, the development of

marketing strategies is often a very real opportunity cost for the small vendor as this takes time from "doing" the business. Bloom (1984) asserts that spending billable hours on marketing activities is difficult for professionals when the benefits are not immediately obvious. However, as more and more vendors become less reluctant to directly promote their services, the marketing function has become necessary. Trugman (1995) tells the story of how an accounting vendor lost a long-time client when the client was visited by a competing accountant who simply offered to beat the vendor's fee by \$500. Thus, the strategy of merely being a superior professional may fall short when one is competing with more aggressive competition.

While it is predicted that firms will hire sales people (e.g. Wiegers (1995) reports one prediction that it is likely that firms with \$1 million or more in sales will require at least one full-time salesperson), accounting vendors will need important information in determining marketing strategies. They will need to deal with two key strategy issues. First, who should they attempt to attract? Should they seek a narrow range of potential clients from one or a limited number of market segments or should they attempt to seek clients from across the spectrum? Second, how should they attempt to market themselves to such prospective clients? Should their emphasis be on a wide range of marketing techniques or should it be directed towards the scope of what they offer to the client?

Recently, many firms have tried a variety of marketing strategies and promotional techniques. In this study, data were collected from a sample of reasonably successful accounting services vendors. These vendors average about 18 years in business (63 of the 73 respondents reported being in business at least 5 years), with an average of over 9 professional providers in their organizations. We will consider the differences between those vendors who target specific client segment groups and those who do not. We will consider four comparisons, dealing with (1) those vendors who target specific industries versus those that do not, (2) those who seek to lure clients away from other vendors versus those that do not, (3) those who have a client base of at least 50% small business clients versus those that have less than 50% small business clients, and (4) those who target new business start-ups versus those who do not. We will consider both similarities and differences between these four types of "targeters" and possible implications these results may have for advising accounting services vendors.

## **Methodology**

A mail survey was sent to 450 accounting services vendors in Western Missouri and Eastern Kansas; these names were taken from a regional business directory. 73 responses (16.2%) were received. The following variables were used in our analyses:

### *Classification variables*

Did respondent indicate targeting specific industries? (yes=24, no=47)

Did respondent indicate targeting businesses that currently had a financial services provider? (yes=24, no=49)

Proportion of marketing emphasis directed towards attracting small businesses -- respondents were classified into "less than 50%" (n=21) or "at least 50%" (n=50) categories

Did respondent indicate targeting new business start-ups? (yes=25, no=46)

Did respondent indicate targeting at least one of the four segments listed above (yes=60, no=11)

### *Marketing background/education of the owner of the financial services firm*

Number of marketing courses the owner took in college

Did the owner attend non-credit marketing seminars? (yes/no)

Did the owner ever have a marketing job prior to starting the accounting services firm? (yes/no)

Did the owner seek either paid or unpaid marketing advice from outside marketing experts? (yes/no)

### *Size of the Firm*

Number of professionals employed by or practicing in the firm

### *Marketing Emphasis of the Firm*

Number of distinct methods by which the firm marketed itself to prospective clients.

Eight methods were listed (yellow pages, word of mouth, brochures, cold calls, network with banks or creditors, media advertising, active community involvement, and other).

Respondents were asked to check all that they used. While not shown on the tables of results, separate comparisons were made for each of the eight component methods, and significant differences will be mentioned in the Results sections.

Overall emphasis given to various services offered. Respondents were asked to indicate the degree of marketing emphasis they gave to 16 possible services that they could offer their clients. They had the option of indicating "do not offer," "some," "a lot," or "featured." These responses were coded from 0 to 3. The overall score was the sum of the 16 responses, and serves as an overall gauge to the combination of depth of services offered and the degree of marketing emphasis given. These respondents had a mean score of 17.75, with a range from 5 to 36.

Overall emphasis today versus when the firm first started business. The same 16 items were used. Respondents were asked to rate each item on a 0 to 4 point scale; the possible responses were "never offered", "less emphasis today," "same emphasis today," "more emphasis today," and "offer now but not originally." These respondents had a mean score of 26.29, with a range from 4 to 46.

Overall emphasis today versus five years ago. This item was also filled out if the firm had been in business at least five years (n=63 out of 73). These respondents had a mean score of 27.29, with a range from 4 to 47.

All analyses were done using t-test statistics. Significant results ( $p < .05$  or higher) are indicated in the tables with asterisks.

## **Results**

### *Targeting specific industries*

Table 1 presents the results of t-test comparisons between the 24 vendors who indicated that they target specific industries and the 47 vendors who do not. Those respondents who target specific industries are significantly more likely than those respondents who do not target specific industries to seek marketing advice (70.8% versus 31.9%), have a larger number of professionals in their firm (18.73 versus 4.66) and rely on more marketing methods (3.87 versus 3.06). In terms of specific marketing methods, vendors are significantly more likely to use brochures (41.5% versus 19.1%) and indicate active community involvement (70.8% versus 46.7%).

Interestingly, there were no significant differences in terms of any of the three emphasis scores. This suggests that the decision to target specific industries was not inherently associated with either expansion of the specific services offered and/or the degree to which these services were emphasized in the firm's marketing efforts.

**Table 1. Comparison of financial vendors who target specific industries versus those seeking clients from across the board**

	no (n=47)	yes (n=24)
<b>Marketing Background/Education of Owner</b>		
Number of marketing courses in college	1.46	1.37
Proportion attending marketing seminars	.319	.416
Proportion with prior marketing job	.063	.083
Proportion seeking marketing advice	.319	.708*
<b>Size of Firm</b>	4.66	18.73*
<b>Marketing Emphasis of the Firm</b>		
Marketing methods used (out of 8)	3.06	3.87*
Overall emphasis	16.78	19.58
Emphasis today versus start-up	26.90	27.91
Emphasis today versus 5 years ago	25.82	27.04

\*significant at  $p < .05$  or higher

*Vendors who target businesses already served by a financial services vendor*

Vendors who seek to attract clients already served by other vendors show a far more pronounced marketing profile than do those who do not pursue this strategy. Reviewing Table 2, the vendors in the this category were significantly larger firms (19.00 professionals versus 4.17 professionals), higher in terms of the owner attending marketing seminars (50% versus 27%), and more likely to seek marketing advice (75% versus 31.2%). These vendors used far more marketing methods (4.25 vs. 2.87), especially in terms of the percentage indicating use of brochures (50% versus 14.8%), cold calls (33.3% versus 8.5%), networking with banks and creditors (62.5% versus 40.4%), and community involvement (79.1% versus 42.5%). Also, they were significantly higher on current marketing emphasis (20.16 versus 16.57) than were those that did not attempt to take clients from other vendors.

These results suggest that vendors that targeted existing businesses parlayed their larger resource base into a more active marketing strategy, both in terms of the product offered and in terms of the effort made to market themselves. The findings that they also had a significantly higher marketing emphasis today versus both their start-up and, especially, versus 5 years ago suggests a profile of recent expansion of services offered and/or marketing emphasis given to these services.

**Table 2. Comparison of financial services vendors who target businesses that currently have a financial services vendor versus those that do not**

	no (n=49)	yes (n=24)
<b>Marketing Background/Education of Owner</b>		
Number of marketing courses in college	1.12	2.00
Proportion attending marketing seminars	.270	.500*
Proportion with prior marketing job	.063	.083
Proportion seeking marketing advice	.312	.750*
<b>Size of Firm</b>	4.17	19.00*
<b>Marketing Emphasis of the Firm</b>		
Marketing methods used (out of 8)	2.87	4.25*
Overall emphasis	16.57	20.16*
Emphasis today versus start-up	25.22	31.34*
Emphasis today versus 5 years ago	24.04	30.76*

\* significant at  $p < .05$  or higher

*Aggressively pursuing small business clients*

The results seen in Table 3 suggest that those vendors who indicated having over 50% of their marketing emphasis targeted at small businesses were also characterized by more aggressive marketing versus those with less than 50% small business clients. Again, they were far more likely to seek marketing assistance (52% versus 28.5%), and use more marketing methods (3.66 vs. 2.57), especially brochures (34% versus 9.5%), networking with banks and creditors (60% versus 19%), and community involvement (64% versus 33.3%). They had the largest different absolute differences found in any of the four analyses in their overall emphasis score versus the comparison group (19.60 versus



13.10), as well as the largest differences for marketing today versus when they first started their business (35.60 versus 29.10) and versus five years ago (28.75 versus 20.11).

What makes these differences even more interesting is that unlike the previous comparison, where the size of the firm was vastly larger than the comparison group, those in the "50% or more" group had fewer professionals working in their firms. This suggests that these firms may see that building a base of small clients today may be the key to having larger clients tomorrow.

**Table 3. Comparison of those financial services vendors with at least 50% of their marketing emphasis directed towards small businesses versus those with less than 50%**

	<b>less than 50% (n=21)</b>	<b>50% or more (n=50)</b>
<b>Marketing Background/Education of Owner</b>		
Number of marketing courses in college	1.80	1.28
Proportion attending marketing seminars	.238	.400
Proportion with prior marketing job	.047	.080
Proportion seeking marketing advice	.285	.520*
<b>Size of Firm</b>	12.88	8.18
<b>Marketing Emphasis of the Firm</b>		
Marketing methods used (out of 8)	2.57	3.66*
Overall emphasis	13.10	19.60*
Emphasis today versus start-up	29.10	35.60*
Emphasis today versus 5 years ago	20.11	28.75*

\* significant at  $p < .05$  or higher

### ***Targeting start-up businesses***

Is the pursuit of small business clients as discussed above restricted to just seeking out new small businesses? Table 4 suggests not. Those targeting new start-ups are the only group that was significantly higher in terms of having had a prior marketing job (16% versus 2.1% for those not targeting start-ups); in contrast, they were the only group where there was not a significant difference in terms of seeking marketing advice. While they

shared the finding of using more marketing methods (4.04 versus 2.95 for those not targeting start-ups), their "mix" of methods was markedly different in that they were more likely to use Yellow Pages (80% versus 56.5%) and media (24% vs. 8.7%), methods that had no significant differences in any of the other comparisons. Reviewing these results suggests that those targeting start-ups are truly a distinctly different group in how they market versus those who have a heavy emphasis towards marketing to small businesses.

**Table 4. Comparison of financial services vendors who target start-up businesses versus those that do not target start-up businesses**

	no (n=46)	yes (n=25)
<b>Marketing Background/Education of Owner</b>		
Number of marketing courses in college	1.47	1.36
Proportion attending marketing seminars	.326	.400
Proportion with prior marketing job	.021	.160*
Proportion seeking marketing advice	.391	.500
<b>Size of Firm</b>	10.02	8.40
<b>Marketing Emphasis of the Firm</b>		
Marketing methods used (out of 8)	2.95	4.04*
Overall emphasis	16.77	19.48
Emphasis today versus start-up	26.02	29.45
Emphasis today versus 5 years ago	24.58	29.04*

\* significant at  $p < .05$  or higher

*Comparing those who target client groups with those who do not*

Table 5 shows a comparison of those respondents who did not target any of the four client groups (n=11) versus those who targeted at least one group (n=60). While these two groups were reasonably comparable in terms of college course work and marketing seminars, they were significantly different on all the other dimensions considered. Again, "targeters" in general had more professionals in their firms (10.27 versus 3.83), used far more marketing methods (3.56 versus 2.09), had a stronger overall marketing emphasis (34.38 versus 29.90), and had upgraded their marketing emphasis more versus when they

first started in business (28.41 versus 19.77) and versus 5 years ago (27.09 versus 21.22). These results suggest that there is a definite intertwining between growth and targeting at least one specific clientele group. However, the issue of causality can not be dealt with in these data.

**Table 5. Comparison of vendors who have targeted at least 1 market segments versus those who have not targeted market segments**

	<b>no segments targeted (n=11)</b>	<b>at least one segment targeted (n=60)</b>
<b>Marketing Background/Education of Owner</b>		
Number of marketing courses in college	1.81	1.36
Proportion attending marketing seminars	.182	.383
Proportion with prior marketing job	.00	.083*
Proportion seeking marketing advice	.182	.500*
<b>Size of Firm</b>	3.88	10.27*
<b>Marketing Emphasis of the Firm</b>		
Marketing methods used (out of 8)	2.09	3.56*
Overall emphasis	13.90	18.38*
Emphasis today versus start-up	19.77	28.41*
Emphasis today versus 5 years ago	21.22	27.09*

\* significant at  $p < .05$  or higher

### **Discussion and Implications**

Survey data from 73 owners of accounting services firms strongly support that those firms engaging in targeting specific clientele groups displayed greater sensitivity to marketing issues and took a more aggressive marketing strategy than did firms that did not target specific clientele groups. These tendencies consistently show up in comparisons for given specific clientele groups, although there is variation between specific target groups, most notably when the target group is new business start-ups.

We found across the board that owners of "targeter" firms used far more marketing methods, although the specific methods chosen did vary across targeted clientele groups. Except for targeting new business start-ups, they were significantly higher in terms of seeking outside marketing advice.

Interestingly, larger firms tended to be more likely to take away business from other vendors, while smaller firms sought out small business clients. This suggests that the smaller firm needs to be aware that their client base may be viewed as "fair game"; the need to expand services and reinforce themselves via marketing appears critical to retaining their client base.

The findings regarding targeting new business startups were interesting because this was the one area where the vendors appeared to be the most non-traditional (by the genteel professional standards of their profession), but most mainstream (versus typical marketing practices in the larger marketplace) in their approach. This may be in part a self-selection process, since this was where we found the greatest number of vendors who had actual marketing experience prior to starting their business. It may also reflect that the new business start-up is not as readily visible a target and that the traditional methods of identifying and establishing contact are not as viable.

Like many professional groups, accounting services vendors are making a transition from a passive approach to marketing to a more active approach. As is often the case, there will be those who seize the opportunity and those who will be uncomfortable. These data suggest that the price for being uncomfortable may be high if we assume a reasonable relationship between the number of professionals within the firm and the profitability of the firm. This suggests that there is likely to be a growing number of requests for assistance from these professionals as they find themselves not only stagnating, but quite possibly declining in business due to loss of established customers. The need for directing these professionals towards taking a more aggressive marketing thrust, as well as providing them with sound marketing advice, appears paramount.

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# **PROFESSIONAL SERVICES MARKETING FOR THE SMALL BUSINESS: A HOUSE OF QUALITY APPROACH**

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## **ABSTRACT**

The paper discusses a professional services marketing and quality project conducted for a small Financial Services Group. The project combined primary and, secondary research to obtain comprehensive information about the perceptions and expectations of customers, as well as the company's and its competitors' performance levels. The result of the research was a set of recommendations that were able to be readily implemented and helpful in enhancing customer satisfaction, market share and profitability of the Financial Services Group. In addition to outlining the impact of the changes in this company, this paper also introduces a generic framework for similar service providers to institute quality and service improvements in their organizations.

## **INTRODUCTION**

The retail industry in the United States is comprised of several giant cooperatives. Cooperatives are found in many industries including farmers' products, food products, hardware, health care (HMOs), electricity distribution and housing to name a few. More than 20 different cooperatives in the United States have annual sales of over \$1 billion. But these cooperatives, however, may be comprised of few dozen to several thousand small businesses.

In addition to assisting the store members in their core business (retailing specific products), the cooperative corporations provide many important optional services to its small business members at a highly competitive cost. Some of these services include insurance, tax returns, accounting, benchmarking, financing, training, technological update, etc. The range and quality of these secondary services can be critical for cooperatives in successfully competing against their rival cooperatives.

For confidentiality reasons, the identity of the cooperative company and its industry for which the primary research was conducted, will be concealed and will be referred to as the XYZ Inc. Some of the confidential data presented here may also be linearly transformed and randomized. However, the methodology, analysis, and conclusions remain valid. The discussions and suggestions are-generic. XYZ, like many of its competing cooperatives in its industry, offers accounting and financial services to all of the individual member stores through its Financial Services Group. It is not mandatory for the members to utilize these services. FSG is comprised of fewer than 35 employees--

nearly all are accountants. FSG is an autonomous organization and operates as a small business and deals with a number of clients, many of which are also small businesses.

The primary services of the Financial Services Group (FSG) can be classified into income tax preparation, payroll preparation, and generation & analysis of financial statements. FSG's primary goals are twofold: (1) FSG can provide a high quality accounting/financial service at a low cost and can become one of the major factors in enhancing the attractiveness of XYZ as a cooperative. (2) FSG can utilize its financial and accounting expertise and its knowledge of their industry to assist member stores in successfully managing and growing their individual small businesses. FSG is endeavoring to meet these goals with the help of over 25 accountants. FSG's fees for its services are extremely competitive and the managers of FSG are convinced about the comprehensiveness of accounting/financial services it provides. However, FSG has a market share of less than 8% of all the member stores that could *potentially* be their clients.

FSG was a classic example of a service-provider convinced about the design and quality of the service package without having *systematically* analyzed the *fit* between the service package and market requirements. Juran (1974) introduced the concept and importance of looking at quality as "fitness for use" by the customer. Juran also identified the differences between quality of design and quality of conformance, which have obvious interrelationships. Since then the use of marketing constructs and techniques to design and manage service quality has become extremely common. The *gap* in the service provider's quality can be quantified by studying the difference between the expectations of the customers and the performance of the service provider.

FSG had a clearly defined market and a product. The price was also right. It also had a promotional framework in place. The primary need for FSG, when this project was undertaken, was to re-examine all of these marketing elements and in addition its human resources, operations, and financial strategies. It had to be done in the light of clearly identified customer needs, expectations, and the relative performance of FSG and its competitors. There was a need to manage its service quality by improving its operations, marketing and the service package itself. In general, it is important for manage to understand that "they cannot manage what they cannot measure and they cannot measure what they cannot clearly define." This project helped FSG to clearly define what service quality and customer satisfaction means in this industry, measure it scientifically and develop a framework to manage it efficiently.

## **RELATED LITERATURE REVIEW**

In today's competitive and customer-oriented business world, service quality has become synonymous with customer satisfaction. Kotler (1994) discusses in his popular Marketing Management book the different philosophies under which organizations manage their businesses--production, product, selling and marketing concepts. He points out that "most companies don't really grasp or embrace the marketing concept until driven to it by

circumstances." He identifies such circumstances as slow growth, decline in sales, increasing competition, all of which were being experienced at FSG.

Garwin (1988), echoing Kotler's marketing philosophies in the quality literature identified a parallel set of approaches to manage quality transcendent, product-based, manufacturing-based, user-based, and value-based. The user-based definition and management of quality, very similar to Kotler's marketing concept, is recommended by many quality experts. Garwin (1987) also identified eight dimensions of quality that could provide a framework for an organization to strategically plan and improve product quality. Berry, Parasuraman, and Zeithaml (1985) complemented Garwin's eight dimensions of *product* quality with ten determinants of *service* quality. Their service quality determinants were based on extensive interviews of business executives and customer focus groups. Many of their quality determinants were used in this research in addition to some unique characteristics of FSG's business. There have been many studies found in the literature that try to determine the relative importance of each characteristic/service attribute. However, as rightly pointed out by Tenner & DeTero (1995), the relative importance of these characteristics varies based on the industry, specific business, and customer expectations at any particular time. Hence, it is important for FSG and any business to constantly determine what constitutes service quality in their industry and what satisfies as well as delights their customers.

Crosby (1979), in his best-selling book *Quality is Free*, defined quality as "conformance to requirements, not elegance." This definition, although seemingly straightforward, is important for many organizations to consider closely. Literature and the authors' consulting experiences are replete with examples of organizations that believe that they have the "best" service package but may not have designed the service systematically based on customer needs and expectations.

It is often aptly said that "it is easy to *give* what the customer wants but it is difficult to *know* what the customer wants." There have been two tools in today's service quality management that have become extremely popular in practice. First, Quality Function Deployment (QFD) and its pictorial tool the House of Quality (HOQ) are used by organizations to understand what customers need & expect and to systematically translate them into how services have to be designed. The reader is referred to Sullivan (1986) for a detailed explanation of QFD/HOQ and its applications. The QFDiHOQ approach has been used in many service industries. Another important quality tool that is used in practice is benchmarking. It is the process of constantly researching for best practices and implementing them to be "best of the best" among competitors. Camp (1989) provides a complete description, methodology, application and advantages of benchmarking. The combination of QFD/HOQ and benchmarking can provide the organization with thorough information on customer needs, corresponding internal capabilities, and competitor analysis. These approaches can be supplemented by methodologies such as service template approach (Staughton & Williams, 1994) and the service quality gap model by the team of Parasuraman, Zeithaml and Berry (1985, 1990). The current research incorporates features of all of these approaches for FSG.



## PRIMARY RESEARCH

After carefully studying the services of FSG and analyzing its current market-share, it was decided that a thorough market research was required to analyze the needs, likes, dislikes, and preferences of its clients. To use the quality function deployment and benchmarking approaches, the feedback from three sets of clients was required--former, current and potential. The accountants at FSG, who were the organization's "points of service encounters" (Heskett et. al., 1990) and "moments of truth" (Carlzon, 1987), formed the fourth group that would be ideal to provide feedback on their own services. The primary method that was used to obtain feedback was a comprehensive survey. Four distinct surveys (with several common elements) were developed for former, current and potential clients as well as the FSG accountants themselves.

With the help of the managerial staff of FSG and by carefully examining the industry and studying the competition, 15 service quality attributes were identified for this particular type of business. This was the most difficult phase of the project since feedback had to be obtained from managers in FSG, and by professionals in several areas including small business management, accounting, marketing, operations, service quality and strategic management. The key was to identify a complete set of attributes that were relevant in achieving robust quality design and subsequently achieving quality of conformance, customer satisfaction and increased market share. The 15 relevant attributes (in no particular order) were: range of services, customization of services, accounting expertise, knowledge of tax law/preparation, knowledge of the industry (clients' businesses), comprehensiveness of services, courteousness, helpfulness, ease of contact, feedback provided, benchmarking data provided, ease in understanding financial statements, timeliness of reports, confidentiality, and price. Finally, an overall satisfaction category was included as the sixteenth category.

Each of the four surveys (FSG accountants, current, potential and former clients) included a question on the importance and satisfaction levels of each of the 16 attributes. A seven point Lickert-type scale was used for this section of the survey instrument. For the importance level, responses were allowed to range from "low" to "high" and for the satisfaction level, responses were allowed to range from "poor" to "excellent". For the current clients these questions pertained to FSG; for former clients it was asked twice--pertaining to FSG *and* to their *current* service provider; for potential clients it pertained to their *current* service provider. It must be noted here that although satisfaction was pertaining to different service providers, the importance of the attributes had to theoretically remain uniform among these groups. All respondents were asked to provide certain demographic data that included location, size and type (products sold) of their stores. They were also asked what type of accounting services they are/were receiving from FSG and/or their current service providers. All the three client surveys asked two open ended questions on what they liked most/least about FSG and/or current service provider. In addition, the former customer survey asked clients for the reason to have left FSG while the potential customer survey asked clients what FSG could do to encourage them to use the services of FSG. The survey of accountants was designed to identify the self-ratings and perceptions of their services.

The survey was administered to almost 100% of all current clients (n=700), 50% of former clients (n=100), all FSG accountants (n=28) and about 12% of potential clients (n=1200). The potential client survey was broken down further into A-stores (n=527) and B-stores (n=673). A-stores were the smaller stores that purchased up to \$500,000 per year from the co-op and B-stores were larger and purchased more than \$500,000 per year from the co-op. Based on the classification of the U.S. Small Business Administration, all A and many B stores fell under the category of "small business". All responses were anonymous.

## RESULTS & ANALYSIS

The usable response rate for each of the surveys were as follows: 147 out of 700 (20.9%) for current clients; 277 out of 1200 (22.8%) potential clients; 5 out of 100 (5%) for former clients; and 100% of the 28 FSG accountants. The response rate for potential clients was very low to draw any statistically significant conclusions. Most of the subsequent analysis was conducted with the help of the other three sets of data. For reasons of brevity, only the statistical analysis will be presented very briefly.

### Statistical Analyses

The foundation for the survey instruments' heavy emphasis on measuring the *importance* and *performance* of each service attribute as well as the consequential *satisfaction level* is based not only on the aforementioned marketing and service quality literature, but is rooted in agency theory as well. Agency theory has been employed in several fields, notably accounting, finance, marketing and organization theory. Simply stated, an agency relationship is one in which there is a contractual relationship (implicit or explicit) whereby a principal (client) engages an agent (FSG) to take actions on their behalf. Notwithstanding the diverse disciplines in which agency theory has been employed, there are a number of basic assumptions common to all of them (Osborne & Prescott, 1994):

(1) Both principals and agents are highly motivated by self-interest. (2) Related to number (1), the agent has a *choice of various behaviors* which will, to varying degrees, *satisfy the interests of the principal* and agent. (3) The principal is required to motivate the agent in such a manner to *ensure congruence* with the interests of the principal (*goal congruence*). (4) The conflicts of the principal and agent create a need to establish incentive systems and a means of monitoring the agent (agency costs).

Eisenhardt (1989) relates agency theory to transaction cost analysis and concludes that self-interest, *goal conflict*, bounded rationality, information asymmetry and preeminence of efficiency are common to both. While all of these are related to this study, it is the *goal conflict* issue which is central to our hypotheses: The four hypotheses that we tested and the analysis of each of these hypotheses is presented in Table 1.

<b>Service Attribute</b>	<b>FSG Accountants vs. Current Clients <i>Disagreement on Level of Importance (H1)</i></b>	<b>FSG Accountants vs. Current Clients <i>Disagreement on Level of Performance (H2)</i></b>	<b>Current v.s. Potential Clients <i>Disagreement on Level of Importance (H3)</i></b>	<b>Current Clients' <i>Dissatisfaction (Importance minus performance) (H4)</i></b>
Range of Services		*	**	
Customization		**	**	**
Accounting Expertise			**	**
Knowledge of Tax Law	**			**
Knowledge of Industry	**		**	**
Comprehensiveness		**	**	**
Courteousness			**	
Helpfulness			**	**
Ease of Contact			**	**
Feedback Provided			**	**
Benchmarking		*	**	**
Lucidity of Statements			**	**
Timeliness of Reports			**	**
Confidentiality			**	**
Price		**	**	**
Overall Satisfaction			**	**

**\*\*Significant @ .01 level**

**\*Significant @ .05 level**

## Summary of findings

- (1) All the groups of respondents (current clients, potential clients, and FSG accountants) agreed on the importance of each of the attributes. *Knowledge of Tax Law* was the only exception. This showed that FSG had to concentrate on the *same* things to satisfy and retain existing clients as well as to attract potential clients.
- (2) The current clients were *not* satisfied with most of the 16 attributes. The attributes on which FSG was performing "well" included *range of services* and *courteousness*. The attributes of *confidentiality*, *customization*, and *comprehensiveness of services* were also acceptable. The biggest gap (importance-performance) was in *timeliness*, *accounting expertise* and *knowledge of your business*-three of the key success factors for FSG.
- (3) The potential clients were more satisfied with their current providers than what FSG clients were with FSG. This was an important benchmarking data. It showed that FSG had to significantly improve its service quality in order to attract potential clients.
- (4) The FSG accountants echoed the clients' perception of poor performance in their survey. This acknowledgement was positive since it rendered them more malleable to change and training.
- (5) Open-ended questions in the survey on "what the clients liked *most* as well as *least* about FSG" further validated the prior findings. *Helpfulness*, *courteousness* and *ease of contact* ranked as the three most liked attributes while *timeliness*, *accounting expertise*, and *knowledge of business* ranked as the three least liked attributes.

## RECOMMENDATIONS

The first recommendation for FSG was to establish and foster long-term relationships with its clients. FSG was performing well in the categories of day-to-day customer service. However, by instituting programs such as visiting one store/month by FSG employees would not only improve the relationships with the client but also assist FSG in improving important attributes such as *knowledge of industry*, *feedback provided* and *benchmarking*. The *timeliness* deficiency in FSG's service was recommended to be addressed immediately. This could be done by a rigorous analysis of existing capacity and service levels to identify the need for hiring more accountants. In the short-term, the concerns of timeliness could be diffused by offering discounts for late reports without giving the clients a perception that FSG condones tardiness in completing reports. A judicious marketing strategy should address this issue in addition to the issue of *benchmarking*. Many of the clients were not even aware of what *benchmarking* meant, let alone of the importance of benchmarking data. However, one of the biggest competitive advantages of FSG was its ability to provide benchmarking data. FSG had an important task of educating its clients of the meaning, need and importance of benchmarking data that it provides. Another important area to be addressed was the deficiency in *accounting expertise*. This was a rather surprising revelation for the researchers as well as for FSG. This had to be addressed immediately and the needs for training and continuing education

had to be identified. This was an investment that was justifiable as well as imperative. FSG was also advised to not offer any new services that it had planned to for two reasons--there was no significant interest level among the clients (current and potential) and it was important to get the current services to the level expected by clients before venturing to offer new services.

This primary research swamped FSG with the need for service improvements in several categories. The needs, complaints, expectations and satisfaction levels of the clients were determined as described earlier. FSG had to employ a systematic process to identify the internal service parameters of its business that needed to be tinkered with in order to satisfy the needs and expectations of its clients. The Quality Function Deployment (QFD) and the House of Quality (HOQ) tools described in the literature review section were appropriate for such scenarios.

Figure 1 (omitted) shows a generic HOQ while Figure 2 shows the *initial* HOQ developed for FSG. The client requirements (the 16 attributes) with order and level of importance are shown on the left wall of the house (as you face the house). The second floor of the house depicts *some* of the recommendations in service improvements that were suggested. We recommended that FSG examine this part of the house in more depth with its managers since they have the "best" information on what improvements are feasible and what their internal implications are.

FSG was to also complete the attic of the house which identifies the tradeoffs between different internal service features (new and existing). The main area of the house (the first floor) depicts the interrelationship between the internal service capabilities and the external client requirements. This was an important part of the house since it clearly identifies the clients' needs that are not met as well as the service improvements that are not helpful in meeting clients' needs. Specifically, in that matrix part of the house, empty rows indicate unsatisfied needs of the clients and empty columns denote unnecessary internal service capabilities. This step of house of quality implicitly incorporates the return of quality philosophy. No service improvement is undertaken unless it specifically results in either meeting a strategic need or in meeting certain stated customer needs. FSG was to complete this matrix with the help of its managers and staff.

The right side of the house (as you face the house) shows the benchmarking data for the managers. It shows the level of current clients' satisfaction and compares it to that of the potential clients. Using this the FSG managers can visualize how they are performing compared to their competitors on the same 16 attributes.

Using the House of Quality, FSG was able to impress upon its employees the need for service quality improvements and in addition was able to identify the specific areas that needed to be focused. Currently, FSG is implementing several of the recommendations that were outlined above.

## SUMMARY

This project combined several proven services marketing and quality improvement tools and techniques that are popular in practice. The project resulted in the management and employees of FSG to determine: (1) their clients' expectations, (2) FSG's current performance level, (3) the need for quality improvement, (4) the specific areas that they had to focus for quality improvements, and (5) the performance of its competitors. The recommendations, once implemented, will help FSG in satisfying and retaining its existing clients and also assist in attracting potential clients. This project was the most systematic management process undertaken by the organization to address its client satisfaction and market share.

Although none of the tools and techniques used in this project is *new*, the combination in which they were used was somewhat unique. We recommend that small businesses, in general, and particularly those offering professional services follow these steps: (1) Develop key service attributes relevant to their industry. (2) Develop and administer survey instruments to current, potential and former clients to: (a) Determine the *important* key success factors, (b) Measure the actual performance levels of the company as well as its competitors and (c) Identify performance gaps/areas of customer "delight", satisfaction & dissatisfaction. (3) Ascertain the perceptions of the service providers with respect to the level of importance of key success factors in addition to their perception of their own performance. (4) Conduct statistical analyses to validate results in (2) and (3) above. (5) Use the House of Quality approach to *identify* and *communicate* the *most* critical client requirements, benchmarking data on competitors, internal capabilities and key success factors. (6) Implement the internal service improvement processes after analyzing the tradeoffs between the processes. (7) Repeat these steps periodically. This seven-step process can assist organizations in practicing the three most important steps to continuous improvement--customer focus, process improvement and total employee involvement.

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**(Complete reference list furnished upon request. Please call 724-357-4880)**

# **Searching for Competitive Intelligence on the World Wide Web: A Small Business Perspective**

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## **Abstract**

Information is power. Large companies know that, and they employ professionals in the field of business intelligence to help their organizations stay informed about the environment and their competitors, to give them a competitive edge. But, thanks to information technology and the Internet with its Networks, E-mail, and easy-to-access databases, it is enabling small businesses to play ball with the big boys. Today small businesses can gather intelligence from the comfort of their keyboards, if they know where to look. It is a powerful means for generating and exploiting a competitive advantage, and the Internet is playing an increasingly important role as an end to that means. The Internet makes this task easier and more cost effective. This paper examines, from a small business perspective, the use of the Internet as a competitive intelligence tool for gleaning online details about competitors, industry trends, and customer opinions.

## **Introduction**

Accurate, timely information is essential for any business that wants to stay competitive. Large firms have professionals in the field of business intelligence (also referred to as competitive or competitor intelligence) gathering data to help them stay informed. Needless to say, there are many definitions of business intelligence. Here is a sampling:

Business intelligence [an alternative term for competitive intelligence] is the activity of monitoring the environment external to the firm for information that is relevant for the decision-making process of the company. (Gilad, 1988)

Competitive intelligence uses public information sources to gather insights on competition and competitors (McGonagle and Vella, 1990).

Competitive intelligence is "highly specific and timely information about a corporation" (Fuld, 1985).

The objective of competitive intelligence is not to steal a competitor's trade secrets or other propriety property, but rather to gather in a systematic, overt (i.e. legal) manner a wide range of information that when collated and analyzed provides a fuller understanding of a competitor firm's structure, culture, behavior, capabilities and weaknesses (Sammon, et al., 1985).

There is no discounting the importance of competitive intelligence today. In the past decade, the process of gathering information on competitors has risen from an obscure function in a few large companies to a widely practiced arm of management (Harkleroad,



1998). The information generated by this function is a powerful means for generating-and exploiting-a competitive advantage. However, today information technology can make a David seem like a Goliath. In today's world of networked databases and E-mail, success is determined less by size than by technological might.

Small businesses used to be information poor, but that is no longer the case. Before the information technology wave, small business people were consumed by the day-to-day operations of running a business, and doing research was difficult -- it usually meant trips to the library or hiring someone to do it, if they could afford it. Now the information is at everyone's fingertips. Now even the small business firm can gather market data from all parts of the world via the Internet and World Wide Web -- and they never have to leave the business.

### **Information Technology is Leveling the Playing Field**

Competing with large firms is easier than ever now that information technology is so affordable. Ten years ago, purchasing a high-powered computer system could cost a small business a large part of their revenue. Today, a little over \$1,000 for a PC is a small -- perhaps minuscule -- investment, even for a one-person operation. In addition to the computer, a software package will be needed to get around on the Internet, which can be bought commercially for around \$50 (or less). It may also be provided by an Internet Service Provider as part of the service (starter kits usually contain E-mail programming, a browser, and a few other on-line networking tools). And, also needed for about \$20 a month is an Internet dial-up account for the computer to access the Internet. Compared to what a competitive intelligence analyst charges for a single report, the Internet looks downright inexpensive, provided you have the time to hunt down what you are looking for. However, the results will often set the small business ahead of the pack.

### **A Web-based Competitive Intelligence Search Strategy**

The amount of useful data on the Internet increases as more businesses, government agencies, educational institutions, and even individuals develop home pages on the World Wide Web. Many of these sites are comprehensive sources for a particular subject or type of information, such as The Federal Trade Commission's Trade Regulation Rules (<http://www.webcom.com/~lewrose/home.html>). However, it can be so easy to spend endless hours on the Internet searching for a particular piece of information. The World Wide Web is a hypertext system, and it is easy to spend a lot of time following links to different sites. Therefore, a strategy must be developed before beginning a search for the appropriate information.

A full-blown business intelligence analysis is a daunting task that requires both published data and "first-hand" information from interviews with customers, and industry participants. To conduct a business intelligence analysis, Harvard University Professor Michael Porter recommends researching many data categories, such as product lines,

buyers and their behavior, complementary products, substitute products, growth, technology of production, marketing and selling, suppliers, distribution channels, innovation, competitors, macroeconomic environments, and social, political, and legal environments, (Porter, 1980).

The Internet will not provide the researcher with all the information required to write this type of extensive analysis, but the Internet may supply particular elements which would lead to a better understanding of the environment in which to compete. The Internet can serve as a reference tool that may lead to additional sources of data, as well as provide background information. Before you can find what is out there, you have to learn how to get around. First, give up surfing and take up navigating. Surfing is exploring the Web by clicking hyperlink after hyperlink; a serendipitous technique for discovering new sites. You will seldom come away from a surfing session without discovering something fascinating, but do not count on finding anything relevant to your research goals. On the other hand, navigating refers to finding information on a topic with queries composed by the searcher as needed, and modified as necessary based on system feedback.

According to the results of a study published in the April 3, 1998 issue of *Science*, the World Wide Web is estimated to contain over 320 million pages of information (Lawrence and Giles, 1998). Also, consider that the Web continues to grow at an exponential rate: doubling in size every four months, according to some estimates (Venditto, 1996). With its immense size, and new sites on the Web being launched every day, gathering the appropriate information may seem like a daunting task. Still, with luck and direction, one can glean online details about competitors, industry trends, and customer opinions. Armed with the latest generation of search software and drawing on a few standard browsing techniques, anyone willing to put in the time navigating for information online will have a competitive edge. For the small business firm seeking to conduct competitive intelligence research on a budget, this paper discusses sites that are relatively easy to use and free unless otherwise stated.

### **Finding Information Again**

As you explore the Internet, you are sure to find useful sites that you will want to visit regularly. All Web browsers have a feature that will let you mark interesting sites so you can return to them easily. This is called "bookmarking" the Web page. To return to the page later; you simply select the bookmark. When you bookmark a Web page, the browser saves the URL (Uniform Resource Locator) of the page. When you select a bookmark, your browser silently examines the URL and reconnects to the page.

As the number of bookmarks grows, it can become difficult to keep track of them in a single, large list. Most browsers allow users to organize their bookmarks into categories. For instance, you can have a "competitors home page" list, a "Usenet" list, a "political and legal environments" list, and so forth, with appropriate bookmarks inside each list. A well-organized list of carefully named bookmarks is a valuable resource, providing quick access to Web pages you want to refer to often.

## **Competitive Intelligence Resource Primer**

Among the Web's treasures are thousands of searchable databases of information in specialized resource areas. Tracking down relevant information quickly on the Internet remains an elusive quest. In this section the reader will learn how to take advantage of some of the specialized Web-based reference works that may make Internet searching more efficient and accurate. At least they will provide a starting point for conceptualizing the search process for competitive intelligence information.

### *Monitor Competitor's Home Pages.*

Of the approximately 22 million U. S. businesses that exist, fewer than 7,000 qualify as large (Hodgetts and Kuratko, 1998). The good news is that most of these major firms are on the Web, along with thousands of smaller firms. Much can be gained from a competitor's home page: press releases, executive speeches, full location addresses and distribution networks, organizational charts, new product launch information, and the like. Public companies home pages are easy to find. Go to a stock quote page such as *Yahoo Finance!* at <http://quote.yahoo.com> or *Stock Master* at <http://www.stockmaster.com>, and enter the company's ticker symbol. Along with a quote, you will get the company's latest news with its SEC filings, and a link to its home page, if it has one. You can also use a search engine, such as *AltaVista* at <http://altavista.digital.com> or *Excite* at <http://excite.com> and query on the company name.

### *Digital Dossiers of Public Companies*

The financial data on public companies that have always been available are even more accessible on the World Wide Web. Many people use the *Security and Exchange Commission's (SEC) EDGAR* database (<http://www.sec.gov/edgarhp.htm>) site to download annual reports, 10K, or 10Q filings, or any other information available (such as the 13G ownership filings) about most public companies. These can be valuable, but also time consuming if you read them while online. One timesaving method to use is to download the reports of competitors and save them to a disk as a Microsoft Word document. By having the documents saved to a disk, you will have a ready library of current and historical data and do not have to worry about slow server or download times.

*Hoover's Online* at <http://www.hoovers.com> lets anyone download free half-page profiles of 10,000 (mostly public) companies. For a fee of \$9.95 a month, you will receive income statement and balance sheet numbers in detailed profiles of nearly 2,500 public companies.

## *Mission Impossible: Finding Information on Private Companies*

Unfortunately, information about private companies is scarce whether in print or on the Internet. The reason that information is not readily available is that private companies are not required by law to publicly file disclosure statement (SEC style documents), they are not subject to major press coverage or industry profiles, and directories tend to offer only scant material on private companies, if at all. However, there are a number of ways to successfully integrate Internet research in profiling these companies. A key to finding good private company information on the Internet is using a focused and directed search. There are several Internet search strategies that might lead to appropriate information. First, up-to-date private company data may be available via the companies' Web site, which can be found, if it exists, by typing in the company's name in a Web search engine. If that does not work, try to guess the company's URL. If a company has a name like "The Language Bank," try [www.languagebank.com](http://www.languagebank.com) or [www.thelanguagebank.com](http://www.thelanguagebank.com). If you strike out, do not panic. And do not waste your time trying any more name combinations than the obvious. There are other strategies you can try at this point.

A next logical step is to use one of the many business-specific directory search engines, such as *Companies Online* (which lists more than 60,000 public and private companies) at <http://www.companiesonline.com>. If your search is successful you will obtain information on the address and phone number, its home page URL, trade names, the industry in which the company is active in, and ownership and management structure.

Another site for finding private company home pages is *WhoWhere* site at <http://companies.whowhere.com/org.html>. If a company is large enough you can use a site, such as *Forbes* at <http://www.forbes.com>, which will give you the rankings of the 200 fastest growing small companies and the top 500 privately held companies. If your query is on the list you will get a short historical biographical sketch as it appeared in the magazine.

You can also try association pages that will list member company's home pages and other related information. One excellent source is the *Association Directory* at <http://www.asaenet.org/gateway/onlineassoclist.html>.

If the above strategies fail, you may want to try another approach -- a product approach. This strategy is predicated on the fact that if you can find a reference to a company's product, you often can find a reference to the company itself. You can begin your search with the *Thomas Register of American Manufacturers* (lists more than 155,000 private and public manufacturing companies in the U.S.) at <http://www.thomasregister.com/index.html>. This site provides information on the company, product, and home page. If the company is not in the *Thomas Register*, you can search for a product or registered trademark names via your favorite search engine, such as *Infoseek* at <http://www.infoseek.com>. And, last but not least, for technical details of a company's products, a patent search at the U.S. *Patent office* at <http://patents.cnidr.org/access/access.html>, may yield the needed information.

If the above methods do not yield much, dig into your pocket for good, reliable information at a site, such as *Dun & Bradstreet* at <http://www.dnb.com>, it will be money well spent. A report on a hard-to-find private company will typically include contact information, history, location, executive biographies, the company's financial condition, recent lawsuits, sales figures, and payment histories to vendors.

#### *Make Use of a Rating and Analyst Company Reports*

A key competitive intelligence information staple is an analyst's report. These are often filled with useful and timely information -- from financial data to product detail to current sales and marketing trends. At one time you had to call the companies and ask to have their reports mailed to you. Today, many financial publishers offer their reports via the Web. *Standard and Poor's* (<http://www.stockinfo.standardpoor.com>), offers a complete "enhanced equity report" for about \$9.00 for a given company, which includes financials, news clips, stock charting, analyst recommendations, and business/industry outlooks. *Moody's* (<http://www.moodys.com>), offers a company's latest credit rating and a press release explaining either the upgrade or the downgrade. Another site is *Dun and Bradstreet* at (<http://www.dhisna.com>), which offers a variety of pricing packages for a company's financial data.

#### *Use Local Newspapers and News Search Services*

Not all the information on a competitor put out by that competitor; unless the company is small, you will find information in the news -- print and broadcast variety. Before the Internet, that meant browsing through the newspaper every day or paying a new-clipping service to keep an eye out for you. Now, using the Internet, it is easy to track what is being said about the competition. The easiest way to obtain this information is to have it delivered to your desktop. Known as "Pushed" news delivery, it helps keep you up to date on late-breaking news without any search effort. Several services, such as *My Yahoo!* At <http://www.my.yahoo.com>, and *PointCast* at <http://www.pointcast.com>, allow you to choose not only broad news topics, but also specific key word and companies. Sites such as *Excite's News Track* (<http://nt.excite.com>) perform similar functions, but require you to go to the (customized) Web site.

Another source of information is directly from the local newspaper itself in the town where a company is headquartered or has an operation. The Web can get you to these local sources; even the smallest newspapers have Web sites these days. But you have to work to find them. *NewsLink* at <http://www.newslink.org> connects you to more than 3,600 newspapers and magazines from around the world and it is searchable by state. Another good source is *NewsWorks* at <http://www.newsworks.com>, which permits you to search through and links to all the newspapers in nine of the country's biggest publishing chains.

### *Monitoring Usenet (Newsgroups)*

If you are searching for information on people, personal experiences with products, competitive intelligence, individual stories from news events, and breaking news, Usenet can be an important source. Usenet newsgroups, or discussion groups as they are often referred to these days, consist of groups of people discussing various issues. Newsgroups are broadcast for anyone to read.

For many products, Usenet is an ideal source for gathering anecdotal evaluations. Users post their experiences, often negative, and others respond to offer advice, agreement, and disagreement. You can post a question on the newsgroups about products, for example, and people will respond with their experiences. A bit of browsing usually uncovers the main points of contention. The number of people you can reach on the Usenet is mind-boggling. The Usenet can be a fruitful resource for identifying experts (self-proclaimed and otherwise) and individuals involved in or in the vicinity of breaking stories. Usenet searches can also aid in competitive intelligence by browsing through postings from competitor's employees that may reveal more about forthcoming products and current research projects than official sources.

The best known and the largest archive of Usenet news posting is *DejaNews* (<http://www.dejanews.com>). The DeJaNews database currently goes back to 1995. Its database is updated several times a day. It also covers more than 15,000 newsgroups.

### *Use E-Mail Networking*

Do not underestimate the power of e-mail networking. Record people's e-mail addresses along with their phone numbers and fax numbers. You can collect them from the bylines in articles or from Web sites. You can then send e-mail requests to appropriate people about industry-or-business-related issues. You may be very successful at finding vital information from industry writers and analysts when their published reports or articles did not provide you with what you were looking for. You will be amazed at the wealth of information these people have at their fingertips that did not make it into the final article because of space limitations.

### *Political and Legal Environments*

As part of a campaign to make government more accessible, increasing numbers of government agencies at all levels are creating Web pages. You will find reams of government related information online, including current legislation, Supreme Court decisions and more.

All companies are concerned with government regulation. Members of trade associations and special interest groups, as well as corporate executives and small business owners, pressure the government for favorable conditions. Therefore, government publications can be a great source of industry trends. In a short few years, the amount of Internet accessible information about the current legislation process in Washington has grown

significantly. You can now easily browse the full text of bills and follow their progression through the legislative process.

To follow a bill from its introduction to its possible passage into law, the *House Web* site at <http://www.house.gov>, is the most comprehensive source for legislation tracking.

The full text of congressional bills can be found on the *THOMAS WWW* site at <http://thomas.loc.gov>. *THOMAS* is the most current source for the full-text bills, and can be searched by keyword or bill number.

The *General Accounting Office (GAO)* is an independent, investigative, non-political agency of the U.S. government. The GAO makes recommendations to Congress on improving the cost-effectiveness and efficiency of government programs. The findings of the GAO investigations are published as reports to Congress, and many are publicly available. These reports contain very good industry information. Many GAO reports are available on the Web at several sites, such as <http://www.gao.gov>; <http://www.access.gpo.gov>; and <http://www.gpo.ucop.edu/>.

Many U.S. government agencies conduct industry research and make these reports available on the agencies Web pages. The *Villanova Center for Information Law and Policy* site furnishes a "Federal Quick Jump" to federal agency home pages (<http://www.law.vill.edu/fed-agency/fedwebloc.html>). The *FedWorld Information Network* also provides a comprehensive source of links to U.S. government information servers arranged by subject at <http://www.fedworle.gov>. For *state and local governments* on the Internet, a comprehensive source of links can be found at the site <http://www.webcom.com/~piper/state/states.html>.

### ***Statistics: U. S. Census***

The U.S. Census Bureau does not have a glamorous mission, but it has an important one. The Census' information determines the allotment of Congressional seats among the states, and its demographic information tells us about the social fabric of our country. The Bureau gathers and disseminates an amazing array of statistical reports, estimates, and predictions of the U. S. population. Its Web site makes it easy to access much information that its office gathers. The Bureau offers detailed, but often dated, statistical information on demographics and industries. For a brief overview of the various census publications helpful for business research consult Lavin's (1992) book *Business Information: How to Find it, How to Use it*. The *Census Bureau's Web* page at <http://www.census.gov>, provides data that is often difficult to find in local libraries or statistical compilations. The Census Bureau covers, among other topics: Population, Housing, Retail and Wholesale Sales, Income, State and Local Area Profiles, and Service Industries and Manufacturing. The Bureau does not limit itself to data from the decennial census, but constantly conducts specialized surveys, sometimes for other agencies. While the Bureau has made a giant step forward into electronic publishing with its Internet presents, it still has a long way to go before it catches up to its print publications. But there is enough online to conduct a preliminary study.

The U.S. *Bureau of Labor Statistics* at <http://stats.bls.gov> covers Labor, Employment, Earnings, Foreign Labor Statistics, and the Consumer Price Index.

The annual *Statistical Abstract of the United States* at [http://www.census.gov:80/stat\\_abstract](http://www.census.gov:80/stat_abstract) contains wholly of statistics and includes data from private as well as government sources. It covers a wide range of topics, such as: People and Society, Money, Government, Health, Industry, The Land, State Rankings, and Other Countries. The online *Abstract* is divided into general sections, each of which comprises a PDF file, so you will need to have Adobe Acrobat configured to work with your browser. The best way to get to a statistical table you want is to choose the most likely section, display its PDF file, and use Acrobat's Find icon (binoculars) to search for your term.

*American Demographics* magazine at <http://www.demographics.com> offers a rich statistical content on consumer demographics, and also reveals what people are thinking, doing, and purchasing. This site is what is called shareware, meaning the company would like you to subscribe to its service at \$59, if you find the information useful.

### *Help-Wanted Advertisements*

Help-wanted ads are invaluable sources of competitor information. These ads are a company's way of selling itself to prospective employees. But, at the same time they offer clues about where a company is heading in its pursuit of markets. The advertisements can disclose a company's hiring trends, disclose whether a competitor is shifting direction or expanding their operation, and disclose their marketing strategy. Companies are between a rock and a hard place when it comes to hiring additional employees. Most of them desperately needed talented individuals, so they have to aggressively advertise their opening. If you examine the kinds of backgrounds that a company is looking for, you begin to get a good sense of its infrastructure. The more positions they advertise, the more they expose themselves as to what their potential strategy is. Two sites, *CareerPath* at <http://www.careerpath.com> and *Monster Board* at <http://www.monsterboard.com> will provide insights into various companies hiring needs.

### **Concluding Remarks**

Competitive intelligence is both an art and a science. The constantly changing nature of the Internet and its overall lack of organization make it more difficult to search for relevant information. To be truly effective in today's competitive environment, a small business needs the right tools and needs to know how to use them. Successful searching of the Internet depends on techniques such as going straight to the information source, quessing URL's, and developing strategies for when to use subject directories and search engines. This paper addressed just a few of the many possible Internet search strategies that can make the Internet searching more efficient and accurate. Although the Internet does not provide all of the tools you will need to gather intelligence information, it does provide enough to give the small business firm an edge over less savvy competitors. And in today's market, that may prove to be essential for survival and expansion.



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# **A NONMARKET INSTITUTION CREATES THE OPPORTUNITY FOR SMALL BUSINESS FINANCING**

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## **ABSTRACT**

This study investigates the Rotating Credit Association (RCA) as a source of venture capital for small business creation. Based on a survey of RCA members in Cameroon (West Africa), the results reveal a major departure from the literature on the use of RCA funds. RCA participants reported using or planning to use the fund to start new businesses rather than buying durable household goods. Findings contradicting other long established beliefs about the RCA concept are discussed and implications drawn for the creation, management and sustainability of future RCAs are presented.

## **INTRODUCTION**

One of the central differences between poor and rich countries, is access to capital or credit in the everyday lives of their inhabitants. In low income countries, market opportunities for acquiring capital, whether through investment companies or through bank credit are less well developed, especially in rural areas (Besley, Coate, & Loury, 1993; Braverman, Avishay & Guasch, 1986; Rosenzweig, 1988). However, low-income countries have developed non-market or informal financial institutions for coping with this problem. One such institution is the Rotating Credit Association (RCA). RCAs are most common in developing countries but are also used by immigrant groups in the United States, Britain and other parts of Western Europe (Besley et al., 1993; Bonnet, 1981; Light, 1972). Yet, while their prevalence, and to some degree robustness, has fascinated anthropologists, RCAs have attracted surprisingly little attention from other academics (Besley et al., 1993).

Besley et al. (1993) suggested three areas for future quantitative research. The first suggested area is membership issues -- do the groups appear homogeneous, and what social connections between group members circumvent the problem of default? The second area is design -- their length, their savings rates, and whether bidding or random allocation is used. The third area is funds -- what are RCA winnings used for.

## **Defining the RCA Concept**

The formula underlying the rotating credit idea is that it is an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation (Ardener, 1964; Geertz, 1962; Kurtz, 1973). Within the limits of this definition, RCAs may differ with respect to membership size, qualifications for membership, structural complexity, types of fund, transferability

of funds, deductions from the fund, and sanctions imposed on members. Rotating credit associations have many names: Chit funds in India, Hui in China, Ko in Japan, Susu in Ghana, Njangi in Cameroon, Kye in Korea, Tontines in Senegal, and Esusu in Nigeria are examples.

This study focuses primarily on RCA funds and their application. Also, issues relating to RCA default and sanctions are examined in connection with the fund structure.

RCAs have always been seen as a source of seed capital for small entrepreneurs who cannot get loans from formal financial institutions. Though well documented amongst the Asians and the Caribbean Islanders (Light, 1972), there have been few studies focused on determining the impact of RCAs on entrepreneurial activity in many Third World countries, including Cameroon.

## **RCA STRUCTURAL FRAMEWORK**

**The Fund Structure:** There are two critical areas of analysis dealing with the fund; the size of the fund and the uses to which it is employed by members. The size of the fund, the amount of individual contributions, and the number of members, are clearly interdependent, and it is possible sometimes to deduce one of these from the other two, it is obvious that in a simple case in which 10 members contribute equal amounts into a fund totaling \$1000, then each member's contribution is \$100. However, not every RCA has this simple arrangement (Ardener, 1964).

One of the reasons why some associations have developed complex contribution patterns is the realization that in a simple pattern, as described above, the advantages are not equal to all. For instance, Ardener (1964) revealed that all members but the last to receive the fund get interest-free loans of decreasing magnitude for decreasing periods, and all but the first give 'interest-free' loans of increasing magnitude. Therefore, the method by which the order is determined is important. In certain, usually small associations, the order is reached by general agreement, with those considered to be most in need of cash put first. In other associations, the order is determined by the organizer(s) who may perhaps take into account a member's needs or some other consideration. The rotation may also be determined by lot.

In some associations, the amount of contributions and the total fund are not constant. In these, allocation of the fund is sometimes by auction. Ardener (1964) illustrated the principle behind auctioning as a bidding process that offers the fund to the lowest bidder. The lowest bidder is the member who is willing to accept a lesser amount of the fund relative to its normal or stated amount.

With regards to the issue of how RCA winnings have been used, the view in the literature is that RCA funds are primarily used to save up for the purchase of durable goods or as seed capital for small business creation (Ardener, 1964; Besley, 1995; Besley et al., 1993; Bouman, 1977; Geetz, 1962; Huggins, 1997). Common examples include bicycles, new

homes, furniture, and other things like paying college tuition or financing weddings. From this background comes the following hypotheses:

*H.1a: The order of rotation for contributions and the fund in most RCAs is reached by general agreement based on need and not by chance, bidding or other means.*

*H.1b: The contribution pattern is generally kept simple with all members receiving the same amount of the fund on each rotation.*

*H.1c: RCA funds are generally used for the purchase of household items.*

**Sanctions:** For RCAs to operate successfully, it is necessary that all members continue to keep up their obligations, especially after they have won the fund. This, it is said, may appear problematic for RCAs since its members are often not able to borrow in conventional credit markets precisely because they cannot be presumed to repay loans. This, however, has not been found to be the case (Besley et al, 1993). Often payment of contributions is regarded as a "solemn duty" (Kuper & Kaplan, 1944), and other debts may be incurred in order to do this. A member may go to great lengths, such as stealing (Ardener, 1953) or selling a daughter into prostitution (Embree, 1946), to fulfill obligations to the association. Reporting on RCAs in Cameroon, a recent article noted that bankers complain of loan delinquency rates as high as 50%. But [RCA] payments are taken so seriously that borrowers faced with delinquency have been known to commit suicide (Brooke, 1987). Members who defaulted in one association may suffer to such an extent that they may not be accepted as a member of any other. In some communities, the RCA has become so rooted in the economic and social system that exclusion would be a serious deprivation.

*H.2a: Occurrences of RCA members defaulting on their contributions or refusing to honor their commitments after winning the fund are rare as evidenced by RCA members' past experiences.*

*H.2b: Occurrences of RCA members making late payments are rare as evidenced by RCA members' past experiences.*

*H.2.c: RCA members would go to extreme lengths (such as putting their RCA commitment over their family commitment) in order to avoid default or late payment of their RCA contribution.*

## **METHODS**

The research methodology design is survey research. The sample and measurement and statistical analysis are presented.

### **The Sample**

The sample was obtained in Cameroon, North Africa. The senior author contacted an official of the Rural Economic Development, government agency. The official agreed to take the researcher to four typical RCA group meetings to collect data. One group had only 7 members and all 7 completed the questionnaire. A second group had 12 members and all completed the questionnaire. A third group had 14 members, but only 8 were present and completed the questionnaire. The last group had 27 members and 22 completed the questionnaire. Thus, the total sample size included 4 RCA groups with 49 participants.

### **Measurement and Statistical Analysis**

The questionnaire was developed based on the literature and past survey instruments. The questionnaire was validated by five U.S. experts. The English questionnaire was not translated in Cameroon and it was pilot tested for understandability by six Cameroon RCA members from different groups. Also, the researcher passed out and collected the survey instrument and was available to answer any questions. The primary RCA structural variables are membership, contributions, fund, and sanctions. To test the four hypotheses, descriptive statistics were run and the Chi-square test was used to compare responses of participants for differences.

## **RESULTS AND DISCUSSION**

### **Hypotheses 1a-1c**

Hypothesis 1a was supported by Chi-square testing ( $p = .0000$ ). All RCA members agreed that the order of receiving the fund is based on agreement of need, rather than chance, bidding or other means. Besley et al. (1993) described two models related to two main varieties of RCAs. These were the random RCA where rotation was determined by lot and the bidding RCA where rotation was determined by a bidding procedure. The findings in this study revealed that in most cases, there were no strict rules of determining the order of rotation, but rather a deliberative process emphasizing individual needs and circumstances.

Hypothesis 1b was supported by Chi-square testing ( $p = .0000$ ). All RCA members agreed that the amount of the fund received was the same for all group members. The contribution pattern was generally kept simple with all members contributing equal and fixed amount throughout. In the literature, Ardener (1964) argued that the advantages to this pattern were not equal to all. All members but the last to receive the fund got interest free loans of decreasing magnitude for decreasing periods, and all but the first give interest-free loans of increasing magnitude. Based on the findings, most RCA groups did not take the disadvantages of the fixed contribution rates into account, they ignored its inherent drawback and went with equal and fixed contributions for all members.

Hypothesis 1c was not supported by Chi-square testing ( $p = .0000$ ). RCA funds are not used for the purchase of durable items. This question was also an open ended question, and only one respondent stated that the money would be used for a major purchase. The largest group of respondents, 35% stated that they were going to use the fund to start a

business venture. The next group, with 28%, stated that they were going to use the fund to pay school tuition. The third and fourth groups with 15% and 13%, stated they would save and invest the money. Besley (1995) summarized what much of the literature revealed on this issue; RCA institutions are primarily used to save up for the purchase of durable goods. The findings revealed something quite different. The majority of respondents stated that the money was or would be used as seed capital to start a new business venture. While a smaller, yet respectable portion of the respondents stated that they would pay tuition, save or invest the money, surprisingly only one respondent stated that the money would be used for a major purchase.

### **Hypotheses 2a-2c**

Hypothesis 2a was not supported by Chi-square testing ( $p = .0008$ ). Of the respondents, 77% stated that they personally knew of groups where members stopped making contributions after receiving the fund. Thus, only 23% did not report stopped payments to the fund. It was believed that the occurrence of default from not honoring one's obligations to the group after winning the fund was rare. The literature maintains that because of the social interconnectedness between members and the threat of social and economic sanctions, there were few reported or documented cases of default among RCAs. Banks, it was argued had higher loan delinquency rates than RCAs (Besley et al., 1993). The great majority of respondents contradicted this by their revelation that they personally knew of groups where members stopped making contributions after receiving the fund.

Hypothesis 2b was not supported by Chi-square testing ( $p = .0008$ ). Of the respondents, 93% stated that they personally knew of groups where members made late payments to the fund. Thus, only 7% did not report payments to the fund. The same argument for low default rates had been advanced in the literature for rare incidences of late payments (Besley et al., 1993). An overwhelming majority of RCA members stated that they personally knew of groups where members made late payments to the fund.

Hypothesis 2c was supported by Chi-square testing ( $p = .0231$ ). Of the respondents, 68% stated that they personally would forgo family commitments to make a payment to the fund. Thus, 32% stated that they would use the money for the fund for family needs. Members stated that they would personally go out of their way, including putting their RCA commitment over their family commitment in order to avoid default or late payment of their contribution. This is consistent with the anthropological literature, which is replete with examples to illustrate this point (Ardener, 1964).

### **IMPLICATIONS**

A major result with implications for small business financing is the finding that more RCA members are using or plan to use their funds to start new businesses. While RCA members may have access to financial institutions, they still have difficulties negotiating with banks for loans to start businesses. Therefore, they see the RCA as a viable alternative. This finding is significant, particularly given the situation in many Third World economies where massive socialist policies of welfare have come to a halt. Many

people are for the first time left to struggle for themselves rather than relying on the government. Small enterprise venture are seen as a way out for most people, but they lack the financial support. This has spurred participation in RCAs as a means to accumulate seed capital sooner than if one has to rely on personal savings. The success of each RCA member will have significant implications on the overall state of entrepreneurial activities in these communities. This could open the door for greater support and nurturing of RCA institutions by governments or other world economic development agencies.

Contrary to the notion that default rates or occurrences of late payments are rare, more RCA members stated that they knew of cases where these violations had taken place. However, these same members went on to state that they would go to extreme lengths in order to avoid defaulting or making late payments on their RCA contributions. They believe this of themselves and their colleagues in the group. One explanation for this discrepancy could be in self-reporting bias where members are uncomfortable acknowledging that they violate RCA rules or know friends who do. There is an obvious need for further studies to explore this discrepancy or contradiction.

There are limitations with this study. The first is the small size of the sample from which these findings are drawn. The implications and conclusions arrived at have to be taken with this limitation in mind. The second limitation is the focus on one country. Though Cameroon has been described as "Africa in miniature," there is still the possibility that RCA members from other parts of Africa may respond differently to the questions posed in this study based on their specific circumstances and culture. Any generalization of these findings should be done with these two limitations in mind.

## **CONCLUSION**

This study has revealed some key findings about the role that RCAs play in spurring new business ventures. There are many formal and informal accounts of these associations credited for higher levels of entrepreneurial activity among immigrant groups including Chinese, Dominicans, Jamaicans, Lebanese, Koreans, and Haitians to name a few. However, the extent to which these same associations are helping to launch new business ventures back in the homelands where they originated has not been fully explored. In fact, the literature revealed a greater tendency for RCA funds to be used to purchase durable household items. This might have been the practice in the past, but according to the findings of this study, more RCA members indicated their intentions to use RCA funds to start new businesses. There is a need for future studies to attempt to quantify the impact of these associations on micro enterprise activities in developing economies. Much credit is given to RCAs for the rare occasions of default or late payments, especially after a member has won the fund. This is not borne out in practice. Many more current RCA members knew of these occurrences in other RCA groups.

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# **Online Self-Assessment: Using Web-Enhanced Instruction in a New Venture Creation Course**

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## **Introduction**

While the importance of offering courses at the university level that stress entrepreneurial skills and behaviors is well documented (Porter & McKibbin, 1988), the use of electronic technology in such courses, especially for student self-assessment, is still in its infancy. The purpose of this paper is to demonstrate how Xavier University's Management & Entrepreneurship Department faculty has begun to integrate Web-based self-diagnostic tools into its New Venture Creation class. This paper describes a series of self-assessment tools assigned to students, and includes examples of interactive and reflective pedagogies designed around our Web-enhanced instruction.<sup>1</sup>

The New Venture Creation (NVC) course, often referred to as "the business plan course," continues to be one of the cornerstones of U.S. undergraduate Entrepreneurship programs. A review of textbooks designed for such a course indicates that its curriculum typically incorporates quantitative methods in marketing, operations, and financial planning, and includes qualitative techniques such as paper and pencil self-assessment instruments (e.g., Hisrich & Peters, 1997; Kuratko & Hodgetts, 1997; Timmons, 1997). Indeed, with respect to these latter techniques, scholars suggest that examining the "person, in whose mind all of the possibilities come together, who believes that innovation is possible" (Shaver & Scott, 1991) is as important a component in the new venture equation as is the marketing or financial plan.

At Xavier University, the NVC course emphasis on both quantitative and qualitative issues is particularly important due to the close linkage between the academic and practical components in our Entrepreneurship curriculum. Xavier undergraduates learn to analyze personal and business factors for start-ups in the NVC classroom, then quickly apply these skills through internship positions, and/or by starting a small business with the assistance of a Xavier Entrepreneurial Center Micro-Loan Fund. Consequently, students' application of newly acquired quantitative and qualitative skills can have both classroom grade consequences and "real world" financial or social consequences (e.g., inability to repay the micro loan or loss of a future employment reference, respectively). Given the growing Web expertise of our undergraduates, and the flexibility and motivational aspects of Internet resources (Aloia, 1998; Hardcastle, 1998), Xavier faculty have recently begun incorporating electronic technologies (Barron, 1998; Hoyer, Cappel, & Myerscough, 1998) into the NVC course to highlight the "soft" or subjective aspects of entrepreneurship.

In previous years, students in the NVC class were asked to complete paper and pencil instruments in a required text, such as Entrepreneurship: A Contemporary Approach (Kuratko & Hodgetts, 1997), and Entrepreneurship: Starting, Developing, and Managing a New Enterprise (Hisrich & Peters, 1997). Then, they scored and evaluated their answers manually as part of ongoing journal assignments submitted at the end of a class session. Students reported that their self-assessments were insightful, and faculty found student results from the completed instruments to be a useful introduction for topics such as entrepreneurial lifestyles, creativity and innovation, and entrepreneurial stress.

During the fall 1998 semester, Xavier faculty identified Internet sites offering on-line instruments that complemented those in the NVC course textbooks. Our search focused on non-sales oriented, on-line-scored diagnostic instruments relating to course topics. Given our concern for the validity and reliability of Web-based instruments, we selected on-line assessments associated either with well-established management concepts (e.g., locus of control), or with credible organizations (e.g., Center for Research in Applied Creativity). The Web-based instruments have become part of the self-assessment component of the semester. Students access the instruments through faculty Web pages with linkages to the on-line instruments, thus providing a centralized access point for completing and scoring the Web-based assessments.

Scholars urge faculty to consider concerns such as fear of technology, and resource and technical issues (e.g., access to properly working equipment) when incorporating Web-based instruction (Aloia, 1998; Bilimoria, 1997; Hardcastle, 1998; Ross, 1998). However, qualitative evidence based on our discussions with students and early reviews of their journals indicate that students are enthusiastic about using Web-based assessments. They point out that this innovation allows them to complete on-line instruments outside of class, where they are typically scored and evaluated within one minute of completion. In addition, students print the instrument results rather than copy them manually. Further, we found that on-line scoring replaced administrative concerns such as "did I score this correctly?" with application and conceptual issues such as "how can I apply this information to my situation?" or "how can I put this score into context with what I know about myself?" Thus, class discussion could focus on the meaning and application of the results rather than the validity and reliability of the instruments. Finally, our combined faculty experience in using the on-line instruments supports Ehrmann and Zuniga's (1997) suggestion that out-of-class Web-based course activities more closely parallel the asynchronous nature of many learners who prefer differing levels of time, effort and interaction to administer, process and reflect on their self-assessments.

### **Web-based Self-Assessment Instruments for a New Venture Creation Course**

Below we describe the on-line instruments that Xavier faculty use in the undergraduate New Venture Creation class. In addition, we note informational Web-sites for students wishing to pursue further study of selected concepts and instruments.<sup>2</sup> For each on-line instrument, we provide the topic and name, the Internet address and a brief description and analysis of the instrument's value. We also provide examples of how instruments might be used. Typically, we use both in-class interactive and out-of-class reflective

activities for particular topics and related assessments. In-class interactive activities include small-group discussions in which students share ways to apply their learnings from the assessments and topic discussion. Out-of-class reflective activities involve written journal assignments prior to class that ask students to (a) apply results from the on-line assessments and topic readings, (b) comment on the specific on-line experience and (c) evaluate how well the assessment results correspond to their personal perceptions. Through students' ongoing interactive and reflective activities, faculty has the opportunity to assess the use of technology in the course.

To better understand their entrepreneurial traits and preferences, students complete instruments and checklists designed to assess personal characteristics often investigated in entrepreneurs, including self-confidence, locus of control, creativity, and stress management. We emphasize to students that these characteristics are essential building blocks to successful understanding of ourselves and of how likely we are to become successful entrepreneurs. Table 1 illustrates our use of reflective and interactive activities with selected topics to help students see patterns in their own entrepreneurial characteristics, and to help faculty monitor the effectiveness of using Web-based assessment instruments in the NVC Course.

**Table 1**  
**Using Online Self-Assessment Instruments with Reflective and Interactive Activities**  
**to Support Selected Topics in a New Venture Creation Course**

<b>Selected Topic:</b>	<b>Reflective Activity</b>	<b>Interactive Activity</b>
<ul style="list-style-type: none"> <li>Related Web-Based Resource (see text for Web addresses)</li> </ul>		
<b>Entrepreneurial Traits:</b> <ul style="list-style-type: none"> <li>The Entrepreneur Test</li> </ul>	In a journal assignment, students are asked to react to using Websites, both in terms of the process involved and	Students bring to class their printed output from the Web instrument, checklist, and their journal entries. In

- The Entrepreneurial Aptitude Checklist
- the perceived validity of instrument results (e.g., how do results correspond with self-perceptions). Also, they reflect on questions such as "why are these characteristics often associated with successful entrepreneurs?," "which of these characteristics do I need to develop further," and "what are 2 or 3 specific realistic actions that I can do now to develop these characteristics?"
- groups of 4 to 5, students discuss their pre-class reflections, looking for patterns across their entrepreneurial characteristics that they believe are adequate now, and that they perceive need further development. Student groups may also brainstorm questions regarding specific actions they can implement to develop certain entrepreneurial characteristics. Students are asked to complete a postclass journal entry of new ideas or actions uncovered during the class discussion.

**Creative Problem Solving:**

- Basadur Creative Problem Solving Profile
  - Directedcreativity Website
- In a journal assignment, students reflect on using Web-based instruments such as "in what ways does the use of on-line self-assessments help me understand (or not) my tendencies to be creative." Students are also asked to reflect on questions such as "am I creative?," "what evidence do I have related to my creativity in work or business situations?," and "why should I become more creative in work or business situations?" Students are asked to search the Directedcreativity website or to find related sites and bring in information on, or an example of, a creativity-building technique that appears useful to them.
- Students bring to class their printed Web-instrument reports. In groups of 4 to 5, students discuss questions on which they have reflected on and written in their journals. Students also share creativity-building techniques found through their website search. For each group, a student "reporter" summarizes comments to the class and shares similarities and differences within the group. A follow-up class discussion focuses on creativity patterns across groups.

Note. The sequence of interactive and reflective activities can vary. For instance, for each class topic, we assign a reflective activity prior to class, to facilitate student preparation for class discussion. However, our experience indicates that a great deal of student insight occurs as a result of in-class interaction, so it is also useful for students to reflect on class discussions and incorporate their reflections in their journal writings after class activities.

### **Topic: Entrepreneurial Traits**

#### **Instruments:**

The Entrepreneur Test

The Entrepreneurial Aptitude Checklist

#### **Internet Addresses:**

<http://www.liraz.com/webquiz.htm>

<http://www.isquare.com/qualities.htm>

**Description:** With the first instrument, students answer 10 short questions such as "Can you take responsibility?," "Can you stick with it?" and "Can you make decisions?" and immediately receive an online score and interpretation regarding "what traits and characteristics make a successful entrepreneur." The second checklist discusses 15 characteristics often associated with successful entrepreneurs, including high-energy, self-confidence, good health and effective communication.

**Value:** Both of these instruments are short and easy to complete, and within a few minutes provide students with an overview of key behavioral characteristics related to successful entrepreneurs, including decision making, persistence, organizational skills, and leadership. Questions provide a good vehicle for discussing these characteristics, including how and why they relate to entrepreneurship, and how these skills can be learned.

### **Topic: Creative problem solving**

#### **Instruments:**

Basadur Creative Problem Solving Profile

Directed Creativity Website

#### **Internet Addresses:**

<http://ourworld.compuserve.com/homepages/simplex/cpsp.htm>

<http://www.directedcreativity.com>

**Description:** The profile instrument focuses on problem solving methods from the Creative Problem Solving Profile (CPSP) research instrument, offered through the Center for Research in Applied Creativity. Students are asked to rank 48 words, in groups of four, that best describe their problem solving preferences. For instance, in one word-group, students rank the words modeling, decisive, visualizing and implementing from high (4) to low (1) in terms of how well these words describe their problem solving

preferences. Students submit their answers electronically to the Center for Research in Applied Creativity for free scoring. Within 3 to 4 days a four-plus page interpretation of the individual's problem solving profile is electronically received, subdivided into quadrants based on the theoretical foundations for this instrument (i.e., idea generation, evaluation, thinking, experiencing).

Students are also directed to the Directed Creativity meta-site for creativity-related information including linkages to creativity publications, consultants, and toolkits.

**Value:** The instrument helps students understand their dominant and least preferred problem-solving styles. In class, we discuss the important role of creativity to the entrepreneurship process (Fernald, 1988; Whiting, 1988) and compare the rational problem solving methods (e.g., March & Simon, 1958) with more intuitive problem solving methods (e.g., Nayak & Ketteringham, 1986) to emphasize that creativity is a process that can be learned. We emphasize that creativity can result in more innovative decisions than when only rational problem solving is used. Students discuss their creativity profiles in small groups, focusing on how well the interpretations they received correspond with their own perceptions, and the implications of their creative problem solving preferences for their entrepreneurial goals and objectives.

**Topic: Self-Esteem**

**Instrument:**

Self-Esteem Inventory

**Internet Address:**

<http://www.queendom.com/selfest.html>

**Description:** This thirty-item instrument asks questions such as, "In social situations I have something interesting to say," and "I am not sure I have done a good job unless someone else points it out." Items are scored on a five-interval scale from "almost never" to "most of the time." Students immediately receive a score and interpretation.

**Value:** We point out that self-esteem can affect critical skills associated with effective entrepreneurial behaviors such as perseverance, ability to influence others, and positive response to challenges (Kuratko & Hodgetts, 1997). For instance, research has indicated that positive attitudes toward self, as well as topic and audience, are key predictors of whether a speaker would experience debilitating instances of stage fright (Page, 1985). Since oral communication, both to individuals and to groups, is consistently cited as one of the most important skills for successful entrepreneurs, we point out that evaluating self-esteem can be useful in assessing the likelihood of avoiding group presentations or experiencing stage fright. Students are asked to discuss in a journal assignment how effectively the online instrument captures their self-esteem characteristics, as well as how they can apply the assessment interpretation.

**Topic: Personality and Responsibility****Instrument:**

Locus of Control and Attributional Style Inventory

**Internet Address:**

<http://www.queendom.com/lc.html>

**Description:** Students answer 42 questions such as "chance has nothing to do with being successful" and "bad or good luck can really follow you around" on a 5-point interval scale from strongly disagree to strongly agree. Students receive a general score plus four subscale scores. Results indicate students' internal or external success and failure attribution styles. The instrument takes about 15 minutes to complete.

**Value:** The Inventory is relatively short and easy to complete, and addresses a well documented issue in entrepreneurship. Locus of control, or the attitudes people develop regarding the extent to which they are responsible for their own destinies, is not only a key predictor of management success (e.g., Hendricks, 1985; Spector, 1982), but also a characteristic often attributed to successful entrepreneurs (Kuratko & Hodgetts, 1997). In class, we review research indicating that U.S. managers with an internal locus of control are typically more successful, exhibiting less job stress and experiencing more upward job mobility, than managers with an external locus of control. We also point out that most job interviewers rank interviewees higher when they take responsibility for success and failure rather than consistently attributing positive or negative results to external forces. Finally, we cite evidence that people can alter their locus of control over time (Harvey, 1971). During class, we ask students to discuss their instrument results in terms of why they answered as they did, how well the instrument appears to tap their individual characteristics, and what are the implications of their answers for their entrepreneurial effectiveness.

**Topic: Personality and Stress****Instrument:**

Type A Inventory

**Internet Address:**

<http://www.queendom.com/typea.html>

**Description:** This instrument, which takes about 5 minutes to complete, consists of a series of 17 questions in which students are asked about their degree of competitive behavior, their need to confide in others, and whether they feel guilty when relaxing. Using a three-point scale from disagree to agree, students respond to comments such as "It doesn't bother me if I cannot finish what I planned for the day," and "People who don't know what they want get on my nerves." Upon completion, students immediately receive a score and brief analysis.

**Value:** This short, easy to administer instrument provides a good starting point for discussion of stress and its impact on entrepreneurial success. We point out that some evidence indicates that Type A behavior is related to anxiety, deteriorating relationships, and heart disease. We also point out that persons with a Type A personality may be viewed as stress carriers, with both positive and negative implications for individual and entrepreneurial success (Adebowale, 1992; Boyd & Gumpert, 1983). Students bring in to class their printed scores and analysis, and in conjunction with the following instrument, discuss techniques and strategies for reducing stress.

**Topic: Coping with stress**

**Instrument:**

Coping Skills Inventory

**Internet Address:**

<http://www.queendom.com/coping.html>

**Description:** The Coping Skills Inventory consists of a series of 45 statements for which students indicate how often each statement applies to them by clicking on one of five answer options from "almost never" to "most of the time." Statements focus on behaviors for coping with stress (e.g., "when I am stressed, my mind goes blank," and "when I have problems, I prefer to keep them to myself"). Results are immediately reported on-line including both an overall score and seven subscores such as "adaptability and flexibility," "ability to assess situations," and "resourcefulness." The instrument takes about 15 minutes to complete.

**Value:** The instrument's value lies in two areas. First, it focuses on students' coping behaviors when faced with stress, thus complementing the Type A Inventory above that identifies their stress level. Second, the brief descriptions of each behavioral subscore allow students to see which coping behaviors need attention. We point out that while many people rely on only a few coping skills and strategies, those who use a wide repertoire of strategies are most likely to systematically reduce stress.

**Conclusion**

In sum, our recent experience in using Web-based instruments in an undergraduate New Venture Creation class has proven that these resources can be a valuable pedagogical tool in such courses. By allowing good use of class time and giving focus to both out-of-class reflective assignments and in-class interactive exercises, on-line self-assessment instruments can provide flexibility and motivational advantages for Xavier students and faculty.



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### **Footnotes**

<sup>1</sup>Websites change and linkages to specific on-line instruments can vary within a short period of time, requiring faculty to routinely update their Web-based resources. For instance, during the development period for this manuscript, two of the Websites we assigned in class changed their Web-addresses. Consequently, we encourage readers to focus on the processes described in this article in addition to the particular Websites discussed, since these former elements are transferable across specific Web locations.

<sup>2</sup>All of the Websites described were accessed by the authors using Windows 3.1 with Netscape Navigator Version 2.01, and Windows 97 with Netscape Navigator Version 3.02 Gold.

# INFORMATION SYSTEMS SECURITY FOR SMALL BUSINESS DANGERS FROM WITHIN AND WITHOUT

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## **Abstract**

In order to survive and prosper, small businesses have entered the high-tech information age. Even the smallest firms use electronic credit card systems, bank-based automated cash management agreements, and modern accounting systems. Increasingly, small business is entering the world of Internet commerce with web site-based advertising and merchandising. The resulting use of these new applications poses significant threats for small businesses: From within are problems related to employee fraud and embezzlement, misuse of the firm's resources, and challenges to authority and control over closely held firms. From without are threats of unlawful access to a firm's vital information bases, interrogation and misuse of customer accounts and records, and corruption of data. This paper outlines the scope of the electronic security problem, provides examples of current attempts to remedy the situation, and suggests several ways to protect a business from both external and internal security problems.

## **Scope of the Security Problem**

Computer and information security issues were identified several years ago when the focus was primarily within the firm (1). Indeed, small businesses have even been the subject of computer based takeover attempts (2). There has been, however, a paradigm shift in the operations of small businesses in the past ten years: The emergence of electronic commerce and the Internet. Security problems have increased in scope and severity for businesses large and small. Several trade journals now focus entirely on, or devote considerable space to the subject. As a result, much is now being written about this new (external) threat to small business information systems (3). A recent Ernst and Young study concluded that businesses face a 50-50 chance of losing significant amounts of information during the next few years (4). Major trends include: Control over remote access, encryption, intranet security, copy protection, PC marking and component tagging, information security management and organization, and communication/network security (5).

Control and access challenges are being met both by traditional ID/password strategies and emerging encryption/biometrics technologies that read fingerprints and provide practical face recognition software (see, for example, Miros corp.: [www.miros.com](http://www.miros.com)). Access control software also includes ID/password strategies, but the tactics now include *firewalls* and externally supplied Intranet security systems (see, for example, Digital Persona corporation: [www.digital-persona.com](http://www.digital-persona.com)). Other firms are working on useridentification 'smart cards' and 'tokens' which trigger unique, one time passwords for

each entry-access transaction (see ActivCard corp.: [www.activcard.com](http://www.activcard.com)). Copy protection, PC marking, and component tagging applications are currently focusing on stemming the tide of hardware theft by actually sealing the CPU portion of a PC, and causing a PC to become inoperative if the equipment is moved sharply or severely jostled. Equipment identification numbers are being stored in soon to be international data banks so that hardware can be identified in a manner similar to identifying weapons and vehicles. Communications and network security applications are focusing on software network security using firewalls with adaptive software which makes the next 'attack' harder to succeed and more sophisticated employee access from external locations (see Internet Security Systems: [www.iss.com](http://www.iss.com)).

All of the above applications are new or in their first few years of general use. The applications have many problems: fingerprinting techniques fail due to simple things like dirty hands and the reduction in definition of prints as a person becomes older. Facial recognition is still in its infancy, and many encryption and external audit/firewall/and monitoring systems are simply too expensive for all but the larger firms. Finally, the security problem is not a static situation. As was the case during the Cold War, as soon as a security measure is devised, a new tactic to get around the measure is developed.

For the small or medium sized business, the above suggests: (1) Internet commerce is becoming a standard tool for small businesses and, as a result, (2) computer security now involves a complicated and dynamic interplay of internal and external threats which require business owners to deal with both arenas. How this is accomplished involves doing several things simultaneously and, because the software and network environment is dynamic, threat elimination practices must continue without letup. The following provides a framework for crafting strategies which both focus on internal and external elements and work together in dealing with the challenges which cross over between company operations and the external world of electronic commerce.

### **Guidelines for Avoiding a Computer Security Crisis**

Three major dangers can befall a firm: (1) the internal system itself can be rendered inaccessible, (2) company data privacy may be compromised, and (3) data integrity may be compromised. All three of these dangers can occur as a result of internal weaknesses in organizational structure and procedures, employee access and control, or external attacks occurring over the Internet. What can a small business do to deal with simultaneous dangers from within and without? We offer the following as a general set of guidelines which, if employed, should ameliorate the dangers:

### **Strengthening Internal Operations**

1. **Security Planning**--Perform (or hire a specialist to perform) a security audit. Check on data backup, password control, and physical protection (electrical current surges, fire and water damage). Make certain you have a good data backup system.

2. **Don't Allow Key Employees To Gain Control Over The Information System**--In the case of WS, the owner yielded control over vital access routes while he focused on his offsite production problems.
3. **The Owner Should Be His/Her Own Security Manager**--Issue, control, and manage the password system and who has access to specific information. Be very serious about password discipline. Crack down hard on employees sharing passwords or using passwords that are easily 'hacked' (e.g. using a persons name or birthday).
4. **Require Your LAN Manager To Maintain a Transaction Log**--Learn how to read the log so you know what kinds of activity are occurring.
5. **Create and Maintain a Good Disaster Recovery Plan**--Make the development of the plan a top priority and perhaps part of the scope of work for your external consultant who is performing a security audit.
6. **Outsource All Or Part Of Your Information System**--There are many firms that will perform all your administrative functions. Data are automatically transmitted from the firm's location to the vendors who perform payroll, personnel, inventory, and general data base retention services. If your software is offsite, employee-based sabotage and external attacks on company data bases become much more difficult to accomplish.
7. **Contract With An Emergency Response Team**--Small businesses normally do not have the resources or skills to create and train an internal 'SWAT' team for such activity, but contracts with IBM and other vendors are possible.

### **Dealing With Attacks From The External Internet and Web Site Environments**

1. **Develop A Vendor-Based Security Audit System**--Several firms are now offering services designed to probe the integrity of your web server, Internet and Intranet applications. Upon request or at random intervals, these firms perform probes and a test of your network and issue reports on the vulnerabilities of your networks to attack. (for example, see, ADDSecureNet corporation: [www.ADDSecure.Net.com](http://www.ADDSecure.Net.com) or software which can be purchased such as Hackers4HireSNAPSHOT).
2. **Purchase Virus Detection and Cure Software**--PC's and networks are vulnerable to the insertion or accidental infection of your systems by viruses. There are several popular virus eradication software available, but all anti-viral packages become obsolete quickly and need to be replaced periodically, For the individual PC there are even hardware packages which can "help keep viruses from getting into permanent data, prevent unauthorized file deletions and configuration changes" (Centurion Guard, available via [www.centuriontech.com](http://www.centuriontech.com)).
3. **Purchase 'Firewall Protection'**--Applications are available from a few dollars to very expensive packages residing on dedicated computers running only an operating system and the firewall package. Firewalls can protect internal LAN and Intranets and can be arrayed to protect multiple business sites.
4. **Establish Customer UserID/Password Pairs For Conducting E-Commerce**--In order to assurance and privacy of payments, firms using e-commerce must protect customer credit information. However, while sending credit card

information over the Internet is risky, it is probably no more risky than handing your credit card to a clerk in a restaurant (6). Two models are evolving. The **Mall** model outsources the entire electronic storefront to a service provider who runs and electronic mall. The second model relies on third party software to handle payment functions. Even 'mall' operators frequently use third party vendors for payment applications. In both arenas, the focus is on creating a secure electronic transaction or SET. The idea is being championed by VIA and Mastercard and comes in the form of specialized software such as CyberCash's *CashRegisterIII*, IBM's *eTill*, and Verifone's vPOS (7). Current applications are noted by customers who have to wait for a few seconds at a cash register for the transaction to be "authorized". New enhancements will be 'digital signatures' and 'certificates'. When an order is 'signed' by a customer's digital certificate, the customer will not be able to refuse payment.

The literature suggests that all of the software discussion above will remain in flux until comprehensive vendor packages evolve. IBM has recently announced a product called *SEMPER* and it is reasonable to assume that many competing products will soon follow. If history is prologue, these packages will soon be affordable to the small business owner.

## **Conclusions**

We have defined the scope of the computer security problem for the small business owner. In the process, the threats were demonstrated to be external as well as internal to the organization and closely interrelated. Current practice and products as well as common sense management techniques designed to ameliorate these threats were presented.

Small business owners, by employing good information security management, can reduce the threats from employees and other knowledgeable at a minimal cost. Good disaster planning and recovery schemes and crisis management response teams can be accomplished and/or contracted for at reasonable cost. Electronic and Internet commerce poses serious and dynamic threats to the firm and requires specialized and often expensive software to minimize risk. Over the next few years, however, the emergence of comprehensive vendor packages designed to handle both internal and external threats will reduce the cost and difficulty of using software security systems.

## **Footnotes**

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# **Interactive Geographic Information Systems (GIS) on the World Wide Web: An SBI Case Study of Optimizing Routing for Home Delivery Goods**

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## **Abstract**

The Internet has been changing the ways of data access and dissemination. It is a global network of computers connected through communication devices to one another. It is becoming a means for Geographic Information Systems (GIS) users to exchange GIS data, conduct analysis, and present GIS output. Internet GIS is rapidly evolving as the Internet and Web technologies change. This paper examines issues and emerging techniques in the evolution of an Internet-based GIS. It first discusses the definition of a Geographic Information System. What is GIS? What does a GIS do? What do you need to know about a GIS in order to be able to use it? It then reviews the Internet-based GIS. What is different about an Internet GIS? It further addresses an application: An SBI case study of optimizing routing for home delivery of goods.

## **Introduction**

Geographic Information Systems (GIS) are changing the view of business. From multinational corporations to entrepreneurial start-up small businesses, companies of every kind are bringing geographic analysis to bear on their business problems. By relating information to specific locations, like street addresses, ZIP codes, and census tracts and blocks, they are creating business maps that help them to identify patterns and understand relationships not apparent from tables and charts. In this process, they are able to make better decisions, serve their customers better, and at times, find new and better market opportunities. GIS has evolved over time as a tool of geographers and cartographers, from the research center to the corporate environment, from the scientist's workstation to the businessman's personal computer. The development of powerful personal computers, coupled with easy-to-use GIS software packages, and widely available data, has created a new breed of GIS practitioner: the small business person. More recently, with the internet and World Wide Web, a global networked GIS resource is being developed. Although not fully developed yet, a number of GIS software suppliers have begun to develop map servers providing users with the capability to access and display interactive maps with the use of the personal computer and a Web browser. This paper looks at what is GIS? What does it do? Why is it so important? What are some of its applications to small business, with a SBI case study?

## **What is a Geographic Information System (GIS)?**

There are many definitions of GIS in the literature. In the range of definitions given below, important points highlighted, but different emphases are placed on various aspects of GIS.



"A geographic information system is a facility for preparing, presenting, and interpreting facts that pertain to the surface of the earth. This is a broad definition ... a considerably narrower definition, however, is more often employed. In common parlance, a geographic information system or GIS is a configuration of computer hardware and software specifically designed for the acquisition, maintenance, and cartographic data" (Tomlin, 1990).

"A geographic information system (GIS) is an information system that is designed to work with data referenced by spatial or geographic coordinates. In other words, a GIS is both a database system with specific capabilities for spatially-reference data, as well [as] a set of operations for working with data ... In a sense, a GIS may be thought of as a higher-order map" (Star and Estes, 1990).

"A GIS is an organized collection of computer hardware, software, geographic data, and personnel designed to efficiently capture, store, update, manipulate, analyze, and display all forms of geographically referenced information" (Environmental System Research Institute, 1990).

From a physical standpoint a GIS is a system comprising both of hardware (the computer platform and peripherals) and software (the programs e.g. ArcView, Arc/Info, GRASS, etc.). A GIS is also an Input/Output system. Data is input, stored, processed, manipulated, analyzed, and information output to a printer and/or screen. The database forms the heart of a GIS, and comprises both the "map data" and the data to be "mapped". What makes it different from a traditional information system is the geographic or spatially related component. The above definitions also span a wide range of different systems, ranging from a simple digital mapping tool, to overlay mapping through to a fully functional spatial analysis system. Beyond the physical makeup of a GIS is the model for handling geographic or spatial data that represents the real world. In other words, a record in a GIS file describing Orange County, Florida, would include not only fields of text and numeric information (name, area, lakes, and so on), but also fields of spatial data enabling the computer to draw Orange County as a boundary of a certain size and shape. The importance of this technology has meant that GIS has a major impact on new ways of use of communicating information for decisionmaking.

## **The GIS View of the World**

GIS provide powerful tools for addressing geographical and environmental/business issues. GIS combines all the capabilities of a display only, thematic, and street-based mapping system along with the ability to analyze geographic locations and the information linked to those locations. To help understand how GIS works, a discussion of the conceptual pieces of the system will be addressed, followed by the principles governing how it works, that is, how it stores and links information.

Maps are a graphic representation of the real world. Natural objects, such as mountains, rivers and valleys as well as man-made objects such as cities, roads, and buildings can all be represented on a map. These objects, whether natural or man-made, are called *map*

*features* (Harder, 1997, p. 121). Each map feature has a location, a representative shape, and a symbol that represents one or more of its characteristics. For, example, a blue area may represent a river. Green areas may represent land. A brown area may represent a building with a label saying SunTrust. Dark red lines may mark highways, and smaller roads marked by thin black lines.

Features on maps are organized according to their relative position or location to each other. These relationships, called *spatial relationships*, are important because understanding them helps us solve problems (Harder, 1997, p. 123). For example, in order to plan a delivery route, you need to know which streets connect, where they cross railroad tracks, and in which part of the city they pass through.

The information that a GIS stores about map features is referred to as *attribute information* (Harder, 1997, p. 119). The attributes of a shopping mall, for example, might include its name, its type, size, and the names of the anchor stores, a list of tenants, and the number of parking spaces available.

A GIS links sets of features and their attributes and manages them together in units called *themes* (Harder, 1997, p.124). A theme contains a set of related features, such as roads, bus routes, shopping centers, or census tracts, along with the attributes for those features. Take, for example, a map of Orlando, Florida. It may contain many themes. All interstate highways that pass through Orlando could make up one theme. City streets might be a separate theme. Parks, buildings, and shopping centers would be examples of other themes. These separate themes are made up of features with a set of common attributes. For example, all city streets have lanes, pavement type, and a street name. All the themes for a geographic area taken together make up a *GIS database* (Environmental System Research Institute, 1996). And, you can use these themes in the GIS database to analyze multiple situations and solve multiple problems. For example, to determine the best routes to a shopping center you could use the roads and shopping centers themes. In Figure 1, a set of maps that will be helpful for transportation planning have been gathered. Each of these separate thematic maps is referred to as a *layer* (Harder, 1997, p. 122). And each layer has been carefully overlaid on the others so that every location is precisely matched to its corresponding locations on all the other maps. The bottom layer of this figure is the most important, for it represents the grid of a locational reference system (such as latitude and longitude) to which all maps have been precisely registered.

Once these maps have been registered carefully within a common locational reference system, information displayed on the different layers can be compared and analyzed in combination. That is, transit routes can be compared to the location of shopping centers, population density to bus routes, and so forth. One such common locational reference system used is geocoding. *Geocoding* is the process that assigns a latitude-longitude coordinate to an address. Once a latitude-longitude coordinate is assigned, the address can be displayed on a map or used in a spatial search (Harder, 1997, p. 122). GIS offers a means of searching for spatial patterns. Not all analysis will require using all of the map layers simultaneously. In some cases, a researcher will use information selectively to consider relationships between layers.

Today, dozens of software systems offer GIS decisions-making capabilities. The range and number available sometimes make it difficult to discern differences among systems and the strengths and limitations of each. The important thing to remember is that there are many different types of GIS software systems as there are decision-making processes. There are customized GIS software systems to meet specific needs of demographic forecasting, transportation planning, urban planning and so on. Other systems such as Atlas\*GIS, MapInfo, and ArcView attempt to provide functions that will be of value in one or more broad application domains, for instance demographic analysis or marketing research (See GeoDirectory, 1998 for a listing of the different types of systems).

### **GIS on the Internet**

The network of computers and communications links which make up the Internet are revolutionizing thinking about how GIS is delivered to users. It is also introducing the technology to a range of organizations that had previously had little awareness of it--small businesses. Web-enabled GIS allows users who have no GIS resources on their desktop computers, but have access to Web browsers (Netscape, Internet Explorer, etc.), to perform basic GIS functions over the World Wide Web. Along with its fast growth, the Internet is an increasingly important alternative as a GIS platform.

The Internet is shaping the ways traditional Geographic Information Systems function. It is changing the access and transmission of GIS data, applications and visualizations. GIS data providers, including the government agencies and private organizations, are discovering the convenience of publishing GIS data on the World Wide Web (Peng and Nebert, 1997).

The Internet is also an efficacious means of transmitting GIS data. GIS users can download data almost instantly from the Web over the Internet without the hassles of calling or writing around to find who has what data, making a formal request, and then waiting for days for the data disks to arrive.

Also, the development of the Internet technology has enhanced the accessibility and sharability of GIS analysis tools and functionalities over the Internet. Web browsers are providing Internet access to GIS applications software residing on Web servers. Users could work with GIS data interactively on a Web browser without owning GIS software on his/her local computer (Matuschak, 1996). To offer interactive mapping over the Internet, a Web site operator has to have some form of mapping or GIS software linked dynamically to the server (the computer that handles the Net communications). The server then responds to requests for mapping by uploading the required segments to the user on demand. Users can access those data and application programs on demand from anywhere on the network. Whenever it sends requests to the server, the server would deliver the data and analysis tool modules for just-in-time performance.

There are many examples of interactive Internet GIS on the Web, such as VISA International's ATM (automated teller machines) locator (<http://www.visa.com>), Yahoo Maps (<http://www.proximus.com/yahoo>), West Virginia Division of Environmental

Protection (<http://poca.osmre.gov/fomi/index.html>), and MapQuest (<http://www.mapquest.com>).

### **A Case Study from SBI**

In the spring, 1997 semester an SBI team was assigned to a local florist. During the team's initial interview with the owner, one problem emerged that lent itself to the use of an interactive Internet GIS approach. The owner was interested in trying to optimize the routing schedules of his drivers for delivery of their products; that is, the fastest and shortest distance to their customers. He was interested in both reducing the driving time it took his drivers to deliver their products, and also, in trying to reduce the distance from the store location to their customer. The travel time--the time required to transverse between two points--is a fundamental transportation measure. Manning (1998) had found that an application saving customers just five minutes each day in driver/vehicle time could yield annual savings of \$80,000 for a company with a fleet of 20 trucks. Our client had only two trucks in his fleet, but any saving would be worth the effort, since the interactive software the team used was free.

After evaluating the GIS interactive alternatives available, it was decided to use MapQuest, a business unit of GeoSystems Global Corporation. What led to this decision was the fact that one could:

- Browse through an interactive world atlas, zooming in and out from a country-wideview down to street level,
- Pinpoint and exact address,
- Get driving instructions (city to city, for urban areas and North America, door to door) and,
- Print, download, and save personalized maps.

MapQuest takes care of the time-consuming and painful process of compiling and maintaining the map database and address geocoded customer database of the user. The maps used in MapQuest come from numerous international sources, such as AND Mapping B.V., Compusearch Micromarketing Data & Systems, Geographic Data Technology, Inc., GeoSystems 1:2 Million US Digital Map Database, GeoSystems US Street File, GeoSystems International City Vector Maps, and Navigation Technologies Corporation (MapQuest, 1998). MapQuest is easy to get into; there is no software, just a browser. Once logged on to the MapQuest site at [http://www. Mapquest.com](http://www.Mapquest.com), users are presented with a home page which will permit you to navigate to the type of analysis you need (Figure 2 omitted). For example, to locate a customer click on Interactive Atlas on the home page, and then key in the coordinates - an exact address, or the cross streets (Figure 3 omitted). Click Search and, almost instantly, something like Figure 4 (omitted) appears. The zoom level panel at the right enables you to click in for a closer view of the immediate area, or back for a picture of the neighborhood. The city view shows you your destination in context; that is, what part of town you are headed for.

Clicking on TripQuest (Driving Instructions) will map out a driving route. Figure 5(omitted) shows the information that must be entered into that form. You enter your

starting address and then the destination address. Other options at the bottom of the screen enable you to choose what kind of map you want, Overview Map with Text, Turn-by-Turn with Text (Door-to-Door Only), or select written instructions only (Text Only). If you select Door-to-Door instructions, you have another pull down dialog box that appears as Options. From this dialog box you can select if you want the route with the fastest time, or a route with the shortest distance. Figure 6 illustrates a route with door-to-door instructions for the SBI client.

What does a local florist have in common with a major fleet operator? They both can schedule faster delivery service as a result of innovative GIS technology. However, the local florist now has available a system--an interactive Web-based GIS--designed for small companies that do not have the expertise or the capital to purchase and maintain the typically cumbersome GIS system databases, but could still benefit from the efficiency gained from a GIS routing system.

## Summary

At the simplest level, the Internet gives Web site operators the chance to put mapping in front of people who may have no fundamental interest in cartography as such, and probably have never heard of GIS--but people who nevertheless relate to maps and understand information better when it is presented in a mapbased form.

Already, Internet services are emerging that can display the locations of retail or entertainment facilities (hotels, leisure complexes, bars, automated teller machines, and so on), or work out a routing plan (as demonstrated in this paper). And all this can be achieved with no software at the user end apart from a conventional Internet browser. The user is not required to learn anything beyond the bare basics about how to interact with the system. However, this is not to say that Internet-base GIS is in any way simplistic, or limited in its scope. Indeed, sending useful maps and related information is no easy matter. But the technology is moving forward quickly, and the options are also expanding fast for the small business.

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## **HIV/AIDS EMPLOYEES, THE ADA AND THEIR IMPACT ON SMALL BUSINESS**

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### **ABSTRACT**

This article examines the extent of the AIDS epidemic, recent court rulings on the Americans with Disabilities Act (ADA), and examines the impact of this law and court rulings on small businesses. The recent Supreme Court ruling clearly provides extensive ADA protection for employees with HIV/AIDS. New therapies now allow HIV positive and AIDS victims to live longer and many want to work. Because some ignorance and stereotypes about the disease exists, many small businesses are unaware of the protection that the ADA provides such employees and may violate their civil rights. The ADA protection is examined and a policy for small businesses to follow is presented.

### **INTRODUCTION**

Since the Center for Disease Control (CDC) in the United States diagnosed the first US victim of the HIV virus in 1981, the disease has undergone a dramatic increase in the United States and worldwide. In 1997 there were 1,291,810 new cases of AIDS reported in both adults and children in 193 countries, which was an increase of 26% from one year earlier (Miller, Baker, and Rogers, 1998). Based on these figures, an estimated 6 million cases of AIDS had occurred in adults and children worldwide (Miller, et al 1998).

In the United States, the Center for Disease Control (CDC) believes that 1 million Americans or one out of every 250 Americans are now infected with the HIV virus. Between June 1981 and December 1996, more than 580,000 Americans were diagnosed as having full blown AIDS. In this same period 362,004 people died from the disease. AIDS is now the second leading cause of death for Americans between the ages of 25 and 44 which is the group that constitutes more than half of America's 121 million workers (Miller et al, 1998).

### **COSTS TO EMPLOYEES AND AMERICAN BUSINESSES**

The impact on the US is staggering in terms of human suffering and medical costs. Many victims go through psychological and physiological changes and spend years searching for medical care and fighting bureaucracies. Their medical costs are equally large, ranging between \$70,000 and \$140,000 in a lifetime. Some spend an estimated cost of \$1,000 a day and an additional \$1,000 a day for medicine with many days unable to work (Paul and Townsend, 1997).

AIDS will cost American employers \$55 billion by the late 1990's (Backer et al., 1992). About two thirds of America's largest businesses have already had employees diagnosed with AIDS or HIV (Miller et al, 1997). Conversely, only 10 percent of small business have had employees with HIV or AIDS (Miller et al , 1997).

## **NEW ISSUES WITH HIV/AIDS EMPLOYEES**

Recent advances in medicine now allow HIV/AIDS individuals the ability to extend their lives with many desiring work (Lucas, 1998; Minehan, 1998; SHRM Explores New HIV/AIDS and Work Challenges, 1998). These new therapies have decreased HIV/AIDS mortality 26 percent in 1997 and decreased it from the leading cause of death to the second leading cause of death for Americans between the ages of 25 to 44 (Lucas, 1998). An example is Ken Aldrich who was the Congressional Affairs Officer in the White House for Ronald Reagan and George Bush. Concerned about the impact of the disease on his life expectancy Aldrich started buying toothpaste in small tubes. Today, the new therapies have decreased the virus to below detectable levels although it is still in his body. His immune system has been restored, he is healthy, and wants to return to work (Breuer, 1998). There are thousands of employees like Aldrich who are fighting life threatening illnesses such as HIV/AIDS, cancer, and other illnesses and are able to return to work (Breuer, 1998).

Nancy Breuer (1998) argues that HIV/AIDS employees make great workers because they had major medical challenges, endured side effects, met with major psychological stress, dealt with political and bureaucratic systems, and developed creative responses to their circumstances. She believes that they are an untapped pool of good employees during labor shortages.

However, HIV/AIDS individuals have several workplace issues to surmount before continuing or returning to work. First is the stereotype that this is a "gay disease". In fact the percent of people with AIDS who contracted HIV through male homosexual contact decreased from 64% to 45% and the proportion of people who contacted it through heterosexual contact increased from 3% to 10%. The percentage of AIDS sufferers who are female increased from 8% to 17.5% (Miller et al, 1997 quoting CDC statistics).

Many HIV/AIDS individuals are concerned about the reaction of coworkers. There is still the stigma of the disease. Some noninfected individuals are curious how the coworker contracted the disease although no one asks how someone contracted cancer or heart disease. As a result of ignorance, some coworkers are concerned about contracting the disease even though it can not be transmitted through typical workplace contact except in health care. Many are concerned about the loss of health care coverage. Health insurance carriers have historically assumed that these people would not be able to rerun to work (Breuer, 1998; Greene, 1998). Consequently, If they drop their SSI (Government insurance) and get sick before they complete the waiting period for pre existing illnesses in their new employer's health insurance, they would be pushed into a lifetime of poverty (Breuer, 1998). Others are concerned that the ADA will not protect them. Some are



suspicious that employers will not keep their medical condition confidential and others do not trust disability plans (Breuer, 1998). Some are worried about the effects of job stress on their health.

## **THE AMERICANS WITH DISABILITIES ACT COVERAGE**

The ADA covers employers in interstate commerce who have 25 or more employees. The very small businesses are not covered, but those small businesses between 25 and 500 employees are still classified as "small businesses" by the SBA and are covered by the ADA.

## **REASONABLE ACCOMMODATIONS AND UNDUE HARDSHIP**

The law requires that covered small employers make reasonable accommodations to disabled employees or prospective employees who can perform the essential job functions with or without an accommodation. Thus small employers can not refuse to hire or retain an individual who can do the essential job functions with or with an accommodation. They are required to make "reasonable accommodations" unless the accommodation would present an "undue hardship" upon the small employer.

The act protects any individual with a **physical or mental impairment** without regard to the use or non-use of mitigating instruments such as medicine, assistive, or prosthetic devices. This includes "any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of several body systems, or any mental or psychological disorder." It includes epilepsy but not physical characteristics that are within "normal ranges" such as eye color, hair color, height or weight. It does not include "characteristic predisposition to illness or disease or personality traits such as a quick temper, poor judgment, poverty, lack of education or a prison record" (EEOC Guidelines, 1992 section 1630.2(h)).

Any individual is disabled under the act if they meet one of the following three definitions: "1) has a physical or mental impairment which substantially limits one or more of that person's major life activities, 2) has a record of such as an impairment, or, 3) is regarded by the covered entity as having such an impairment." (EEOC Guidelines, 1992, section 1630.2(g)).

The impairment is a disability only if the impairment "substantially limits one or more of the individual's life activities." The Guidelines do not cover temporary, non-chronic impairments of short duration with little or no impact on the individual long term. As an example, the guidelines mention obesity, broken limbs, sprained joints, concussions, and influenza among others (EEOC Guidelines, 1992, section 1630.2 (j)). The term substantial is important in many cases and is a key phrase in the act. This determination is made on a case by case basis and examines the duration of the impairment, the severity, and its impact on the individual's life. The Guidelines specify that the effect on the

individual's performance must be the result of the impairment. As an example, the Guidelines specify advanced age, physical or personality characteristics, environment, cultural, and economic disadvantages "as not impairments (EEOC Guidelines, 1992, section 1630.2(j)).

The definition also includes someone who has a record of a disability. While less clear than the other parts of the definition, it covers individuals such as cancer patients with medical records. This "record" may include education, medical, and even employment records. This may also include individuals who are the target of other's attitudes towards them (EEOC Guidelines, 1992, section 1630.2(1)). Congress mentioned myths and stereotypes and attitudinal barriers that limit individuals. Consequently an individual may meet the definition of a disability because of myths, fear, or stereotypes that may exist (EEOC Guidelines, 1992, section 1630.2(m)). The Guidelines specifically mention that an employee may be covered if the employer or coworkers believed the employee had the HIV virus.(EEOC Guidelines, 1992, section 1630.2(1)). For example, one court has ruled that because a supervisor suggested that the employee should go to the Employee Assistance Program, this suggestion constituted a "belief that the employee had a problem."

The next task is to identify the **essential job functions**, which are necessary for the job . Several factors may determine whether a function is essential such as whether the function is necessary to accomplish the job, whether other employees are doing this job must perform this function, and how important it is for completion of the job. Other factors include the degree of expertise or skill, whether it is included in a job description, how often the function is performed, and how crucial it is to the job and jobs dependant on the job in question (EEOC Guidelines, 1992, section 1630.2(n) Essential Functions). They note in passing that job descriptions are not required but then say that they are considered relevant evidence for determining essential job functions.

If the function is essential then the employer must make **reasonable accommodations**. This may include restructuring the work, modifying equipment, or restructuring times. These accommodations must be made unless they present an **undue hardship** to the employer. When Congress wrote this act it attempted to make the act less onerous to small employers. Therefore each situation requires a case by case analysis of the financial capability of the employer, the geographic dispersion, and the number of employees.

## **THE ADA AND THE HIV/AIDS EMPLOYEE**

Since the inception of the HIV/AIDS epidemic Congress, courts, and regulatory bodies have been aware of the disease and formed opinions and rulings on whether it is indeed a disability and whether it should be protected. Congressman Owens stated that, "HIV/AIDS is a disability" and the co-sponsor of the bill, Senator Kennedy, agreed (136 Cong Rec S9696, July 13, 1990). Two of the regulatory federal agencies involved with enforcement of the ADA, the EEOC and the Department of Justice have stated that they consider HIV/AIDS a disability (McKinney, 1995).

Early court cases have found that HIV/AIDS is disability but have not always returned the employee to work depending on whether the individual was otherwise qualified and or was a direct threat to others. In a 1994 case, the employer fired a clerk three months after he told a supervisor that he had AIDS. Although this was one of the first AIDS cases filed under the ADA, the employer lost a motion for summary judgment where the court ruled that it was a disability and covered under the ADA. The parties subsequently settled out of court (Smith vs. Dovenmuehle Mortgage Co, Inc., 1994). In another case a law firm fired one of its lawyers without notice and severance pay eight days after he told a fellow attorney that he had AIDS. The lawyer sued under the ADA and state laws. Again the employer lost a motion for summary judgment on the issue of whether it was a disability that was covered and settled out of court (Slobodzian, 1994). Several courts have addressed the issue of HIV/AIDS students and consistently ruled that AIDS is a disability and the students did not present a direct threat to others (McKinney, 1995).

Conversely courts have ruled against HIV/AIDS employees where they might present a direct threat to others. Courts have found that health care workers with AIDS who work in positions that could transmit the virus have a disability that is protected by the ADA but present a direct threat to others and can be removed from their jobs. An example was the case of a surgical technician with AIDS whose job required placement of his hands inside the body cavities of patients on a daily basis and who had previously had accidents with sharp instruments in the past (McKinney, 1995). In an AIDS firefighter case, the Eleventh Circuit upheld the transfer to light duty as a reasonable accommodation. The court argued that there was enough of a possibility to infect others during a rescue attempt that constituted a direct threat to others (McKinney, 1995).

### **THE US SUPREME COURT RULING ON HIV/AIDS AND THE ADA**

In Bragdon v. Abbott the US Supreme Court faced for the first time the question of whether the HIV/AIDS infection is a disability and if it is a disability in what situations would it constitute a direct threat or render the person not "otherwise qualified" (Bragdon v. Abbott, 1998). In this case a dental patient informed her dentist that she was infected with the HIV virus although she did not show any symptoms and was in the asymptomatic phase of the disease. Upon finding a cavity, the dentist informed her that he could not fix the cavity in his office but would do so in a local hospital where they had other equipment. She sued claiming protection under the ADA. The lower courts found that the AIDS/HIV infection was a disability.

In a split 5-4 decision the Supreme Court ruled that the infection was a disability that was protected by the ADA. The Court did take considerable effort to explain its ruling. They argued that the HIV virus creates a disability from the moment of infection and that the infection creates immediate abnormalities in a person's body and white cell count. It can also be regarded as a physiological disorder with an immediate impact, and harmful effects on the hematic and lymphatic systems.

The court ruled that the life activity that is affected is a person's ability to reproduce. They argued that it affected her ability to have children because of the risks of transmission to the child and the significant risk to any male partner. They then discussed the issue of a direct threat. Disabled individuals cannot be excluded unless there is a direct threat that cannot be eliminated by reasonable accommodations. Whether a threat is direct is determined by 1. the duration of the risk, 2. the nature and severity of the potential harm, 3. the likelihood that the harm will occur, and 4. the imminence of immediacy of the potential harm (*Bragdon v. Abbott*). They then remanded the case to the lower courts to determine if the dentist did have or should have had the necessary training and or equipment to fix the cavity in his office.

Because this case came out of the Public Accommodations section of the ADA giving individuals with disabilities the right to receive public services (such as dental work) it did not get into any employment questions.

### **WHAT SOME BIG EMPLOYERS HAVE DONE OR ARE DOING**

A group of concerned coworkers at Levi Strauss organized the first corporate response to AIDS in 1982. They set up a booth at the entrance to the building manned by the President and others. The presence of the President gave support and encouragement from top management. They started providing information and training to managers and employees. The company treated it like any other disability and provided accommodations similar to other life threatening illnesses (Armour, 1997).

Other companies such as IBM composed a task force that drafted guidelines for businesses seeking sample AIDS policies. Other companies train supervisors. Polaroid offers support groups for employees with AIDS or HIV (Armour, 1997).

A 1996 CDC survey found that 43 percent of firms with more than 50 employees had a policy regarding employees with any type of disability or life threatening illnesses. But only 16 percent offered employee education on AIDS (Greene, 1998). Very few companies have policies that specifically address HIV/AIDS. While half of companies with over 100 employees generally have a policy addressing HIV/AIDS, only 33 percent of companies with less than 100 employees do so (Greene, 1998).

Unfortunately, Greene (1998) found a decline in AIDS education programs from 28 percent to 18 percent of corporate respondents. In addition, nearly two thirds of employers say that coworkers would be uncomfortable working alongside an HIV positive employee.

### **WHAT SMALL EMPLOYERS SHOULD DO**

The first step is to develop a policy specifically addressing HIV/AIDS. The policy should specify that the employer will treat HIV/AIDS as any other life threatening illness. The

policy should affirm the employer's compliance with the ADA, explain the consequences for noncompliance on the part of employees or managers, and indicate the internal responsible parties who can deal with an AIDS or illness complaint.

A thorough job analysis of each job will determine what functions are essential. An additional analysis should be made to determine if the essential job functions would present a "direct threat" to an HIV/AIDS individual or others. The best examples are those health care functions that present a significant possibility where an accident would transfer the virus from the worker to an uninfected patient. Outside of health care occupations, few jobs would put others at risk.

The recruitment and selection process should be re-examined. Interviewers should be trained in interviewing individuals with disabilities so they do not inquire about HIV/AIDS and other disabilities. The small business interviewer should stick to performance and essential job functions. They can explain these functions and then ask the potential employee if they can perform them.

Even small firms that have human resource personnel usually have HR generalists. In these cases well-trained line managers can deal directly with ADA issues. HIV/AIDS employees may need assistance with their job demands and stresses from the illness. They also need information about the employer's health care plan and what it does and does not cover (SHRM, 1998).

An education program encouraged by top management is needed to remove the stereotypes and myths about HIV/AIDS. Such information is available on the Society for Resource Management's Web site. Another excellent source is the CDC's "Business Responds to AIDS Program (BRTA) which was established to develop a partnership between government and business to prevent the spread of HIV through workplace education. It provides information and helps implement policies and communication pieces. The CDC's belief is that businesses are an excellent source of such communication and are seen by employees as credible purveyors of information. Consequently, the CDC is willing to provide some good information and assistance.

### **A SAMPLE HIV/AIDS POLICY**

1. Employees with HIV/AIDS are entitled to the same rights and opportunities as other employees with serious or life threatening diseases.
2. This employer complies with the Federal Americans with Disabilities Act and applicable state laws and regulations.
3. The employer has provided free brochures explaining the disease and its inability to be transmitted through typical jobs in this company. For the group of jobs (detailed here) where there is a potential for transmission of the disease, employees will be trained in the proper procedures and equipment as needed.

4. The employer will keep employee's medical records and information confidential. There will be no exceptions to this policy.
5. Medical exams will not be required except for jobs requiring proof of ability to perform essential functions and in those cases all applicants will be required to take the same medical exams. A test for the HIV virus will not be made part of that exam.
6. Complaints or questions about this policy should be directed to Mr./Mrs. Name and phone number.

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# **A COMPARISON OF EMPLOYMENT TRAINING BY FIRM SIZE AND INDUSTRY**

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## **ABSTRACT**

The general belief is that small businesses do less training than large firms do and that certain industries do more and less training. However, these common beliefs are based on opinion, observation, and descriptive statistics rather than empirical inferential statistical testing. The researchers statistically tested these common beliefs using MANOVA with the dependent variables: number of training hours in the areas of orientation, skills/job, and culture/theory during the first six months of employment. The independent variables were size of business and industry. The findings contradict these common beliefs. There were no significant differences in the number of hours of employee training in any of the three training areas by small or large size businesses or by industry in retailing, services, manufacturing, and finance. In addition, regression results indicate that the total number of training hours received can not be predicted based on firm size and industry. Implications are discussed.

## **INTRODUCTION**

The three primary types of training include orientation, job/skill, and theory/culture. There are other types of training including management development. Around \$210 billion are spent on training annually. Further, around \$120 billion is spent on orientation and skill training, \$30 billion on culture training, and the rest in other areas, such as management training and development (Hom & Griffeth, 1995).

London (1989) indicated that skill/job and theory/culture training may be combined.

## **TRAINING DIFFERENCES BY SIZE OF FIRM AND INDUSTRY**

Small businesses find training hard to provide for their managers. Also, small businesses are reluctant to invest in management training and development because benefits are not easy to quantify in financial terms. Having more managers, large businesses do more management training than small businesses. This is logical and has strong support in the literature (Wong, Marshall, Alderman, & Thwaites, 1997). Thus, management training is not addressed in this current investigation.

Franklin (1993) and Franklin, Gresham, Clawson, and Qin (1995) focused on basic skill deficiencies between large and small business. A basic skill deficiency is a much different focus than this study. Also, small business was defined as less than 15 employees and large as 15 or more employees. This definition of small business is not

commonly used and is not the definition used by the Small Business Administration (SBA), which is used in this study. In reality, all the businesses in the samples of Franklin (1993, 1995) and Washburn and Franklin (1993) might be considered small, the mean number of employees for the two sample groups were not given.

The U.S. Bureau of Labor Statistics (BLS) conducted a major descriptive statistical study to determine training differences by size and industry. Unlike the SBA, the BLS defined small business as 50 to 99 employees and larger businesses as 100 or more employees. Findings included that small businesses spent less money and time per employee than larger businesses. Nearly 98% of all large firms had formal training programs, compared with 69% of small firms. Industries that provided the most hours of formal training per employee were transportation, communication, and public utilities; finance, insurance, and real estate, and mining. Industries that provided the fewest hours were retail trade and construction. Job/skill training accounted for 67% of the total hours of training, 72% of companies surveyed offered orientation training, and 67% of all companies reported offering management training, which was the most prevalent type of job/skill training (Benson, 1996).

Lynch and Black (1996), using descriptive statistics, reported that manufacturers train a higher proportion of employees than non-manufacturers, and small firms are less likely to offer computer, teamwork, and basic education training. However, Lynch and Black (1996) and the BLS do not report empirical inferential statistical testing results. Therefore, the pertinent question is: are the differences significant?

Training is generally believed to be closely linked to the size of the firm and industry. Large firms and some industries are believed to spend more time training and developing their employees (Benson, 1996; Curran, et al., 1996, Lynch & Black, 1996; Oosterbeek, 1996). However, no empirical studies were found by the current researchers utilizing inferential statistics comparing large and small business training by industry focusing on orientation, culture, and skills training. Therefore, this study extends existing literature by testing the common belief about training differences by firm size and industry.

## **HYPOTHESES**

The purpose of the researchers was to determine the number of hours businesses spend training their employees, and more importantly, to determine if differences exist between large and small businesses and by industry (finance, manufacturing, services, and retail).

Support exists for the hypothesis that large businesses spend more time training employees in the areas of orientation, skills, and culture. However, no empirical inferential statistical research was found to support this claim. Thus,

H 1: Large and small businesses spend the same number of hours training employees in orientation, skills, and culture.
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Support also exists for the hypothesis that the number of hours spent on training is different by industry. Based on the lack of prior empirical inferential research,

H 2: Different industries spend the same number of hours training employees in orientation, skills, and culture.

The third hypothesis simply combines Hypotheses 1 and 2 and increases the power of statistical testing. Thus,

H 3: The number of hours spent training employees in orientation, skills, and cultures are the same by size of business and industry.

To further test the relationship between training by firm size and industry, the following hypothesis was also tested.

H 4: The total number of training hours cannot be predicted based on firm size and industry.

## METHODS

*Participants.* The target population for this study was the 757 members of the Society for Human Resource Management in the Massachusetts and Connecticut area. Franklin et al. (1995) and Washburn and Franklin (1993) studied a Texas sample. The original target size firm was 50 or more employees. Most businesses with less than 100 employees do not have a person with the title training officer/manager. Small businesses more commonly have a human resource officer/manager, even when the person has multiple roles/titles and may conduct training. Thus, the American Society for Training and Development membership list was not selected to ensure that there would be a large number of small businesses in the sample; thus, the Society for Human Resource Management membership was selected as the sample frame.

From the list, 400 human resource directors in the four industries (finance, manufacturing, services, and retail) were randomly selected to receive questionnaires through the mail. The response rate was approximately 27%, or 106 completed questionnaires were returned, which is consistent with other mail surveys (Cianni & Bussard, 1994). Franklin et al. (1995) had a response rate of fewer than 20%. Two questionnaires with outlier data were eliminated from the survey.

*Measures.* The dependent variable was number of hours of training. The number of hours was broken into three dependent variables: orientation, skill, culture. The human resource manager was simply asked to state the number of training hours employees received in each of the three training areas during their first six months of employment.

As stated, the U.S. BLS did not use the common definition used by the SBA. Companies with 100 or more employees are not generally considered to be a large businesses. Therefore, differences found by the BLS may be misleading because of the requirement

of 50 to 99 employees to be considered a small business. Thus, in this study, the first independent variable was based on the commonly used SBA definition of firm size. A business had to have fewer than 500 employees to be classified as small and 500 or more employees to be a large business (Corman & Lussier, 1996). The second independent variable was industry with finance, manufacturing, services, and retail sectors. To further valid that there are no significant differences in training by size, the first three hypotheses were tested a second time changing the definition of small business to be less than 200 for a small business and 200 or more to be classified as a large business.

*Statistical Analysis.* The first three hypotheses were each tested with a multivariate analysis of variance (MANOVA). MANOVA results may be different than multiple tests of mean differences for hour of training due to multiple interaction comparison procedures. However, MANOVA also provides univariate test results. Running multiple univariate test of differences increases the probability of finding differences that do not exist, thus making a Type I error. Or MANOVA decreases Type I errors and was thus the appropriate statistical test for each hypothesis.

Hypothesis 1, training hours by size, was tested using a simple MANOVA, rather than three t-tests. Hypothesis 2, hours by industry, was tested using a simple MANOVA, rather than three one-way AVOVAs. Hypotheses 3, combines both 1 and 2, was tested using a factorial MANOVA to combine the two independent variables. Hypotheses 3 has the lowest probability of committing a Type I error, reporting differences that do not exist. However, univariate test results are also provided for each type of training. As a further MANOVA test of mean employee training hour differences, the three types of training were separated into individual and group resulting in six dependent variables with the same size by industry independent variables. As stated above, the first three hypotheses were tested a second time using MANOVA with small businesses including firms with less than 200 employees.

Hypothesis 4, training hours can not be predicted based on firm size and industry, was tested using multiple regression. Total hours of training was the dependent variable and number of employees and industry were the predictor independent variables.

## **RESULTS**

*Descriptive Statistics by Firm Size and Industry.* Table 1 contains the descriptive statistics by size of firm. Because the standard deviations are large, the medians are also reported. There were 63 (61%) small businesses and 41 (39%) large businesses, with a variety of sizes. Significantly more small businesses are in the sample (Chi-square  $p = .031$ ) than large businesses, as is true in the population. Within the small business category, 8 (13%) had less than 50 employees, 9 (14%) had between, 50-100, 20 (32%) had between 101-200, 9 had between 201-300, 9 had between 301-400, and 8 had between 401-499 employees. Within the large business category, 16 (39%) had between 500-860 employees, 13 (32%) had between 1,000-4,800, 4 (10%) had between 6,637-7,500, and 8 (20%) had between 12,000-36,000 employees. When defining small business as less than 200 employees, there were 36 (35%) small businesses and 68 (65%)

large firms. Figures for the sample with small business defined as less than 200 employees are not presented.

**Table 1: Hours of Training by Size**

<b>Training Type</b>	<b>Small M</b>	<b>(&lt;500) SD</b>	<b>Median</b>	<b>Large M</b>	<b>(&gt;500) SD</b>	<b>Median</b>
Orientation	4.71	5.28	3.00	7.40	9.01	4.00
Individual	3.08	4.13	2.00	3.59	7.78	2.00
Group	1.63	2.65	0.00	3.81	3.73	3.00
Job/Skills	57.90	62.16	40.00	72.35	107.45	42.00
Individual	40.97	48.79	24.00	43.96	67.45	25.00
Group	16.93	30.22	2.50	28.39	51.51	8.00
Culture/Theory	4.10	13.13	.50	5.10	10.78	1.00
Individual	1.90	6.80	0.00	.94	2.29	0.00
Group	2.21	6.76	0.00	4.16	9.67	1.00
No. Employees	196.56	132.62	154.00	5,608.17	8,195.27	1,618.00

Table 2 includes the descriptive statistics by industry. As in the population, a significant difference exist in industry representation (Chi-square  $p = .000$ ). Finance, insurance, real estate included 18 (17.3%) participants of which 11 (61%) were small and 7 (39%) were large; manufacturing included 29 (27.9%) of which 21 (72%) were small and 8 (28%) were large; retail included 12 (17.3%) of which 4 (33%) were small and 8 (67%) were large; and services 45 (43.3%) of which 27 (60%) were small and 18 (40%) were large firms. However, retail was underrepresented by industry percentage of the population. The BLS study, plus others used these same industries.

**Table 2: Hours of Training by Industry**

	<b>Finance</b>			<b>Manufacturing</b>		
	<b>M</b>	<b>SD</b>	<b>Med</b>	<b>M</b>	<b>SD</b>	<b>Med</b>
Orientation	6.25	5.21	3.25	3.79	2.93	3.00
Individual	3.06	3.70	2.00	2.2	2.02	2.00
Group	3.19	3.24	2.00	1.52	2.20	0.00
Job/Skills	85.45	72.19	71.00	59.14	90.96	48.00
Individual	53.06	56.90	35.00	38.72	49.34	24.00
Group	32.39	37.69	20.00	20.42	47.19	2.50
Culture	3.56	4.49	1.50	4.55	10.09	1.00
Individual	1.03	1.97	0.00	1.86	4.14	0.00
Group	2.53	3.67	1.00	2.69	7.54	0.00

  

	<b>Services</b>			<b>Retail</b>		
	<b>M</b>	<b>SD</b>	<b>Med</b>	<b>M</b>	<b>SD</b>	<b>Med</b>
Orientation	7.49	9.66	3.00	3.42	1.62	3.50
Individual	4.38	8.24	2.00	1.92	1.98	1.00
Group	3.11	3.99	1.00	1.50	1.62	1.00
Job/Skills	60.24	82.14	40.00	54.17	84.60	17.00
Individual	38.14	53.12	25.00	49.08	84.58	14.00
Group	22.10	40.91	2.00	5.09	6.17	2.00
Culture	4.79	15.14	0.00	4.67	13.67	1.00
Individual	1.83	7.56	0.00	.25	.45	0.00
Group	2.96	7.90	0.00	4.42	13.74	0.00

*Hypothesis Analysis.* The three MANOVA test results indicated no differences in the number of training hours in orientation, skills, and culture between size of businesses and

industry. The results of all four MANOVAs are reported. However, due to not finding significant differences, only the results of Hypotheses 3, which combines 1 and 2, are presented in Table 3. To compare means, standard deviations, and medians based on size see Table 1 and for industry see Table 2.

**Table 3: MANOVA -- Multivariate and Univariate Significance Tests of Training Hours Size by Industry**

Test	Value	F	p-value
Multivariate			
Wilk's lambda	.930	.771	.643
Pillais	.071	.779	.636
Hotellings T	.074	.763	.651
Univariate			
Orientation		.422	.738
Skills/job		1.048	.375
Culture/theory		.779	.508

Hypothesis 1, the difference in the number of hours spent training employees in orientation, skills, and culture between large and small businesses is not significant, was supported by the MANOVA results. The multivariate tests of significance (not shown in Table 3) for the Wilk's lambda was  $p = .533$ , and the univariate p-values were orientation .196, skills .510, and culture .374. When breaking down the number of hours by individual and group (not shown in Table 3), the multivariate tests of significance was  $p = .172$ , and the univariate p-values were orientation individual .876 and group .012 skills individual .964 and group .196, and culture individual .839 and group .138. Although the total number of hours of training orientations were not significantly different between large and small firms, the number of hours of group orientation was significantly higher in large firms than small firms, mean 1.64 and 3.82 respectively. Based on firm size, this result is logical.

Hypothesis 2, the difference in the number of hours spent training employees in orientation, skills, and culture by industry is not significant, was supported by the MANOVA results. The multivariate tests of significance (not shown in Table 3) Wilk's lambda had a  $p = .526$ , and the univariate p-values were orientation .113, skills .738, and culture .942. When breaking down the number of hours by individual and group, (not shown in Table 3) the multivariate tests of significance was  $p = .482$ , and the univariate p-values were orientation individual .429 and group .097, skills individual .829 and group

.313, and culture individual .865 and group .952. Thus, no significant differences were found at the .05 level.

Hypothesis 3, the differences in the number of hours spent training employees in orientation, skills, and culture by size of business and industry are not significant, was supported by the MANOVA results. The multivariate tests of significance (shown in Table 3) Wilk's lambda was  $p = .643$ , and the univariate p-values were orientation .738, skills .375, and culture .508. When breaking down the number of hours by individual and group (not shown in Table 3), the multivariate tests of significance Wilk's was  $p = .864$  and the univariate p-values were orientation individual .906 and group .629, skills individual .620 and group .371, and culture individual .706 and group .368. Thus, based on the sample, no significant differences were found at the .05 level.

When changing the small business definition to less than 200 employees, the MANOVA effect by industry and size again did not indicate any significant differences (Wilk's lambda  $p = .700$  and Pillais  $p = .695$ ) and each of the univariate F-tests for the six training type variables were also not significant. A further breakdown of the data by industry, without size, there were again no significant differences. When analyzing size, without industry, the differences were not significant at the .05 level ( $p = .094$ ), however, group orientation was significantly different ( $p = .016$ ). It is logical that small businesses would have less employees to group together for orientation.

Hypothesis 4 was support by multiple regression (F .513  $p = .600$ ; R Square .010, employee  $t p = .714$  and industry  $t p = .397$ ). When regressing only size to predict hours of training, the results were almost the same. Thus, the number of total training hours can not be predicted by the number of employees and type of industry.

## **DISCUSSION**

This research extends the existing literature because although the wide spread belief that large businesses do more training than small businesses, and differences exist (Table 1), the differences are not significant. Also, the wide spread belief is that certain industries do more training than others do. Again, although differences exist (Table 2), these differences were not significant. The common practice of researchers is not to report differences unless they are significant. Therefore, the current literature, which is not based on inferential statistics, is misleading because it reports differences.

One explanation of why small businesses tend to do more training than believed is because it is easier for them to measure the return on investment (ROI). Many small businesses can see the benefits of training almost immediately. On the other hand, in large companies it is much more difficult to pinpoint direct training effects or ROI. Furthermore, with the lack of ability to measure ROI, budgeted dollars may not be allocated to training departments (Benabou, 1996).



Another contribution of this research is the descriptive reporting of the number of hours that both large and small businesses devote to training (Table 1) and the number of hours of training in the services, retail, manufacturing, and finance industries (Table 2). Organizations can use the number of hours of training by size and industry as a general guide to determine if they do more or less training than the means of other firms of their size and industry.

Many large corporations have been outsourcing work to small businesses because they are more effective. Within large businesses, the proportion of managers to nonmanagers and professional to nonprofessional employees is generally small. However, many corporate training budgets allocate disproportionately large proportions of training dollars to managers. Large businesses are not devoting significantly more hours of training in the areas of orientation, skills, and culture than small businesses. Ability to compete may rest more directly with training of nonmanagement and nonprofessional employees, or those who have direct responsibility for delivering quality goods and services to customers (Cianni & Bussard, 1994). Therefore, if large businesses devote more resources to training their nonmanagement and nonprofessionals, they may be able to compete more effectively and have less need to outsource to smaller more effective businesses.

*Limitations and Further Research.* The results are more valid for size of organizations than for industry. Although the sample had good representation of size of businesses, one limitation of this study is the small sample size delimited to two states, Massachusetts and Connecticut. The results may not be generalizable to other areas of the country. Also, when the sample is broken into four industries the samples are small. Retail and finance with small samples may not be representative of these industries. Plus, this study only included four industries: retailing, finance, manufacturing, and services. A recommendation would be to conduct similar studies with larger samples in other parts of the country and in other industries.

The data focused on nonmanagement training, and training within the first six months of employment. The training findings in the areas of orientation, skills, and culture cannot be generalized to management training by size and industry. Also, management training is often conducted over many years in large companies, rather than in the first six months.

One last point is the fact that there was a wide standard deviations of the number of hours of training within small and large firms (Table 1) and within industries (Table 2). Therefore, managers should do not simply look at the mean number of hours of training in orientation, skills, and culture and simply say we need more or less training to meet the mean number of hours of training. As discussed, training benefits have strong support in the literature. However, the training must be tailored to the individual organization and be based on an assessment of training needs regardless of firm size and industry.

In conclusion, no differences were found in large and small business training in the areas of orientation, skills/job, and theory/culture at both the individual and group level. Also, no differences in training were found in the areas of orientation, skills/job, and

theory/culture in the industries of services, retail, manufacturing, and finance at both the individual and group level. Lastly, the total number of hours of training received can not be predicted by the number of employees or the type of industry.

## **REFERENCES**

For a full list of 43 references contact the senior author.

# **OPERATIONS STRATEGY AND SURVIVAL AMONG RESTAURANT STARTUPS: A CONCEPTUAL FRAMEWORK**

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## **ABSTRACT**

The purpose of this article is to offer a richer conceptualization of the framework suitable for restaurant startups. We attempt to answer the call for industry specific research by developing a conceptual framework for researching startups and survival strategies in the restaurant industry. Because of some unique variables, which make the restaurant industries operate differently from the traditional streams of entrepreneurial research, this industry needs to be studied in greater depth. Initially, this article addresses the pertinent competitive strategy and survival literature, followed by a specifying the framework. We explore the influence of a firm's characteristics and its operations strategy and the competitive dynamics among the restaurant startups. Finally, future research directions and conclusions are provided.

## **INTRODUCTION**

During the last two decades, the U.S. restaurant industry may be viewed as fertile ground for the study of entrepreneurship and the development of competitive strategy (West and Olsen, 1990); an analysis of the strategic evolution of this industry provides much needed information which may indeed lead to a greater understanding of key survival strategy for restaurants.

Despite the recent entrepreneurial research in the restaurant industry, several aspects of these phenomena remain poorly understood. First, theoretical analysis of competitive strategy has proposed both positive and negative effects of strategy formation and implementation on organizational performance. Most notably, the implementation of competitive alliance may indeed harm an alliance participant by divulging proprietary information (Hamel, 1991; Khanna et al, 1994). Most current and potential restaurant franchises are concerned about intra-brand competitive impact; that is, the extent to which startups, whether company-owned or franchised, may siphon off customers' business from excising units in a given geographic area (Morgan, 1995).

Second, Vesper's five key ingredients (1990) are important research tools if the investigator uses them to study a general industry rather than a specific business. But generally it is necessary to use a industry specific approach in order to add further credibility to this general industry based research. Sexton and Smilor (1986) call for industry specific research by stating, "The development of these studies should not only

relate to an overall framework of individual entrepreneurship but should also be targeted to a specific population or sample instead of all venture firms, all small businesses, etc."

Third, theoretical discussions of competitive strategy benefits and survival yield largely unexamined implications for competitive dynamics (Gomez-Caseres, 1994). In particular, if collaborative arrangements give participants more efficient access to key resources, then in a world of limited potential partners, a restaurant chain can make it a more formidable rival vis-a-vis its competitors and weaken its rivals by potentially denying them access to desirable partner and networks.

The purpose of this article is to offer a richer conceptualization of a framework suitable for restaurant startups. We attempt to answer the call for industry specific research by developing a conceptual framework for researching startups and survival strategies in the restaurant industry. Because of the uniqueness of the restaurant industry, this industry needs to be studied in greater depth. Initially, this article addresses the pertinent competitive strategy and survival literature, followed by a specifying the framework. We explore the influence of a firm's characteristics, and its operations strategy and the competitive dynamics among the restaurant startups. Finally, future research directions and conclusions are forwarded.

## **THE RESTAURANT INDUSTRY**

The restaurant industry is one of the most competitive industries in the world today. It can cost a half a million dollars for a restaurant just to open for business. Owners usually work 70 hours a week, including holidays and weekends, and still a significant percent of them fail. The Dun & Bradstreet "Business Failure Record" for 1996 and preliminary 1997 has been tracking nation-wide business failures, by industry category since 1927. Eating and drinking places, a category of miscellaneous retail sales, had 92 failures per 10,000 nationwide in 1996 and 100 failures per 10,000 in 1997. Total miscellaneous retail sales had a failure rate of 67 per 10,000 and 73 per 10,000 in 1997. Other than non-store miscellaneous retail trade business and photography supply stores, eating and drinking places had the highest average failure rate of 96 per 10,000 for 1996 and 1997 combined, in the category of total retail trade major category.

The top-100 chain restaurants held more than a 48-percent market share in 1995 (Lombardi, 1996). However, in the past decade the top100 chains have had to increase the number of units faster than their increase in market share. Many of these units are down-sized units intended to occupy niche locations (Lombardi, 1996). Although the competition is fierce and the success rate for restaurants is fairly low, independent restaurants keep springing up.

## **STARTUP AND SURVIVAL IN RESTAURANTS**

Three areas are critical to the survival of a new firm: industry structure, venture strategy, and the behavioral characteristics of the founding entrepreneur (Hofer, 1987). The new venture strategy should take advantage of the current structure of the industry as opposed to attempting to change it.

Another important variable in the startup process is the entrepreneur's level of formal education. This variable is different from experience in that it focuses on the mechanics of entrepreneurship such as what is taught in business schools. Miller (1987) addresses this issue by stating the importance of education and stressing that business schools must be more aggressive in teaching these skills.

Since the failure rate for restaurants is considered to be significantly greater than for other types of industries, banks are especially hesitant to loan startups funds to local, independently-owned restaurants. Consequently, the restaurant industry is the largest single beneficiary of Small Business Administration (SBA) loan guarantees receiving \$392.9 million in 1992. The SBA guaranteed 22,459 business loans and 1,791 restaurant loans, which was 8% of the total number of loans and 7% of the total loan amount (Oleck, 1993).

Labor and materials are the two biggest and most important expenses that restaurant businesses have in their budgets. Another challenge facing all types of restaurants is the type of menu they offer their customers. The wider the menu variety, the higher the cost is for the restaurants.

The inverse strategy to cost-cutting is to expand margins by generating a larger overall gross profit contribution by carefully merchandising certain menu items. Here, the idea is to develop a selling strategy that focuses on specific menu items: those that yield a more favorable gross profit margin. This type of selling strategy is developed through the menu: the size, layout, format, design, and style. All of these elements affect the customer's decision to choose one item over another.

The implementation of any restaurant-merchandising concept must be managed by appropriately setting prices. Restaurant personnel must grasp the idea behind menu-item demand and the elasticity of that demand. That is, not only should they know how strong the demand is for a given item, but they should have an idea of how the demand for that item will change as the price changes (Burdett, et al, 1994). Menu pricing should also be considered as a method of managing revenue, because increasing prices without loss of volume is an important method of boosting profitability. Considering the restaurant industry's high fixed costs, a one percent improvement in price can yield as much as a 20-percent improvement in profits. (Burdett et al, 1994). Another important reason restaurants must pay particular attention to price is because customers may be focusing their main attention on the quality of the food instead of how it is priced.

A more general approach to startup has included the use of flow charts and models to describe the process. Webster (1976) designed a simple six stage startup process. Long and Ohtani (1986) conceived a more detailed ten-stage stage model. Perhaps the most elaborate model is Swayne and Tucker's (1973) fifty seven step (in three stages) "roadmap" of entrepreneurial startup. While all of these models are useful, they are rather generic in nature and none address the specifics of the restaurant industry. In fact, research in this area is vastly under-represented. For example, in Sexton and Smilor's (1986) review of the literature on entrepreneurship, only one study was found that exclusively dealt with the restaurant industry. This under-representation of the restaurant industry illustrates another reason why it is important to construct a framework by which we can begin to better research it.

## **A FRAMEWORK**

It is helpful to view service processes in terms of a matrix that contrasts the *labor intensity* of the processes on one hand with the *degree of interaction* with and customerization of the service for the consumer on the other (Schmenner, 1986). The traditional restaurant could be positioned as a *service shop* with relatively high customerization and interaction for the consumer and a middling labor intensity. The elegant gourmet restaurant may even be considered a *professional service*. On the other hand with advent of fast food, interaction, customerization for the consumer. And labor intensity have dramatically been lowered. For the classic fast-food restaurants, the changes has been from a *service shop* to a *service factory* (Schmenner, 1995). This has left the restaurant business with a wide diversity of operations types.

Both goods and services are conceptualized to fall on a continuum ranging from tangible to intangible. Goods and services contain *search, experience, and credence qualities*. Search qualities are those that a consumer can determine prior to purchasing, experience qualities are those that can be discovered after purchase or during use, and credence qualities are those that a consumer may find impossible to evaluate, even after purchase and consumption.

The restaurant service operations can be classified in terms of *degree of service encounter* and *quality of food and service*. The degree of service encounter can range from a walk-up counter, (e.g., McDonald's) to an elaborate sit-down service restaurant with a maitre d' and wine steward. The quality of the food and service includes freshness, quality of ingredients and presentation as well as the service manner and relative cost of the item compared to other menu items.

Thus, restaurants can be classified into four groups based on the criterion discussed above: fast food restaurants, cafeterias, theme/family restaurants, and fine dining. Fast food restaurants provide a minimum amount of customer service and a low quality (not necessarily inferior) product.

The next category is theme/family and contains a large number of sit down establishments with various types of food themes. Theme restaurants tend to focus more

on unusual decor and tend to attract a younger clientele. The final category, fine dining, contains restaurants that offer the ultimate in high quality food and extensive service. This category generally includes locally owned and operated restaurants chains.

Obviously, this categorization is not all conclusive but does serve as a suitable starting point for the analysis of startup and survival variables in the restaurant industry. These operations strategy variables are: location, management style, cost control, creativity and innovation, and capital requirements.

### *Location*

In the restaurant industry--as in all others-- it is possible to have the right product, but to be in the wrong location. Kahrl (1973) lists thirty-three items which need to be considered before selecting a location. Some of these include: population density, potential for growth, direction of street traffic, speed limit, access, investment cost, and competition. Even locating in the right metropolitan area should be a consideration for future operators (Birch, 1988).

Out of the four classification of restaurants, location is probably most important for the fast food operator. These restaurants must be easily visible and accessible for quick entry by the customer. An establishment which is on the wrong side of the street and does not take advantage of traffic flow could be doomed to failure unless the unit is a well established chain. According to Tannenbaum, (1995) restaurant companies have begun to promote two or three themes so that consumers will still choose one of their restaurants.

### *Management Styles*

Hands-on management typically refers to the degree that the manager is involved in the day-to-day operations of the establishment. Restaurants are unique because, they require a more hands-on manager than in many other industries. The reason is that the functions of production and consumption of the product are carried out under one roof This is rare in most other industries and as a result, greater levels of hierarchy are allowed which means the general manager does not have to get as involved in the production process. But in a restaurant, there are few levels of hierarchy which means the manager must be involved in all phases of the operation.

### *Cost Control*

Cost control is closely related to hands-on management since the manager who is more active in the production process is consequently more involved in cost control. Cost control is critical to the success of fast food operators since their revenues are based on smaller average checks compared to the other three categories of restaurants. Strict portion control and minimum wage labor have been traditional routes this phase of the industry has taken to build up profit margins.

Cost control is important for cafeterias, but to a lesser extent because of the higher average checks which are obtained relative to fast food operators. Those establishments which serve liquor have an added boost to profit margins and as a result, are not as dependent on controls (although controls are still necessary). Also, higher average checks on food items usually allow these types of restaurants to serve larger portions than their fast food and cafeteria counter parts.

### *Creativity and Innovation*

The entrepreneurial process can be described as two phases: an *invention phase* and an *innovation phase* (Olson, 1985). The invention phase involves creating new ideas. Innovation involves taking those ideas and developing them into a useable form in the marketplace. The restaurant industry requires a high degree of creativity because of the changing tastes of consumers; therefore, this variable is considered an important factor in the survival of the firm. Innovation is also important because at some point successful ideas need to be translated into bottom line profits.

Creativity is probably more stressed in theme/family restaurants since food items usually revolve around flexibility menus and daily specials. Innovation is important, but not as time consuming as fast food since R & D usually takes place in a regular restaurant kitchen as opposed to a food laboratory kitchen like those used in the fast food industry.

## **CONCLUSION**

From the standpoint of researchers interested in entrepreneurship and small businesses, the signals are quite clear that several avenues for future empirical work remain. Our approach also suggests the value of the general method of using firm-specific characteristics to gauge the relative competitive strengths of and potential for inter-alliance competition. This approach can be operationalized using variation in time-varying organizational features including organization size, target market domains, customer proximity, geographic proximity, and past operational and competitive experience. Moreover, this framework holds real promise for realizing a general approach to competitive dynamics that emphasizes the role of firm's characteristics in defining organizations' position relative to each other in a competitive field.

## **REFERENCES**

(Available upon request from the first author)



# Identifying Assets and Constraints to Small Business Manufacturers in Vermont

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## Abstract

The goal of this research is to identify the assets and constraints that exist specifically for small business manufacturers in Vermont. This study examines factors related to location decisions as well as identifying what obstacles business owners have experienced. The idea for this project originated in response to the troubled economic condition of several Vermont communities, where unemployment rates are unusually high and income unusually low. Understanding what obstacles business faces will provide future ideas on how to deal with these problems. Once assets are identified, they can be capitalized on, leading to more efficient business operations.

Preliminary data was collected through a telephone interview survey with Vermont small business owners. Results from the survey suggest that Vermont's largest asset is "excellent quality of life". However, the results allude to several difficulties that owners face, particularly complying with certain rules and regulations, obtaining adequate finances, and a low-skilled workforce.

## Introduction

Vermont has several depressed areas with high unemployment rates. For example, the Northeastern towns of Newport and Coventry have unemployment rates of 12.2% and 10.0%, respectively, which are almost twice the U.S. average of 6.3% (CACI, 1992). Moreover, the average income of Vermont residents is considerably lower than the national average of \$26,362, with income levels varying greatly from one county to another. For example, Orleans County, which ranks twelfth of Vermont's fourteen counties in wage rates, reported an average annual wage of \$19,187, considerably lower than Vermont's average wage of \$22,702 (Vermont Department of Employment and Training, 1995). To add to the problem of low wages, certain communities are experiencing a shift away from jobs in the manufacturing sector to retail trade and service-based industries. Between 1986 and 1995, the percentage of the Vermont manufacturing workforce has decreased 4.4% in total over the 10-year period, with decreases as high as 12.3% in Addison County and 11.4% in Bennington County (Vermont County Business Patterns, 1986 and 1995). This trend raises concern because according to the Vermont Department of Employment and Training, manufacturing jobs are generally associated with higher wage rates than other sectors.

Most of the previous research associated with business location incentives has focused on larger-scale businesses. McNamara, Kriesel, and Rainey (1995) found that for large businesses, the dominant factors involved when choosing a location are labor costs and

access to interstate highways. Small businesses, however, having different levels of production and markets, will make decisions on locations differently from large-scale business based upon various workforce requirements as well as distribution requirements. For example, an average small business in Vermont contains fewer than 12 employees (Central Vermont Regional Plan, 1993). This reflects the size pertinent to Vermont rural communities, and provides us with an incentive to gather information associated with the decision-making process in small business operation. Furthermore, approximately 90% of U.S. businesses are classified as small businesses, accounting for more than 20% of the U.S. workforce and 50% of net new job growth (Kuratko and Hodgets, 1998). As employment growth continues to be created by small businesses, it becomes increasingly important to understand the conditions surrounding their decisions to locate and relocate.

Previous studies have identified that in rural areas, one of the main factors that leads the decision to establish a business in a particular location is the reasonable distance from one's home (Keeble and Tyler, 1995). Other incentives that influence decisions to locate in an area include a skilled local workforce, a pro-business community, and central location to markets (Wylie and Nelson, 1994). North and Smallborne (1996) found that the major obstacles that various British firms faced in the 1980's were related to demand, labor, finance, space, and site. To further examine the labor constraint, researchers have found that obtaining or maintaining qualified personnel is often a problem. Moreover, employers fail to improve this situation by enrolling their employees in training or skill enhancement programs because often times training centers are too far away (North and Smallborne, 1996).

The main objective of this research is to identify what assets and constraints face small business manufacturers in Vermont. Such information can be used to create a more economically viable Vermont and enable Vermont communities to become more successful in attracting and retaining small businesses. To achieve the goal of identifying the assets and constraints of doing business in Vermont, it is necessary to obtain information on: (1) location and relocation incentives of Vermont small business owners, (2) firm employment structure and skill requirements, (3) markets that businesses sell to, and (4) small business owners' perceptions of and experiences regarding business environment and quality of life issues.

## **Survey Design**

To collect Vermont-specific information for this research, a telephone-survey was conducted, consisting of six sections. Section one addressed incentive toward location and relocation. Section two looked at employment structure and skill requirements. Section three identified the markets of each industry. Section four examined the Vermont perception of the business environment and quality of life in Vermont. Section five revealed the constraints of business start-up and operation. Section six gathered information on the business.

The survey method selected was a telephone-administered survey due to its relatively lower cost and higher response rates considering the sample population. Respondents to

the survey were company owners and presidents because most questions asked were location and operational management-related information. The questionnaire was constructed with open-ended questions. This format was decided after pre-testing of the survey two times with a focus group consisting of business owners and community leaders. The sample population was obtained from Vermont Business Magazine's Directory. The manufacturing industry groups chosen for the survey are meat packing, dairy products, canned foods, cereal/flour products, bakery products, sawmills, millwork, wood products, publishing, and other. These businesses have historically been important to areas of high unemployment in Northern Vermont. Included in the information from the database was business telephone number and name of the contact person. This particular database was chosen because it consists of 87.5% of the state registered manufacturing business population, lacking mainly the very small businesses whose sales are not large enough for them to register with a business directory. It also includes adequate information necessary to profile the respondent set.

### **Data Collection**

The data was collected during March 1998 by a team of survey administrators using the telephone interview survey technique. Before the survey began, the team went through a training session to become familiar with the subject in question, learn how each question was designed to be asked to ensure consistency among the interpretations of the questions, and how to address any questions that interviewers might encounter during the interview. The surveys were administered during the normal business hours from the University of Vermont in Burlington, Vermont. The original sample population consisted of 555 manufacturing firms from all regions of Vermont that employ 100 people or less. Before interviewing began, the sample population was sorted by SIC codes in ascending order, then by phone number to create a stratified random ordering. Ninety people were contacted (contact was made with the owner or president). Of this 90, 61 agree to respond, yielding a response rate of 67.8%. When the survey administration was completed, a profile analysis was performed to ensure that the respondent set was representative of the original set.

### **Results and Discussion**

The respondent profile suggests that the respondent set is representative of the original sample population. Demographically, the distribution of the respondents' locations around the state varied only slightly from the sample population. The income distribution of the businesses was also representative of the sample population. Both indicate that the majority of Vermont manufacturers chosen by this study have sales revenues of one million dollars or less. Ownership structures of the businesses that responded were similar to the sample population. Most manufacturing firms are set up as either a sole proprietorship (SP) or as an S-corporation (INCS). Considering the size of these firms, both of these would be appropriate choices for ownership.

For analysis, the responding businesses were grouped into ten categories, based on the three digit SIC code of the business, including Publishing, Meat Packing, Dairy Products,

Canned Foods, Cereal/flour, Baked Goods, Sawmills, Millwork, Wood Products, and Others. The total number of respondents was 61 (n=61).

### **Location and Relocation Information**

The largest percentages of relocation occurred in the Saw-mill (100%) and Canned Goods (62%) industries. Wood Products manufacturers were the third largest group of businesses that relocated, and 75% of those businesses relocated to Vermont from other states around the Northeast region such as Massachusetts and New York. Groups that show no business relocation include Meat Packers, Dairy Products producers, and Cereal/Flour producers. It appears that the many business owners and presidents learned of their current site simply because they were local residents (41%) and familiar with the area. The second most common source was word-of-mouth followed by traveling as a source of site information. Another popular source identified by surveyed businesses about Vermont location is "word of mouth" (26%).

Regarding choice of location, respondents feel that there are twelve different factors that influenced their site decisions, ranked by orders including Local Residents, Location/Customer Accessibility, Other, Community Issues, Owned Property, Personal Reasons, Environment, Preexisting Facilities, Cheap Land, Markets, and Schools. Local Residents and Location and customer accessibility are the most important site decision factor for most of the industry sectors, particularly for Meat Packing, Saw Mills, Millwork, Publishing, and Bakery. For the Dairy Products industry, cheap land, good environment, and how well they liked the community were also important location decision factors.

### **Markets Information**

Results from this study show that outputs from Vermont manufacturing businesses were mostly distributed in the United States. The Meat Packing, Dairy Products and Sawmill industries did not distribute to any foreign markets. Canned Foods, Publishing, Millwork and Other industries had the highest incidences of selling to Canada and other foreign markets. Note that the Other Foreign category has more firms selling within it than does the Canada category.

### **Job Related Information**

According to the respondents, finding qualified Specialists was the most common difficulty, particularly for Wood Products manufacturers, Bakery Products and Publishing. Baked Goods manufacturers, Cereal/Flour producers, and Sawmill Manufacturers have had difficulty in hiring marketers. By industry category, Meat Packing, Dairy Products, and Millwork manufacturers did not suggest that they had trouble in hiring for any positions within their firms. By job category, retailers, quality control, truck drivers, clerical, and writers were not positions that respondents considered difficult to find employees for.

## Business Images and Experiences

There are two single business images that respondents identified with Vermont more frequently than any other responses: "small business" and "doing business in Vermont is difficult/depressed". For the difficult/ depressed image, four industry groups didn't find images of Vermont to be difficult and depressed, which were Bakery, Sawmills, Wood Products and Cereal/Flour. It is important to reflect on the fact that the other images were viewed by only one or two of the respondents (except the Other category which comprised of eleven images). "Excellent/ high quality of life" was the dominant perception of the respondents regarding Vermont quality of life particularly for Dairy Products, Bakery, Wood Products and Publishing industries. Relaxed/Peaceful was the second most popular image chosen. The Publishing category also chose Rural/Space more than other industries.

18% of the respondents indicated that Finance was the most commonly faced obstacle by small business manufacturers in Vermont. More specifically, businesses have found it difficult to obtain loans and maintain adequate finances to fund operations. Compliance with rules and taxes such as Act 250 and Vermont State laws has been a heavy burden. The industry that has been most troubled with Vermont regulations is manufacturers of cereal and flour products, followed by the meat-packing sector and wood products producers. Rules and Regulations do not appear to be much of a concern to Dairy Producers, Sawmills, or the Publishing sector of Manufacturing.

## Statistical Analysis of Factors Related to Location Decisions

The survey results suggest that no single factor be chosen by more than 18% of respondents. Yet it is not objective to tell which factor is more influential relative to others without any statistical references. A multivariate analysis was applied to test if any factor or factors were statistically significantly preferred over other factors. In other words, the multivariate analysis was used to test if businesses identified any factor or factors to be more influential to their location decision comparing to others.

The *Null Hypothesis* is defined as  $P_1=P_2=\dots=P_i$ , where  $P_i$  represents the probability of each factor to be chosen, and  $i$  equals the number of location factors yielded in the survey ( $i=12$ ). The Null Hypothesis states that each location factor has the same probability to be chosen by businesses; i.e. no single factor or few factors have higher chances to be chosen by Vermont manufacturing businesses. The *Alternative Hypothesis* is:  $P_i \neq P_j$  ( $i \neq j$ ) which can be interpreted that one factor or few factors have different probabilities to be chosen by businesses; i.e. some factors are preferred to other factors among manufacturing businesses. The test statistics is defined as:

$$T^2 = [C*Y]' * [C*V*C]^{-1} * [C*Y] \square \square^2(k-1)$$

The test statistic follows a Chi-Square ( $\square^2$ ) distribution with a degree of freedom ( $k-1$ ) where  $k$  is equal to the number of factors been studied ( $k=12$ ). Vector  $Y=Y_1, Y_2, Y_3, \dots$ ,

$Y_i$  where  $Y_i$  equals the probability of a specific factor to be chosen by any business. For this study, the vector  $Y$  is:

$$Y = (3/61 \ 2/61 \ 5/61 \ 2/61 \ 11/61 \ 10/61 \ 5/61 \ 5/61 \ 4/61 \ 4/61 \ 6/61 \ 10/61)$$

$C$  is defined as a contrast matrix, which allows the factors to be compared in pairs simultaneously. The matrix  $C$  is defined as the following: (omitted).

A diagonal matrix ( $V$ ) is defined as the following:

$$V_{ii} = n * p * q / (61 * 12)$$

Where:  $n$  = number of businesses surveyed

$p$  = sum of [responses / (n H number of factors)]

$q = 1 - p$

The decision rules are: if the test statistic is greater than the critical value with a significance level at 10%, then the null hypothesis can be rejected; otherwise there is no evidence to reject null hypothesis. More details about the multivariate testing procedures can be found in Johnson and Wichern (1988).

After calculation the test statistic is 252.75 which is greater than the critical value 17.275. Therefore, some factors indeed have higher probabilities to be identified by Vermont manufacturing businesses. From the survey results, these factors include local resident and location/customer accessibility. Further statistical analysis is needed to test specifically which factor/factors are preferred to others.

## Conclusion

As a result of the research, a variety of assets and constraints have been identified. It appears that Vermont's greatest strength lies in the excellent and high quality of life it offers employers and employees. The data from the survey also suggest that small manufacturers are able to serve markets from local to national to international. Vermont small business owners do not seem to be particularly concerned with distribution infrastructure such as proximity to state and interstate highways. This is possibly explained because some respondents must serve as their own retail centers to maximize revenues, therefore they need to be customer accessible.

In general, business owners conveyed that it is difficult to do business in Vermont due to numerous rules and regulations and the depressed conditions of many communities. Some regulations can be costly to comply with, such as Act 250. When residents of communities are struggling financially, they do not have the capability to support local enterprises, causing a strain on firm's revenues from the local market. Other constraints small businesses in Vermont face include a lack of skilled, quality workforce and finances for operations. Owners are able to find people willing to work, but all too often they are underqualified for the position. In addition, some Vermont communities appear

to lack a formal business relocation network with communication relying on word-of-mouth. With a more accessible information resource base, potential instate, as well as out-of-state entrepreneurs could learn about potential business locations and community assets that inturn could enhance community attractiveness. Having a strong and well marketed centralized Vermont resource providing business information might help small business manufacturers function more efficiently.

With out-of-state relocation occurring primarily in wood-related industries and canned foods, it seems appropriate that communities interested in attracting new businesses might target these types of firms. Community marketing should focus on the assets that already exist in the community that would benefit specific industries. Future decisions on improving town infrastructure should be guided by the needs of desirable small businesses. In response to the concerns of sawmill and mill work manufacturers regarding compliance with rules and regulations, communities might consider reviewing them to provide business manufacturers a more business-friendly environment.

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# **BUSINESS PLANS AS LESSON PLANS: FAILING TO PLAN IS FAILING TO LEARN**

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## **INTRODUCTION**

The concept of "organizational learning" has become popularized in recent years by managers (e.g., Byrne, 1998) and academics (e.g., Dumaine, 1994) alike. Those who have stewardships for organizations as well as those who study organizations are arriving at the same conclusion: an organization's capacity for learning is the ultimate resource on which sustainable competitive advantage is based. Hence, the management literature is growing in terms of recommendations for becoming a learning organization.

Nevertheless, the literature's discussion of organizational learning has been notably concerned with large organizational systems. In contrast to smaller organizations, perhaps larger organizations are more prone to bureaucracy that impedes learning. However, the advantages that come from organizational learning and the handicaps that arise from not learning are not exclusive to the domain of "big businesses."

Garvin (1993) defines a learning organization as ". . . an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights" (p. 80). This definition suggests that organizations are adaptive systems, capable of changing their behaviors and performance as a result of improving their knowledge. Learning, therefore, is the process by which organizations continuously improve themselves and adapt to their environments. In the modern competitive environment, this practice of continuous improvement has become d'rigor for all organizations, regardless of type or size.

In the same manner that large organizations have certain learning needs, small organizations also have unique needs for learning. Relative to their larger competitors, small organizations are generally resource poor. With fewer resources, small organizations have less margin for competitive error. Mistakes cannot be easily corrected or disguised by after-the-fact allocation of slack resources. Hence, small organizations require before-the-fact learning that minimizes the potential for error.

This paper proposes that business planning that results in the writing of a business plan can be an effective vehicle for organizational learning--especially in small organizations in need of before-the-fact learning. Indeed, failing to plan is planning to fail. Moreover, a variation on this well worn phrase suggests the more profound truth: "learning to plan is planning to learn."

## **ANATOMY OF A BUSINESS PLAN**

One of the most frequently stated reasons for business failure is "a lack of planning." Lasher (1994) describes business planning as ". . . the process of creating a picture or model of what a business unit will be" (p. 3). Planning, therefore, is a thinking activity that anticipates and creates the future. Along similar lines, a "learning organization" has been defined as ". . . an organization that is continually expanding its capacity to create its future" (Senge, 1990: p. 14). Consequently, planning is an essential element of organizational learning.

Planning can be carried out through either informally implicit or formally explicit processes (Mintzberg, 1994). Moreover, the resulting output of a planning effort can be either maintained in the mind(s) of the planner(s) or captured in a more tangible form. The more formal and explicit the process, the more likely the activity of planning will result in a documented business plan. Whether resulting in a highly tangible or less tangible "product," the act of planning itself is essential to organizational learning. Planning connotes active thinking directed at continuous improvement. Notwithstanding, the process of translating ideas into a tangible representation--such as a written business plan--should not be dismissed as busy work.

According to O'Hara (1994: p. 72), "The business plan is a written document that clearly defines the goals of a business and outlines the methods for achieving them." This document generally contains 1) a definition of the business, 2) a description of products and services, 3) an analysis of the market, 4) an analysis of the industry, 5) an explanation of marketing methods, 6) an explanation of operations, 7) an introduction to the management team, and 8) a report of financial projections and needs (Arkebauer, 1995; O'Hara, 1994).

Writing a business plan enables management to test the business concept on paper before putting the concept to the ultimate test in the competitive market. The preparation of a business plan exercises critical thinking skills vital to assessing the concept's potential success or failure. "The aim is to validate an idea and challenge every aspect of the business" (Arkebauer, 1995: p. 2). "The exercise often reveals an ill-conceived idea which isn't worth pursuing, while conversely, good ideas will emerge buttressed with logic and calculations showing them to be viable" (Lasher, 1994: p. 7).

Business plans have two primary uses: external and internal (Arkebauer, 1995; Covello & Hazelgren, 1995; Lasher, 1994; Mancuso, 1998; McLaughlin, 1992; O'Hara, 1994; Pinson & Jinnett, 1996; Siegel, Ford, & Bornstein, 1993). In terms of external uses, business plans are an effective means of communicating with existing and potential stakeholders. Foremost, a business plan is a requirement for securing financing, whether through debt sources such as banks or equity sources such as venture capitalists. The factual and documented nature of a business plan reduces the extent of information embeddedness that heightens the risk to investors.

In addition to acquiring financial resources, a business plan is a vehicle for educating external stakeholders about the organization. Stakeholders are made aware of the organization's purposes, objectives, and plans. By sharing this information, the organization can fulfill two intents. First, the organization gains support for its mission through building a coalition of knowledgeable stakeholders (Freedman, 1984). Second, the organization influences the industry's competitive dynamics to its own advantage by signaling potential actions to its stakeholders--including competitors (Porter, 1980).

The business plan also has important internal uses. Fundamentally, a business plan establishes the premise of the business and translates that strategy into organizational operations. Therefore, one internal use of a business plan is to establish the direction of the organization during the start-up phase. As the saying goes, "If you don't know where you're going, then any road will take you there."

A second internal use of a business plan is to monitor performance. Business plans are used to anticipate problems and generate alternative actions and contingency recovery plans (McLaughlin, 1992: pp. 215-220). The organization's continuing performance should be routinely compared to the objectives articulated in the business plan. As variations between actual and expected results occur, either objectives or actions need to be adjusted.

Another use of the business plan is for improving communication with internal stakeholders. By taking the business concept out of the mind of the top manager and committing the organization's objectives, strategies, and operations to writing, the business plan provides full disclosure of the framework by which all organizational members should be functioning. Figuratively and literally, all members are "reading off the same page." The more informed members are, the more effective their efforts at implementation will be.

In addition to the above typical and obvious reasons for writing a business plan, another less apparent but more essential purpose exists. The activity of business planning and the resulting written business plan are key to organizational development and learning. Every teacher knows that learning is immensely facilitated through a well crafted lesson plan. In learning organizations, business plans become lesson plans. Business plans can be effective structures for framing the organizational learning process by facilitating reflection on past and future experience and by capturing the learning acquired and/or created through that process.

The following sections examine this proposed relationship between business planning and organizational learning. Next, the paper discusses the phenomenon of organizational learning and the role of business plans as structures that frame the learning process. Then, the paper explores the dual functions of facilitating reflection and capturing knowledge.

## **FRAMING THE LEARNING PROCESS**

The concept of "organizational learning" was first raised in the literature by Simon (1969). Since its conception, organizational learning has been defined in many ways. In their seminal review, Fiol and Lyles (1985) define organizational learning as "the process of improving actions through better knowledge and understanding" (p. 303). This definition seems to present the essence of organizational learning; yet, the substance of the concept can remain elusive.

As this definition indicates, organizational learning is a process. Learning occurs through a continual cycle of action and reflection. Actions are taken to respond to environmental stimuli. These actions produce results that can be either desired or undesired. Reflection on these results and the actions that produced them reveals new insights about the causal relationships. This new knowledge can then be integrated into further actions.

Leavitt (1978: p. 58) submits that a "learning thing"--whether a person or an organization--needs five attributes. First, output channels are necessary to respond to the environment. Second, input channels are needed for receiving information about its environment and its effectiveness in responding to that environment. Third, an associative device links the input channels with the output channels. Fourth, within the associative device, a program--a set of rules for guiding the receipt, processing, and dispatch of information--must exist. Finally, a memory is required for retaining experiences and insights.

In the context of organizational learning, business planning performs a vital role in the learning process. The activity of business planning serves as an "associative device" that connects inputs and outputs. Planning is the juncture at which incoming information is processed before further action is taken. Moreover, to the extent that business planning results in a codified business plan, that written document represents both the "program" that contains the organization's decision rules and the "memory" that stores knowledge created and acquired from experience.

## **THE ORGANIZATIONAL PROGRAM**

The function of a business plan is to articulate the premise of the organization. This premise constitutes the organization's purpose, objectives, and competitive strategies. These organizational premises provide the principal guidance for all other activity. Hence, the business plan establishes the "program" or "rules" by which the organization is intended to operate.

The organization's premise is the product of reflective thought inspired through the business planning process. The Greek god, Janus who possesses two faces, one looking forward and one looking backward, is an appropriate analogy of the type of reflection from which organizational premises are derived. By looking backward and forward simultaneously, the business planning process converges on the present.

The past can provide a wealth of knowledge. A business plan provides an examination of past performance and conditions. This analysis identifies trends and the forces driving or restraining them. Major insights can be gained through reflective consideration of these findings. As mentioned earlier, one of the primary reasons for preparing a business plan is to monitor organizational operations. Since history tends to repeat itself, the past can reveal important lessons about the future.

Business plans, though, do not only study the past; they also anticipate the future. Business plans attempt to forecast and envision future performance and conditions. A business plan is a predictor of a future business; it reflects the future of a current situation (McLaughlin, 1992: p. 207). Entrepreneurial organizations are, by definition, especially attentive to how the future can be created.

De Geus (1997) submits that this back and forth exchange between thinking of the past and the future is the basis for creating strategy--the organization's premise. The creative process of comparing and contrasting the past with the future generates the profound insights that lead to competitive advantage in the present. These greater insights about organizational strengths and weaknesses and environmental opportunities and threats form the mental model by which the organization functions--makes decisions, takes action, and interprets feedback.

## **THE ORGANIZATIONAL MEMORY**

At the same time that a business plan espouses the organization's strategic and operating program, it performs a vital companion role. The business plan serves as the organization's memory. Beyond being a binder filled with facts and figures, the business plan is a repository of priceless lessons learned from experience.

To gain their full advantage, business plans should be visited more than once in a lifetime--as is the case with the typical business plan that was written for the sole purpose of acquiring financial capital. Business plans are most useful as "living" documents that are updated regularly. New insights replace old beliefs.

To further realize its benefit as organizational memory, the business plan should be made available to and used by members who can draw from and add to this pool of knowledge. Organizations must move beyond developing a business plan that is destined to rest undisturbed on a shelf. As structures that capture the organization's memory, business plans must be living, working documents.

## **CONCLUSION: BUSINESS PLANS FACILITATE REFLECTION**

Learning is accomplished through reflection on experience. While experiencing its environment, an organization gathers and interprets information to make sense of its relationship with that environment. This type of processing activity is referred to as "reflective thinking." Reflection is hoped to generate insights that augment knowledge and understanding. This new assimilation of knowledge constitutes the rules that guide

actions. Hence, if effectively stored in memory, this enhanced knowledge should lead to improved actions and increased performance.

Reflection is, therefore, the central mechanism of learning. The key issue is how to stimulate reflection to realize its benefits. In the fast-paced experience of organizational life, members complain that they have little time for doing, let alone thinking. Moreover, research indicates that entrepreneurs tend to have personalities that are more action oriented than reflection oriented.

These observations would suggest that little reflective thought takes place in organizations. The flaw with this conclusion, though, is that the activities of "doing" and "thinking" have been separated from each other. "Thinking" has been seen as being something different from "doing." In the process of organizational learning, however, thinking and doing become one.

Toward this unified state of learning, organizations need to discover learning opportunities that exist in ordinary actions. Furthermore, they need to find ways of designing learning opportunities into existing actions. Learning is the business of every organization. Without learning, organizations cannot adapt and survive.

This paper proposes that the activity of business planning and the resulting product of a business plan are powerful means for facilitating reflective thought. Business plans should not be seen as merely a perfunctory document required to secure capital. Business plans have the potential to become lesson plans that improve the organization's competitive position.

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# **Opportunistic Man or Cooperative Man: How Should Small Firms Be Managed?**

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## **Abstract**

Agency theory depicts the manager-owner relationship as a principal-agent relationship assuming man is self-serving and opportunistic. Stewardship theory depicts man as pro-organizational and cooperative. Are these two theories mutually exclusive, or do both types of man exist in small organizations? Which is likely to lead to higher performance? This study compares the two theories in light of current research, and compares the traits of a steward and an entrepreneur which are similar. Regression analysis, applied to a sample of small publicly traded firms, suggests that agency theory is not the dominant theory and that stewardship theory is a reasonable model for entrepreneurial and small firms. Weak owner controlled firms are found to have higher growth than either manager controlled or strong owner controlled firms and family firms have the lowest growth.

## **Introduction**

Strategy research of the large firm has been driven by the concept of man defined by economics. Agency theory depicts the manager-owner relationship as a principal-agent relationship assuming man is self-serving and opportunistic. A few researchers have used agency to attempt to explain small firms (Daily & Dollinger 1993, McConaughy, Matthews, & Fialko 1997, Hufft 1998, 1994). Is this the right characterization of the entrepreneur, small business owner/manager?

Another concept of man predicated on behavioral research has recently been used in strategy research. Stewardship theory depicts man as pro-organizational and cooperative. Are these two theories mutually exclusive, or do both types of man exist in small organizations? Which is likely to lead to higher performance? These questions have profound implications for the successful management of organizations. This study will address these questions, first with a discussion of the literature on and debate between agency and stewardship theory, and then through the discussion of a regression analysis that provides some insight into the issue.

## **Literature Discussion**

### **Agency theory**

Jensen and Meckling "define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (1976, p. 85). They defined agency costs as the sum of monitoring expenditures by the principal (budget restrictions, auditing, incentive compensation systems), bonding



expenditures by the agent (financial restrictions and loan covenants), and residual loss due to the reduction in prosperity of the principal caused by the divergence between the agent's decisions and the decisions which would maximize the welfare of the principal. They base their theory of the firm on the ownership structure, considering the agency costs associated with managerial (agent) behavior and the interests of owners or principals in firms. Their theory of ownership structure implies a fundamental dimension of the problem: "the relative amounts of ownership claims held by insiders (management) and outsiders (investors with no direct role in management of the firm)" (Jensen & Meckling 1976, p. 82).

Fama (1980) argued that management and risk-bearing are separate, natural functions within the set of contracts called a firm, thus expanding Jensen and Meckling's (1976) concept. Managers' reputations and hence value in the market for managerial talent constitute the important constraint on managers (agents), not the ownership structure (risk bearing factor) of large firms. Managers satisfy this constraint in either the managerial personnel market or, as in Jensen and Meckling, the financial capital market. In either case, agency theory presents man as self-interested. Eisenhardt (1989) provides an excellent review of agency theory.

Agency theory suggests different levels of ownership control should result in different growth rates. Manager controlled firms should have a preference for high growth to minimize the managers' risk (Amihud & Lev 1981). Owner controlled firms should prefer lower growth (and higher profit) (Holl 1975).

### **Stewardship theory**

Block (1993) argues that organizations exercising stewardship by elevating service over self-interest will be those that prosper. Supplanting leadership with stewardship exchanges control and consistency with partnership and choice for all levels of the organizational community, employees as well as customers. The focus is on accepting responsibility and accountability for the organizational community. Davis, Schoorman, and Donaldson (1997) argue that the model of man should be as a steward whose behavior is ordered such that pro-organizational, collectivistic behavior has a higher utility than individualistic, self-serving behavior. They argue that man makes a rational, not irrational, choice, unlike agency theorists who argue that stewardship can be explained as man acting inconsistently with his ordered preferences (Albanese, et al 1997).

### **Comparison/debate**

Davis, et al (1997) provide an excellent table comparing agency and stewardship theories. Key points that should be of interest to entrepreneurship are (1) the motivation comparison and (2) the power comparison. The agency man is motivated by lower order economic needs and extrinsic rewards. The steward is motivated by higher order needs of growth, achievement, and self-actualization, and by intrinsic rewards. The power of agency man is institutional power while the steward's power is personal. The motivation

and power of the steward thus is similar to the findings of entrepreneurship trait research (Carland et al 1984).

Davis, et al (1997) argue that the two theories are not mutually exclusive but create a choice between agency and stewardship relationships. The choice is similar to the prisoner dilemma decision, it is (1) made by both parties, (2) situational characteristics play a part in the choice, and (3) the expectations of the parties influences the choice. This complex interplay leads to a choice model, a 2x2 matrix of choices. The principal can either choose to act in an agency fashion or as a steward, and so can the manager. This leads to (1) a true agency relationship where both have chosen their self-interests as the dominate characteristic of their relationship, or (2) a true stewardship relationship, a mutual relationship to further the organizational community, a relationship that should maximize organizational performance. Two other possibilities exist, neither of which is satisfying to at least one party and can lead to suboptimal performance, (3) the principal acts as steward and the manager acts an agent, or (4) the principal acts opportunistically and the manager acts as a steward, which could lead through frustration and decreased feelings of self-worth to the manager acting more as an agent in concert with the principal.

Albanese, Dacin, and Harris (1997) argue that Davis, et al (1997) misspeak agency logic. They make a distinction between agency theory and the agency problem of divergent self interest. They argue that the discussion of stewardship simply refines agency theory, it does not provide an alternative. As Davis, et al (1997b) argue, Eisenhardt's (1989) review shows that agency theory was developed and is continually refined with the conflicting self-interests of the principal-agent as the underlying assumption.

Preston (1998) argues that "the strength of the stewardship model is that it offers managers a different set of motivations which could potentially include the interests of all relevant stakeholders" (p. 9). However, he argues that the discussion has not dealt with the problem of identifying all stakeholders and defining the concept of wealth. If all stakeholders are not considered, and the model just leads to shifting costs to outside stakeholders, then there is no real difference between the models. The real benefit is that stewardship theory has moral appeal in the sense that Block (1993) proposes, because it provides a motivational basis for the stakeholder model of the corporation as a normative concept.

## **Summary**

The agency model and stewardship model of the firm provide two different lenses for viewing the firm, its decision making, its internal relationships, its external relationships, etc. This review suggests that the entrepreneur acting as a steward, and hiring personnel with similar expectations, is more in line with the traits we infer to entrepreneurs, and thus increases the potential for maximizing the performance of the venture.

## Empirical Data Analysis

### Method

A regression analysis was performed with a sample of 735 small publicly traded firms in a variety of industries. The purpose of the analysis was to examine the relationship between ownership of the firm and the growth of the firm, an important agency theory relationship. A curvilinear relationship between growth and ownership has been noted in some previous agency studies (Shultz 1988, Hufft 1998). This results from weak owner controlled firms (less than 30% ownership) having greater growth than either manager controlled firms or strong owner controlled firms. This result is contrary to agency theory but would support Davis et al (1997a).

The variables of interest were the compound three year growth of net sales from **Compustat**, and the ownership of the firm measured as the "stock held by officers and insiders" divided by "common stock outstanding" from **CompactDisc**. Additionally, the squared term for ownership was also included to test the curvilinear relationship.

Several additional variables were added as control variables. The industry the firm competed in was controlled by its SIC1 industry code, a single digit integer from 1 to 8. Size was controlled by both the log of the total assets of the firm and the log of the employees of the firm. Since family owned and managed firms might perform differently than the typical small firm due the interaction of family and business interests, firms were coded as either family owned (coded as A1 ") or not (coded as A0"). An additional variable was added as a proxy for agency costs incurred by the firm, institutional stock holdings.

### Analyses

The research questions focus on the differences in rates of growth between different types of ownership structure.

First, Table One provides the correlation table for the variables. The variables are not strongly correlated with each other,  $r$  less than  $|0.2|$ . As would be expected, the institutional holdings of investment firms is positively correlated with size of the firm,  $r=0.487$ ,  $p<.001$ , the log of assets.

**Table 1**  
**Correlation Table**

<b>Correlations</b>	<b>Growth Sales%</b>	<b>Owner- ship^2</b>	<b>Owner- ship%</b>	<b>Institute Hlding %</b>	<b>Family y/n</b>	<b>SIC1</b>	<b>Log Employ</b>	<b>Log TA</b>
<b>Growth Sales %</b>	1.00							
<b>Ownership ^2</b>	-0.0622	1.00						
<b>Ownership %</b>	-0.0581	.9719**	1.00					
<b>Institute Hldings %</b>	.1798**	-.1662**	-.1752**	1.00				
<b>Family y/n</b>	-.0437	.1059*	.1159**	-.0608	.00			
<b>SIC1</b>	.0426	-.0296	-.0248	.0494	-.0076	1.00		
<b>Log Employees</b>	.1315**	-.0478	-.0391	.2121**	.0318	.1890**	1.00	
<b>Log Total Assets</b>	.1431**	-.1196**	-.1279**	.4526**	.0000	.0394	.4865**	1.00
**p=.001		*p=.01						

Table Two shows the regression results. The regression was significant ( $F=4.9$ ,  $p<.0000$ ), however, the power of the explanation of the equation was low,  $R^2=0.036$ ,  $r=0.212$ .

**Table 2**  
**Multiple Regression Results**

Multiple R	0.21243	Adjusted R Sq	0.03593		
R Squared	0.04513	Standard Error	77.16959		
Analysis of Variance					
	DF	Sum of Squares	Mean square		
Regression	7	204602	29228		
Residual	727	4329390	5955		
F	4.908	Signif F	0		
Variable	B	SE b	beta	t	Signif
Log Total Assets	6.00	7.09	0.0387	0.847	0.398
Family y/n	-7.08	7.22	-0.0359	-0.981	0.327
SIC1	0.625	1.295	0.0179	0.482	0.63
Ownshp Squared	0.00507	0.00744	-0.105	-0.682	0.496
Institutional Stk	1.08	0.3189	0.139	3.39	0
Log Employees	11.63	6.23	0.0791	1.87	0.06
Ownership	0.342	0.652	0.081	0.524	0.6
Constant	-26.21	27.67		-0.947	0.344

This result should be expected if we believe in the power of stewardship theory and its basis in behavioral issues, which were not included in this preliminary exploration of the issue.

The only variable coefficient that was significant was associated with the institutional stockholding,  $b=1.08$  ( $SE=.319$ ,  $t=3.387$ ,  $p=.0007$ ). This suggests a 1 to 1 relationship between growth and the investment of institutional investors, and the demand for short term stock growth.

In other words, institutional investment could be the driving force for growth and not a moderating influence on the self interested behavior of managers.

Ownership does have a curvilinear relationship with growth, the squared ownership term is negative ( $b=-0.005$ ,  $SE=.0074$ ,  $t=-.682$ ), while ownership is positive ( $b=.34$ ,  $SE=.65$ ,  $t=.524$ ). (A prior regression, without the squared term, indicated ownership was negatively related to growth.) This suggests maximum growth is obtained with weak ownership, approximately 30% interest. As the firm becomes more manager controlled, growth appears to decline contrary to agency theory. Also as the firm becomes strongly owner controlled, growth also declines which would agree with agency theory predictions, but also with stewardship theory.

The impact of family control on the growth of the business appears to be strongly negative,  $b= -7.08$ ,  $SE=7.2$ ,  $t= -.981$ . Therefore, we would expect family controlled firms to exhibit less growth than non-family controlled firms across the continuum of ownership interests, a commitment to stewardship would be a possible explanation.

The control variables for size, log employees and log total assets, are both positively related to growth, as we would expect, since size can be equated with greater resources available for growth. The industry variable is also positively related to growth,  $b=.63$ ,  $SE=1.29$ ,  $t=.48$ . This suggests service industries exhibit higher growth than the extractive and manufacturing industries, which agrees with recent observations. The constant term is strongly negative which corresponds with the curvilinear relationship with ownership.

## **DISCUSSION**

The results of this study suggests that the relationships that exist in large firms do not exist to the same extent in small firms. The concerns of family businesses probably do not lend themselves to the use of agency theory for decision making; behavioral, rather than economic issues, drive decision making. The family firm is more likely to function under a stewardship model rather than an agency model. The curvilinear relationship between growth and ownership is perhaps the most intriguing relationship suggested by this study. Why would manager controlled small firms suffer less growth than firms still controlled by the owners? Davis, et al (1997a) presentation of a matrix of relationships between stewardship and agency theories perhaps provides the answer. Small firms that are manager controlled, with self interested managers, could still be in transition from the entrepreneurially managed, stewardship oriented, firm to the professionally managed firm, thus they get the worst of both theories combined. They do not exhibit either theory well, but some poor combination of the two, leading to suboptimization of performance.

Future analysis should address the behavioral and societal issues that impact the decision to grow or not grow the firm. This study raises more questions than it answers but it does indicate the possible relationships of economic issues in decision making. Size, industry category, and presence of institutional investors, all impact growth. These environmental conditions should be explicitly included in decision making.

These results suggest families, entrepreneurs, small business owners and/or investors should determine their objectives and expectations for the firm. Is a stewardship model appropriate? If so, they must explicitly communicate the objectives to the family and

non-family managers, and monitor the performance of the firm to insure the decisions made by managers support the owners objectives, not the managers objectives.

Future study should examine all types and sizes of firms to determine if similar relationships exist. Additionally, different measures of the outcomes of ownership strategy should be explored to determine the factors that influence performance the most to better inform decisions.

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# **CREATING A DESIRABLE FUTURE AND DESIGNING WIN-WIN STRATEGIES SMALL BUSINESS AND EPA**

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## **ABSTRACT**

Recent trends in environmental protection and EPA action are indicative of a desire for designing win-win strategies. This article traces the background of small business compliance with EPA rules and regulation, and suggests that interactive planning is a desirable solution for many small businesses to create their own future relationship with EPA and design win-win strategies for their organizations.

## **INTRODUCTION**

The tension between small businesses (SB) and Federal government, specifically as it relates to Environmental Protection Agency (EPA) rules, regulations and enforcement of compliance, continues to simmer unabated.

The primary reason behind such a tension is the continuation of a zero-sum, win-lose approach adopted by both EPA and SB. In an earlier paper Nadim proposed four possible scenarios for the relationship between EPA and SB (Nadim, 1997). In that paper it was argued that a win-win strategy of simultaneous high enforcement by EPA and high compliance by SB is the most logical and reasonable approach by both parties in reducing the tension between them.

One can argue that the environment and mankind in return will also be big winners if EPA and SB employ the win-win scenario. A win-win approach requires extensive cooperation between the parties involved. EPA will play the role of a mentor, partner, and advisor and provide resources to help small businesses to operate with minimum adverse impact on the environment.

Small businesses, when adopting such a win-win strategy, have to actively structure their businesses and activities to make profit, comply with EPA rules and become an active advocate for a cleaner and healthier environment.

## **CURRENT STATE OF AFFAIRS**

An adversarial relationship with the government and intense lobbying is costly, ineffective and beyond the control of most SB. Various surveys-including one last year by the U.S. Chamber of Commerce -- indicate that most U.S. businesses support the need for reasonable regulation to protect the environment. (NB, 1997,22)

As economic studies in recent years have pointed out, however, the steady flood of new regulations does not necessarily help achieve those goals. Instead, red tape often simply forces companies to spend their resources on lawyers, insurance, and paper work rather than on innovation and new jobs. (NB, 1997,22)

In the same token, EPA has failed to increase and enforce compliance, reduce waste and other pollutants and create a cleaner environment. In one specific case EPA has embarked on a plan to force or persuades SB to comply with 1990 Clean Air Act (EPA, 1993).

The cost of such compliance has become so prohibitive for SB that most of them have decided to fight the regulation, be exempted from many of its provisions or find other alternatives (not necessarily lawful ones! such as midnight dumping.)

Win-lose, zero-sum attitude is not restricted to SB only. Congress, depending on who is in power and who is the regulator, has taken a variety of stances. Rep. James Talent, chairman of House Small Business Committee says federal regulations have so frustrated and demoralized small businesses that it's time to turn the spotlight on the rule makers. "I want to put the regulatory state on trial," says Talent. (NB, 1997,8)

Congress has also been trying to be helpful to SB by providing new ways for SB to actively participate in and have a greater access to the Federal rule making process. However, SB, for most parts, remains an unhappy and impotent bystander of the entire process. They accuse the Congress and the regulator of being insensitive to the impact and cost of compliance of the regulations on SB.

Center for the Study of American Business (CSAB) at Washington University in St. Louis, estimates that private sector will pay \$688 billion in "hidden compliance costs" related to federal regulation in 1997. The CSAB points out that the total burden of federal regulation falls disproportionately on small businesses. In 1992, the average small firm with under 20 workers spent about \$5,500 per employee to comply with federal regulations compared with \$3,000 per worker for a company with 500 or more employees. (NB, 1997, 22)

While evidences clearly indicate that SB are co-producers of solid waste and air pollutants, many of them dispose of the waste illegally rather than comply and go out of business. This is a clear indication of a lose-lose scenario in which the environment is a loser, government enforcement action is a loser and the SB in the long-run is a loser, since the regulators, sooner or later, will catch up with their actions.

Business First of Buffalo, in a headline news, declared that "Gas stations face big fines for leaky tanks; estimated 40%-50% of gas tank owners in New York state that are not in compliance with EPA regulations on leaky tanks face financial problems related to satisfying the law." (BF, 1998) Nationally, the EPA estimates that between 25 percent to 35 percent of the more than 900,000 underground storage tanks have not been upgraded yet. Those who did not heed a warning ten years ago risk being shut down or fined up to \$11,000 per day by EPA. (BF, 1998)

## **SB AND PUBLIC POLICY:**

While SB are a substantial segment of our economy and business employment, there is little known about the political activities of these companies and the manner by which they attempt to shape government policies (Cook, 1996).

Most government regulations apply to all businesses regardless of size. While larger firms, due to their size and resources, are more capable in influencing policy making and regulation setting, SB are relatively less active in these arenas. (Cook 1996). Firms, specifically larger ones, have concluded that they must be actively involved in the decisions making and policy setting process, which impacts their businesses. The same can not be clearly demonstrated for SB as a whole.

Nevertheless, SB have been more successful in the recent past. The 1996 Small Business Regulatory Fairness Act is designed to provide new and more effective way for SB to participate and have a greater access to Federal rule making process. It instructs regulatory agencies to consult with SB before proposing new regulations and gives SB the right to sue if regulatory agencies fail to consider the impact of their rules on SB.

Note that the main theme of this act and its implications is again a win-lose proposition. The spirit of the act is not to restrict the generation and disposition of waste, and other environmental pollutants. Under intense lobbying and pressure from SB, the Act's main emphasis is on restriction of enforcement and protection of SB and their profitability. A cynical consequence of such policy will be minimum compliance and enforceability and long-term negative consequence on the environment.

Most of the strategies favored by small businesses (Brewer, 1992, Cook, 1996) supported by more recent court and Congress actions (WT, 1998, PRN, 1998) are based on a win-lose, zero-sum approach. (Nadim, 1997)

SB strategies in dealing with government regulations, specifically EPA, are to ensure that they are either exempt from, or least impacted by them.

Implications of these strategies on environment, and population at large are usually overshadowed by profit making, employment and other economic considerations; a variation of the zero-sum game. SB also accuses the government of protecting the environment and enforcing the rules at the expense of their survival.

The battle between environmentalists, through intense lobbying for more regulations, and anti-environmentalist, through intense lobbying for less regulation and exemption from compliance has degenerated to the extent that a clean and healthy environment is no longer the main focus. Rather the focus is on trying to undo the effort of the other party at any cost. This is where a win-lose situation is degenerated into a lose-lose. In this vicious game, the environment, small business and regulator are all losers.

## WHAT ARE THE OPTIONS?

### STRUCTURING A WIN-WIN STRATEGY

"Plan or be planned for", Russell Ackoff declared in his ground breaking book: *Redesigning the Future* (Ackoff, 1974) This motto should become the cornerstone of small businesses as, they grapple with an ongoing avalanche of rules and regulation governing their business lives and impacting their profitability.

SB must take control of their own destiny and create their own future; they can not copy big businesses' solutions in small scale -- as they have been trying to do specially in dealing with government regulations. SB ownership structure, their cultures and operating mentality make them distinctively different from largescale organizations. As such they have to design strategies and create solutions for their problems that are unique to their culture and structure.

Ackoff, in *Redesigning the Future*, describes four different general types of attitude towards planning: Inactivitism, Reactivism, Preactivism and Interactivism. (Ackoff, 1974). These four attitudes are applicable to any and all of the activities of SB with regard to their future. While these types and examples of their application to environmental issue are more than twenty-four years old, not much has changed during these intervening years, in their applications to organizational life.

Inactivists are satisfied with the way things are and adapt do-nothing attitudes toward events affecting their lives. Their philosophy is conservative and they seek stability and survival. (Ackoff, 1974). The only time that they take any action is when they are forced to. The only time they are forced to is when their stability or survival is threatened; when there is a crisis. Hence their mode of dealing with issues important to them is crisis management.

Reactivists are against change and try to go back to a previous state, where things were once familiar. They not only resist change, but they want to undo change. In term of dealing with the environmental laws and regulation, they long for the days where there were no rules and no worries about the impact of their operation on the environment. They wish the regulations, the regulators and damage to the environment vanish overnight, along with those who remind them of their action and enforce the regulation. In the word of Ackoff, reactive SB principal objective is to get the environmentalist (and the regulators and enforcement agencies) off their back. (Ackoff, 1974, 176). The SB industrial association, when active, have a policy of combating any legislation or program that can affect their current way of doing business. They engage in extensive lobbying to maintain the current state of affairs. (Ackoff, 1974, 176)

Preactivists believe the future is better than the present or the past and spend a great deal of effort preparing for it. (Ackoff, 1974). Most of these efforts are scientifically based and is directed towards finding technological solution for environmental problems and SB's reaction to them and its effect on their business. Note that these three types also fall

within the lose-lose or zero-sum game approaches of SB vs. environmental laws and their enforcement.

Interactivists with a win-win attitude, believe in creating a desirable future and designing means of achieving it. They try to design the systems they can control so as to increase their ability to learn and adapt rapidly. (Ackoff, 1974, 27) They desire neither to resist, accept, nor stay ahead of the future and changes it brings about: they try to create it.

Interactivists seek to develop environmental-improvement systems that are capable of learning and adapting to the varied conditions under which they will have to operate and to the changing conditions they will bring about. (Ackoff, 1974, 183)

There are four principals governing the Interactive Planning Process: participation by all stakeholders, coordination of all aspects of the system, integration of the system and its environment and continuation of the planning process over time and control.

It is the principal of interactivism in planning and a win-win attitude that I advocate for SB in dealing with environmental issues of regulation, enforcement and social responsibility. What SB need is to structure policy influencing activities based on a win-win strategy. Major corporations have begun to take the initiatives to create win-win strategies and SB should not fall too far behind. "Corporations in North America, Europe, Japan, and in most newly industrial nations are embracing environmental protection as part of their international competitive strategies. For many firms, the shift to proactive environmental management is driven by pressure from government, customers, employees, and competitors. Both consumers and investors are begging to see more clearly the relationship between business performance and environmental quality. The trend towards proactive environmental management is being accelerated by public pressure on government almost everywhere to assure a cleaner environment. Government regulation have become more stringent, legal liabilities for environmental damage have become more burdensome, and customers have become more demanding. But more importantly, there is growing evidence that firms that adopt proactive environmental management strategies become more efficient and competitive. In many countries, the public has become more vocal in demanding responsible environmental performance as incomes rise and education spreads. Calls for responsible corporate behavior are coming from investors, insurers, environmental interest groups, financial institutions, and international trading partners. (Berry and Rondinelli, 1998, 38)

Pressure by Congress, feedback from many organizations and EPA's need for more effective enforcement of regulations have forced the EPA to take the first steps in adapting a win-win attitude in its dealing with SB.

In a recent testimony to Congress, Director of Office of Regulatory Enforcement of EPA stated that since 1994 EPA has implemented a series of alternative compliance strategies which provide assistance and incentives for regulated entities to achieve and maintain compliance. (FNS, 1998).

Most of these alternative compliance strategies are being established with cooperation with state governments. EPA and most states are now in the early years of operating enforcement and compliance assurance programs, including compliance monitoring inspection and enforcement action, compliance assistance, and various compliance incentive programs. (FNS, 1998)

One of the recently initiated program is "Partners for Change", which encourages New England businesses and municipalities to explore and implement responsible environmental practices in return for EPA recognition. Small businesses are especially encouraged to apply. They must implement a project or activity that results in a long-term environmentally beneficial change to its daily operations.

In return the partner receives a certificate, Window decal, and publicity from the EPA. In addition, Partners are featured in a partner-to-partner directory that lists all participating organizations. (FDCH, 1998)

To sign-up for "Partners for Change" SB can call 1-800-906-3328 and request the "environmental pocketbook," a resource guide with useful tips on recycling, energy efficiency and waste reduction. (FDCH, 1998)

In an innovative move, EPA is partnering with City and local community, local small businesses, local EPA office, Business and Industry Council, University of Illinois-School of Public Health and Trade Associations to provide training and information to small businesses -- particularly electrical and demolition contractors -- and local government agencies to help identify, handle, transport and dispose of mercury and PCB in Cook County. (FDCH, 1998).

Note that many of these initiatives are the consequence of congressional pressure, business lobbying and EPA objective of increased compliance. A missing ingredient is a more active SB in creating their desired relation with EPA and performing their social responsibility while remaining profitable.

An interactive planning program, as articulated in earlier section, will enable the SB to take control of their own destiny, remain viable and socially responsible. These steps include:

1. Formation of trade-group just for the purpose of shaping responsible EPA policy and regulation making in a win-win fashion. While many SB regard EPA rules and compliance a local issue for their particular business, the impact of each new rule is widespread across an entire industry.

Chicken and turkey producers across the country are trying to develop a uniform, voluntary plan to handle waste runoff from their operations in hopes of avoiding either new Federal rules they fear could be costly or state-by-state rules that could create a competitive imbalance. Other trade unions and industry units can copy the same format.

2. Active involvement of stakeholders: local chambers of commerce, city and state officials, community groups, local colleges and universities, religion establishments, local schools, customers and supplies groups, financial establishments and a host of other interest groups.

3. Alliance with major manufacturing companies to build environmental friendly machinery and design less pollutant manufacturing processes for SB. Since the cost of compliance is more prohibitive for SB they will be better off to redesign their operation around environmental friendly processes.

Recent EPA evidence indicates that most of the less pollutants and environmentally friendly manufacturing processes are less costly and more profitable. This is a true example of a win-win strategy where lower cost of compliance is reinforced by cleaner environment and greater profitability.

4. Take advantage of resources available to redesign their structure and manufacturing processes to a no pollutant, environmentally friendly. EPA's Small Business Innovation Research (SBIR) program is designed to increase the incentive and opportunity for small firms to undertake cutting edge, high risk, or long term research that has a high potential payoff if the research is successful.

For too long small business either complied with EPA rules grudgingly, complained about them to no avail, or just plain ignored them. Unfortunately, ignoring them will not make them disappear and cost of compliance will drive many of them out of business. It is time for small businesses to follow the recent trend of environmental activism of major companies (Berry and Rondinelli, 1998) and in an interactive way create their own win-win, environmental friendly, future.

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# **MORE ALIKE THAN DIFFERENT? A COMPARATIVE STUDY OF GOALS, STRATEGIES, MANAGEMENT PRACTICES, AND PERFORMANCE OF SMALL BUSINESSES OWNED BY WOMEN AND MEN**

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Performance differences across gender have been ascribed to diverse factors including, entrepreneurs' personality traits, such human capital factors as the owners' education, firm characteristics like type of business, and to the weaker management patterns of women's versus men's businesses. But empirically few differences were found in personality characteristics of men and women entrepreneurs (Loscocco et. al., 1991; Kalleberg & Leicht, 1991). Yet significant differences were observed in their personal backgrounds and in the firm attributes (Hisrich & Brush, 1984) of men owned business (MOBs) and women-owned businesses (WOBs). Also, management patterns of WOB were different. For example, WOBs placed lesser emphasis on financial goals (Kaplan, 1988), and used systematic management practices less (Brush, 1992).

Yet, few studies examined simultaneously the direct versus indirect linkages of gender to differences in business performance. That is, there is need to examine whether business owner's gender influences performance directly, and or indirectly through its influence on the types of goals, strategies, and management practices adopted by the small business owner. Hence this study examined whether, and in what ways, the management patterns differ between men and women entrepreneurs, and second, how, or the mechanisms through which gender affected management patterns and firm performance. Performance effects of gender and management patterns were investigated after controlling for firm context and personal background factors.

## **THE STUDY**

Performance: Three indicators of performance were used (1) annual sales in dollars. Here, the logarithm of the preceding year's sales in thousands of dollars was used. (2) growth rate in the firm's employment during the preceding three years, and (3) average annual rate of return on assets (ROA) during the three years. Multiple measures were used because while WOBs have been found to be lower on sales relative to MOBs, differences in profitability have not been significant.

## **Management Patterns**

Goals: This study examined entrepreneurs' financial and non-financial goals for their businesses to ascertain the extent to which men and women emphasize different goals. Nonfinancial goals referred to owner satisfaction and market achievement of business

(labeled achievement), while financial performance goals referred to firm revenue and owner income. We hypothesized that:

H1. Women business owners relative to men business owners will place greater emphasis on non-financial goals of business, but will place less emphasis on financial goals.

Strategies. Strategies refer to the methods used by firms to compete with their rivals and attract customers. While prior research has demonstrated strong linkages between a firm's strategies and its business performance (McDougall, Robinson & De Nisi, 1992), research is limited on the relationships of gender to strategies. This study identified four strategic dimensions: (i) cost efficiency measured as firm's expenses relative to competitors'; (ii) customization of products and services to the requirements of individual or groups of customers; and (iii) product quality. We hypothesized that,

H2. WOBs will stress the product quality strategy to a significantly greater degree than MOBs, and stress to a lesser degree the strategies of cost efficiency and product customization.

Management Practices. Four types of management practices were identified: 1) Formalization or use of written reporting; 2) Time horizon for operations planning; 3) Time horizon for resource planning, i.e., for business expansion; and 4) staff specialization defined as the employment of trained functional staff. We hypothesized that,

H3. Women-owned businesses relative to men's businesses will use less of formalized reporting, long range planning, and staff specialization.

Role of Management Patterns in Mediating the Effects of Gender on Performance. We posited that effect of gender on business performance is likely to be transmitted through managerial variables. Thus, goals would mediate relationship of gender to performance. Strategies are likely to mediate the effect of goals on performance, because strategies are the means through which business goals are translated in to actions in the markets. Further, appropriate management practices in planning, reporting, and staffing are an important prerequisite for the effective implementation of a firm's strategies, and hence, management practices would mediate the strategy-performance relationships. Thus, we propose that gender will have an indirect effect on performance through its effects on goals, strategies, and management practices employed. Hence:

H4. The relationship of gender to business performance will be mediated at the first level by goals, at the second level by business strategies, and at the third level by management practices.

## METHOD

Sample: Dun's Marketing Services generated a sample of 1800 men-owned and 1800 women-owned small businesses employing at least 4 and a maximum of 100 employees and located in the Northeast. 360 useable responses were received for the mailed structured questionnaire. Fifty two percent or 194 of the respondents were men business owners, while 178 (48 percent) were women. Three significant differences emerged in the sample when the firm characteristics of WOBs were compared with MOBs: a higher proportion of WOBs were service firms (50% vs. 37.1%); a smaller proportion were retail businesses (19.7% vs. 28.8%); and their average employment size was smaller (10 and 13 respectively). These men and women entrepreneurs did not differ significantly on any personal background variables except industry experience (Women = 13.92 yrs, Men = 15.56 yrs). Hence, to reduce the confounding effects of these disparities in firm characteristics and background variables, this study used employment size, business sector type, and owner-entrepreneur's industry experience as control variables in all statistical procedures.

## ANALYSIS AND RESULTS

Correlation analysis assessed relationships among the study variables. Multivariate analysis of covariance (MANCOVA) was done to examine gender differences on the performance indices, goals, strategies, and management practices. The background variable industry experience, and the two firm characteristics firm size and industry sector were the covariates. Results showed gender was significantly correlated with some of the variables, namely: sales performance, financial and non-financial goals, the quality strategy, and the management practice of staff specialization. Next, in the MANCOVA the univariate Fs showed significant gender differences. With respect to venture performance, women-owned ventures, compared to men's, had significantly smaller annual sales (\$741,230 versus \$1,205,940 respectively). However, differences were nonsignificant on employment growth and ROA. Regarding business goals, women entrepreneurs' importance ratings for both achievement goals and financial performance goals (4.52, and 4.25 respectively on a 5-point scale) were significantly higher than the ratings given by men to each of these two goals (3.99 for both achievement and financial performance goals). Thus, hypothesis 1 received partial support in that women rated the importance of achievement goals higher than men did, but it was not supported in so far as women also rated financial goals higher. Hypothesis 2 which posited gender differences on strategies was partially supported since the MANCOVA results showed that women business owners did emphasize the product quality strategy to a greater degree (women = 4.26, men = 4.03). But there were no significant differences on customization (women = 0.59, men = 0.51) or cost efficiency strategy (women = men = 3.05). Hypothesis 3 did not receive support from the MANCOVA since there were no significant differences between women's and men's businesses on any of the management practices.

Next, hierarchical multiple regression analysis was conducted to assess the patterns of relationships among the study's variables. The hierarchical regression procedure assesses the direct and indirect effects of a given independent variable (in this case gender) on a dependent measure (i.e., performance in sales, employment growth, or ROA), and the role of intervening variables (in this case goals, strategies, and management practices) in mediating the relationships of the independent and dependent variables of interest. If the relationship of gender to performance decreased substantially after the managerial variables of goals, strategies, and management practices were added, then managerial variables could be described as mediating the gender-to-performance linkages.

If the effects of gender on performance remained substantially the same after these variables were added, then gender would have direct effects on venture performance. Hierarchical regressions were run for each of the three performance criteria: annual sales, employment growth, and ROA. In each regression analysis, the control variables industry experience, firm size, and industry sector, were entered in the first block.

Gender was entered next, followed by the two goals in the third step, the three strategies in the fourth step and the four management practices in the last step. Tables 1 and 2 show the results for the three performance variables.

<b>TABLE 1: Results of Multiple Regression Analysis Predicting Performance: Logarithm of Annual Sales</b>					
	<b>Logarithm of Annual Sales</b>				
<b>VARIABLES</b>	<b>model 1 beta</b>	<b>model 2 beta</b>	<b>model 3 beta</b>	<b>model 4 beta</b>	<b>model 5 beta</b>
<b>CONTROL VARIABLES</b>					
<b>GENDER</b>		-.21***	-.21***	-.20***	-.18***
<b>GOALS</b>					
<b>Achievement</b>			.00	.01	.00
<b>Financial Perf</b>			.02	.01	.01
<b>STRATEGIES</b>					
<b>Cost Efficiency</b>				.02	.02
<b>Customization</b>				.03	.00
<b>Quality</b>				-.03	-.04
<b>MANAGEMENT</b>					

<b>PRACTICES</b>					
<b>Formalization</b>					.03
<b>Operation Planning</b>					.06
<b>Resource Planning</b>					.03
<b>Specialization</b>					.27***
<b>ADJ R-SQ</b>	.19***	.23***	.23***	.22***	.29***

Note 1: GENDER 1=WOMEN BUSINESS OWNERS 2=MEN  
BUSINESS OWNERS

Note 2: Firm size in Employment, Industry Sector, and Industry  
Experience were the control variables.

+ =  $p < .10$  \* =  $p < .05$  \*\* =  $p < .01$  \*\*\* =  $p < .001$

**TABLE 2: Results of Multiple Regression Analysis Predicting Performance:  
Employment Growth and ROA**

	<b>Employment Growth</b>				
<b>VARIABLES</b>	<b>1 beta</b>	<b>2 beta</b>	<b>3 beta</b>	<b>4beta</b>	<b>5 beta</b>
<b>CONTROL VARIABLES</b>					
<b>GENDER</b>		.02	.01	-.01	-.01
<b>GOALS</b>					
<b>Achievement</b>			.00	.01	.02
<b>Financial Perf</b>					
<b>STRATEGIES</b>					
<b>Cost Efficiency</b>				.17**	.17**
<b>Customization</b>				.17**	.18**
<b>Quality</b>				.06	.07
<b>MANAGEMENT PRACTICES</b>					

<b>Formalization</b>					-.02
<b>Operation Planning</b>					-.01
<b>Resource Planning</b>					.03
<b>Specialization</b>					-.08
<b>ADJ R-SQ</b>	.04**	.04*	.04*	.08***	.08**

	<b>Return on Assets</b>				
<b>VARIABLES</b>	<b>1 beta</b>	<b>2 beta</b>	<b>3 beta</b>	<b>4 beta</b>	<b>5 beta</b>
<b>CONTROL VARIABLES</b>					
<b>GENDER</b>		-.09	-.10	-.12	-.11
<b>GOALS</b>					
<b>Achievement</b>			-.09	-.06	-.04
<b>Financial Perf</b>			-.12	-.11	-.10
<b>STRATEGIES</b>					
<b>Cost Efficiency</b>				.13*	.11
<b>Customization</b>				.20**	.14*
<b>Quality</b>				.14*	.13*
<b>MANAGEMENT PRACTICES</b>					
<b>Formalization</b>					-.13+
<b>Operation Planning</b>					.12
<b>Resource Planning</b>					.07
<b>Specialization</b>					-.07
<b>ADJ R-SQ</b>	.00	.01	.02	.08***	.10***

Note 1: GENDER: 1=WOMEN BUSINESS OWNERS 2=MEN  
BUSINESS OWNERS

Note 2: Firm Size in Employment, Industry Sector, and Industry Experience were the control variables.

+ =  $p < .10$  \* =  $p < .05$  \*\* =  $p < .01$  \*\*\* =  $p < .001$

Relationships were strongest for the performance criterion annual sales. Gender had a significant and negative effect in model 2 ( $\beta = -.21, p < .001$ ) before the inclusion of goals, strategies, and management practices. The significant negative impact persisted in models 3 and 4 when the two goals and three strategies were added ( $\beta = -.21, p < .001$ ) ( $\beta = -.20, p < .001$ ) respectively and in the last step when management practices variables were also introduced ( $\beta = -.18, p < .001$ ). Thus gender had a direct effect on sales performance, and none of the three groups of managerial variables significantly mediated its effect. Besides gender, only one other study variable, namely, the management practice of staff specialization showed a significant and positive effect ( $\beta = .27, p < .001$ ). Regarding the second performance index of employment growth, gender had no significant effect in any of the steps. However, the strategies of cost efficiency ( $\beta = .17, p < .01$ ) and customization ( $\beta = .17, p < .01$ ) showed significant positive effects on employment growth. These effects remained significant even after management practices were entered, indicating that effects of strategies were direct and not mediated by management practices ( $\beta = .17$  for cost efficiency,  $p < .01$ ,  $\beta = .18, p < .01$  for customization). Turning to the third performance index Return on Assets (ROA), gender again had no significant direct or mediated effects. Two of the strategies, i.e., customization ( $\beta = .20, p < .01$ ) and quality ( $\beta = .14, p < .01$ ) had positive impacts and their effect was direct and not mediated since the betas remained significant ( $\beta = .14, p < .05$  for customization, and  $\beta = .13, p < .05$ , for quality strategy respectively) in the last step when management practices were added. But, the positive effect of the cost efficiency strategy ( $\beta = .133, p < .05$ ) became non-significant when the management practice variables entered the equation, suggesting that management practices completely mediated this strategy's impact. Thus hypothesis 4 positing mediating roles for goals, strategies, and management practices in the relationship of gender to venture performance was not supported for any of the three performance criteria. But gender did exert a strong and direct impact on sales performance.

## DISCUSSION AND CONCLUSIONS

Looking at gender differences on performance, when mature small businesses were compared, women's businesses on average generated lower sales revenues after controlling for the effects of differences in the owners' industry experience, firm's size, and industry sector. This concurs with previous studies' (Cliff, 1998; Hisrich & Brush, 1984; Loscocco et. al. 1991) conclusion that women's gender in of itself may cause their businesses to under-perform. This might be a cause for concern, except that business performance was similar across gender on the ROA and employment growth criteria. Several recent studies also did not find significant differences on performance indicators like business survival, growth in earnings, and financial soundness (Fischer et. al; 1993; Kalleberg and Leicht; 1991; NFWBO & Dun and Bradstreet, 1995), suggesting that on most performance criteria men and women operating similar businesses produce similar

performance. Therefore, researchers and practitioners alike should be careful not to depend exclusively on a single criterion like sales in evaluating small businesses. Instead, they should choose the criterion that is most appropriate for the particular purpose at hand: for example, venture capitalists may be interested in return on investment, while lending institutions may be concerned about projected cash flows.

Regarding gender's influence on management behaviors, women business owners in this study compared to men business owners rated the nonfinancial performance goals of product excellence and customer image, along with the personal goals of satisfaction and high living standard higher. But surprisingly, they rated the two financial goals of sales growth and profitability higher as well. In respect to strategies, our study reproduced the Kalleberg and Leicht's (1991) finding that women stressed product quality more significantly, but no other significant differences surfaced. Evidently, women and men business owners perceived themselves to be equally good at the cost efficiency and customization strategies. We predicted that WOBs would use systematic management practices less extensively than MOBs, but in this sample, similarly situated women's and men's businesses adopted systematic management practices to the same degree. This supports a Dun & Bradstreet study (1995) for National Foundation of Women Business Owners which found that 40.5% of women-owned firms were considered credit risks, whereas a higher proportion of 44% of all small firms were considered credit risks. WOBs adopt stringent business practices to ensure solvency.

Turning to the patterns of relationships of gender, goals, strategies, and management practices to performance, gender affected only sales performance, and here its effect was direct and not mediated. One possible explanation may be the nature of women entrepreneurs' goals. Women entrepreneurs' "growth intentions" may be more cautious than those of male entrepreneurs, and they may not pursue bigness... "since expansion may interfere with other ... cherished goals" (Cliff, 1998: 528). Moreover, paths to high performance did not vary for WOBs and MOBs. However, we did find that the managerial paths to high performance varied across the three performance criteria of sales, employment growth, and profitability as ROA. Goals did not affect any of the three, but individual business strategies and management practices had varying impacts on each. The management practice of staff specialization was associated with high sales, showing that well-trained staff in sales, budgeting, and accounting could be productive. Similarly employment growth was rapid for businesses which stressed the strategies of cost efficiency and customization to meet competition. That is, small businesses whose owner-CEOs were clearly more attentive to labor and materials cost efficiencies, priced their products competitively, and tailored their products to the individual customer's needs were likely to grow faster. ROA performance was enhanced when owners emphasized quality and customization of their products and services to individual customer needs. Cost efficiency strategy was helpful, but its effect was mainly indirect through management practices. Greater reliance on formal practices was marginally detrimental to ROA, probably because they might have increased costs of operation, and or slowed down decisions in a small firm. This is consistent with the proposition that business ventures remain "entrepreneurial" mainly when the owner-CEOs quickly



respond to customers, stay involved intimately in operations, placing minimal reliance on procedures.

Thus, the sharp gender disparities that were found in early studies were not observed in this study. Previous studies' conclusions might be partly due to reliance on women-only samples and simpler research methodologies, and the fact they focused on sales only. Also their results may be a product of their time. In 1980s women's preparation and resources might have been less adequate, and hence success was lower. But the woman entrepreneur of the 1990s often had a business career, is prepared with technical, creative, and business skills, and has a strong success orientation. Hence her success record is much stronger.

# A MODEL OF CORPORATE VALUE CREATION

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## INTRODUCTION

Value creation has long been stressed in the business literature as the main objective of organizations. Some authors state that an organization must create value for its owners (or shareholders) whereas some insist that value must be created not just for shareholders, but for stakeholders. Stakeholders include, in addition to shareholders, all individuals or groups of individuals that have an impact on the organization and/or are impacted by the activities of the organization. While some management researchers insist that value must be created for all stakeholders because it is morally the right thing to do, others insist that a corporation's only moral obligation is to make a profit. There is, however, a noticeable lack of attention in the management literature to the main concept, value, itself. Very few writers/researchers pay more than scant attention to the meaning and discussion of "value." Furthermore, there does not seem to be any model to describe how an organization creates value for whomever that may be.

The purpose of this paper is to take a first step to fill this void and focus attention on how a model of value creation may contribute to our understanding of organizations as well as providing guidelines for entrepreneurs and managers who want to achieve better performance in value creation.

Entrepreneurs create values of multiple dimensions. Personal, employment creation, and financial dimensions of value have long been recognized as key benefits of entrepreneurial activity. However, entrepreneurial activity creates other types of value, such as increasing the general level of energy and optimism in the society, and greater economic stability, to mention a few. On the other hand, sometimes the process of new enterprise creation and operation may impose costs. That is, these activities may even detract from creation of value, even "destroy" value within the larger society.

Consequently, it is pertinent to examine the different types of value that are added by entrepreneurial process, on the one hand, and on the other, identify the types of "value destruction" that may be occasioned (often in a non-deliberate or unintended fashion) by new businesses. Such an inquiry will provide a more comprehensive picture, if not a more pertinent and complete set of criteria, for evaluating the contributions of entrepreneurial activity. In this paper therefore we seek to explore the different types of value created/destroyed by new and/or existing businesses and their operations.

## DEFINING VALUE

Value is a central concept in economic theory; theories of different schools of thought have been developed around different definitions of value. However, unlike ethicists, economists are interested in the value of *things*. In this paper, we are interested in the economists' viewpoint, the value of things. Adam Smith in the *Wealth of Nations* formalized the concept as follows (Smith, 1937, p.28):

"The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently no value in use. Nothing is more useful than water, but it will purchase scarce anything: scarce anything can be had in exchange for it. A diamond, on the contrary, has scarcely any value in use: but very great quantity of other goods may frequently had in exchange for it."

More recently, in addition to economists, scholars in various fields of management and engineering paid increased attention to the concept and measurement of value and inevitably have come up with different definitions. These range from value being simply equal to "price" to more elaborate definitions. For example, Michael Porter (1985, p. 3) defines value as "what buyers are willing to pay" and adds that superior value results when a firm offers lower prices than competitors for equivalent benefits or when it provides unique benefits that more than offset a higher price. Most economists, however, make a clear distinction between value and price of a good or service. We adopt the following definition of value for the purposes of this paper:

**Value is the capacity of a good, service, or an activity, or activities of an organization to satisfy a need, or provide a benefit to a person or legal entity.**

This definition of value is clearly broader than the traditional definition used in economics. It includes any type of good, service, or act that satisfies a need or provides a benefit, tangible or intangible, including those that positively contribute to *the quality of life, knowledge, prestige, safety, physical and financial security, as well as providing nutrition, shelter, transportation, income*, etc. In other words, market values as well as nonmarket values are included in our definition. Prices help with the measurement of some of these values, but measurement is not the primary focus of our paper.

## THE STAKEHOLDER THEORY

The concept of *stakeholder* is a relatively recent addition to the lexicon of management but it is also a much debated one. Freeman's (1984) introduction of the concept in his well known book *Strategic Management: A Stakeholder Approach*, led to an almost universal acceptance of the existence of stakeholders by academicians as well as professional managers. The widespread acceptance of the concept, however, did not lead to any universally accepted definition of *stakeholders of the firm*. The concept raised

some serious issues which are still hotly debated among management researchers. Some of these issues are: "Who are the stakeholders of the firm and what are the stakes?", "What categories of stakeholders exist and how should they be managed?", "Should the firm be managed for its owners (stockholders) or stakeholders?" and "What should a firm do for, or give, if anything, to its stakeholders?"

Freeman (1984, pp. 31-32) indicates that the actual use of the word "stakeholder" first appeared in an internal memorandum of the Stanford Research Institute (SRI) in 1963. SRI defined stakeholders as "those groups without whose support the organization would cease to exist." Therefore, Freeman (1984, p. 46) offered the following definition: "*A stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives.*" (Other researchers have offered different definitions of stakeholders; for a review of these, see Mitchell, Agle, and Wood (1997)).

The stakeholder theory has assumed three different facets as it developed in the writings of various researchers. Donaldson and Preston (1995) identify these as: descriptive, instrumental, and normative; and concluded that, although different, these three are mutually supportive. Donaldson and Preston (1995) argue that the stakeholder theory describes the corporation as "a constellation of cooperative and competitive interests," therefore it is descriptive.

The stakeholder theory is also instrumental because "it establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals" (Donaldson and Preston, 1995). In this sense, the theory provides guidance to managers not only to predict cause and effect relationships, but also recommends a certain behavior for improved relationships between the firm and its stakeholders.

Finally, the stakeholder theory is fundamentally normative because it is based on the idea that stakeholders have legitimate interests in corporate activities, and "each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners" (Donaldson and Preston, 1995). In other words, it establishes moral guidelines for the operation and management of the firm. In line with this suggestion, some researchers (see Clarkson, 1995) have used the stakeholder framework for analyzing and evaluating corporate social performance. However, the stakeholder theory does not necessarily imply that stakeholders should be equally involved in decisions of the firm.

## **THE STAKEHOLDERS**

The normative aspect of stakeholder theory brought a new perspective into the debate about the social responsibility of business. Some scholars argue that managers must manage with a concern for the well being of those who are affected by the activities of the firm. It can also be argued that most shareholders are absentee owners and their livelihoods do not entirely depend on the performance of the firm. Other stakeholders,

such as employees, managers, suppliers, and local communities have much more at stake than investment capital; their livelihoods are tied to the firm (Beauchamp and Bowie, 1993, p. 54). On the other hand some scholars argue that the social responsibility of business firms is to increase its profits (Friedman, 1970).

The topic of our paper is closely related to this hotly debated issue, as well as other aspects of the stakeholder theory. However, our issue is not whether companies should be run for the benefit of (i.e. create value for) only one stakeholder group (stockholders), or whether they should be run for the benefit of all stakeholders. Rather, we simply want to study how a firm can create value for its different groups of stakeholders if it wishes to do so.

We will adopt a stakeholder definition which is a modified version of Freeman's definition:

**A stakeholder of an organization is any group or individual who can affect or is affected by the organization's activities.**

Freeman's definition implies stakeholders are affected only when the firm's activities are consistent with its objectives. We argue, however, that every activity of a firm creates value for some stakeholders and may destroy value for others, but not every activity may be consistent with the firm's objectives.

We believe that the following five groups constitute a fairly comprehensive set of stakeholders: owners/stockholders, employees, customers, suppliers, and the society at large. The order of these groups does not have any significance and we do not propose any scheme of assigning priorities to different stakeholders groups. We simply assume that management, at any point in time, will decide which group, if any, has priority over others and how much weight the interest of each should carry in corporate decisions. In our model, we discuss how a firm can reasonably create the maximum amount of value for each group without seriously hurting the interests of others or destroying value that is due to them.

Stockholders are those who have legal ownership claims on the corporation, and we will assume that they own shares of the company. Employees include those who are employed full or part-time by the company, including middle managers, but not including top executives or the board of directors. Customers are individuals and other firms who purchase goods and/or services from the firm. Suppliers are individuals and other firms who provide the firm with the goods and/or services that it needs for its operations. The last group of stakeholders is society at large. It is a large group and includes people and organizations who are affected by the activities of the firm in general. Depending on the activity and its repercussions, it may be residents of a state, or even the entire country, but in most cases, the group is limited to the local community.

## THE STAKES

In our discussion, we consider a private company that produces goods and/or services (henceforth, products) from facilities based in one or more communities. We also assume that each stakeholder group exists and has some significance for the survival and well being of the company. To understand how value can be created for stakeholders, we must first understand the stakes they have in the company.

**Stockholders.** Stockholders have a financial stake in the company; they have invested their financial resources in the company with the expectation that their investment will grow in value (i.e. stock appreciation) and/or will bring income.

**Employees.** People who work for a company rely on the wages or salaries they receive for their livelihood. In addition, benefits, such as health insurance, pension, paid vacation time, family sick leave, child care facilities, etc., constitute an important part of their compensation package. The ability of the company to provide these benefits reliably in the future has become a very important issue for many people in the workforce. In other words, job security and benefit related considerations are now seen by many as at least as important as the monetary income a job provides.

**Customers.** Individuals or organizations become customers when they purchase the products provided by a company. Customers expect certain benefits from these products. In general, they remain loyal to the company as long as their needs are satisfied at a reasonable price. If we define quality as "customer satisfaction," giving to customers what they want implies providing a high quality product. Customers sometimes have a stake in the long term survival and well being of the company if they cannot get the products they need from another company at a similar price. Customers may also be interested in the reputation or prestige of the company.

**Suppliers.** A firm that does business with a supplier becomes the customer of the supplier. Suppliers have a stake in the well being of the firm for continued business and steady source of sales revenue. A long term relationship that is mutually beneficial to both companies provides financial stability to the supplier.

**Society at large.** In most cases the local community, and to some extent the people of the state the company operates in, have a stake in the company in terms of tax revenues, jobs for the residents, volunteer activities, charitable contributions, etc.. They also have a stake if the company's activities result in pollution, increased traffic, increased cost of living, and/or have an impact on other quality of life issues.

## CREATING VALUE FOR THE STAKEHOLDERS

The discussion of stakeholders and their concerns with the company must have made it clear that the stakes for these groups are varied, and in general, not always supportive of each other or commensurate. In other words, decisions of a firm may have different results (both pro and/or con) for different stakeholder groups.

Our definition of value involves satisfaction of a need or provision of a benefit. Some activities of the firm may create benefits or rewards for one group (value creation), while reducing, or taking away, benefits from another group, or increasing risks for them (value destruction). Therefore, we propose to study this process with respect to its dual character: value creation and value destruction. With this approach, we are emphasizing the fact that the relationship between a firm and its stakeholders in terms of value is not unidirectional. Rather, it is bi-directional in that benefits and costs flow in both directions. In other words, a firm may create value for its stakeholder(s), but it may also destroy value for them, i.e. stakeholders may have to give up value in their relationships with the firm.

Value may be created in many different forms. We identify three dimensions along which value may be created and organize our discussion along these dimensions: financial, nonfinancial, and time. Similarly, costs and risks will be considered along the same three dimensions.

Financial rewards/benefits and costs/risks are those that have a short term as well as a long term monetary impact on stakeholders. For example, profits a stockholder receives from his/her investment; salary an employee receives, and health insurance and pension benefits are included in this category.

Nonfinancial rewards/benefits and costs/risks are those that do not have a short term financial impact on a stakeholder. For example, training provided by the company is considered as nonfinancial value for the employee even if it may lead to increased financial rewards in the future. Some of the nonfinancial benefits and costs are of intangible nature. For example, the prestige of working for a well-known and respected company may be considered a benefit by an employee.

Time has been used as one of the dimensions, because most rewards/benefits and costs/risks are either short lived or may extend into the future. Some activities may make existing benefits longer lasting. For example, improvements in the reliability and durability of consumer goods will turn the benefits they provide into longer term benefits. Next we will discuss how a firm may create value for each stakeholder group. We must emphasize that it may not be possible for a company to create value for every group along every dimension.

## **STOCKHOLDERS**

### **Value created: Benefits and rewards.**

*Financial.* Financial value is created for stockholders when the firm makes a profit and more value is created as it increases its net worth from operations. Another way financial value is created is when the firm's stock appreciates. Also, by improving the quality of its products a firm increases customer loyalty, which leads to greater financial rewards for the shareholders.

*Nonfinancial.* A financially stable and secure firm which pays regular dividends will provide a reliable source of income and create a sense of financial security for its owners. Financial security may provide autonomy for a stockholder and enable him/her to pursue a more enjoyable life. A successful company that is seen as a good citizen may be a source of personal pride for the owners.

*Time.* A company that plans its future and makes long term investments in advanced technology, human resources, and/or develops new products, etc., creates value along the time dimension. These and other activities that provide long term financial security create time value by extending financial and nonfinancial benefits into the future.

### **Value destroyed: Costs and risks.**

*Financial.* The most important financial risk a stockholder takes is the risk of losing his/her investment. If a badly managed firm goes bankrupt, stockholders may lose all or part of their investments and a future income stream.

*Nonfinancial.* The stress created by uncertainties about the current and future financial status of the company, fluctuations in dividends, uncertainty of future income, a volatile stock price all mean value destroyed for stockholders. Clearly, some of these events are sometimes caused by forces outside the company, but decisions and activities of the management may also create or influence them. A scandal involving the management of the company (e.g., insider trading, bribery, etc.) and bad publicity about the company's products or practices (e.g. an unsafe product, practices harmful to the environment, etc.) will destroy the pride a shareholder may feel about the company.

*Time.* Any practice or decision of the management to sacrifice long term viability and success of the firm for short term gains will destroy time value for stockholders. Such action may maximize short term financial gains, and some stockholders may take advantage of it by "cashing out." However, the action will jeopardize the future well being of the owners if they invest in the company for the long haul.

## **EMPLOYEES**

### **Value created: Benefits and rewards.**

*Financial.* Financial value is created for employees in the form of wages and salaries, bonuses, stock options, health insurance, pension, tuition remission, membership in health clubs, and paid holiday/vacation time. If these benefits are higher or better than what competitors provide, employees receive additional value by being with the firm. A firm that improves these benefits creates additional value for the employees. Provision of a company car, tools and work clothes will be additional financial benefits for employees.

*Nonfinancial.* A firm can create nonfinancial value for employees by creating a safe, friendly, and cooperative work environment. Most employees see value in their job when they feel their work is challenging. They also see value in a job where they can use and develop their talent to the fullest, can make decisions to change their work environment and can do whatever it takes to satisfy customers, in short when they are empowered. A



firm that can provide job security creates value for its employees. Training that upgrades skills of employees, or gives them new skills that are in demand, creates value if provided by the firm. Company policies and practices that create advancement opportunities create value for employees. Other nonfinancial value can be created when a company provides onsite daycare, fitness center, and recreational facilities for employees and their families. *Time.* Decisions or activities that ensure the financial and nonfinancial benefits for the long term create value along the time dimension for employees.

### **Value destroyed: Costs and risks.**

*Financial.* When an individual accepts employment with a company, he/she is giving up financial benefits that he/she could have received from another company. In addition, employment with a particular company may mean additional costs to the employee such as commuting expenses, purchase of special tools and/or uniforms required for the job.

*Nonfinancial.* A stressful environment, a boring, and unchallenging job, a hostile management, strict work rules that stifle creativity, etc., destroy value for employees. Employees will not be able to perform their tasks properly or satisfy customers and will be frustrated. A company that is financially unstable or insecure, or a company that frequently downsizes provides no job security and consequently destroys value for employees. Occupational hazards, unusual work hours, frequent schedule changes, and extraordinary demands (e.g. quotas to meet) also destroy value for employees.

*Time.* Time spent at work and commuting to work is nonmonetary cost to an employee. It is time he/she could have spent with family, or at a recreational activity, or for education. A job that does not provide valuable skills for an employee reduces the long-term viability of the employee in the job market and destroys value.

## **CUSTOMERS**

### **Value created: Benefits and rewards.**

*Financial.* Financial value is created for customers when the firm provides them with superior quality products at competitive prices. A well designed and well manufactured good that does not require frequent repairs or maintenance reduces operating costs which creates value for the customer. For example, some recent models of cars produced by General Motors (GM) do not require a tune-up before a hundred thousand miles. Cars by other manufacturers may require a tune-up much earlier. And, as is well known by car owners, a tune-up may be a significant expense in car maintenance. Consequently, we can say that GM created financial value for its customers by improving the design of its cars if this improvement did not increase the price of its cars more than the consumers would save from less frequent tune-ups.

*Nonfinancial.* Benefits provided by the firm's products are an important part of the nonfinancial value created for customers, provided that they work as expected. For example, a dishwasher frees a customer from the chore of washing dishes by hand; a TV set provides access to entertainment, news, and other useful information such as weather report and stock prices. A firm can also create nonfinancial value for its customers when it provides support for its products (e.g., an 800 number to answer questions, provide

information and instructions, and resolve problems) and prompt, reliable, and competent service at a reasonable price.

*Time.* A company can create time value for its customers in at least three ways. One, the product may save time for the customer. For example, a customer who uses a motorized lawnmower instead of push mower saves time. A customer who purchases the services of a lawn care company may save even more time. Consequently, a company can create time value for its customers by developing new products or redesigning old ones to help customers reduce the amount of time they have to spend on chores they have to get done. A second way time value can be created is if the company's products continue to provide benefits for a long time. Additional value is created when the company increases the duration of the benefits. Consumers usually see value in products that last a long time, such as a dishwasher or an automobile. Similarly, services that have long lasting benefits imply greater value than those with shorter life spans. For example, a tooth filled by a dentist that lasts ten years has more value than one that needs to be refilled in five years; education that does not become obsolete in a few years is more valuable than the one that does.

A third way a firm may create value along the time dimension is when it delivers its goods or services when the customer needs them.

### **Value destroyed: Costs and risks.**

*Financial.* Price paid for the product is probably the most significant financial cost to a customer; in that he/she gives up financial resources to obtain the benefits of the product. Additional costs incurred by the customer for travel (e.g. picking up a new product or returning a defective product), repair expenses of a product that fails frequently after its warranty has expired, expenses for regular maintenance, etc., are all additional costs to the customer and therefore, represent destruction of value for him/her.

*Nonfinancial.* Uncertainty or lack of full knowledge about the use and benefits of a product reduces its value to the customer.

Consequently, when a company fails to provide the necessary instructions and information about the product, it destroys value for the customer. Also, harmful effects of a product that may not be apparent, or personal injury resulting from the use of the product, all mean the destruction of value for the customer.

*Time.* Time spent learning to use a product (learning curve), and time spent trying to resolve problems when the product fails (i.e., searching for a repair service or replacement for the failed product) all mean lost value for the customer.

## **SUPPLIERS**

### **Value created: Benefits and rewards.**

*Financial.* The most important financial benefit created for suppliers is the revenue they receive from their customers. If the revenue is more than their costs then they also make a profit.

*Nonfinancial.* A firm creates value for a supplier when it develops a long-term relationship with the supplier and helps him/her improve his/her operations and/or the product quality. This type of relationship may also involve technical support or even technology transfer from the firm to the supplier. The prestige of being a supplier to a well known and respected company is another nonfinancial value created by the relationship. Furthermore, such a close relationship may help the supplier expand his/her customer base which may mean improved financial benefits in the future. Having an increased base of operations may also allow a supplier to offer more stable employment, even if the sales to the firms are not that profitable.

*Time.* A long-term relationship with a customer usually implies financial security for the supplier in the long run, improves its chances of survival, and hence creates time value. Time value is also created when payment is made to the supplier at the promised date, or earlier, for products purchased.

### **Value destroyed: Costs and risks.**

*Financial.* Price concessions given under pressure, such as the threat of cancellation of a contract, imply loss of value for the supplier.

*Nonfinancial.* If a company is involved in a scandal, or having problems with one of its products, the reputation of a supplier company may also be damaged because of its association with the company. Worse yet, the problem may be suspected to be due to a part supplied by the vendor. Even in cases where the vendor is eventually vindicated, its reputation may be irreversibly damaged.

*Time.* Delay in the transmission of information about an order (e.g. specifications, blueprints, etc.) to the supplier, or delay in payment for the order destroys value along the time dimension and may cause further problems in the operations of the supplier.

## **SOCIETY**

### **Value created: Benefits and rewards.**

*Financial.* The most important financial benefits a company provides to the state and local community are the taxes it pays, purchases made from local suppliers, and the money spent by its employees in the state or local community. Also, donations to charitable organizations may constitute a significant financial benefit to the community.

*Nonfinancial.* A profitable and financially stable company provides stable employment for some of the residents of its community, and contributes to a higher standard of living. Having a well known and respected company in their community can be a source of pride for some people. Also, the existence of a company may mean potential business for other companies that may decide to locate in the same community. A company can create additional value for the community by getting involved in civic projects and providing volunteers for them, thereby improving its image and reputation. A company that grows increases its payroll and brings more talent into the local market.

*Time.* Continued success and profitability of a company extends the financial and nonfinancial benefits into the future and may lead to economic growth of a region in the long run.

### **Value destroyed: Costs and risks.**

*Financial.* Tax abatements and other concessions given by a local administration to attract new businesses reduce the financial value that the community would otherwise enjoy. The greater the bargaining power of the company, the greater the loss of value for the community. Firms may insist on improved infrastructure before moving into an area, causing the community to expend money it might otherwise have. Additional expenses may be needed for larger schools, municipal services, etc. than would be the case without the firm. A financial risk can be created for the community when the firm loses money and falters; if this leads to a bankruptcy, it may have devastating financial effects on the community.

*Nonfinancial.* Air, water, and noise pollution created by a business are usually the most significant forms of value destruction for a community. Pollution of any form means a reduction in the quality of life for most people, and may also create health problems for some of the residents. Existence of a company may lead to an increase in traffic volume, which is usually interpreted as a reduction in the quality of life, and therefore, destroys value for the residents. In addition to financial risks, a poorly managed company creates social problems and risks for the community. Plant closing or relocation is usually a traumatic event for a community.

*Time.* Pollution problems whether they are hidden or obvious, destroy value for the local community in the long run. A company responsible for pollution may turn a short term problem into a long-term disaster by dragging its feet and refusing to accept responsibility.

### **CONCLUSION**

The model we presented in this paper describes how a private firm may create value for each of its stakeholder groups. It also describes the activities, practices or conditions that may destroy value for the stakeholders of a firm, or what value stakeholders may have to give up in their relationships with the firm. Our model does not make a normative statement, or defend a moral position; it simply lays out possible courses of action for

managers if they want to create value for the stakeholders of the firm, or at least avoid actions that destroy value for them.

The major benefit of this model is in identifying the activities and practices that may create value and those that can destroy value. Another contribution of the model is in introducing a usually neglected dimension, time, when scholars study the stakeholder management issues. Time is not a resource in the usual sense of the word, in that it cannot be accumulated, multiplied, or stored. However, when managers are conscious of the benefits that can be provided along the time dimension, they may become more effective in creating value for the stakeholders.

We feel that this multidimensional framework on value consequences will be useful in examining the connections between entrepreneurs' goals and their effects on the important stakeholder groups. This will not only help entrepreneurs better predict the effects of their actions, but can help them manage their behaviors so as to minimize the negative consequences to key stakeholders and improve relationships with them. In fact, it is likely that founders of new businesses may be so caught up in challenges of survival that they may not even be aware of the value consequences of their actions and hence may inadvertently alienate stakeholders whose support is so important to the survival and prosperity of their business. Thus, stakeholder management is as critical to a new business as it is to a large established corporation.

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# **GENDER DIFFERENCES IN STRATEGIC DECISION-MAKING: AN EMPIRICAL STUDY OF THE ENTREPRENEURIAL STRATEGY MATRIX**

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## **ABSTRACT**

There has been extensive comparative research in the strategic behavior of male and female entrepreneurs, but the findings are mixed. This paper reports on a gender comparison testing of the Entrepreneurial Strategy Matrix. Results indicate that there are no significant gender differences in venture innovation/risk situation, in strategies chosen by entrepreneurs, or in satisfaction with venture performance.

## **INTRODUCTION**

A large body of research exists in which gender differences in strategic management have been investigated (Carter, Williams & Reynolds, 1997; Chaganti & Parasuraman, 1996; Powell & Ansic, 1997). This body of research has been accelerated by the growing number of women in the managerial and entrepreneurial workforce. The focus of the research reported in this paper was whether men and women have different strategic orientations and whether they differ in their strategic decision-making behavior.

The Entrepreneurial Strategy Matrix (Sonfield & Lussier, 1997) is a situational model which suggests appropriate strategies for both new and ongoing ventures in response to the identification of different levels of venture innovation and risk. Such identification leads to the placement of the venture in one of four cells of a matrix, and appropriate strategies are presented for that cell. (See Figures 1 and 2, omitted).

In this current research, focusing on the Entrepreneurial Strategy Matrix, a large sample of entrepreneurs was surveyed to determine whether significant differences existed in either the proportion of men and women entrepreneurs who place themselves in each of the four cells of the model, or in the strategies that they chose for their business ventures.

## **PREVIOUS RESEARCH**

Most research conducted prior to 1980 concluded that gender differences clearly exist in business strategic behavior (Powell & Ansic, 1997). More specifically, the majority of studies determined that women are more cautious, less confident, less aggressive, easier to persuade, and have inferior leadership and problem solving abilities when making decisions under risk (Johnson & Powell, 1994). However, more recent research studies

yield mixed conclusions (Chaganti & Parasuraman, 1996; Powell & Ansic, 1997). Some studies conclude that there are no significant gender differences in management decision-making styles (Chaganti, 1986; Powell, 1990). Other research has determined that men and women entrepreneurs possess more similarities than differences in decision-related personality traits (Birley, 1989; Sexton & Bowman-Upton, 1990). Still other studies conclude that males and females are equally successful in making decisions under conditions of risk (Hudgens & Fatkin, 1985; Johnson & Powell, 1994), are equally effective in roles of leadership (Eagly, Karau & Makhajani, 1995; Hollander, 1992), and are equally capable of processing and reacting to information (Stinerock, Stem & Solomon, 1991; Hyde, 1990).

Looking at outcomes, many studies find lower performance for women-owned businesses than for those which are owned by men (Cuba, DeCenzo & Anish, 1983; Hisrich & Brush, 1984, 1987; Loscocco, Robinson, Hall & Allen, 1991), yet others discover similar levels of performance (Fischer, Reuber & Dyke, 1993; Kalleberg & Leicht, 1991).

In terms of specific strategic objectives, Hisrich & Brush (1987) and Kaplan (1998) find that women place greater emphasis on non-financial and personal goals, while Fischer et al. (1993) reject this finding. Kalleberg & Leicht (1991) concluded that women are more likely than men to see quality as their competitive edge. Furthermore, several studies find that women rely less on systematic practices in their strategic decision-making (Brush, 1992; Cuba et al., 1983; Hisrich & Brush, 1987).

Perhaps the most common conclusion of recent research is a lower preference for risk among women versus men (Hudgens & Fatkin, 1985; Johnson & Powell, 1994; Levin, Snyder & Chapman, 1988; Sexton & Bowman-Upton, 1990). Similarly, another frequent finding has been that women possess a lower degree of confidence in their ability to make decisions and in the outcome of these decisions (Estes & Hosseini, 1988; Masters, 1989; Stinerock et al., 1991; Zinkahn & Karande, 1991).

Yet on the whole, given the mixed findings of this body of studies, there is still insufficient research focusing on differences in strategies of women-owned businesses and men-owned businesses (Chaganti & Parasuraman, 1996).

## **METHODOLOGY**

### *Design and Sample*

This current study focused on the Entrepreneurial Strategy Matrix (ESM) (Sonfield & Lussier, 1997). A national random sample of 802 small businesses, representing a full range of industry groups, was surveyed by mail and follow-up telephone methods. The response rate was 20%, with 151 usable sets of data. A comparison of the original mail responses with the follow-up telephone responses indicated no non-response bias. This use of self-reporting survey methodology has been the most commonly used method for testing similar strategic models, such as for the Miles & Snow Typology (Zahra &

Pearce, 1990), and for previous tests of the ESM (Lussier et al, 1998; Puetz & Hunt, 1998).

### *Measures*

Strategies Using the thirteen strategies presented in the ESM, respondents were asked to identify the strategies which they use.

Matrix Cell After the definitions of "innovation" and "risk" were explained to the respondents, they were subsequently asked to rate the levels of innovation and of risk for their primary venture. Based on this response, each respondent's venture was placed in one of the four ESM cells.

Satisfaction Respondents were also asked to rate their level of satisfaction with their business venture's performance, both quantitative and qualitative (financial and non-financial), on a seven-point Likert scale of "satisfied" to "not satisfied."

### *Hypotheses*

Given the mixed findings of previous research studies, the null hypothesis was used in this research:

H1: There are no differences in the proportion of men and women entrepreneurs whose ventures fall into each of the ESM's four cells.

H2: There are no differences in the ESM strategies used by men and by women.

H3: There are no differences between men and women in their level of satisfaction with their business venture's performance.

### *Analysis*

To test Hypothesis 1, the innovation and risk cell responses were tested for gender differences using a chi-square test.

To test Hypothesis 2, each of the thirteen ESM strategies was given a "yes" or "no" response, and thirteen chi-square tests were run to examine for gender differences in use.

To test Hypothesis 3, a Mann-Whitney U test was used to determine differences by gender in satisfaction with performance.



## RESULTS

Descriptive statistics of the sample include:

Mean age of business.....15 years  
Average number of employees..... 21  
Male respondents.....109 (72%)  
Female respondents ..... 42 (28%)

### Cell Placement

	<u>n</u>	<u>%</u>
High Innovation/Low Risk:	15	10%
High Innovation/High Risk:	50	33%
Low Innovation/High Risk:	58	38%
Low Innovation/Low Risk:	28	19%

The chi-square test indicated no significant difference in the proportion of men and women entrepreneurs in each of the four cells ( $p=.317$ ). Thus Hypothes 1 is supported.

The thirteen separate chi-square tests indicated only one ESM strategy where there was a gender difference at the .05 level: more males used the

"increase innovation, develop a competitive advantage"

strategy than females ( $p=.0410$  at the .05 level). With only one out of thirteen possible differences, Hypothesis 2 is supported.

The Mann-Whitney U test indicated that there were no differences in the level of overall satisfaction with business performance between male and female respondents (male  $m=5.1193$ , female  $m=4.8810$ ,  $p=.3180$ ). Thus, Hypothesis 3 is supported.

## DISCUSSION

This research study's findings of no significant differences by the entrepreneur's gender in venture innovation/risk situation, in strategies employed, and in satisfaction with performance support other recent research studies.

As discussed earlier, pre-1980 research tended to find gender differences in strategic management, but current research findings are mixed and in total can not support such differences. Thus, this study's results further weaken the pre-1980 consensus and sustain the current lack of agreement with this older convention.

Furthermore, this study's conclusion that women and men entrepreneurs' ventures were equally likely to fall into each of the four strategy situation cells (level of innovation and level of risk) refutes the consensus that women have a lower preference for risk (Hudgens

& Fatkin, 1985; Johnson & Powell, 1994; Levin et al., 1988; Sexton & Bowman-Upton, 1990). If women entrepreneurs do in fact have a higher aversion to risk, then one would expect that their ventures would be disproportionately fewer in the two high-risk cells, which is not the case.

## CONCLUSIONS

A statistical testing of a sample of entrepreneurs in reference to the Entrepreneurial Strategy Matrix supports the findings of recent gender-comparative strategy research, which do not support clear gender differences. As indicated by this body of study, male and female entrepreneurs show no differences in the situational (innovation/risk) natures of their ventures, in the strategies they choose to employ, and in their satisfaction with business performance.

Furthermore, this study contradicts previous findings that women have a higher aversion to risk than do men. While this current study adds to the body of empirical research in the area of gender and strategic management, the continued mixed results of this total body of research indicates a need for still further research efforts, so that consensus may eventually be reached.

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# **SMALL ENTERPRISE DEVELOPMENT IN AFRICA: LESSONS FROM SUCCESS**

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## **ABSTRACT**

This study attempts to determine how small and medium enterprises (SMEs) in Africa respond to development efforts undertaken by donor agencies that see SME development as the key to social and economic development on a continent plagued by exceedingly high levels of poverty and unemployment. The components of SME projects were classified into three levels of intervention: micro, meso, and macro. The study relied on questionnaires and guided interviews with specialists in donor agencies in North America and Europe. It was found that although a great deal of thought and effort has been expended by the donor community, its impact has been small. In contrast, some private sector efforts to create commercial linkages appear quite promising and are capable of highlighting and resolving the difficulties of African business owners in a more timely matter. The paper concludes with suggestions of how SBI directors might build on these efforts.

## **BACKGROUND**

SME enterprise development has been considered a key to economic development throughout the so-called Third World for several decades. With unemployment ranging from 25 to 45 percent in most developing countries, "self-employment" and micro-enterprise development is seen by many donor agencies as the only way to reach the "poorest of the poor." The donors feel that without strong private enterprises, Third World countries cannot hope to enter international trading systems. Unfortunately, although many donor agencies have been carrying out SME development in Africa since the early 1980s, little is known about the conditions under which these projects succeed or fail.

One reason for this ignorance is that not only is it difficult to design and manage, but also SME development was long ignored by donor agencies. Not until the late 1970's did it become apparent to policy makers in Africa that SMEs were the keys to employment generation, innovation, and improved standards of living. Moreover, most of the initial policy approaches to SMEs in Africa were disastrous: from indigenization and disruption in the 1970s, to structural adjustment in the 1990s. Early efforts were ill-advised attempts to displace the merchant classes. In the early 1970's, Idi Amin expelled the Asian business community from Uganda while Kenya, Nigeria and Tanzania attempted to "indigenize" their small business sectors. Where capitalistic policies in countries like Kenya and Nigeria aimed to open the small business sector to all citizens, the socialist policies of countries such as Ethiopia and Tanzania actively discouraged small enterprise. Capitalist governments published schedules of the types of small businesses to be owned

by Black African citizens. Non citizens and citizens of Asian descent were required to sell such businesses to Black Africans. Tanzania set up large public enterprises to supplant many of the economic functions of small enterprises. Its ill-fated State Trading Corporation, for example, represented an attempt to supplant the private-sector distributions systems which were then largely controlled by Tanzanian citizens of Asian descent (Wallace: 1977).

The research frame and survey instruments were developed based on a review of the literature. Fourteen leading agencies in SME development were contacted. These included bilateral agencies such as USAID and Swedish SIDA, etc., multilateral agencies such as World Bank, UNDP and ILO, and private voluntary organizations (PVOs) such as CARE, Save the Children, etc. The scope was limited to sub-Saharan Anglophone and Franco phone Africa.

The aim was to identify the types of SME projects that they consider successes and failures. This survey was done mostly by phone, fax, and e-mail. Visits to six key agencies were also undertaken. The survey aimed first to describe the major trends in SME development, and second, to uncover niches where instruments such as SBI programs might work.

## **FINDINGS**

The findings are organized around the project components or "instruments" that are deployed at three levels: micro, meso, and macro. Of particular importance were the types of SME instruments favored by each agency and how these instruments have evolved over past two decades in response to each agency's evaluation methods, and how agencies learned from their evaluations.

### **The Micro Level**

There are six distinct micro-level business development system (BDS) instruments used at the micro level: training; extension, consulting, and counseling; technology development and transfer; information support; commercial entity development; and business linkage development. They are typically delivered by BDS organizations, rather than directly by donors. Although these instruments are normally delivered in combination with other instruments, we will discuss them separately for the purposes of analysis.

*Training* is the most common BDS instrument. The interviews revealed broad agreement that training for SMEs in Africa is usually too generalized and supply-driven, delivered by ill-qualified people in inappropriate top-down teaching styles, with insufficient awareness of cost control and the need to encourage trainee commitment and follow up to apply on the job what is learned in the classroom. Nevertheless, some improvements are being made. Several training products have emerged and are widely used. These include: *Entrepreneurship Development Programs (EDPs)*, originally launched in India for start-ups, which have been adapted to many other countries (Awasthi, Murali, and Bhat,

1990); *Competency-based Economies through Formation of Enterprise (CEFE)*, developed by the German aid agency, GTZ, with significant local adaptation (Kolshorn and Tomecko, 1995); *Start and Improve your Business (SIYB)*, developed by the ILO and aimed at existing businesses (Guthrie, 1989); and *Growth Programs, (GP)*, a recent product developed in the United Kingdom and aimed at SMEs with high growth potential.

Training efforts have been refocused in recent years, particularly toward demand-led, market-oriented training programs. As a result, six trends in SME training in Africa can be identified. First, it is increasingly treated *in a business-like manner*, with greater emphasis on defining target groups and meeting their needs. Second, it is increasingly *separated from financial services*, since the mixture of training and financial services -- has seldom been successful because the typical client only signs up for the training in order to get low-cost loans. Third, it is more often *designed to respond to client needs*, making simple replication difficult, but leaving scope for customization of generic models for different client groups. Fourth, it is more often designed and delivered in *practical learning styles*, based on learning-by-doing in real situations, emphasizing trainee participation, rather than on traditional classroom lectures, so that there is a better chance of lessons being applied to improve business performance. Fifth, it is increasingly being *delivered by the right institutions* and people, who are similar to SME owner-managers in values and language. Sixth, it is being *monitored and evaluated*, with emphasis on follow-up visits and the assessment of future needs, rather than feedback forms (often known as 'happy sheets').

However, major problems remain. Training poor and disadvantaged business owners is especially difficult. Some interviewees argued that the poor must be viewed in the context of the commercial and production sectors where they operate, and that if the sectors are better developed, all participants would benefit. Others pointed to the few available opportunities for enhancing knowledge and skills in the relatively simple enterprises usually operated by the poor. Goiburu (1981) carried out one of the early studies of the use of cartoons, comic books and other graphic material for reaching poor, illiterate business owners, but his work was largely confined to Latin America. Very few examples of the use of graphic media exist in Africa.

*Extension, consulting and counseling* are terms that are often used interchangeably. Most interviewees expressed concern that SME *consulting* works poorly in Africa: there are too few skilled and experienced advisors; large social and cultural gaps often exist between advisors and entrepreneurs; and consulting advice is often too standardized and thus irrelevant. The interviewees also pointed out that foreign short-term consultants are too seldom sufficiently aware of the specific situations of individual SMEs; consulting advice is too rarely accepted and acted upon by the clients, particularly where it is free or heavily subsidized; it is resource intensive, expensive and often an isolated intervention; and it has often been used as an instrument of "clientelism" to attach SME owner-managers to specific (often state-owned) BDS providers.

Acknowledging these criticisms, BDS providers in Africa increasingly concentrate on strengthening indigenous channels for consultancy and counseling services, through associations and informal business networks. The providers focus more on strengthening local consultancy and counseling capacity through national and local institutions, with the use of foreign short-term experts being the exception. They try to build professionalism by recruiting and retaining staff who are skilled, specialized and experienced and who have a broad, generalist knowledge. They stress diagnosis before action and avoid standardized, generalized services so that these expensive instruments are applied only after a thorough diagnosis of the enterprise. They stress businesslike operations, with the willingness of the client to pay for the service being an indicator of its perceived relevance and having the effect of sharpening the attitudes of both the client and the consultant or counselor. They try to reduce costs by organizing group activities rather than individual consultancy and counseling. Finally, they try to assure the quality of extension services, with quality standards being monitored and "codes of conduct" for consultants and counselors. Other improvement strategies include linking up with other BDS providers, so as to maintain specialization while at the same time offering comprehensive assistance to SMEs.

Perhaps the most important unresolved issue is the expense of professional counseling. In Africa where average annual incomes in some countries are \$300, a \$300 an hour consulting fee common in North America seems surreal. Thus BDS providers are often at a loss to develop professional delivery systems that *can be supported or justified*. One successful, but short-lived attempt to solve this problem occurred in the 1970s in Kenya which launched a program using university students during the summer break to carry out simple consulting assignments with rural Black African-owned businesses (Harper: 1983).

*Technology development and transfer* interventions aimed at improving the lives of the poor originate in the "appropriate technology movement" of the 1970s. With some notable exceptions, little of this effort achieved much impact, largely because too much attention was paid to the technology and too little to its commercial viability. A vicious circle exists: the African private sector develops few commercial products for the poor because the poor have little disposable income. Donors have been unable to encourage African SMEs to look at market opportunities of technologies that would benefit the poor. Moreover, until African educational systems train people with the design skills to underpin technological change, it is difficult to see how SMEs will be able to develop or adapt technologies for low-income customers.

*Information support activities* are common with donors who are trying to improve the ability of SMEs to respond to market signals. These activities include support for attendance at trade fairs and exhibitions, one-stop information shops, the distribution of printed information, support for visits to SMEs in different locations and interventions to improve the information flow from business associations. Until recently, most such information had been provided free of charge. Moreover, initiatives that assume that SMEs will seek out rather passive BDS providers of information have failed.



Interviewees suggested five criteria for successfully providing information to SMEs in Africa. First, pay attention to how it is presented, especially since many owner-managers are unused to learning from printed materials. Second, use credible sources because owner-managers learn best from people they respect. Third, consider charging for the material because owner-managers will pay for information that offers opportunities for tangible gains. Fourth, promote the information to overcome scepticism about its value. Fifth, emphasize trade fairs which owners see as a valuable source of information, especially for exports.

*Developing commercial entities:* In order to cover perceived gaps in the market, some BDS providers develop commercial entities as 'brokers' to buy inputs or sell outputs. While their rationale is often vague, some PVOs have become major market players through such activities, which are sometimes designed to offer 'fair' conditions, including prices, to producers in Africa who export to industrialized nations. Although their experience is fragmented, more BDS providers are becoming brokers and trying to become financially self-sufficient at it.

Although it is not a straightforward process, where there is no alternative it may be necessary *to set up a new commercial structure*. It is also difficult for BDS organizations to know *when to let go* of enterprises that they have established. The competitive nature of markets means that, when setting up such commercial entities, there will normally be some negative displacement. In view of the strong possibility of market distortion, care therefore needs to be taken to ensure that such an initiative is fair.

*Business linkages*, interventions to overcome the commercial isolation of African SMEs, are of three main types: subcontracting, franchising, and business clusters. The interviews uncovered six lessons that appear to apply all three types of linkages. First, in establishing subcontracting arrangements, facilitators must avoid *setting too many rules*. Second, these linkages only work if they are based on sound mutual advantage. They must therefore be *built on a commercial logic*. Third, where subcontracting and networking have not developed, limited short-term interventions may prove fruitful to *overcome market distortions*, such as a lack of information or poor business communication, or to develop business practices that create trust between partners (such as payment terms). Fourth, when *bringing potential partners together*, interventions may be needed to overcome inhibiting factors such as inexperience with legally enforceable contracts, or, if the gap between the parties is too great, to encourage SMEs to come together in a new entity designed to organize the cluster for them. Fifth, facilitators should attempt to *promote a feeling of ownership* by encouraging real participation by key actors, such as business associations and chambers of commerce and industry, in the planning of interventions.

Despite considerable interest by SMEs in better linkages, unresolved issues abound. These include the extent to which donors can intervene to promote linkages. Where associations are weak, as they are in most of Africa, it is difficult to find appropriate vehicles for the interventions.

One promising approach promoted by Biggs and his colleagues at the World Bank (1994, 1996) are private-sector interventions to develop commercial linkages with Africa. They studied how European and North American firms in two industries -- garments and handicraft home products -- developed commercial relationships with African firms.

They provides strong evidence that African firms can compete in the industries that developing countries traditionally use to break into global trade. However, they identify four areas to be addressed. First, donors must *pay attention to pioneering buyers*, especially through commercial attache sections of embassies. Most donors ignore these key linkages where maximum leverage could be attained in improving the export performance. Second, the biggest barrier is the difficulty and high cost that buyers face in identifying reliable suppliers of garments and handicrafts. Donors should focus on *reducing these search costs for importers*. Third, stable economic and political environments are prime concerns for buyers. Fourth, donors must *take a long-term view of business linkages* because once an African firm enters the export market, it can quickly be swamped by international demand. Of special promise are linkages between North American firms in the handicrafts and "Afro-centric" garment sectors. Biggs et. al. (1994). Firms such as J.C. Penney, Montgomery Ward, K mart, and Dayton Hudson, have been especially active in "Afrocentric" garments imported from Africa since 1992. Firms such as Pier 1 and Associated Merchandise Corporation have been active in importing in African handicrafts for several decades.

In summary, micro-level SME development in Africa remains rudimentary and is held back by several environmental factors. Among these are the weak links between SMEs and large firms, the lack of comprehensive reform policies favoring SMEs, and the weak demand for SME goods and services due to low household incomes. The sustained growth of the SME sector remains uncertain and appears to wax and wane with the flow of grant and credit finance from abroad (Chipeta, 1994). Clearly, micro-level instruments alone are insufficient and must be augmented by meso- and macro-level instruments, to which we now turn.

### **Meso-Level Instruments**

Few donors involved with SME development deliver services directly to enterprises. Instead they tend to focus on the development of local and national BDS organizations, often called *intermediaries* or *counterparts*. There is growing agreement that the appropriate function of donors is to develop the capacity of these organizations. The objective of these instruments is to enhance the efficiency, effectiveness and sustainability of local or national BDS organizations through *institutional development* or *capacity building*.

Most interviewees favored *membership organizations* that offer the advantage of being close to SMEs and have a proven potential to represent their interests. However, many such organizations lack a clear vision of their role, and the larger organizations tend to be dominated by the interests of larger enterprises. Their managerial and technical capacity

is seldom strong, especially when compared to similar membership organizations in South America and Asia.

There is general agreement that *government or semi-government organizations* make poor BDS providers. They are not businesslike, often suffer from a lack of vision and motivation, and are subject to political and bureaucratic interference. *Not-for-profit or non-governmental organizations*, on the other hand, often succeed. Nevertheless, their common charity orientation can be antipathetic toward business. Also, they are often weak both managerially and technically, although they usually demonstrate a good sense of ownership and motivation. *Commercial organizations* are the most successful providers of services to SMEs. However, they do not generally provide the same services as NGOs and government organizations and may not therefore offer appropriate mechanisms for achieving the objectives of donors.

### **Macro-Level Instruments**

The foregoing micro- and meso-level instruments are useless without proper macro-level policy and regulation, which has four characteristics. First, SMEs need a *stable economy* with financial discipline, prudent fiscal management and low inflation, tax and financial sector reform, exchange rates that reflect the strength of the economy and the privatization of state enterprises. Second, they need a *competitive economy* where prices and markets provide clear signals to producers and consumers, a regulatory framework favoring competition without unnecessary barriers to market entry, legal and property rights that facilitate the enforcement of contracts, and information and physical infrastructure (such as transport) that minimizes transaction costs. Third, they need *global linkages* based on an openness to trade, investment, technology and ideas, low trade barriers, the relatively free movement of people and the encouragement of exports through a realistic exchange rate. Fourth, they need *investments in people* in terms of health, education and nutrition, with particular emphasis on primary education and preventive health care.

While few agencies disagree with the importance of these four factors, they do disagree on their adequacy alone to generate the conditions for SME development. Some donors argue for more pro-active roles for African governments. In view of the success of favorable tariff and non-tariff shields in East Asia, some advocate *protection for infant industries*. One argument against such measures is that, in most of Africa (and elsewhere) such policies make businesses even more isolated and uncompetitive. Moreover, few African governments are capable of implementing trade protection measures effectively. Indeed, the interventionist successes of East Asian economies can largely be attributed to the efficacy of their civil service.

Long-time observers of the African political and economic scene (see for example, Abudu, 1986; Adedji, 1989; Harden, 1990; Leonard, 1987; Odhiambo, 1995) are pessimistic about the sustainability in Africa of the four characteristics listed above. Among other factors, they point to systemic barriers such as the impact of the AIDS epidemic on the African professional classes, the prevalence of the "Big Man" syndrome

in preventing smooth political transitions, and the tradition of civil and military dictatorships in appropriating natural wealth.

## CONCLUSIONS

Although almost all donor agencies have been involved in SME development in Africa for several decades, progress has not been promising. It can be argued that by their very nature donor agencies, because of their charity orientation and their obligation to work closely with governments, are not well suited to dealing directly with the SME sector. One is reminded of the North American barb, "I'm from the government and I'm here to help you."

However, there do appear to be opportunities for SBI type projects to make an impact in this sector. One can envision SBI teams, working in collaboration with selected North American firms that already are seeking suppliers. One can envision SBI directors making contact with such firms and then setting up consulting teams whose main tasks would be to survey regional markets in North America and using various communications media (phone, fax, Internet) to identify sources of supply that could be followed up by the firms' buyers.

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# **Entering the Chinese Market:**

## **A Guide for U.S. Small Business**

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### **Abstract**

China has more consumers than any country in the world. With over 1.2 billion people, China offers a lucrative market for U.S. small businesses. Small business owners who have appropriate products or services to sell in China, and who are willing, to tolerate the idiosyncrasies of doing business in China, have an opportunity to participate in the emergence of a new world-class economy. However, entering the Chinese market is more difficult than entering most foreign markets. This paper provides a guide to entering the Chinese market for U.S. small business owners. Methods of entering the Chinese market are discussed along with business aspects of geography, demographics and business culture.

### **Introduction**

Entering the vast Chinese market has been a formidable task for even the largest U.S. multi-national businesses. Cultural differences, language barriers, product distribution problems, and sudden changes in government regulations have plagued foreign businesses in China since it opened its doors to foreigners in 1971. Despite these difficulties, China offers the largest consumer market in the world, with a population exceeding 1.2 billion. Businesses that take a long-term perspective, are willing to learn the culture of doing business in China, and are able to cope with the logistics of government regulations have the potential of reaping the rewards of the Chinese marketplace.

Since large U. S. multi-national businesses have stumbled in their attempt to enter the Chinese market, is it possible for U.S. small businesses to succeed? According to Royal (1997) the answer is "yes--with significant planning, the right partner, and a good deal of luck." In a recent Canadian trade mission to China, eighty percent of the 532 participants were small businesses (defined as less than 500 employees). One small business owner was quoted as having signed three agreements during the Canadian mission. Canadian Business (1998).

### **Entering the Chinese Market**

Due to Chinese government restrictions it is difficult to sell directly to the Chinese. However, various methods of indirect sales are now possible. These methods are: partnerships with large U. S. businesses, licensing, joint ventures, and a wholly foreign-

owned business enterprise. Since the wholly foreign-owned enterprise is cost-prohibitive for most small businesses it will not be discussed here.

### **Large business partnerships**

Forming a partnership or sub-contracting relationship with a large multi-national business already operating in China is a low-cost, low-risk way of entering the Chinese market. According to Maynard (1994), in referring to a specific small business (Yamas) that entered the Chinese market, "the arrangement for Yamas was ideal because it meant sharing the risk with a much larger company and getting paid by that company in U.S. dollars."

### **Licensing**

Another inexpensive, low-risk method of entering the Chinese market is a licensing agreement with a Chinese business. This involves an agreement allowing the Chinese business to use the U.S. business' technology, copyright or know-how in exchange for compensation.

Licensing has its drawbacks. According to Williamson (1997) "licensing offers western companies only a small portion of the new wealth being generated in Asia because much of the added value--and the profits--lie elsewhere in the overall supply chain." However, licensing offers small business owners lower risk if they are willing to accept lower rewards.

### **Joint ventures**

The most popular means of entering the Chinese market is a joint venture with a Chinese business partner. According to Gibbons (1996) "there is no way that a westerner can pilot his way through the bureaucracy without assistance. This is one of the tasks of the Chinese partner in a joint venture."

There are two types of foreign joint ventures in China, the Chinese-foreign co-operative joint venture and the Chinese-foreign equity joint venture. The co-operative joint venture allows for flexible profit sharing where the equity joint venture shares profits based on proportions of equity capital invested. According to Moser and Bennett (1998) there are several reasons for choosing a cooperative joint venture:

- less need to formally value capital contributions
- greater freedom in management structure
- ability to recover capital prior to termination
- more flexible profit sharing arrangements

Attention to detail is critically important in negotiating the joint venture agreement, especially in the areas of management control. Gibbons (1996) gives this advice: "I would not enter into a joint venture agreement in China without at least 50% of the

shareholdings and 100% control over operations . . . an agreed percentage commission, which should be large enough to cover marketing expenses and profits should be in the contract. This has the first effect of introducing an incentive for bringing in domestic sales, and the second effect of providing some real spending money for your Chinese partner."

Another important consideration in the joint venture contract is the difficulty in converting Chinese currency into U.S. dollars. Although China plans to have a fully convertible currency soon, it may be difficult to expropriate profits until a currency exchange agreement is finalized. If possible, profits from the joint venture contract should be negotiated in U.S. dollars.

### **Geography and Demographics**

Although about 90% of China's people live on about 15% of its land area, transportation difficulties and China's political structure have resulted in a series of separate and distinct markets within China. Special Economic Zones provide tax relief to foreign businesses and Hong Kong provides familiarity with western ways of doing businesses. These separate markets may be an advantage for small businesses since entering a smaller market may be less expensive and more manageable. According to Prahalad and Lieberthal (1998) "distribution in China is primarily local and provincial. Under the former planned economy, most distribution networks were confined to political units such as counties, cities or provinces. Even at the present time there is no real national distribution network for most products . . . ironically, the lack of a national distribution system in China may be an advantage. Multinational companies with patience and ingenuity can build a distribution system to suit their needs."

### **Language**

Another unique feature of the Chinese market is its diverse language. Although Mandarin is the official language of China, different regions of the country speak different dialects. In southern China, near Hong Kong and Guangzhou, the difference is so great that it qualifies as a separate language (Cantonese). The Tibetans also speak their own language. The Chinese language is difficult to translate into English and strong regional dialects further compound the problem. Thus, it is important to use translators and interpreters who are from the local area. Finding English translators and interpreters may become much easier in the future since most Chinese public schools are starting to teach English at the elementary school level.

### **Population**

Since the Chinese market is fragmented by transportation difficulties, politics and language, it may be useful to identify the consumer market by population. When entering the Chinese market with products that appeal to the general population, the larger areas may be the best place to start. According to the Europa World Yearbook (1998), estimated 1995 populations of the largest Chinese provinces are:



Sichuan	113,250,000
Henan	91,000,000
Shangdong	87,050,000
Jiangsu	70,660,000
Guangdong	68,680,000
Hebei	64,370,000
Hunan	63,920,000
Anhui	60,130,000
Hubei	57,720,720

Although the number of Chinese consumers is large, disposable income is small when compared with most developed countries. According to Prahalad and Lieberthal (1998) the annual purchasing power of Chinese consumers, stated in U.S. dollars, is:

Greater than \$20,000	2 million
\$10,000 - \$20,000	60 million
\$ 5,000 - \$10,000	330 million
Less than \$5,000	800 million

## **Cultural Issues**

There are several important differences between the U.S. and Chinese way of doing business. These differences are particularly important in the areas of personal relationships, contractual agreements and the role of government in business. According to Leung and Yeung (1995) " . . . small business entrepreneurs in the U.S. have encountered problems when they have attempted to negotiate business contracts with their counterparts in the PRC because of their lack of competitive advantage and their poor understanding of Chinese negotiating styles."

### **Personal relationships**

The role of personal relationships, or *guangxi* (pronounced *guan-she*), is crucial when doing business in China. Nearly all business negotiations depend on personal connections. These connections may be formed through family relationships, classmates, government work unit assignments or prior business relationships.

Two recent surveys identified *guanxi* as the most important factor in Chinese business negotiations. Leung and Yeung (1995) surveyed U.S. businesses doing business in Hong Kong. Their conclusion was "only one item, good personal relationships, scored 'high importance' [in the survey]." Kai and Enderwick (1994) surveyed small businesses in New Zealand and found that " . . . 'familiarity with Chinese business practices' and 'good business connections and relationships with Chinese officials' were important attributes for success in a joint venture in China."

Since *guanxi* is so important when doing business in China, it is essential that a licensing agreement or joint venture be formed with the right Chinese business partner. If the Chinese partner does not have the proper business connections, the business is likely to fail. The U.S consulate and the American Chamber of Commerce are good resources for making the right connection. According to Li (1996) "if you don't have a connection to China, contact your government's consulates in the cities you plan to visit and request a list of appropriate businesses to contact. When you arrive, try to meet the consul who helped you and ask him to introduce you to businesses before you actually visit them. Social standing is very important in China. An introduction from an official of your government will create a good first impression."

### **Contracts**

The Chinese view of a business contract is different from the American view. Although it is important to include critical details in contracts, it is also important to recognize that the Chinese see business contracts in more general terms. Details of contracts are considered less important and subject to change. According to Kenna and Lacy (1994) "the Chinese prefer vague agreements which can be adjusted later as needed . . . [they] prefer contracts that do not have too many details and they feel all issues in a contract are still subject to negotiation afterward."

Since China does not have a well-developed legal system of contract enforcement, most contract arrangements are based on trust and mutual understanding. Thus, it is essential to deal with a Chinese business partner who is honest and trustworthy.

### **The Role of Government**

Remnants of the centrally planned economy are still very active in Chinese business. Governmental units or former government officials own the vast majority of businesses. Thousands of 'private' businesses are owned and operated by the military, police, or township governments.

Local officials still tightly control government regulation of business. Government regulations, including essential permits to do business in China, can vary widely, often at the whim of township officials. Thus, it is essential to work with a Chinese business partner who has strong government connections and understands local government regulations.

Government regulations can be changed instantly, often without notice. According to Li (1996) "one of the most frustrating aspects of investing in China is that the government never discusses new business policies and regulations with foreigners, nor announces such changes in advance."

## **Conclusion**

Tolerance and patience are two attributes that are important when entering the Chinese market. Setbacks and frustration should be expected since doing business in China is substantially different from doing business in the U.S. China is controlled by a Communist government. Accordingly, the government continues to play a powerful role in the Chinese business community.

Understanding Chinese demographics and culture is essential to the successful business venture in China. Since direct selling in the Chinese market is prohibited, using the proper method of entering the Chinese market and finding the right Chinese business partner are critical.

As China's economy continues to develop it has the potential to be the most important consumer market in the world. There are already over 60 million people in China with disposable incomes in excess of US\$10,000, and the number is growing daily. In the long run, overcoming the difficulties of entering the Chinese market early to gain competitive advantage may be well worth the price.

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# **WILL ENTREPRENEURSHIP LEAD TO NATIONAL DEVELOPMENT IN AFRICA?**

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## **ABSTRACT**

In the third world, entrepreneurship is seen as the key to political, social and economic development, a package commonly referred to as national development. Privatizing stateowned enterprises (SOEs) is supposed to eliminate one of the major roadblocks to entrepreneurship in much of the third world, especially sub-Saharan Africa. Many African governments have privatized SOEs by selling them to the highest bidders. This is not likely to promote entrepreneurship among indigenous Africans. On the other hand, many indigenous Africans are starting businesses, some because they have been laid off due to privatization, and others because of government small business promotion programs. However, most of the business start-ups never expand. Moreover, business expansion and profit maximization are rarely objectives of African small business owners. African entrepreneurs tend to focus on merely making a living and providing for family.

## **INTRODUCTION**

Many forces have combined to bring about the international groundswell for entrepreneurship. In the United States, the forces that have rekindled interest in entrepreneurship are frequently mentioned to include the explosion of new technologies, deregulation, demographic shifts, an increase in masculine values such as materialism and independence and, especially in the 90s, the emergence of "lean and mean" management as the strategy of choice, which has resulted in massive layoffs, pushing many persons to venture out on their own.

Although not directly a factor considered by an individual for starting a business, entrepreneurship contributes to the improvement of the economy. Entrepreneurs increase total national output and employment. Through entrepreneurship, there is less economic concentration. Entrepreneurship also enables otherwise marginalized peoples to enter the economy. These macro considerations associated with entrepreneurship are important for any country, including the U.S.

It is these macro factors that figure most prominently in the push for entrepreneurship in the developing countries, where it is seen "as the latest hope of engendering national, social and economic development" (Carland and Carland, 1993). Entrepreneurship is expected to help in national development--increasing output and employment, improving income distribution, and building national unity. The question is whether entrepreneurship is up to the job. In the paragraphs below an attempt is made to address this question. First we look at privatization/deregulation as one of the leading approaches

for promoting African entrepreneurship. We also examine what motivates African entrepreneurs at the present time.

Since we are discussing how entrepreneurship and entrepreneurs contribute to national development, we need to define the terms entrepreneur and entrepreneurship. Many definitions of these terms have been used. However, assuming the risk and possessing the organizational skills to start a business are almost universally recognized as essential attributes of entrepreneurs (Kuratko and Hodgetts, 1995). Defined this way, people who start businesses are entrepreneurs. Of course, more may be required of entrepreneurs who wish to make their businesses grow and prosper. For example, such entrepreneurs must also be innovators and leaders (Cunningham and Lischeron, 1991).

## **DEVELOPING ENTREPRENEURSHIP THROUGH PRIVATIZATION**

A popular approach to promoting entrepreneurship in Africa since the late 1980s has been turning over state-owned enterprises (SOEs) to the private sector. This approach is often pushed by the International Monetary Fund (IMF) under what is commonly known as "structural adjustment programs" (SAPs). The approach is assumed to be fundamentally sound because it attacks one of the major reasons that explains low levels of entrepreneurship in most African countries. Entrepreneurship is low because African governments dominate too many economic activities via SOEs. Private entrepreneurship is low because state entrepreneurship (state capitalism) is too high (Elkan, 1988).

There is a long list of reasons that are frequently given for state capitalism in Africa and elsewhere. They are mentioned here only in summary form (Prager, 1992). First, there is the natural monopoly/economics of scale argument. Government should produce electricity because there is only room for one producer and no private company to undertake the heavy investments needed. Probably, most SOEs established during colonial times were justified on this basis.

After independence, beginning with the late 1950s, the reasons for setting up SOEs became heavily political. State ownership of means of production was offered as an antidote to capitalistic exploitation. State ownership of means of production was also seen to be more compatible with the communalistic culture known to be prevalent in black Africa (Friedland and Roseberg, 1967). Fiscal expedience was also a factor in some SOEs, especially those in the marketing field. A government-owned crop marketing corporation could price crops in such a way that there was no need to impose income taxes on farmers. This was politically expedient before and after independence. Although never stated directly as a reason for setting up SOEs, many SOEs were set up to serve political patronage functions. Government ministers' supporters had to be rewarded and SOEs provided a convenient way for returning favors--jobs, factories and loans. Used prudently, SOEs could be an instrument for political and economic balancing, still essential in most African countries.

Whatever their justifications, SOEs can readily be seen as a threat to private/individual entrepreneurship. So, private entrepreneurship development necessitated an onslaught on SOEs. To help the process along, SOEs were badly failing to deliver the goods, the economies were stagnating and often declining. But probably the biggest blow to SOEs was the dissipation of ideological support. State capitalism lost out to private/western capitalism with the demise of the Soviet Union. SOEs were out, or should be. In most cases the IMF was going to see to that. Privatization was going to give a boost to entrepreneurship. There was, and there is still, a general feeling that "the country can only be developed by private entrepreneurship" (Uganda Government, 1997).

Privatization has taken many forms in the different African countries, even within the same country. The most common approaches to privatization in African countries have tended to be liquidations of SOEs, management and employee buyouts, auctions, private placement of SOE stock, public placement of SOE stock on stock exchanges (where they exist) and competitive (sealed) bidding. In general, the most profitable SOEs (especially in telecommunications) have gone to the highest bidder, often a foreign company. This form of privatization has been very good to national treasuries. In Ghana, for example, Ghana Telecom brought in \$38 million (Euromoney, 1997). It is highly doubtful that this approach to privatization contributes to entrepreneurship in the country at all. This is particularly the case if we concentrate our attention (as is commonly done when discussing entrepreneurship in black Africa) on indigenous entrepreneurship. After all, in many African circles, privatization should "boost black economic empowerment" (The Wall Street Journal, 1995).

On the other end of the spectrum, hopelessly money-losing SOEs are merely abandoned and have their assets, if any, auctioned off. This has been the approach most frequently used for bankrupt/run-down marketing/trading and transportation SOEs. Ironically, this approach offers the greatest promise for promoting entrepreneurship. Almost everywhere a government-operated transportation company has folded up, there has been a rush of African entrepreneurs to fill up the slack by providing taxi, bus and truck service, often resulting, in tremendous competition.

Where there are stock exchanges, such as in Ghana, Nigeria and Kenya, the approach used to privatize many SOEs is by selling government's shares to the private sector via stock exchanges. It appears that this is the approach African governments hope to use in order to make the greatest impact on African entrepreneurship. Countries such as Nigeria place strict stipulations on these SOE's stock sales. One such stipulation is the percentage of the shares to be sold to "small investors." There is even an effort to incorporate regional and ethnic balance (Euromoney, 1997). Unfortunately, this approach is not practicable in places where there are no stock markets, or where "small investors" are not forthcoming because they have no access to loans to buy the shares reserved for them. On occasion governments have attempted to extend loan money for the purpose. But how much entrepreneurship is there in the activity of owning corporate stocks? Granted, there is risk-taking in owning stocks and risk-taking is inherent in entrepreneurship. But entrepreneurship is managing risk through one's own effort.

Does one take personal credit when his/her stock goes up? Probably not. A wide ownership of corporate stocks is good for African economies, but it is not because it is an entrepreneurial activity on the part of individual stockholders.

In countries where there are strong unions, such as South Africa and Ghana, some SOEs have been sold to management and employees, in part, because of union pressure to preserve jobs. In general, the concern for preserving jobs, especially where there are strong unions, has made privatization very difficult. Investors are reluctant to acquire SOEs when a government insists that "employment levels will be retained" (The New York Times, 1997), as did the South African government. On the other hand, the Uganda government was proud to report that, in several cases, privatized SOEs increased both production and employment levels (Uganda Government, 1997).

We pointed out earlier that many SOEs were used for political patronage and that, sometimes, this was the main (but unstated) reason some SOEs were created. Many SOEs suffered from inefficiencies due to having too many people on the payroll. Privatization has, therefore, resulted in massive layoffs. This has been especially the case with respect to selling SOEs to foreign interests. In Ghana, for example, privatization has led to over 45,000 layoffs. Although privatization has caused many layoffs, African governments have, under IMF structural adjustment programs, been required to carry out additional layoffs in government departments. The massive layoffs may force some people to become entrepreneurs. Due to lack of capital, consequently, the businesses they are able to start are very small indeed, and they are not likely to grow. As we point out in the following section, business growth is not a major motivation of most African entrepreneurs.

## **AFRICAN ENTREPRENEURS AND THEIR MOTIVATIONS**

It was stated in the introduction that in the U.S. a growing number of entrepreneurs are lured into entrepreneurship out of their desire to be independent. And the late Albert Shapero has claimed that his involvement in entrepreneurship programs in many parts of the world has led him to believe that ". . . independence is the primary, driving motivation of the entrepreneur" (Shapero, 1985).

It is very doubtful, and there appears to be no evidence to suggest otherwise, that independence is the primary motivation of African entrepreneurs. Studies that have investigated this question (Bewayo, 1995; Gray, 1997) tend to point to more basic motivations (a la Maslow's hierarchy of needs). African entrepreneurs tend to emphasize "economic survival," "making a living" and "providing for family" as reasons for going into business. They are not even concerned about maximizing profits, just to make a living. That African entrepreneurs may not be too concerned about independence and profit maximization has implications for what entrepreneurship will and will not do for African countries, for the near term at least. It may also have implications for government programs to assist entrepreneurs.



When the entrepreneur's objective is merely to make a living or merely to provide for family, we should not expect businesses to expand and become big businesses (as in "rags to riches"). This is probably one of the explanations of the frequently found phenomenon in African countries: the number of businesses is rising rapidly, but not their average size (Fafchamps, 1994). Unfortunately, it is now clear that economies do not grow on the basis of small businesses alone (Dana, 1988). Economists doing research in this area point out that "jobs arising from expansions are likely to reflect demand-pull forces, while start-up jobs are more likely on balance to reflect supply-push forces as individuals search for activities to sustain themselves" (Liedholm, et al., 1994). Consequently, a country can experience an entrepreneurial boom and still remain poor. Entrepreneurship may, thus, fail to lift a country out of poverty. A study covering Kenya, Swaziland, Zimbabwe, Botswana and Malawi found that only .9% of the surveyed firms grew to 10 employees or more over a 5-year period (Liedholm, et al., 1994). Most startups stagnated at start-up size (1 to 4 persons).

Businesses which stagnate at small size, even though they might have certain advantages tied to their size (Fox, 1986), face certain disadvantages, one of which relates to financing. Commercial banks do not want to lend to very small businesses because of the high transaction costs relative to loan size. Most government small business loan programs are expected to be stopgap measures. Borrowers are expected to establish more long-term relationships with commercial banks. Failure to do so eventually cripples the business. Almost all surveys addressing small business problems in Africa have discovered that the leading problem which is cited by small business owners is lack of capital (Morewagae, et al., 1995). This suggests that neither government loan programs, nor relatives and friends, nor private money lenders (loan sharks) are reliable sources of small business financing on a long-term basis.

We stated that African entrepreneurs are not particularly concerned about maximizing profits, and that this may explain why many of their businesses stagnate at small size. That African entrepreneurs tend not to emphasize independence, at the present time anyway, has both positive and negative consequences. On the positive side, issues of control do not arise and, accordingly, do not demand solutions. Loss of control is a major issue in raising funds for businesses. Relatives, friends and others are readily invited to help out.

On the negative side, a total lack of concern for independence may invite excessive interference from outsiders. The presence of extended families in most African countries already makes excessive interference from outsiders, and excessive concern for others, real possibilities. Lack of concern for independence is not likely to make the entrepreneur protective about his business. Consequently, business assets may be squandered in order to satisfy non-business ends. Under these circumstances, it is even debatable whether profit maximization could be a viable objective. Thus, lack of concern for independence leads to lack of concern for profit maximization. Situations like these are not conducive for business expansion. Businesses will be started, but overall conditions in the country will not improve.

## SUMMARY AND CONCLUSIONS

In Africa, and many other areas of the third world, entrepreneurship is expected to do much more for people, especially the indigenous Africans. Entrepreneurship is expected to contribute to national development by helping to expand the economy, to improve income distribution and to strengthen national unity. These are monumental tasks.

In Africa, most programs to promote private entrepreneurship must begin with "privatization" Privatization is also part of IMF-imposed "structural adjustment programs." In many privatizations, governments have taken the most pragmatic approach--selling the SOEs to the highest bidders, who often turn out to be foreign companies. In spite of all its merits, this approach does not appear to increase the involvement of the indigenous entrepreneurs in the economy.

Nigeria, Togo, Ghana, South Africa and several other African countries have actively sought out "small investors" in the privatizations Of those SOEs that are not sold to the highest bidders. Small investors have encountered problems coming up with the money to buy shares in the privatized SOEs. Encouraging, or even enabling, Africans to own shares in privatized SOEs helps in reducing economic concentration. But it is doubtful whether it also helps in building entrepreneurial skills.

Many Africans become entrepreneurs, sometimes backed by government programs, but oftentimes armed only with their instinct to survive. Unfortunately, only a very tiny percentage of the start-ups expand. The reasons why most start-ups do not expand are still subject to debate. Several studies on microenterprises in Africa have indicated that maximizing profits is rarely a major motivation for their owners. "Providing for family" or merely "making a living" are mentioned much more frequently. In the context of extended families, these are major obligations. A business may not be able to do more than "providing for family." Consequently, the business may not be able to expand, since often expansion requires ploughing resources back into the business. Now, start-ups which do not expand do not lead to economic growth, more so because some start-ups always fail. In this sense, entrepreneurship comes up a little short of national development expectations. African governments, and governments in other third world countries, may have to supplement the basic entrepreneurship model in order to bring about real, long-term improvements in their countries. Entrepreneurship programs may have to include marketing and leadership skills, essential for expanding businesses.

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# **Growth of Small Business: Issues Related to Success and Failure in Rural America**

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## **Introduction**

Although small-firm growth accounts for a significant share of net new employment in this country, failure rates of small firms are high, particularly in rural areas, where jobs are needed most. While much is known in general about factors which affect new firm formation and success, less is known about which of these factors are more important in nonmetropolitan areas. This exploratory study proposes to isolate the factors affecting small firm success in nonmetropolitan U.S. counties, utilizing both survey and archival data. Funding is currently being solicited from several sponsoring agencies.

The Small Business Administration (SBA) provides assistance to rural small businesses through their Small Business Development Center (SBDC) programs. Each SBDC is tasked with assisting rural small businesses, (paragraph Section 21, subsection (c), subparagraphs (3)(N) of the Small Business Act, PL 85-536, as amended). Yet, researchers point out that in spite of the efforts of the SBA and other organizations, "entrepreneurial firms ... in rural areas, face a host of difficulties related to their external and internal environment. They are small and isolated. The people and information base to provide expert support for critical decisions and functions do not exist internally or externally in the rural location" (Van Horn and Harvey, pg. 157-158, 1998). The problems facing small firms in rural areas are compounded even more by a combination of logistics and reduced federal funding. The SBA has suffered cutbacks in many programs, such as the elimination of the Small Business institute program. This predicament means the rural small business must choose to seek assistance from an SBDC that is too distant or unaffordable due to travel time and distance, or worse yet, unavailable. This leaves the rural small firms in these remote areas with few options for counseling.

## **Purpose**

Many researchers agree that our knowledge of small businesses in rural areas is quite limited (See Van Horn and Harvey, 1998; Sullivan, Halbrendt, and Wang, 1997; Green, 1994; and North and Smallbone, 1996). Much of our understanding of the problems facing small, rural firms is either very general, fragmented, or anecdotal. While there "is a growing interest in the role of small businesses in economic development, there is only a limited amount of evidence ... comparing small firms in rural communities" (Green, 1994, pg. 158).

Therefore, the objective of this research is to isolate the factors affecting small firms in nonmetropolitan U.S. counties, using survey data. SBDC directors will be surveyed to determine perceived explanations for the births and deaths of small firms at the county level. This information could serve as the basis for a series of programs and policies designed to assist rural small businesses much as current programs target women and minority-owned small businesses.

## **Literature Review**

The current state of primary data on rural and/or non-metropolitan small businesses is limited at best (See Van Horn and Harvey, 1998; Sullivan, Halbrendt, and Wang, 1997; Green, 1994; and North and Smallbone, 1996). A literature review of studies in the fields of business, government, rural studies, entrepreneurship, and economic development identified two studies that were similar to the proposed study in terms of data bases and data processing and analysis techniques.

The first study was done by North and Smallbone (1996). In their study of Northern England, North and Smallbone studied the adaptations to the business environment that small, mature manufacturing firms in rural areas made compared to similar small, urbanbased firms. Their research raised concerns about the long term competitiveness of small and medium sized enterprises in remote areas due to low labor productivity, technological backwardness, and skill levels [low] within the workforce. While this paper served as an example of an effective research methodology for evaluating small rural businesses, it does suffer from some critical limitations. The most obvious limitation is the location of the study, Northern England. The other critical issue is the focus on manufacturing firms. Our proposed research intends to look at small firms throughout the U.S. and will not be limited to one industrial sector.

A second paper which serves as a potential example of an effective research methodology for studying small rural firms is Green's (1994) interviews of 1,700 firms in rural Georgia. He hypothesized that small firms do not necessarily "generate a disproportionate share of the new jobs created, provide higher quality jobs than do large firms and inject a source of innovation into the economy" (Green, 1994, pg. 155). On the contrary, he found that medium-size firms are more likely to hire minorities, provide benefits, and to innovate and adopt new technology. This study is an interesting contrast to the findings of other researchers, including the SBA's own sponsored research. However, it also has some serious limitations. 1) The study used 25 employees as the cutoff between medium-size firms and small firms, which is contrary to most recognized definitions of a small business. 2) Drawing a sample from a single state, limits one's ability to generalize to the remainder of the country. 3) This study did not address specific reasons that distinguish success or failure of small firms in rural versus metropolitan areas: this distinction will be a critical contribution of the proposed research.

In an effort to develop a draft of the survey that will be used in this research, a literature review was conducted using Infotrac, for the period 1988-1998. This review revealed a number of factors that are believed to be determinants of a small firm's success and/or

failure. Appendix A shows a draft of the survey to be sent to SBDC Directors. This draft survey is based upon a set of factors that have received the most recognition as determinants of success or failure of small firms in previous studies.

## **Methodology**

Data will be gathered through a survey instrument. The source of data will be the responses of SBDC directors throughout the continental U.S., Alaska, Hawaii, and Puerto Rico. The responses of the SBDC directors will indicate their perspectives on the success and failure of small businesses within the counties or regions they serve. Dillman's Total Design Method (1978) will be used to develop, administer, and distribute the surveys.

A review of the survey in Appendix A shows the factors that will be evaluated. A cover letter and survey administration procedure will be finalized. This research will use a modified version of the Dillman Total Design Method (1978). This method of survey development and administration is associated with above-average response rates, in the range of fifty to eighty percent.

## **Respondents**

A list of SBDC Directors will be developed from the SBA's web page database. Prior to actual distribution, State Directors will be contacted by phone to ask their support of this research. It will be pretested using a representative group of SBDC directors in an effort to determine whether changes in content or format need to be made. Two of the principals involved in this proposed research have extensive experience developing and analyzing surveys. Several techniques (e.g., test-retest method) will be employed to test for reliability and validity.

Surveying SBDC directors overcomes potential limitations of prior research, SBDC directors are directly responsible for fulfilling the SBA's role in assisting small, rural firms. They possess business experience and knowledge of the local markets and local firms that other individuals do not have. Some evidence exists that subjective ratings may actually be as good as or even superior to economic measures for measuring goal achievement (Boyd, Dess, and Rasheed, 1993, Dess and Robinson, 1984; Venkatraman and Ramanujam, 1987). In particular, a study by Dess and Robinson (1994) found that the "self-report" evaluations of firm financial performance by executives, acting as key informants, accurately reflected true firm financial performance. Boyd et al. (1993) suggested that perceptual measures are superior to archival when studying firm actions.

## **Data Analysis**

The survey data will also be analyzed using several means. A chi-square test will be conducted to test for response bias between the sample of responding SBDC Directors and those directors that do not respond. In addition, data will be encoded and searched for any missing data from the surveys. Results will be further broken down by county type

(rural nonadjacent, rural adjacent, nonmetropolitan nonadjacent, nonmetropolitan adjacent, and urban) to determine small business problems that are specific to rural areas.

## **Conclusion**

This proposed study is in the preliminary stages. Additional work needs to be conducted to more fully develop the survey instrument. This portion of the research is presently being completed by the researchers. It is anticipated that the pretest will be conducted no later than January 31, 1999.

This research is contingent upon identifying funding sources to complete the survey administration and data analysis. In the event funding becomes a problem, then the scope of the study will be adjusted to cover a smaller geographic area in the U.S.

This research should extend our knowledge of the unique issues facing rural small firms in the United States. It is anticipated that if differences exist between issues related to the success or failure of small rural firms versus urban firms, major policy changes may be instituted in order to accommodate the special needs of this group of small firms.

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Available from Dr. Kirk C. Heriot.